

Venture Capital and Private Equity overview Hungary – 2015

Participants in the survey:

3TS Capital Partners
Alliance Jura Hongrie
Arx Equity Partners
Bonitás
Buran Venture
CEE Equity Partners
DBH Investment
Docler Investments
Euroventures
Finotech Capital
Finext Startup
iEurope Capital
Kaerous Capital
MFB Invest
Mid Europa Partners
PortfoLion
Primus
Riverside Europa
SZTA
Venturio
X-Ventures

The above response rate represents 84% of HVCA members.

¹ Methodology and terminology follows that of the European Venture Capital Association and as such might differ from other EY publications in the subject.

² FX rates (MNB 2015 averages)
309.9 HUF/EUR
279.5 HUF/USD

Dear Colleague,

We are happy to announce the second edition of the annual Investment Monitoring Report that is an analysis of the Hungarian Venture Capital and Private Equity market's performance in 2015 prepared by the Hungarian Venture Capital Association in collaboration with EY.

Given that majority of information was directly collected from funds of the market, this study is able to provide a quicker outlook on the market's performance with greater detail than similar reports provided by the European Venture Capital Association.

The report has been commented by HVCA Board members, discussing the market's performance in 2015, representing the perspective of Hungarian VC and PE funds.

Data was collected through questionnaires completed by the members of HVCA, and since sometimes these questionnaires are not completed in full, this may distort the outcome of the analysis. In addition to questionnaires we collected published transactions from various online news portals.¹

Please note that in order to provide the most comprehensive picture about market activities in 2015 we have included additional transactions retrospectively in our year-end analysis. In some cases investments closed in previous quarters of 2015 were announced later and were not included in the actual quarterly IMR reports but we have included them in this year-end edition. Therefore, there might be differences between numbers presented in this report and earlier publications.

Should you be interested in further industry related information or previous issues of the report please visit <http://www.hvca.hu/hu/statisztika/>.

Your sincerely,



Levente Zsembery

HVCA, Chairman
X-Ventures, CEO



Balázs Tüske

HVCA, Board member
EY, Head of Advisory, Partner

Highlights – 2015

- ▶ Number of companies receiving investments : **109**
- ▶ Total amount invested: **HUF 31.8 billion (€102.8 million / \$114.0 million)²**
- ▶ Most common phase of investment: **VC start-up stage**
- ▶ Number of divestments: **15**
- ▶ Top three most active industries (by value):
 - 1. Business & industrial services**
 - 2. Energy & environment**
 - 3. Consumer goods & retail**

Executive Summary

During 2015 109 new and existing companies received over HUF 31.8 billion from VC / PE funds in Hungary in 132 transactions, which is a 58% decrease compared to the HUF 54.9 billion distributed to 96 companies in 2014. This decrease was mainly due to the high number of PE transactions with undisclosed deal values in 2015.

72 firms received minimum HUF 100 million and only two companies received over HUF 1.0 billion new equity investment.

Top 5 transactions accounted for 20% of total market activity and the 5 most active funds executed over 44% of all investments.

JEREMIE funds were the most active investors in 2015 both in terms of value and number of transactions, providing altogether HUF 23.9 billion to 67 companies, representing 75% of total capital injections in 2015. Total volume and value of JEREMIE investments increased significantly compared to 2014, when HUF 11.6 billion capital was distributed to 48 companies.

Most common stage of investment was the start-up phase, with 68 investments and HUF 15.4 billion capital distributed to companies at this stage of development.

I. Equity investments

During 2015 109 companies received capital (through 132 separate equity investments) in Hungary with a total value of HUF 31.8 billion.

The average deal size of VC investments was HUF 274 million, while size of PE investments was not disclosed in most cases. Investment sizes varied significantly from couple of millions up to over HUF 2.0 billion.

Top 5 equity investments accounted for close to 20% of total investments. This shows a more fragmented market activity compared to 2014, where the 5 largest investments covered close to 70% of total transactions value (however, in 2014 these were driven by outstanding PE investments).

As presented on the chart to the right and below, number and value of transactions were distributed across quarters. However, Q4 was the strongest accounting for 30% of total investment volume, compared to 77% in 2014.

Market activity breakdown by funds

Altogether 27 funds invested in Hungarian companies in 2015 and 12 of these funds have achieved an accumulated annual investment of over HUF 1.0 billion, closing 80% of all transactions in terms of value. The top 5 funds were responsible for over 44% of total investment value.

Only eight funds invested in 4 or more companies in 2015 and achieved a 51% market share. The most active fund reported close to third of all investments (in terms of number of deals), and achieved a 12% market share in terms of total transaction value.

Chart 1.
Distribution of investments across quarters

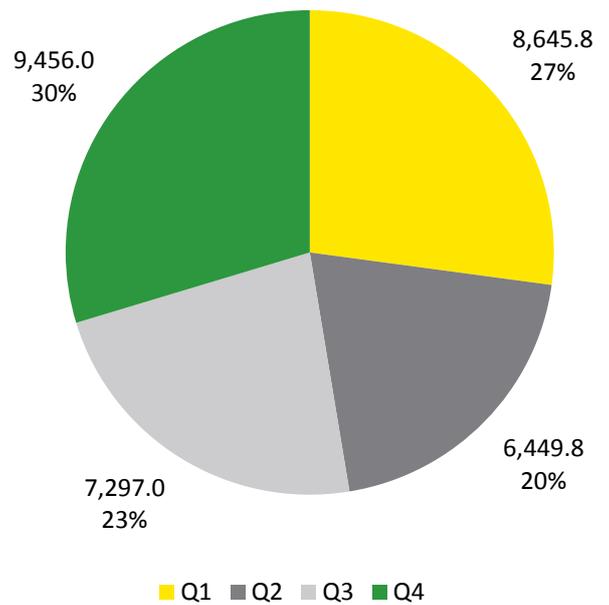


Chart 2.
Number of quarterly VC and PE investments and exits

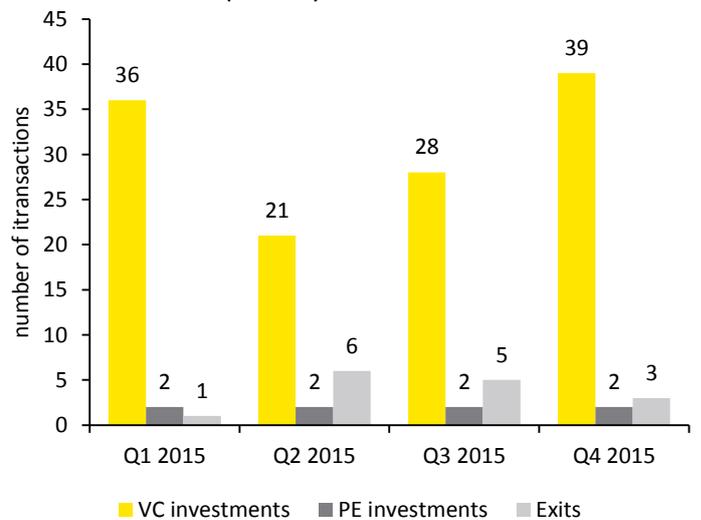
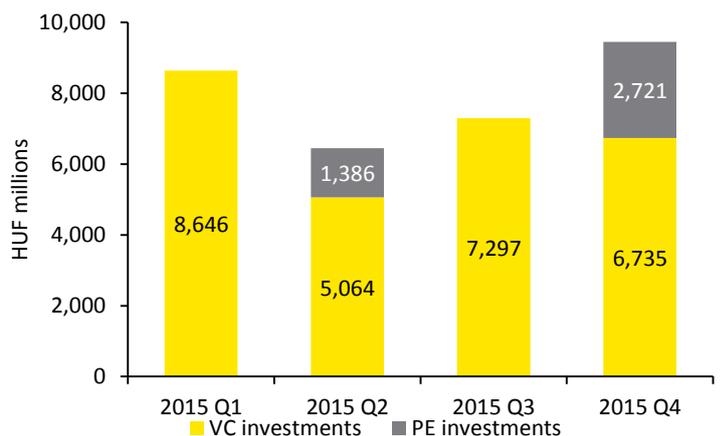


Chart 3.
Quarterly breakdown of VC and PE investments values



Market activity breakdown by funds (cont'd)

Two funds with public ownership have invested HUF 4.3 billion into 32 companies mainly in the start-up phase. Most of these transactions were conducted by the Széchenyi Tőkealap (SZTA) (HUF 3.8 billion invested into 30 companies), being the most active fund on the market in 2015.

Publicly owned funds had a significantly lower average deal sizes (HUF 134 million) than the other funds. Apart from an outstanding PE deal in 2014, Government related funds' activity have not changed significantly compared to 2014, when they invested HUF 4.6 billion into 35 companies (excluding the outstanding PE transaction).

The six privately managed funds have invested into 10 companies. However, most of these funds did not disclose the size of their investments.

19 out of the 27 funds in the study are JEREMIE funds (founded through the Joint European Resources for Micro to medium Enterprises program), with on average 70% governmental capital and 30% private contributions. The 19 JEREMIE funds closed the most transactions, both in terms of number and size, with HUF 23.9 billion invested in 67 companies

Industry breakdown

Most active sectors were (in order of size of investments) Business & industrial services, Energy & environment, Consumer good & retail and Life sciences, with an aggregate 76% of the market.

Also notable, but having seen minor investments are the Business industrial products, Consumer services and computer & consumer electronics.

Investments are more distributed across industries compared to 2014, however top 5 industries are unchanged. While in 2014 76% of all investments were conducted in the Business & industrial services and Energy & environment sectors, in 2015 60% of the capital was invested in these two sectors, but their positions remained unchanged compared to 2014.

Chart 4.
Total investments by fund ownership types and number of companies receiving capital (HUFm)

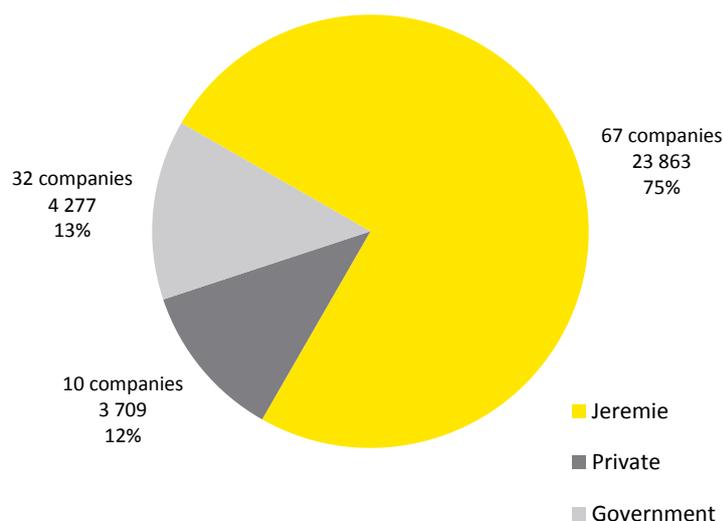


Chart 5.
Breakdown of Industry by their share of capital received

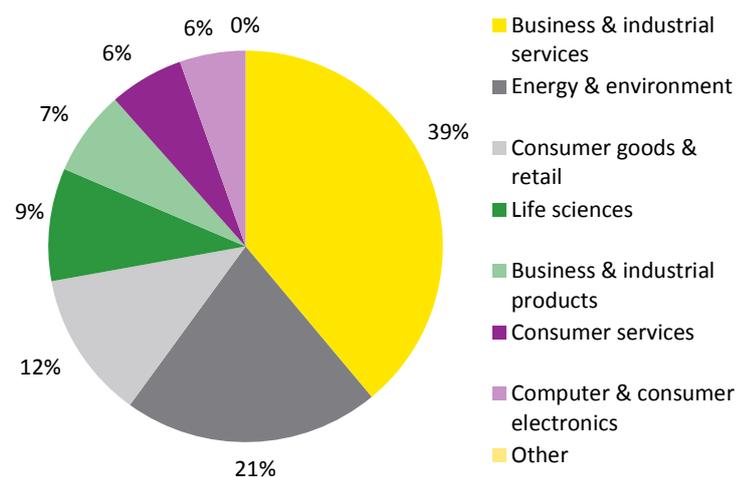


Table 1.
Industry breakdown of investments by quarter

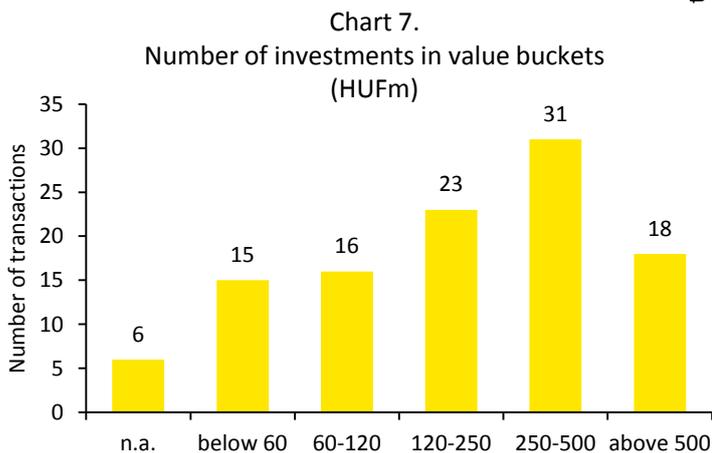
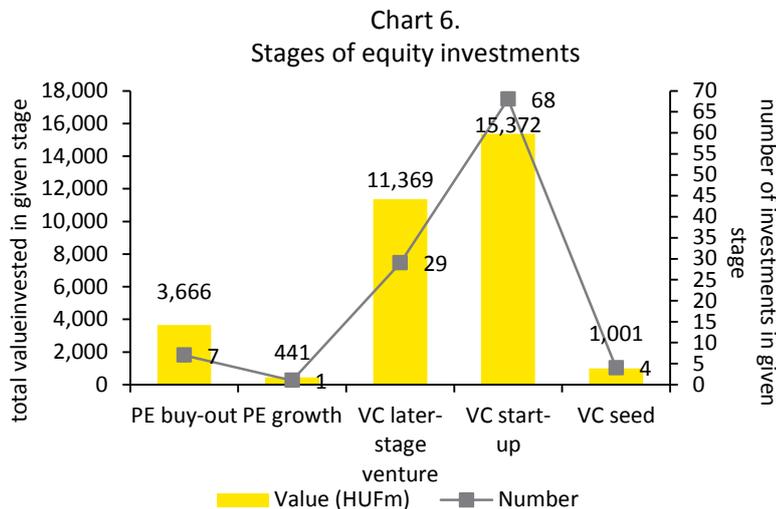
Sector	Q1 2015		Q2 2015		Q3 2015		Q4 2015	
	Number of transactions	Amount (HUFm)						
Business & industrial products	1	377	3	438	6	882	4	385
Business & industrial services	11	3,612	2	390	8	2,727	8	4,832
Chemicals & materials							1	18
Communications	2	521	4	1,016				
Computer & consumer electronics	3	698			4	260	4	645
Consumer goods & retail	4	813	2	1,411	5	1,046	5	342
Consumer services	5	781	3	252	2	380	3	400
Energy & environment	6	1,259	4	1,702	3	1,981	5	1,291
Financial services					1	n/a		
Life sciences	4	415	5	1,242	1	21	8	1,088
Real estate							1	300
Transportation	2	170					2	155
Total	38	8,646	23	6,450	30	7,297	41	9,456

Investment stages

Almost all transactions in 2015 were started during this year, representing 89% of the transaction in terms of value, amounting HUF 28.4 billion.

Rest of investments were follow-on capital injections, which started in previous years, where 22% of the initial contributions have been invested during 2015.

VC start-up stage was the most common with 68 investments, and also most of total capital was distributed to companies in this stage (HUF 15.4 billion).



In 2015 there were significantly less PE investments compared to 2014, when HUF 38.6 billion was injected in these relatively mature companies, however, this was driven by a handful of large transactions.

Half of investments were lower than HUF 250 million (54 out of 109) with only two being above HUF 1.0 billion.

70% of companies have received over HUF 100 million investment (excluding undisclosed transaction values), while in 2014 this ratio was only 41%.

II. Divestments

There were 15 exits reported during 2015, compared to 8 in 2014. Total investment in these projects was over HUF 1.1 billion before the exit. 10 of these exits were done by SZTA.

The industry breakdown of exits is presented to the right, in most cases buyers of portfolio companies were management.

III. Fundraising

There wasn't any fundraising activity reported in 2015.

IV. Comments of HVCA members

András Molnár

HVCA, Board member
PortfoLion, CEO

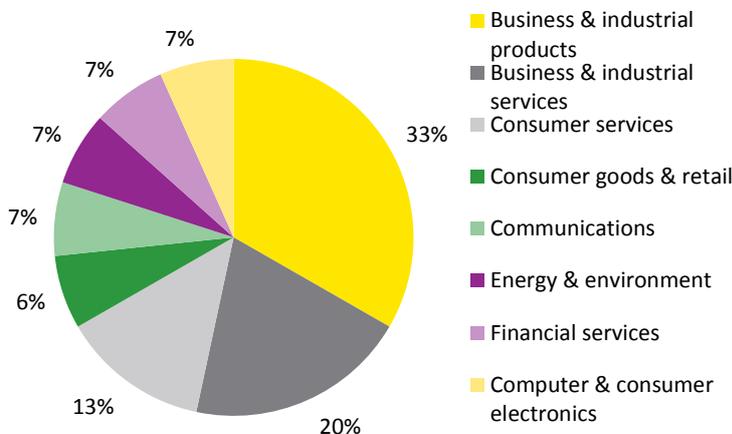
Not surprisingly, JEREMIE Funds were the most active investors in 2015 by closing the most transactions, both in terms of number and size. This tendency is expected to continue until the end of the extended investment period in Q2 2016.

After this active year for the venture capital and private equity sector, an even more exciting future is ahead of us. After the investment period JEREMIE funds will seek successful exits in the coming years, for which they need to build international network and attract international capital.

Moreover, fundraising will be the most important challenge for the VC and PE industry. All players of the sector need to build their strategies to convince new investors and bring in international capital.

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Chart 8.
Distribution of exits across industries (by number of exits)



IV. Comments of HVCA members (cont'd)

Nagy Kálmán

Concorde MB Partners, Partner

2015 was a fairly active year for all participants of the Hungarian M&A market. Jeremie funds were busy to invest before the final-final extended deadline expires in 2016. In our experience, however, financial investors not only did drive the VC market but also contributed to mid-market volumes: two out of nine transactions that we closed last year involved PE investors in one way or another.

Hungary (as part of CEE) is clearly back on the radar screen of investors, as attractive current and fiscal deficit figures seem to have overshadowed concerns over un-orthodox (or maybe orthodox, as you like it) economic measures. As a broader indication of increasing appetite for Hungarian exposure, BUX, the official index of the Budapest Stock Exchange rocketed 45% in 2015 (compared to the 14% rise of the DAX).

Beside direct PE investments, PE backed international/regional consolidators have increasingly taken interest in Hungarian targets. One can't help but think that their shareholders may already entertain their exit options before the printing machines of central banks break down.

We have also seen an increasing number of Hungarian high-net-worth entrepreneurs bored by rock-bottom interest rates contemplating acquisition opportunities. In some cases, they compete with institutional financial investors, in others they partner up with them. In the future, they may become important buyers of portfolio companies sold by funds on exit, especially of the ones too small to attract international investors.

About us

HVCA



The Hungarian Venture Capital and Private Equity Association was established in 1991. It represents the interests of the venture capital and private equity sector in Hungary.

It is committed to promoting the concepts underlying the sector, assisting the work of its members, the elaboration of the highest professional and ethical standards and the monitoring of compliance with these.

The Association, functioning as the national professional organization of the venture capital and private equity sector, has undergone substantial development since its founding, as the association now has 79 members compared to the five at inception. Full members effect investments in listed or unlisted companies as a core activity. Associate members include firms which do not conduct venture capital and private equity investments as a core activity, but possess important know-how and experience related to the sector and provide numerous essential services for venture capital and private equity companies, such as legal advice, accounting services or M&A advisory services. (to learn more about HVCA please visit the following website: <http://www.hvca.hu/hu/>)

EY



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