

Venture Capital and Private Equity update Hungary – 2019



Data was provided by
Invest Europe / EDC.

The European Data
Cooperative (EDC) was
developed as a single data
entry point by Invest
Europe and its national
association partners to
collect data on fundraising,
investments and
divestments across Europe.

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Introduction

We are happy to announce the sixth edition of the annual Investment Monitoring Report that is an analysis of the Hungarian Venture Capital and Private Equity market's performance in 2019 prepared by the Hungarian Venture Capital Association in collaboration with EY.

The data was provided by the European Data Cooperative (EDC) platform of Invest Europe to present investments, divestments and fundraising activities in the venture capital and private equity space in 2019. Please note that investment amounts are reported based on equity values (leveraged amounts are not included) and we present two approaches separated by Invest Europe: **market statistics**, which reports investments received by Hungarian companies from foreign or local investors and **industry statistics**, which represents investments made by Hungarian investors either in Hungary or abroad.

The report is prepared by HVCA and EY, should you be interested in further industry related information or previous issues of the report please visit <http://www.hvca.hu/en/statistics/>.

Highlights – 2019

	Market statistics	Industry statistics
Number of investments	198	203
Total capital invested (million EUR)	136.2	124.7
Number of divestments	16	17
Total divestment value (million EUR)	7.8	9.6
Total fundraising value (million EUR)	619.3	

Equity investments

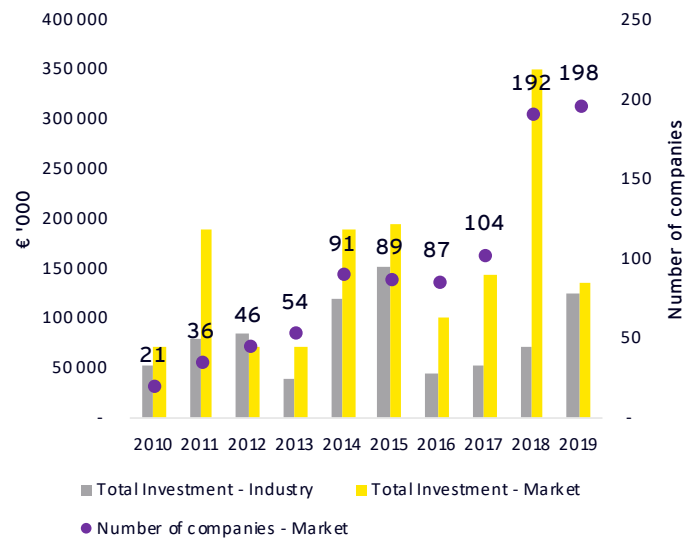
Market statistics

During 2019, EUR 136.2 million was invested into Hungarian companies through 198 transactions. Even though there was a slight, 3% increase in the total number of transactions, the total invested amount dropped by 61% compared to 2018. Although the invested value in 2018 was outstanding, the total amount in 2019 is among the lowest values that were reported over the past five years.

Industry statistics

In 2019, 203 investments were executed by Hungarian investors either in the domestic market or abroad (6% higher than in 2018). Total value of investments grew from EUR 71.7m to 124.7m between 2018 and 2019, resulting in a 64% increase in the reported average deal sizes compared to 2018 showing an increasing appetite for larger investments by Hungarian VC-s.

Chart 1. – Total investment and number of transactions between 2010-2019



Equity investments – investment stage breakdown

Industry statistics

Similarly to 2018, most of the investments were initiated in the seed stage (153 out of 203) which was followed by the start-up stage (33 out of 203). The shares of total investment amounts are more balanced: 40% start-up, 28% seed, 23% later stage venture and 9% growth and buyout. In 2019, there was one reported investment categorized as rescue / turnaround.

Compared to 2018, the average deal sizes of early stage investments increased significantly: start-up phase grew by 65% to a average deal size of EUR 1.5m, seed stage increased by 44% to EUR 225k and late-stage venture by 31% to EUR 2.4m.

Market statistics

In terms of investment amount, the concentration of the investment stage was similar to the industry data and the shares of investment volume were 38% start-up, 27% seed, 24% later stage and 11% growth and buyout.

During 2019, the average deal size was EUR 688 thousand which is 62% lower than EUR 1.8 million in 2018. Similarly to the industry statistics, average investment amounts in early stages increased significantly, but the sharp drop in total investment amount was the result of the lack of large buyout transactions compared to 2018.

In 2018, Hungarian companies in the start-up phase received on average 62% more capital per transaction (from both Hungarian and non-Hungarian investors) compared to deals when Hungarian investors invested into companies at the same stage, this gap decreased to 5% in 2019.

Chart 2. – 2019 Invested capital by investment stage – industry statistics

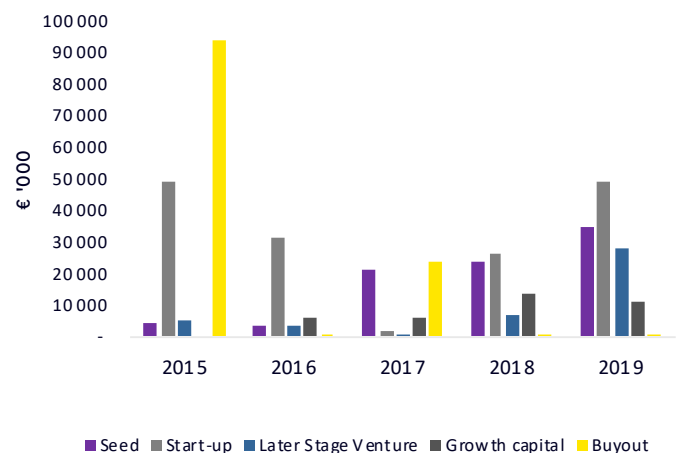


Chart 3. – 2019 Invested capital by investment stage – market statistics

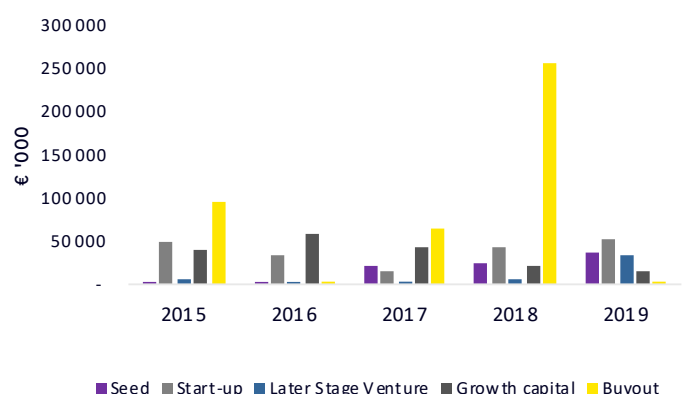
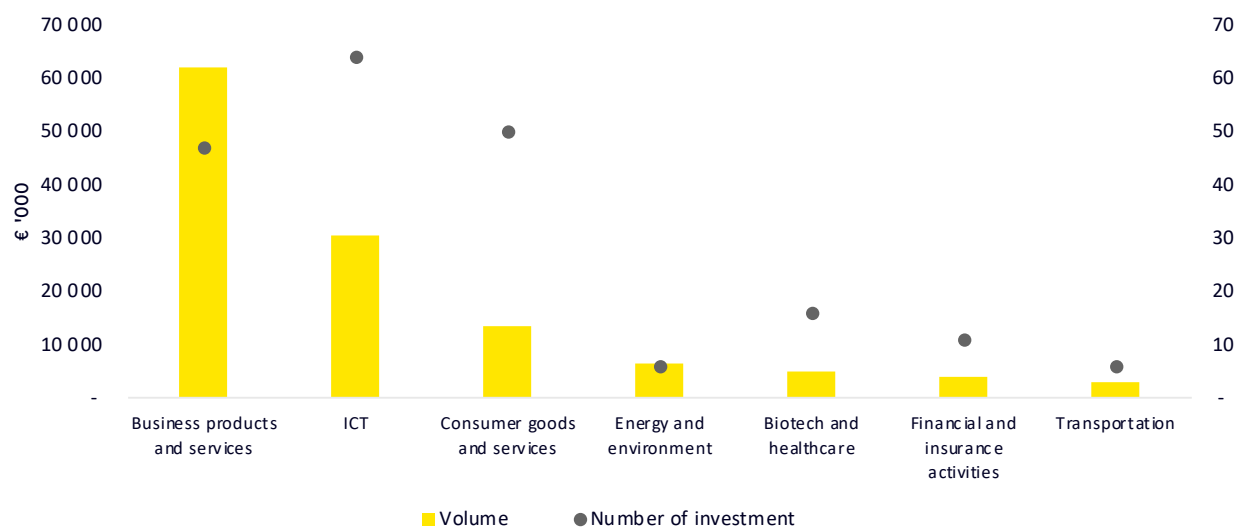


Chart 4. – 2019 Invested capital by sector – industry statistics



Equity investments – sector breakdown

Market statistics

In case of Hungarian companies receiving investments, the two largest sectors by total invested amount were Business products and services and ICT (Information and communications technology) that accounted for 67% of total investment value and 52% of total number of investments. In 2019, the largest transactions (considering average deal size) occurred in the Business products and services and Energy and Environment (with average deal size of EUR 1.3 million and EUR 2.3 million respectively).

Industry statistics

Similarly to market statistics, the most active sector was Business products and services with an average deal size of EUR 1.3 million, while the second largest was ICT with an average deal size of EUR 478 thousand.

The most significant difference between industry and market statistics were reported in the energy and environment sector, showing a larger interest for companies operating in this sector by foreign investors. In this sector, the average deal size was EUR 2.3m according to market statistics versus 1.1m in the industry statistics.

Table 1. –Last two year's breakdown of investments by sector

€ '000	2018				2019			
	Industry statistics		Market statistics		Industry statistics		Market statistics	
	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies
Agriculture	-	-	-	-	997	1	997	1
Business products and services	9 498	38	9 498	38	61 740	47	63 043	47
Chemicals and materials	2 954	1	2 954	1	-	-	-	-
ICT	32 252	58	57 740	57	30 606	64	27 902	56
Construction	867	2	867	2	100	1	100	1
Consumer goods and services	11 401	44	257 490	45	13 394	50	13 394	50
Energy and environment	2 370	4	2 370	4	6 435	6	18 660	8
Financial and insurance activities	2 016	6	10 016	7	3 760	11	3 760	11
Real estate	-	-	-	-	30	1	30	1
Biotech and healthcare	7 510	26	7 510	26	4 769	16	5 519	17
Transportation	2 323	11	2 323	11	2 825	6	2 825	6
Other	466	1	466	1	-	-	-	-
Total investment	71 656	191	351 233	192	124 657	203	136 231	198

Divestments – industry statistics

17 divestments were reported in 2019. The breakdown of divestments based on the form of exit was as follows: 6 Management/Owner buy-back, 3 sale to trade buyers, 3 divestments by other means, 2 sale to other private equity firm, 2 repayment of preference shares and 1 divestments by write-off.

For divestment sector breakdown, Invest Europe collected only market statistics where 16 divestments were reported. Divestments mainly occurred in three sectors but the largest number of divestments – 6 each – was closed in the ICT and Consumer goods and services sector. However, Business products and services with three divestments accounted for almost the half (47%) of the total volume with the average deal size of EUR 1.22 million.

Chart 5. – Divestment by sectors in 2019 – market statistics

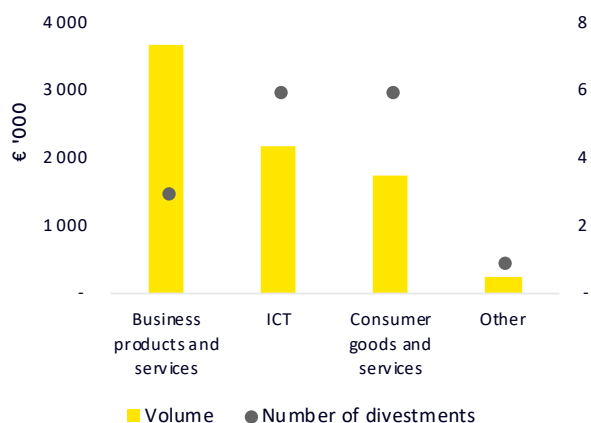
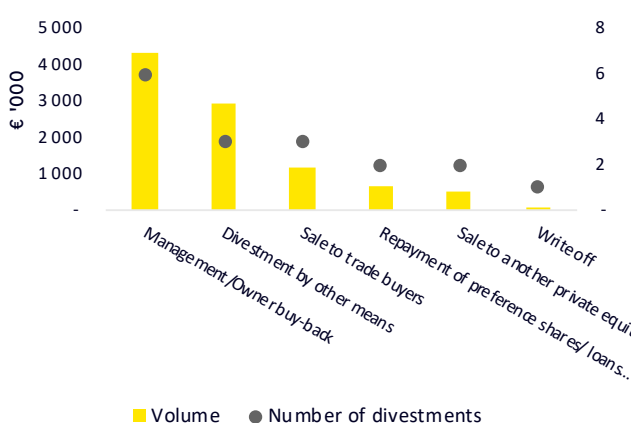


Chart 6. – Total divestment and number of companies by type of exit in 2019 – industry statistics



Fund raising

Funds of EUR 619 million were raised in 2019, which is 37% higher than 2018's figures. Considering geographic breakdown, 87.5% of the funds were raised from the CEE region, while the second largest portion of 8.1% was originated from Asia and Australia. The remaining part of 4.5% was raised from various other European countries.

Compared to 2018, government agencies and corporate investors became more dominant in both absolute and relative terms in relation to fundraising activities while participation of funds of funds fell back.

Chart 7. – Total funds raised breakdown by investor type in 2019 (in thousand EUR)

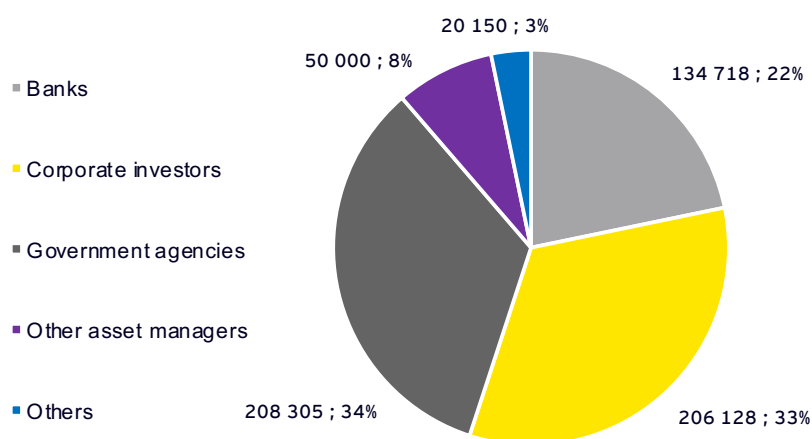
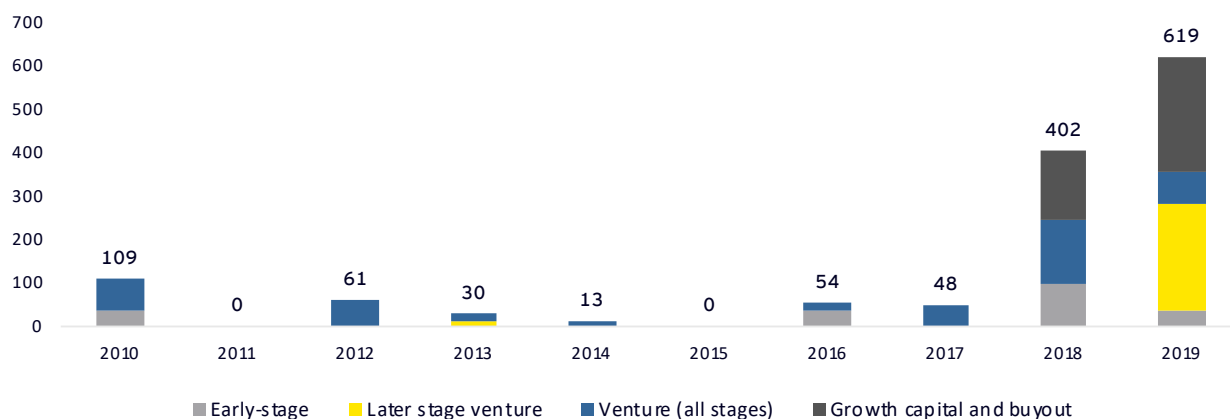


Chart 8. – Historical fundraising figures by target investment stage (in million EUR)



Summary – market statistics

During 2019, 198 companies received EUR 136.2 million investment from VCs and PE funds. The largest amount was allocated in the startup phase (EUR 51.9 million), but majority of the transactions were closed in seed stage (154 out of 198). Compared to 2018, total investment value fell back significantly in 2019 due to lack of large PE deals.

Companies operating in business products and services and information and communications technology (ICT) sectors received 67% of the total capital invested in 2019. Considering the number of transactions, customer goods and services and ICT accounted for 52% of all transactions.

There were 16 divestments in various sectors. The most common divestment by type was management buy-back.

EUR 619 million was raised in 2019 provided by various types of investors.

Summary – industry statistics

In 2019, 203 transactions were executed by Hungarian VC and PE companies in Hungary or abroad. Total investment value was EUR 124.7 million, out of which the largest amount (EUR 49.6 million) was allocated to start-up stage companies. The largest number of companies among the different investment stages was seed investments. Average deal size increased by 64% compared to 2018, showing an increasing appetite for larger investments by Hungarian VC-s.

Related to sector breakdown, industry statistics show similar trends as market statistics, with the exception of energy and environment sector, in which local investors seem to be less interested compared to foreign players.

17 divestments were reported in 10 different sectors.

Comments of HVCA member

It is difficult to briefly assess the performance of the Hungarian venture capital industry in 2019. There have been complex and often contradictory processes evolving in the sector. Although the amount invested appears to have declined compared to 2018, if we clear the 2018 data from a single large private equity transaction, it is clear that the value of invested capital in the early stage ventures almost doubled in 2019. As for the number of transactions, the industry closed the most intensive year ever with 198 transactions. It is particularly gratifying that the proportion of capital invested in later stage ventures also increased significantly.

The total value of newly raised funds shows an almost incredible increase. The EUR 619 million of fresh capital raised in 2019 was not only 50% higher than the previous year's – also outstanding – amount, but was almost as much as the total fresh equity raised in venture capital funds in Hungary in the previous ten years. According to statistics, the largest investor with 34% of the funds is the state, followed by the corporate sector with 33% and the banking sector with 22%. Although the statistics do not show the exact role of public-sector institutions in the latter two categories, considering the amount of new funds, it can be affirmed that in 2019 the market was still dominated by public actors. One laughs and cries at the same time so much money being available while in turn purely state-funded programs are less risk-sensitive.

Due to all this I expect that market activity seen in 2019 will be maintained and may even increase in 2020, nevertheless the quality of domestic venture capital portfolios may continue to deteriorate.

Levente Zsembery

X-Ventures, CEO