

Venture Capital and Private Equity overview Hungary – 2016



Participants in the survey:

3TS Capital Partners
ABC VC Fund
Alliance Jura Hongrie
Arx Equity Partners
Bonitás
Buran Venture
CEE Equity Partners
Central Fund
DBH Investment
Docler Investments
Euroventures
Finattech Capital
Finext Startup
Hiventures (Corvinus)
iEurope Capital
Kaerous Capital
MFB Invest
Mid Europa Partners
PBG FMC
PortfoLion
Primus
SZTA
Venturio
X-Ventures

The above response rate represents 92% of HVCA members.

We are happy to announce the third edition of the annual Investment Monitoring Report that is an analysis of the Hungarian Venture Capital and Private Equity market's performance in 2016 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 members, discussing the market's performance in 2016, 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 2016 we have included additional transactions retrospectively in our year-end analysis. In some cases investments closed in previous quarters of 2016 were announced later and were not included in the actual quarterly IMR reports but we have included them in this year-end edition.

2016 differed significantly from previous years, as the investment period of the JEREMIE funds (representing a major part of the market) ended in May 2016. Consequently, the first half of 2016 was particularly active, while the remainder of the year had only marginal investment activity.

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

Your sincerely,

Levente Zsembery

HVCA, *Chairman*
X-Ventures, *CEO*

Balázs Tüske

HVCA, *Board member*
EY, *Head of Advisory, Partner*

Highlights – 2016

- Number of companies receiving investments : 87
- Total amount invested: HUF 12.1 billion²
- Most common phase of investment: VC start-up stage
- Number of divestments: 16
- Top three most active industries (by value):
 1. Business & industrial services
 2. Computer & consumer electronics
 3. Consumer services

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

²In this report, we have included Mid Europa Partners' buy-out transaction of the minority owner of Waberer's International as a major PE backed deal in 2016. However, as the value of the transaction was not publically disclosed by the parties, we could not consider the value of the deal in the IMR.

Executive Summary

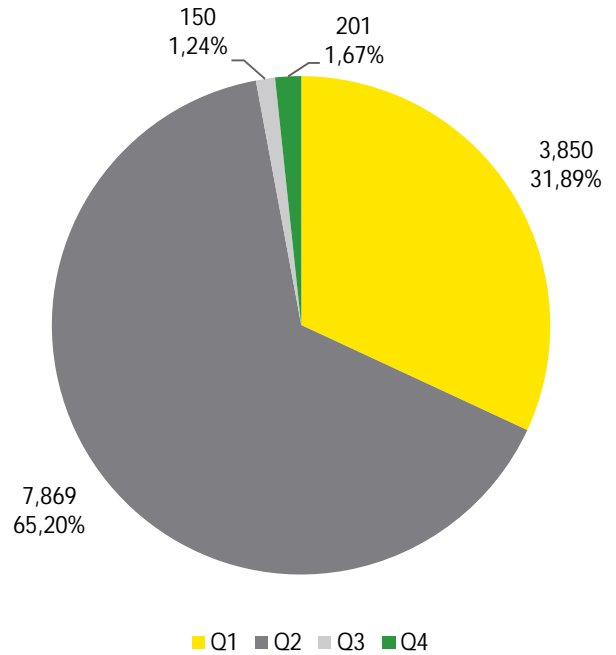
During 2016 87 new and existing companies received close to HUF 12.1 billion from VC / PE funds in Hungary in 97 transactions, which is a 62% decrease compared to the HUF 31.8 billion distributed to 109 companies in 2015. The average deal value decreased substantially as well, to HUF 145m, compared to HUF 274m last year. 37 firms received minimum HUF 100 million, compared to 72 companies last year.

The top 5 transactions accounted for 24% of total market activity and the 5 most active funds executed close to 57% of all investments.

JEREMIE funds were the most active investors in 2016, just as in 2015, both in terms of value and number of transactions, providing altogether HUF 10.1 billion to 61 companies, representing 84% of total capital injections in 2016. Total volume and value of JEREMIE investments decreased significantly compared to 2015 (HUF 23.9m) due to the end of their investment period in May 2016. Consequently, the first half of 2016 covered 97% of the total investment value.

The most common stage of investments was the start-up phase, with 51 investments and HUF 9.5 billion capital distributed to companies at this stage of development.

Chart 1.
Distribution of investments across quarters (value (HUFm) and share)



I. Equity investments

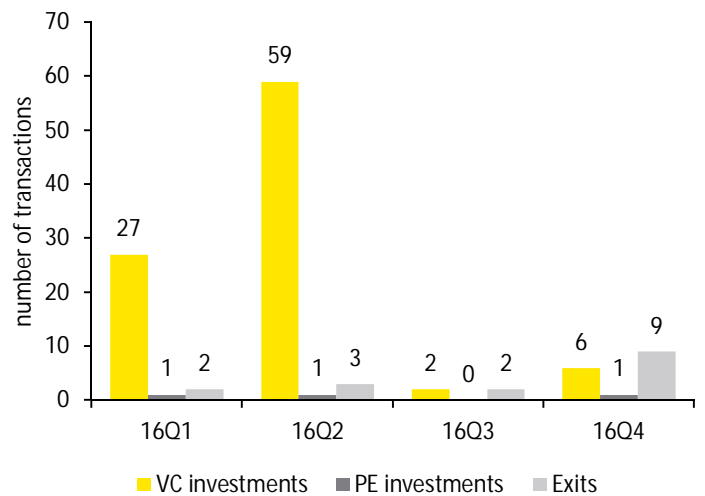
Similarly to previous years, the Venture Capital and Private Equity market was dominated by VC investments as presented on the right.

Transaction sizes varied from minor follow-up investments below HUF 5m up to HUF 700m, excluding 5 investment with undisclosed deal sizes.

The top 5 equity investments accounted for close to 24% of total investments. However, various privately financed PE funds have not disclosed their investment sizes, although one can assume that these investments would represent the higher end of the range.

As presented on Chart 1-3., the number and value of transactions were concentrated in the first half of 2016, especially in the second quarter.

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



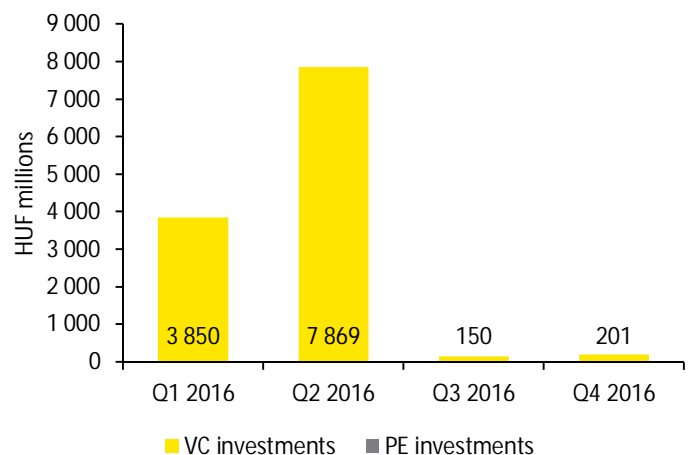
Market activity breakdown by funds

Altogether 23 funds invested in Hungarian companies in 2016 and 6 of these funds have achieved an accumulated annual investment of over HUF 1.0 billion (compared to 12 in 2015), closing 66% of all transactions in terms of value. The top 5 funds were responsible for close to 57% of total investment value.

Only two funds invested in 10 or more companies, while the average was just under 4 companies funded per fund. While in 2015 the most active fund reported close to third of all investments in terms of number of deals, during this year the activity was more distributed, with the most active fund gaining only a 15% share of the number of investments.

The investment sizes of the PE transactions in 2016 (3 buy-out deals) were not disclosed publicly.

Chart 3.
Quarterly breakdown of VC and PE investments values



Market activity breakdown by funds (cont'd)

Three funds with governmental fund management have invested HUF 1.9 billion into 21 companies mainly in the start-up phase. Most of these transactions were conducted by one fund (HUF 1.4 billion invested into 11 companies), which was one of the most active funds on the market in 2016.

Publicly financed funds had a significantly lower average deal sizes (HUF 92 million) than the other funds (HUF 145m overall average).

Six privately financed funds have invested into six companies. However, most of these funds have not disclosed the size of their investments.

15 out of the 23 funds in the study are JEREMIE funds (co-financed by the Joint European Resources for Micro to medium Enterprises program), with on average 70% governmental capital and 30% private contributions. The 15 JEREMIE funds closed the most transactions, both in terms of number and size, with HUF 10.1 billion invested in 61 companies.

The average JEREMIE deal size was HUF 166m, covering a wide range, with a median of HUF 100m.

Industry breakdown

The most active sectors were (in order of size of investments) Business & industrial services, Computer & consumer electronics, Consumer services and Life sciences, with an aggregate 76% share of all investments on the market.

Business & industrial services remained the most active industry in 2016, although with continuously decreasing share (39% in 2015, and 44% in 2014). Rest of the sectors' market shares have varied from time to time. Energy & environment dropped to 9% from 21% in 2015, and Consumer goods & retail's 12% in 2015 was overtaken by Consumer services with 13%. Life sciences kept its 9% share compared to 2015.

Chart 4.
Share of total investments by fund ownership types

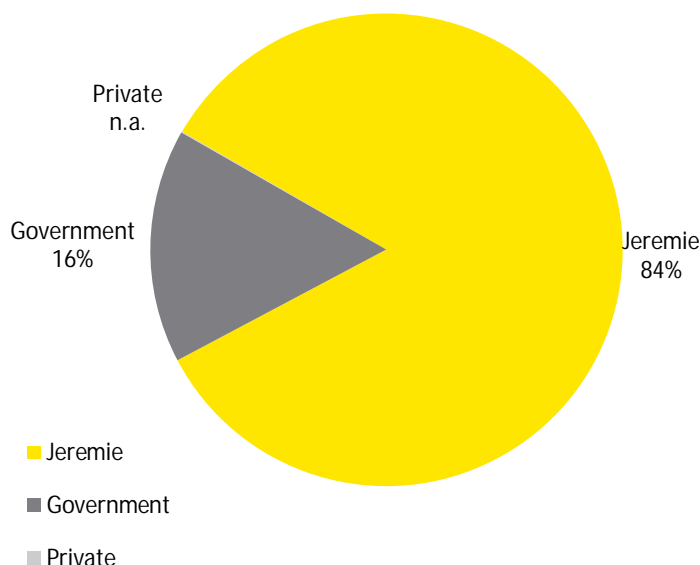


Chart 5.
Breakdown of Industry by their share of capital received

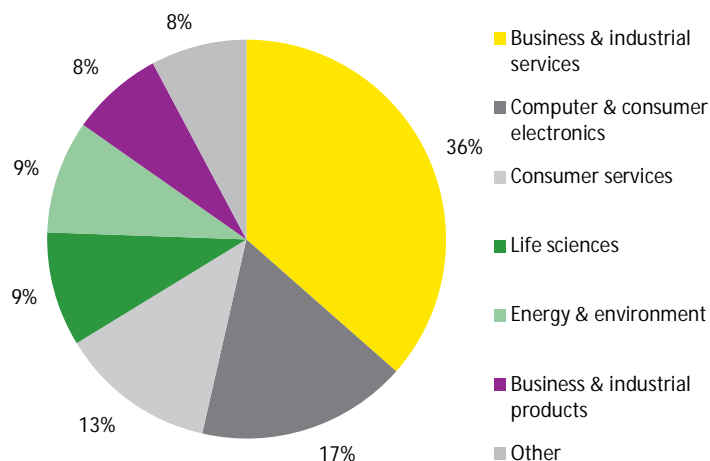


Table 1.
Industry breakdown of investments by quarter

Sector	Q1 2016		Q2 2016		Q3 2016		Q4 2016	
	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)
Business & industrial products	3	333	4	512	1	60	-	-
Business & industrial services	7	946	11	3,457	-	-	-	-
Chemicals & materials	-	-	-	-	-	-	1	20
Communications	-	-	1	62	-	-	-	-
Computer & consumer electronics	6	544	8	1,313	1	90	2	115
Construction	1	43	-	-	-	-	-	-
Consumer goods & retail	1	87	8	328	-	-	2	25
Consumer services	5	953	10	537	-	-	2	41
Energy & environment	2	240	6	871	-	-	-	-
Financial services	-	-	1	60	-	-	-	-
Life sciences	3	703	7	419	-	-	-	-
Transportation	-	-	4	310	-	-	-	-
Total	28	3,850	60	7,869	2	150	7	201

Investment stages

Most transactions in 2016 were started during that year, representing 61% of the transactions in terms of value, amounting HUF 7.4 billion.

Rest of the investments were follow-on capital injections, which started in previous years, where the initial contributions have been increase by further 49% on average during 2016.

VC start-up stage was the most common with 51 investments, and also most of total capital was distributed to companies in this stage (HUF 9.5 billion).

Chart 6.
Stages of equity investments

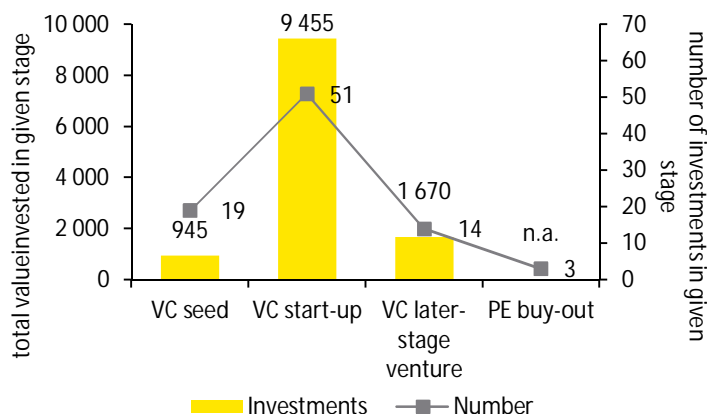
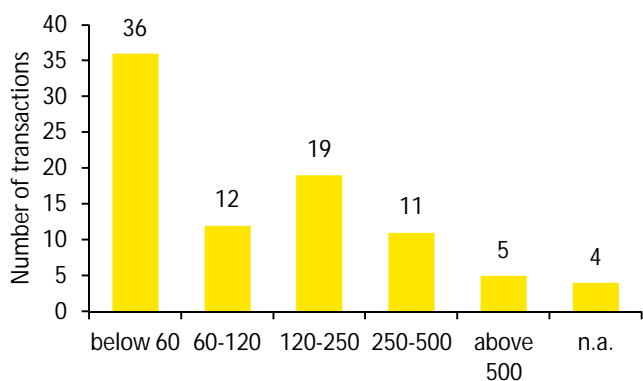


Chart 7.

Number of investments in value buckets (HUFm)



In 2016 there were significantly less PE investments, as presented above, compared to 2015, when HUF 4.1bn was injected in 8, relatively mature companies.

Half of all investments were lower than HUF 65 million, which is a major drop compared to 2015, when this median figure was HUF 220m.

45% of companies have received over HUF 100 million investment (excluding undisclosed transaction values), while in 2015 this ratio was 70%.

II. Divestments

There were 16 exits reported during 2016, compared to 8 divestments in 2014 and 15 in 2015. The most significant exit in 2016 was executed by Enterprise Investors, through the trade sale of Scitec Holding for EUR 150m plus potentially EUR 20m (in 1 year)(HUF 47bn+7bn) to Ascendis Health, a South-African publicly listed health and care company. Scitec was acquired in 2013 with an undisclosed deal size.

The total reported investment to the other 15 projects was over HUF 3.8 billion. Similarly to 2015, most of these exits (9) were done by SZTA. The most common form of exit was trade sale, with 8 cases, followed by sale to management and repayment of silent partnership, both with 4 cases.

In 2015 most exits were conducted by sale to management (10 out of 15), followed by trade sale with 3 cases, and repayment of silent partnerships in 2 occasions.

Following the sector investment trends of previous years, divestments have occurred mostly in the Business & industrial products sector, followed by Business & industrial services.

While Financial services sector received only minor investments since the beginning of the study (HUF 1.3bn into 7 companies), three divestments have been executed in 2015 and 2016.

III. Fundraising

During 2016, two new funds were established, both government related, with a capital amounting to HUF 16bn. Additionally, two other funds have been announced but they will start investing in 2017. These are also government related funds with an available capital of HUF 16bn and HUF 50bn, respectively.

Chart 8.

Distribution of exits across industries (by number of exits)

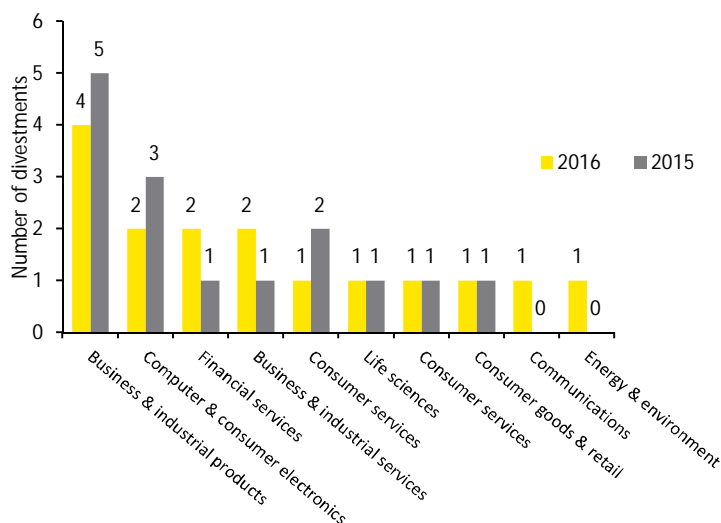
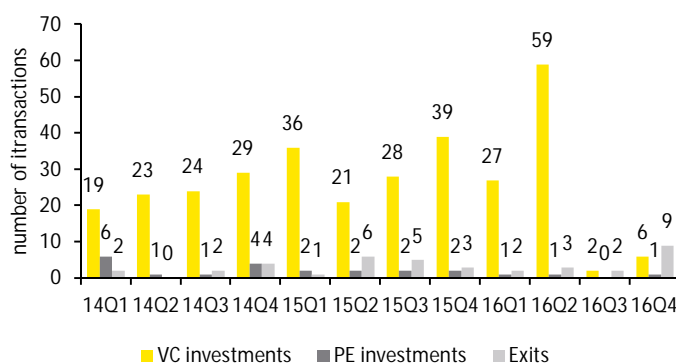


Chart 9.

Number of investments (by type) and divestments (2014-2016)



IV. Comments of HVCA members

„Similarly to 2015 the bulk of venture capital investments characterized in 2016. The drop in the number and total value of investments observed in the second half of the year caused by the end of the investment period of the Jeremie-funds, seems to be temporary. Since new early stage financing programs were launched at the end of 2016 I expect that the investment activity will return to the level of the previous years.

Analysing the results of the previous year two trends should be highlighted. First the changes in the role of the state. Contrary to the practice of the previous years where the state mostly acted as a kind of limited partner financing or co-financing privately managed funds (Jeremie-funds, funds launched by EXIM Bank), new funds announced and launched in Q4 of 2016 are managed by state owned agencies. However several fund managers are working on private fund raisings and the new Jeremie-program is expected to be announced in Q1 this year I expect the dominance of the state managed entities since the privately managed funds probably will not be active before the end of this year.

The other trend to be mentioned is the increasing number of the successful exits. Similarly to investments mostly venture capital investors were active in exits as well. However half of exits was sale to management and repayment of silent partnership as these are typical forms of exits of the most active state managed fund we can suppose that the majority of these sales was a financial success.”

Levente Zsembery
HVCA, Chairman
X-Ventures, CEO

„2016 was clearly divided into two. It had a very active first half and a slow moving second. Number of exits remained in line with the previous year but we will certainly see more exits in the coming year due to the expected monetization of the Jeremie investments. It would be good to see that PE firms investing in the Jeremie backed enterprises proving that our VC industry is developing. I expect fund raising will be in the spotlight again after lack of such actions in 2016. The global and Hungarian economic climate was very supportive in 2016 and this may remain the same which can boost the fund raising initiations. In addition to the expected increase of governmental fund management's activity, the total size and number of investments can only grow again after some successful fund raisings what we will hopefully see.”

György Herczku
KBC Securities, Head of Corporate Finance

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/>)

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