

Venture Capital and Private Equity update Hungary – Q2 2018

Participants in the survey:

3TS Capital Partners
Alliance Jura Hongrie
Arx Equity Partners
Buran Venture
CEE Equity Partners
Central Fund
DBH Investment
Euroventures
Hiventures
Kaerous
Mid Europa Partners Kft.
PBG-FMC
Portfolion
SZTA
Venturio
X-Ventures

The above response rate represents 73% of HVCA members.

Introduction

The following is an analysis of data provided by the members of the Hungarian Private Equity and Venture Capital Association and collected from public sources in order to present venture capital and private equity activity in Q2 2018. Investments in Q2 2018 were executed by 5 funds that are managed by 3 fund managers.

The data was collected through questionnaires completed by our members. Sometimes these questionnaires are not completed in full which may distort the outcome of the analysis. In addition to questionnaires we collected published transactions from various online news portals.

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 – Q2 2018

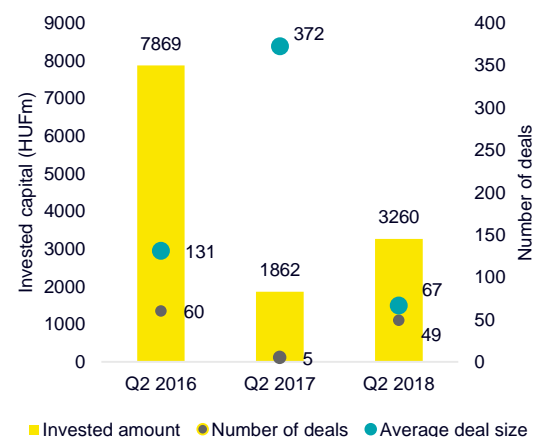
- ▶ Number of closed transactions: 49 (out of which, 47 was by VC-s)
- ▶ Number of divestments: 14
- ▶ Total capital invested: HUF 3,260 million
- ▶ Top three most active industries (by value):
 1. Business & industrial products
 2. Consumer services
 3. Consumer goods & retail

Equity investments

During Q2 2018, 49 transactions were closed in Hungary involving 49 target companies that received a total investment of HUF 3,260 million. Total invested value was close to double of the capital invested of HUF 1,862 million in Q2 2017, although lower than the Q2 2016 level of HUF 7,869 million (see Chart 1).

Total number of transactions increased during Q2 2018 compared to Q2 2017 and increased by 26% compared to Q1 2018. During Q2 2018 total transaction value increased by 142% versus Q1 2018.

Chart 1. – Quarterly breakdown of the number of transactions



Equity investments – investment stage breakdown

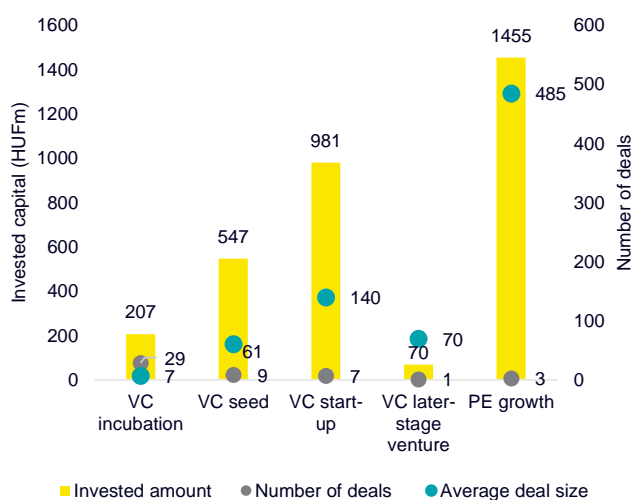
The largest transaction was PortfoLion's investment of USD 5m in Starschema and with this, transaction values varied between HUF 3 million VC incubation to approx. HUF 1,400 million PE growth. The average deal size was HUF 67 million which is considerably higher than HUF 35 million in the previous quarter.

27 out of the 49 transactions were first time investments, which is 81% of the total amount invested (compared to 87% of the previous quarter).

Due to PortfoLion's transaction, PE growth stage was the most common investment stage in terms of invested capital (HUF 1,455 million), accounting for 45% of the total investment value during Q2 2018 and with an average deal size of HUF 485 million. At the same time PE growth investments amounted to 6% of total number of deals.

Similarly to the previous quarter, the number of transactions was highest in the VC incubation stage (29 out of 49) (see Chart 2 on the right), obviously with a relatively lower average deal size of HUF 7 million.

Chart 2. – Q2 2018 Invested capital by investment stage



Equity investments - sector breakdown

Companies from ten sectors received funding in Q2 2018. The two largest sectors by total invested amount were business & industrial products and consumer services that accounted for 58% of total transaction value (see Chart 3 and Table 1).

In Q2 2018, following the Starschema investment, the largest transactions occurred in the consumer goods & retail sector, which amounted to HUF 300 million, followed by a deal in the life science sector in the amount of HUF 248 million.

Two additional transactions were reported above the HUF 100 million threshold, one in the business & industrial services sector (HUF 124 million) and another in the computer & consumer electronics sector (HUF 100 million).

Chart 3. – Q2 2018 Invested capital by sector

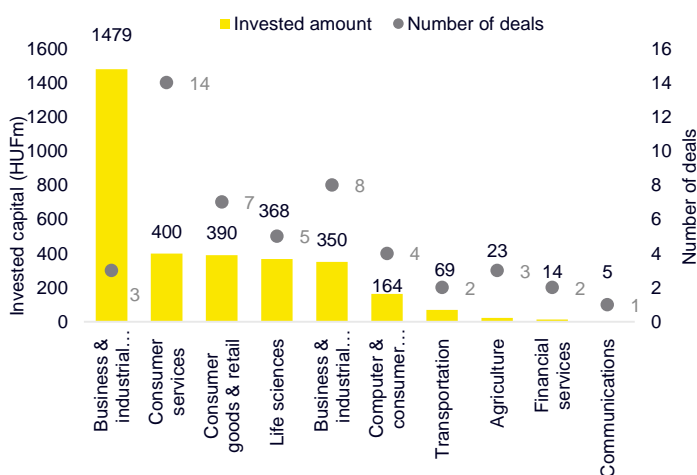


Table 1. – Quarterly breakdown of investments by sector

Sector	Q2 2016		Q2 2017		Q2 2018	
	Number of deals	Amount (HUFm)	Number of deals	Amount (HUFm)	Number of deals	Amount (HUFm)
Agriculture	-	-	-	-	3	23
Business & industrial products	4	512	1	1,000	3	1,479
Business & industrial services	11	3,457	-	-	8	350
Chemicals & materials	-	-	-	-	-	-
Communications	1	62	-	-	1	5
Computer & consumer electronics	8	1,313	1	125	4	164
Construction	-	-	-	-	-	-
Consumer goods & retail	8	328	-	-	7	390
Consumer services	10	537	3	737	14	400
Energy & environment	6	871	-	-	-	-
Financial services	1	60	-	-	2	14
Life sciences	7	419	-	-	5	368
Transportation	4	310	-	-	2	69
Total	60	7,869	5	1,862	49	3,260

Divestments

7 funds reported a total number of 14 divestments in Q2 2018. Divestments occurred in various sectors with no specific concentration (see Chart 4 below).

Based on the form of exit, divestments comprised 5 sales to management – which in general, is not considered as a successful exit -, 4 divestments by trade sale, 2 divestments by write-off, 2 sale to other private equity firms and a sale to a financial institution.

The life of exited investments varied between 2 to 10 years (see chart 5). The average life of the 14 exits in Q2 2018 was around 5 years.

Chart 4. – Q2 2018 Divestments based on sector and form of exit

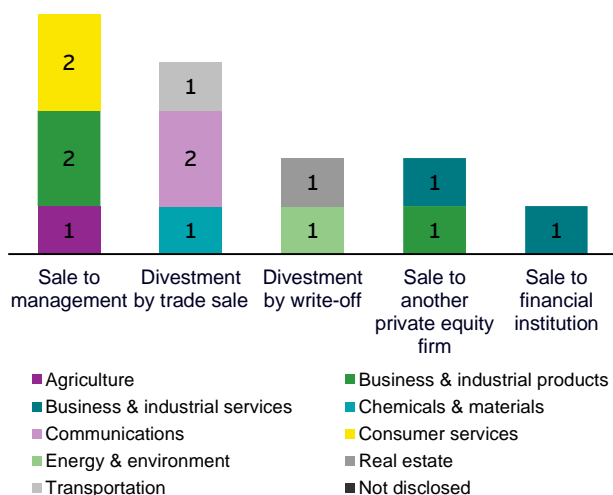
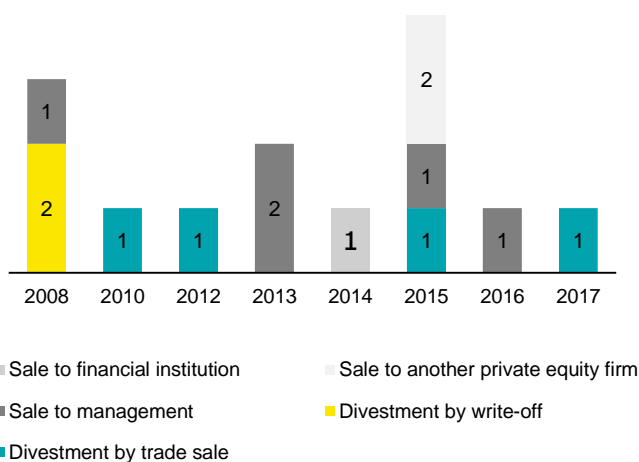


Chart 5. – Q2 2018 Divestments based on year of first investment and form of exit



Fund raising

In Q2 2018, CEE Equity Partners Limited reported EUR 800 million fundraising for its China Central And Eastern Europe Investment Co-Operation Fund.

In addition to the CEE Equity Partners fundraising, eight Hungarian venture capital firms raised approx. HUF 75 billion altogether through Hungarian Development Bank and the EU funded Jeremie program.

Summary

During Q2 2018 49 companies received HUF 3,260 million from VC and PE funds. The largest amount was allocated in the PE growth stage (HUF 1,455 million), but in number terms most of the transactions were VC incubations (29 out of 49).

The three largest transactions accounted for 61% of total market activity.

There were 14 divestments by 7 funds in various sectors.

CEE Equity Partners raised EUR 800 million. Eight Hungarian VC firms raised HUF 75 billion through the Jeremie program.