

# Venture Capital and Private Equity update Hungary – 2018



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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 fifth edition of the annual Investment Monitoring Report that is an analysis of the Hungarian Venture Capital and Private Equity market's performance in 2018 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 2018. 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 – 2018

	Market statistics	Industry statistics
Number of investments	191	189
Total capital invested (million EUR)	345.9	66.1
Number of divestments	29	27
Total divestment value (million EUR)	116.4	21.1
Total fundraising value (million EUR)	337	

## Equity investments

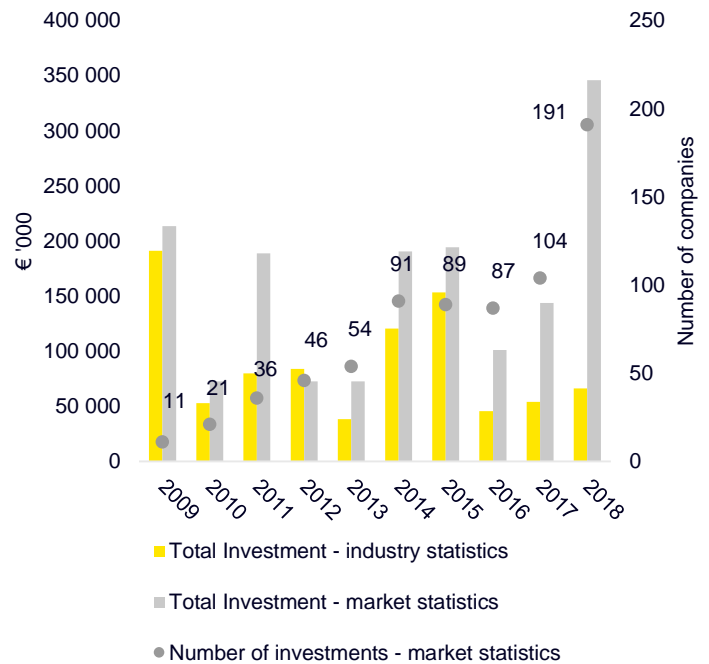
### Market statistics

During 2018, EUR 346 million was invested into Hungarian companies through 191 transactions. Total invested value represents 141% increase compared to EUR 144 million in 2017 and total number of transactions increased by 84%.

### Industry statistics

In 2018, 189 investments were executed by Hungarian investors either in Hungary or abroad (95% higher than in 2017) in a total value of EUR 66 million, which represents a 23% growth versus 2017.

Chart 1. – Total investment and number of transactions between 2010-2018



## Equity investments – investment stage breakdown

### Industry statistics

In 2018, the average deal size among all investment stages was EUR 350 thousand, which is 37% lower than EUR 556 thousand in 2017. Considering only the seed stage, the average investment size was 34% lower than in 2017 (EUR 155 thousand in 2018 and EUR 236 thousand in 2017). In the start-up phase, the average investment size decreased to EUR 875 thousand in 2018 from EUR 2,000 thousand in 2017).

Similarly to 2017, the number of transactions was highest in the seed stage in 2018 (154 out of 189). The amount invested in seed stage companies accounted for 36% of all invested capital, while in 2017 this ratio was 40%.

### Market statistics

During 2018, the average deal size was EUR 1.8 million which is 31% higher than EUR 1.4 million in 2017. Average deal size fell from EUR 236 thousand to EUR 152 thousand in case of seed stage investments and from EUR 3.9 million to EUR 1.5 million in case of start-up stage investments from 2017 to 2018. Three buyout transactions (with an average investment value of EUR 85 million) were driving the overall increase in deal sizes.

Hungarian companies in the start-up phase received on average 70% more capital per transaction (from both Hungarian and non-Hungarian investors) compared to deals when Hungarian investors invested into companies at the same stage.

Chart 2. – 2018 Invested capital by investment stage – industry statistics

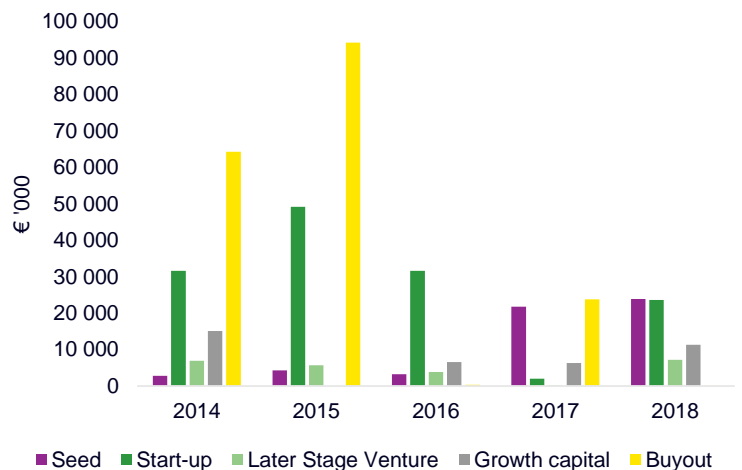


Chart 3. – 2018 Invested capital by investment stage – market statistics

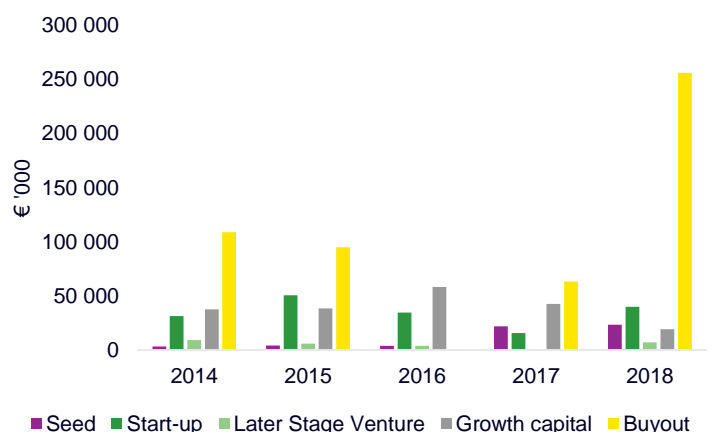
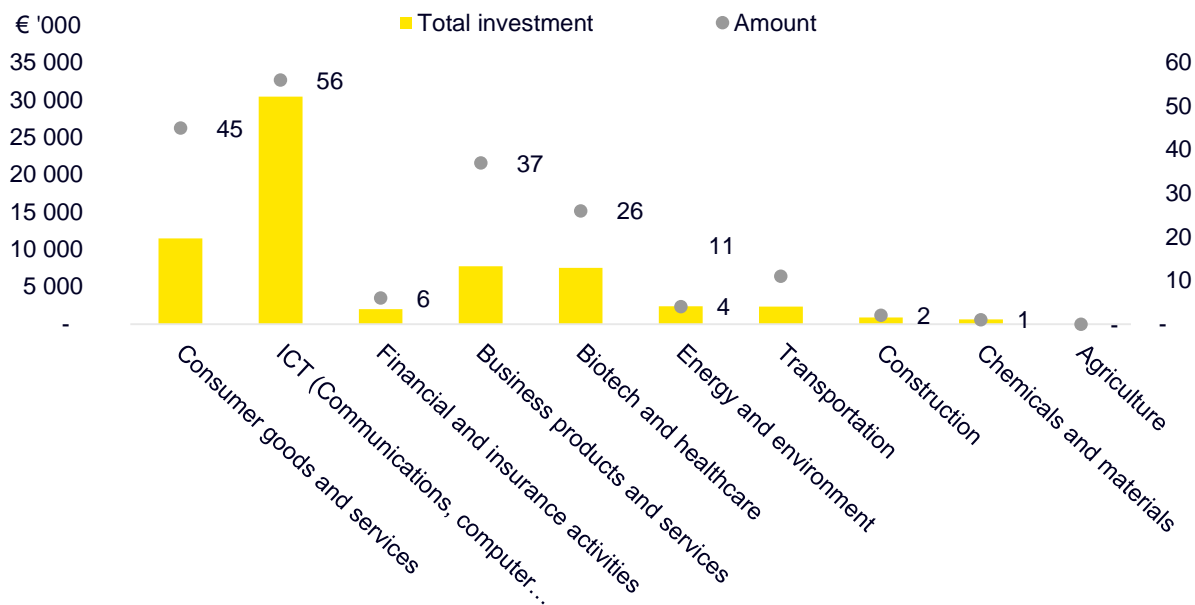


Chart 4. – 2018 Invested capital by investment stage – industry statistics



## Equity investments – sector breakdown

### Industry statistics

In case of Hungarian companies receiving investments, the two largest sectors by total invested amount were ICT (Communication, computer and electronics) and Consumer goods and services that accounted for 63% of total investment value and 53% of total number of investments. In 2018, the largest transactions (considering average deal size) occurred in the Chemicals and materials, and ICT sectors (with average deal size of EUR 622 thousand and EUR 544 thousand respectively).

### Market statistics

Considering market statistics, the most active sector was consumer goods and services with an average deal size of EUR 5.6 million, while the second largest was financial and insurance activities with an average deal size of EUR 1.4 million. These two sectors accounted for 91% of total investment value and 53% of total number of transactions.

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

Sector	2017				2018			
	Industry statistics		Market statistics		Industry statistics		Market statistics	
€ '000	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies
Consumer goods and services	4 044	15	18 396	16	11 461	45	257 550	46
ICT (Communications, computer and electronics)	5 028	24	18 983	28	30 440	56	56 096	56
Financial and insurance activities	7 798	6	36 161	6	2 016	6	10 016	7
Business products and services	16 921	29	7 463	28	7 748	37	7 748	37
Biotech and healthcare	3 462	15	3 462	15	7 510	26	7 510	26
Energy and environment	1 581	1	43 962	3	2 370	4	2 370	4
Transportation	15 141	7	15 141	7	2 323	11	2 323	11
Construction	0	0	0	0	867	2	867	2
Chemicals and materials	0	0	0	0	622	1	622	1
Agriculture	0	0	150	1	0	0	0	0
Other	0	0	0	0	776	1	776	1
<b>Total investment</b>	<b>53 975</b>	<b>97</b>	<b>143 717</b>	<b>104</b>	<b>66 132</b>	<b>189</b>	<b>345 878</b>	<b>191</b>

## Divestments – Industry statistics

27 divestments were reported in 2018. Divestments occurred in various sectors but the largest number of divestments – 12 out of 27 – was closed in the ICT (communications, computer and electronics) sector (see Chart 5 below).

The breakdown of divestments based on the form of exits was as follows: 10 sales to management, 7 divestment by trade sale, 3 sale to other private equity firm, 2 divestments by write-off, 1 repayment of preference shares, 4 divestments by other means.

Considering market statistics, two additional divestments were reported in the value of EUR 95 million, out of which one was a sale to another PE company and the other was reported as a management buyback.

Chart 5. – Divestment by sectors in 2018 – industry statistics

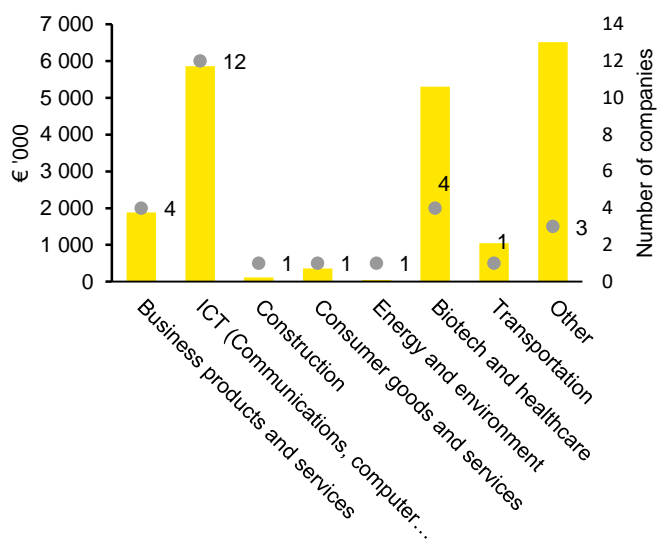
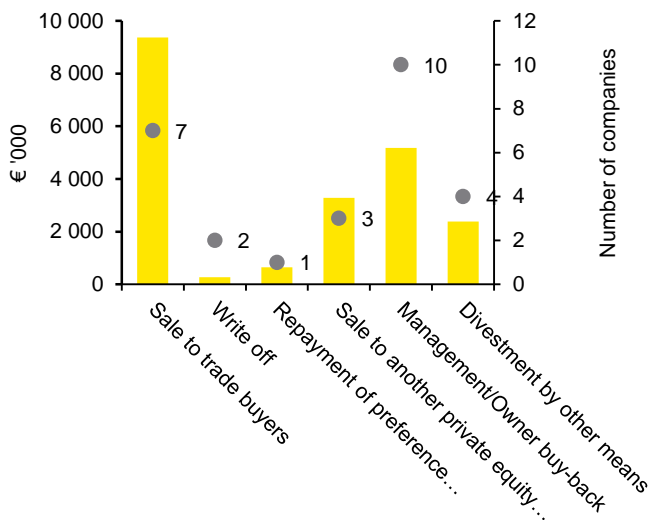


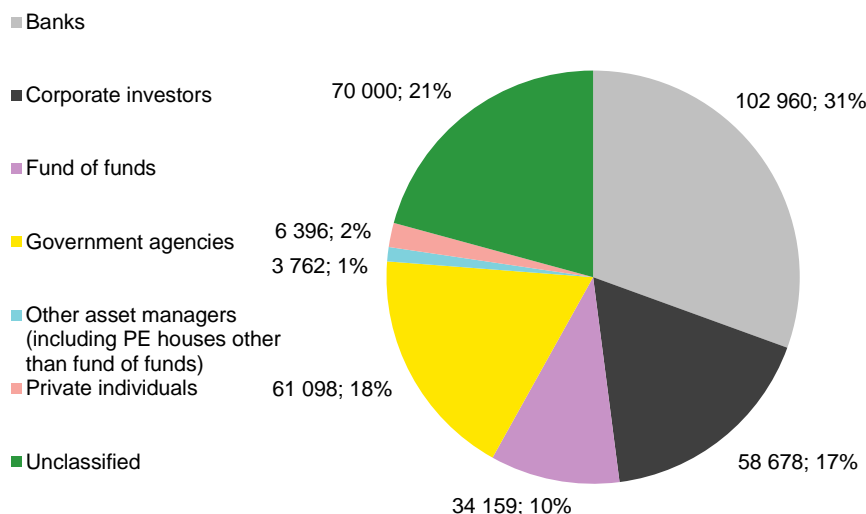
Chart 6. – Total divestment and number of companies by type of exit in 2018 – industry statistics



## Fund raising

Funds of EUR 337 million were raised in 2018, which is 42.8% higher than EUR 236 million raised in 2017. 76% of funds were sourced from the CEE region, 15% from North America, 3% from France and Benelux countries and the remaining 6% is unclassified. Compared to last year, new type of investors entered the market (for example, fund of funds).

Chart 7. – Total funds raised breakdown by investor type in 2018



## Summary – market statistics

During 2018, 191 companies received EUR 346 million investment from VCs and PE funds. The largest amount was allocated in the buyout phase (EUR 256 million), but majority of transactions were closed in seed stage (154 out of 191).

Companies operating in consumer goods and services sector received 74% of the total capital invested in 2018. Considering invested capital, the two most active sectors accounted for 91% of the total investment value and 53% of the number of transactions.

There were 29 divestments in various sectors. The most common divestment by type was management buy-back.

EUR 337 million was raised in 2018 provided by various types of investors.

## Summary – industry statistics

In 2018, 189 transactions were executed by Hungarian VC and PE companies in Hungary or abroad. Total investment value was EUR 66 million, out of which the largest amount (EUR 23.9 million) was allocated to seed stage companies which also corresponds to the largest number of companies along the different investment stages.

Similarly to market statistics, ICT and consumer goods and services received the highest amount of investment capital in 2018.

27 divestments were reported in 10 different sectors.

## **Comments of HVCA member**

2018 was one of the most active years in the history of the Hungarian venture capital and private equity market. Not only the number of transactions but also the total amount invested increased significantly last year.

Similarly to the previous years the Hungarian market is VC-heavy one, both according to market and industry statistics in the vast majority of the transaction early stage companies got new sources. The outstanding activity of the venture capital investors was not a surprise due to the considerable fundraising activity of the sector in 2017 and the first half of 2018. Also 2018 was dominated by state-backed investors, their activity catalysed the market. However it is really promising that our colleagues closed 3-4 transactions a week on average there are signs that the market is overheated in a sense. Pre-money values increased significantly last year but there are question marks whether these valuations will be reflected in the exit prices. It can have an effect on the future activity of private investors.

It is a pleasure that there were also buyout / private equity transactions on the market. Although one larger deal can change the statistics I hope that with the exits of the early stage investors also the buyout activity will grow in the forthcoming years.

**Levente Zsembery**

X-Ventures, CEO