

Venture Capital and Private Equity update Hungary – Q1 2019

Participants in the survey:

3TS Capital Partners
Alliance Jura Hongrie
Arx Equity Partners
Bonitas
Buran Venture
CEE Equity Partners
Central Fund
Day One Capital
DBH Investment
Euroventures
Finext Startup Zrt.
Hiventures
Lead Ventures
MFB Invest
Mid Europa Partners Kft.
OXO Ventures
PBG-FMC
Portfolion
Solus Capital
Susterra Capital
Széchenyi Tőkealap Kezelő
Venturio
X-Ventures

The above response rate represents 82% 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 Q1 2019. Investments in Q1 2019 were executed by 12 funds that are managed by 9 fund managers.

The data was collected through questionnaires completed by our members. Occasionally 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 – Q1 2019

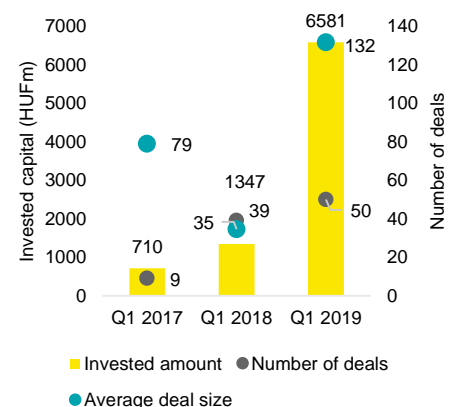
- ▶ Number of closed transactions: 50 (out of which, 46 were closed by VCs)
- ▶ Number of divestments: 18
- ▶ Total capital invested: HUF 6,581 million
- ▶ Top three most active industries (by value):
 1. Business & industrial services
 2. Financial services
 3. Life sciences

Equity investments

During Q1 2019, 50 transactions were closed in Hungary involving 50 target companies that received a total investment of HUF 6,581 million. Total invested value was close to five times of the HUF 1,347 million capital invested in Q1 2018, and significantly higher than the reported value of transactions in Q1 2017 (see Chart 1).

The total number of transactions steeply increased in Q1 2019 compared to first quarter of the past three years, while average deal size increased from HUF 79 million to HUF 132 million in the same period.

Chart 1. – Quarterly breakdown of the number of transactions



Equity investments – investment stage breakdown

In Q1 2019, the largest reported transaction occurred in the PE growth phase for HUF 1,000 million.

The average deal size was HUF 132 million among all investment stages, but the largest average deal sizes were reported in the VC later-stage venture phase (HUF 500 million).

24 out of the 50 transactions were first time investments, which represents 40% of the total amount invested.

VC seed phase was the most common investment stage in terms of invested capital (HUF 2,496 million), accounting for 38% of the total investment value during Q1 2019 and with an average deal size of HUF 156 million. At the same time VC seed investments amounted to 32% of total number of deals.

In both VC incubation and VC seed stage 16 transactions were reported each. These two investment stage accounted for 64% (32 out of 50) of the total number of transactions.

Typically, average deal size is the lowest in the VC incubation. However an increase from HUF 6 million to HUF 18 million average deal size was reported in VC incubation stage in Q1 2019 compared to Q1 2018.

Equity investments – sector breakdown

Companies from eleven sectors received funding in Q1 2019. The two largest sectors by total invested amount were business & industrial services and financial services that accounted for 56% of total transaction value (see Chart 3 and Table 1).

In Q1 2019, the largest transactions occurred in the financial services and in the life sciences sectors.

In addition to the financial services and life science sectors, several HUF 100 million plus transactions were reported in the consumer services and business & industrial services sectors.

Chart 2. – Q1 2019 Invested capital by investment stage

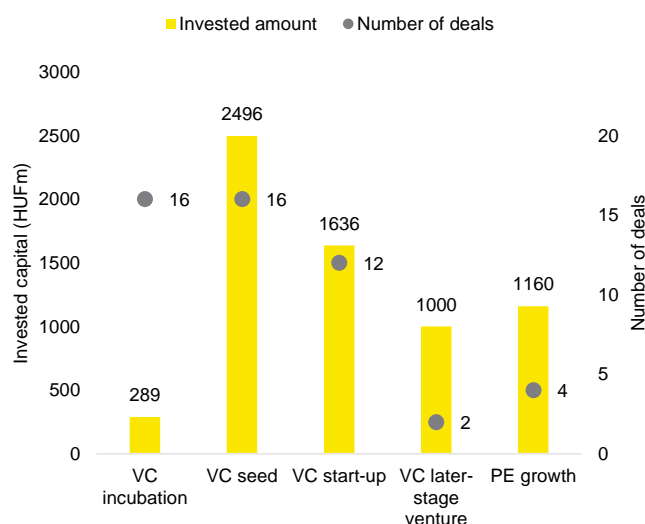


Chart 3. – Q1 2019 Invested capital by sector

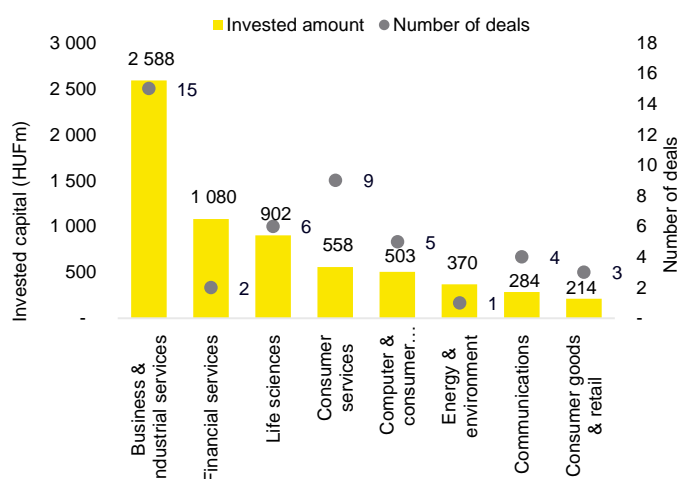


Table 1. – Quarterly breakdown of investments by sector

Sector	Q1 2017		Q1 2018		Q1 2019	
	Number of deals	Amount (HUFm)	Number of deals	Amount (HUFm)	Number of deals	Amount (HUFm)
Agriculture	-	-	1	5	-	-
Business & industrial products	-	-	-	-	3	23
Business & industrial services	-	-	7	264	15	2,588
Chemicals & materials	3	160	-	-	-	-
Communications	-	-	3	140	4	284
Computer & consumer electronics	2	240	2	9	5	503
Construction	-	-	-	-	1	30
Consumer goods & retail	1	50	4	27	3	214
Consumer services	2	106	13	306	9	558
Energy & environment	-	-	1	5	1	370
Financial services	1	154	2	120	2	1,080
Life sciences	-	-	4	172	6	902
Transportation	-	-	2	300	1	30
Total	9	710	39	1,347	50	6,581

Divestments

6 funds reported a total number of 18 divestments in Q1 2019. Divestments occurred in various sectors but the largest number of divestments – 3 out of 18 each - occurred in the life science and consumer services sectors (see Chart 4 below).

Based on the form of exits, divestments comprised of 8 sales to management, 4 divestment by other means, 2 divestments by write-off, 2 sale to other private equity firm, 1 divestment by trade sale and 1 repayment of principal loan.

The life of exited investments varied between 1 to 12 years (see chart 5). The average life of the 18 exits in Q1 2019 was around 8 years.

Chart 4. – Q1 2019 Divestments based on sector and form of exit

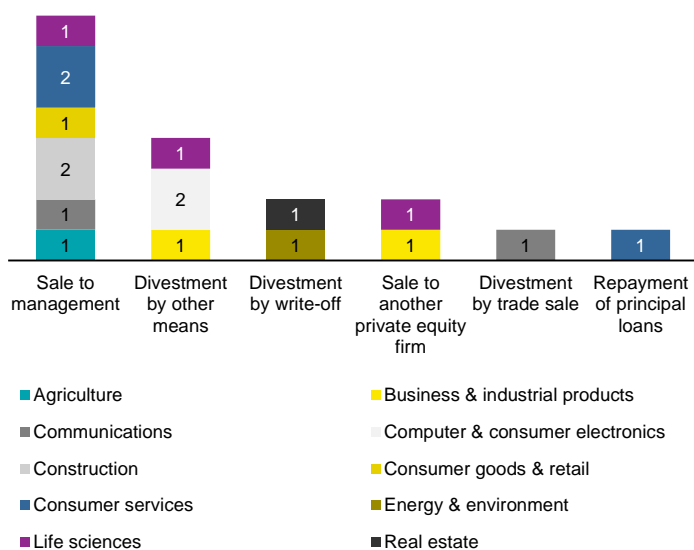
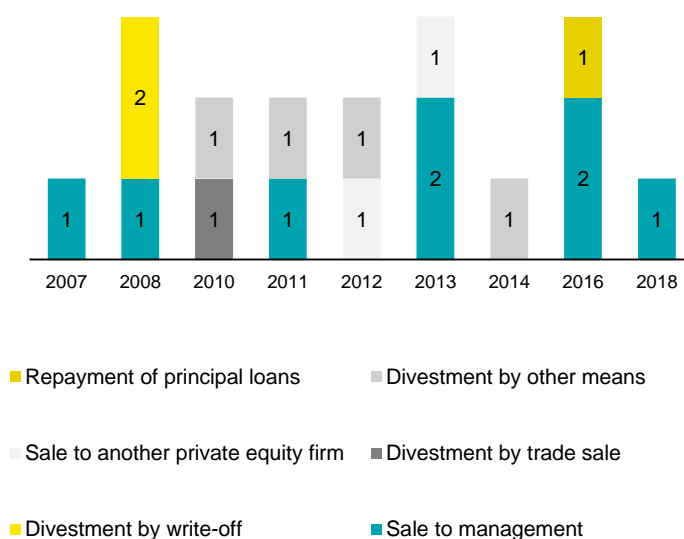


Chart 5. – Q1 2019 Divestments based on year of first investment and form of exit



Fund raising

There were no reported fundraisings in Q1 2019.

Summary

During Q1 2019, 50 companies received HUF 6,581 million from VCs and PE funds. The largest amount was allocated in the VC seed phase (HUF 2,496 million), but in number terms most of the transactions were VC incubations and VC seed (together 32 out of 50).

Companies operating in business & industrial services sector received 39% of the total capital invested in the quarter. Considering invested capital, the two most active sectors accounted for 56% of the total market activity and 34% of the number of transactions.

There were 18 divestments by 6 funds in various sectors.

No fundraising were reported in Q1 2019.