

Venture Capital and Private Equity update Hungary – Q1 2020

Participants in the survey:

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

The above response rate represents 85% 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 2020. Investments in Q1 2020 were executed by 7 funds that are managed by 5 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 2020

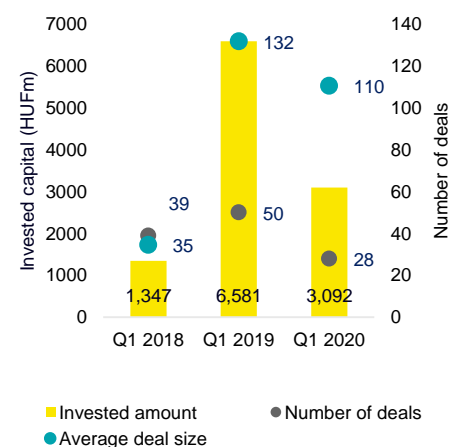
- ▶ Number of closed transactions: 28
- ▶ Number of divestments: 16
- ▶ Total capital invested: HUF 3,092 million
- ▶ Top three most active industries (by value):
 1. Business & industrial services
 2. Communication
 3. Business & industrial products

Equity investments

During Q1 2020, 28 transactions were closed in Hungary involving 28 target companies that received a total investment of HUF 3,092 million. Total invested value was less than half of the HUF 6,581 million capital invested in Q1 2019, and double than the reported value of transactions in Q1 2018 (see Chart 1).

The total number of transactions fall back significantly versus Q1 2019 and was less than the Q1 2018 results by 28.2%, while average deal size decreased from HUF 132 million to HUF 110 million compared to Q1 2019, which quarter was driven mainly by a couple of large transactions in the business and industrial products sector.

Chart 1. – Quarterly breakdown of the number of transactions



Equity investments – investment stage breakdown

In Q1 2020, the largest reported transaction occurred in the VC start-up phase amounting to HUF 615 million.

15 out of the 28 transactions were first time investments, which represent 42% of the total amount invested.

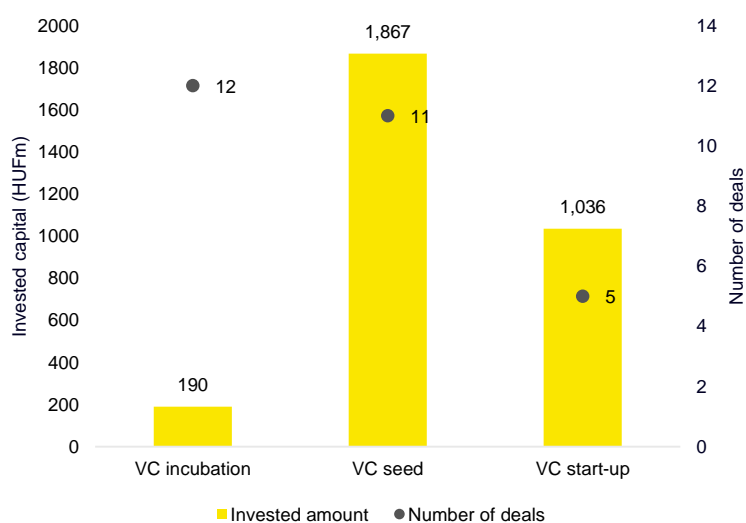
In terms of invested capital the three largest transactions accounted for 37% of the total investment value during Q1 2019.

As there was no reported PE growth stage in Q1 2020, - considering total invested capital - the second largest amount was allocated to companies in VC seed stage (HUF 1,867 million) while the number of transactions were the highest in VC incubations in Q1 2020.

Within VC incubation and VC seed altogether 23 transactions were reported. These two investment stages accounted for 82% of the total number of transactions and 67% of total invested value.

Average deal sizes were HUF 16 million in VC incubation stage, 170 million for VC seed phase and 207 million for VC start-up phase.

Chart 2. – Q1 2020 Invested capital by investment stage



Equity investments – sector breakdown

Companies from 10 sectors received funding in Q1 2020. The two largest sectors by total invested amount were business & industrial services and communications that accounted for 72% of total transaction value (see Chart 3 and Table 1).

In Q1 2020, the largest transactions also occurred in business & industrial services and communications sectors.

In addition to the above mentioned two sectors, the largest transactions occurred in the life science and business & industrial products sectors.

Chart 3. – Q1 2020 Invested capital by sector

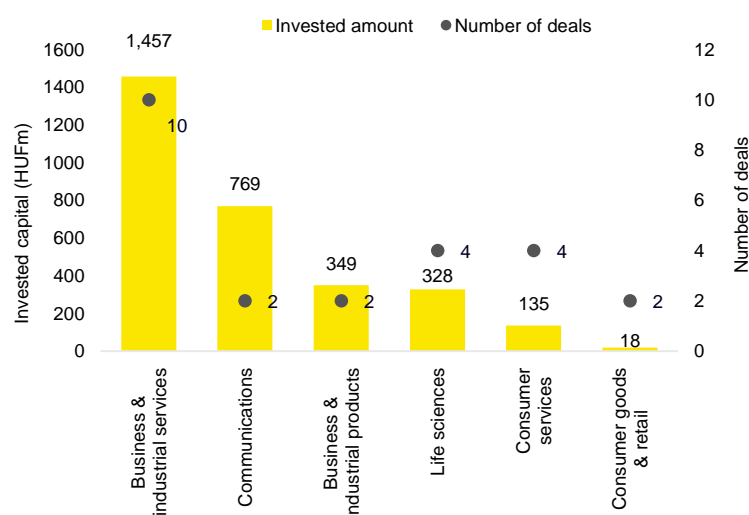


Table 1. – Quarterly breakdown of investments by sector

Sector	Q1 2018		Q1 2019		Q1 2020	
	Number of deals	Amount (HUFm)	Number of deals	Amount (HUFm)	Number of deals	Amount (HUFm)
Agriculture	1	5	-	-	1	10
Business & industrial products	-	-	3	23	2	349
Business & industrial services	7	264	15	2,588	10	1,457
Chemicals & materials	-	-	-	-	-	-
Communications	3	140	4	284	2	769
Computer & consumer electronics	2	9	5	503	-	-
Construction	-	-	1	30	-	-
Consumer goods & retail	4	27	3	214	2	18
Consumer services	13	306	9	558	4	135
Energy & environment	1	5	1	370	-	-
Financial services	2	120	2	1,080	1	9
Life sciences	4	172	6	902	4	328
Real Estate	-	-	-	-	1	9
Transportation	2	300	1	30	1	9
Total	39	1,347	50	6,581	28	3,092

Divestments

4 funds reported a total number of 16 divestments in Q1 2020 in various sectors but the largest number of divestments – 4 out of 16 - occurred in the business and industrial services sector (see Chart 4 below).

Based on the form of exits, divestments comprised of 9 sales to management, 3 divestment by write-off, 2 sale to other private equity firm and 2 divestment by trade sale. The investment lifetime of exited investments varied between 2 to 9 years (see chart 5). The average investment lifetime of the 16 exits in Q1 2020 was around 6.5 years.

Chart 4. – Q1 2020 Divestments based on sector and form of exit

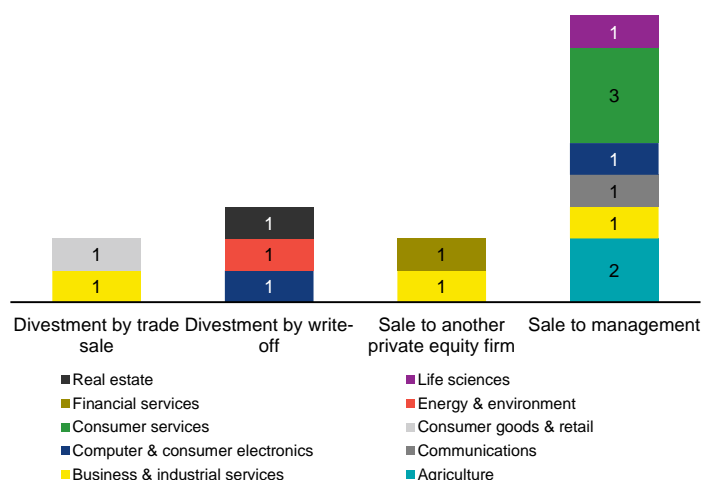
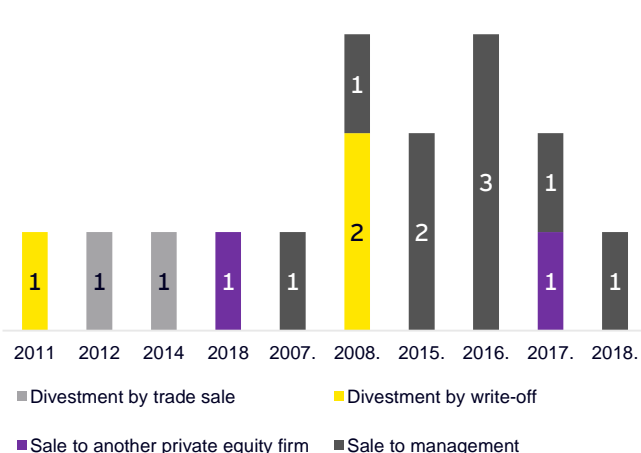


Chart 5. – Q1 2020 Divestments based on year of first investment and form of exit



Fund raising

There was no reported fundraising in Q1 2020.

Summary

During Q1 2020, 28 companies received HUF 3,092 million from VCs and PE funds. The largest amount was allocated in the VC start-up phase to one company (HUF 615 million), but in volume terms most of the transactions were closed in the VC incubation phase (12 out of 28).

Companies operating in business & industrial services and communication sectors received 72% of the total capital invested in the 1st quarter of 2020. Considering the number of deals, the three most active sectors (business & industrial services, life sciences and consumer services) accounted for 62% of the total market activity and 64% of the number of transactions.

There were 16 divestments by 4 funds in various sectors.

There was no reported fundraising in Q1 2020.