

Venture Capital and Private Equity update Hungary – Q2 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 81% 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 2019. Investments in Q2 2019 were executed by 12 funds that are managed by 8 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 – Q2 2019

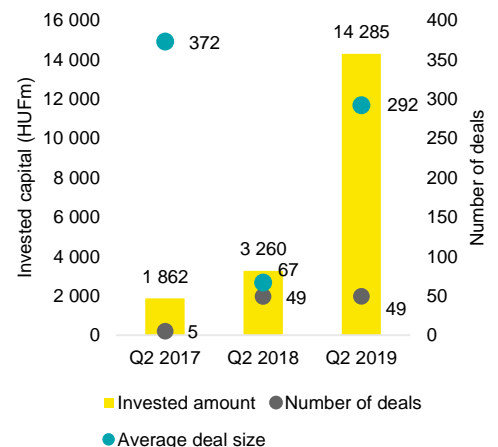
- ▶ Number of closed transactions: 49
- ▶ Number of divestments: 21
- ▶ Total capital invested: HUF 14,285 million
- ▶ Top three most active industries (by value):
 1. Chemicals & Materials
 2. Energy & environment
 3. Business & industrial services

Equity investments

During Q2 2019, 49 transactions were closed in Hungary involving 49 target companies that received a total investment of HUF 14,285 million. Total invested value was close to five times of the HUF 3,260 million capital invested in Q2 2018, and significantly higher than the reported value of transactions in Q2 2017 (see Chart 1).

The total number of transactions remained the same as in Q2 2018 and significantly increased compared to the same period two years ago, while average deal size increased from HUF 67 million to HUF 292 million compared to Q2 2018.

Chart 1. – Quarterly breakdown of the number of transactions



Equity investments – investment stage breakdown

In Q2 2019, the largest reported transaction occurred in the PE growth phase amounting to HUF 8,378 million.

The average deal size was HUF 292 million among all investment stages but excluding the PE growth transaction, the largest average deal sizes were reported in the VC later-stage venture phase (HUF 616 million).

31 out of the 49 transactions were first time investments, which represent 31% of the total amount invested.

In terms of invested capital the large PE transaction accounted for 59% of the total investment value during Q2 2019.

Considering total invested capital, the second largest amount was allocated to companies in VC start-up phase (HUF 2,607 million) where the number of transactions were also the highest in Q2 2019.

Within VC incubation and VC seed stage altogether 28 transactions were reported. These two investment stages accounted for 57% of the total number of transactions.

Typically, average deal size is the lowest in the VC incubation. However, an increase in average deal size from HUF 7 million to HUF 12 million was reported in VC incubation stage in Q2 2019 compared to Q2 2018.

Equity investments – sector breakdown

Companies from eleven sectors received funding in Q2 2019. The two largest sectors by total invested amount were chemicals & materials and energy & environment that accounted for 71% of total transaction value (see Chart 3 and Table 1).

In Q2 2019, the largest transactions also occurred in chemicals & materials and in the energy & environment sectors.

In addition to the above mentioned two sectors, several HUF 100 million plus transactions were reported in various additional industries.

Chart 2. – Q2 2019 Invested capital by investment stage

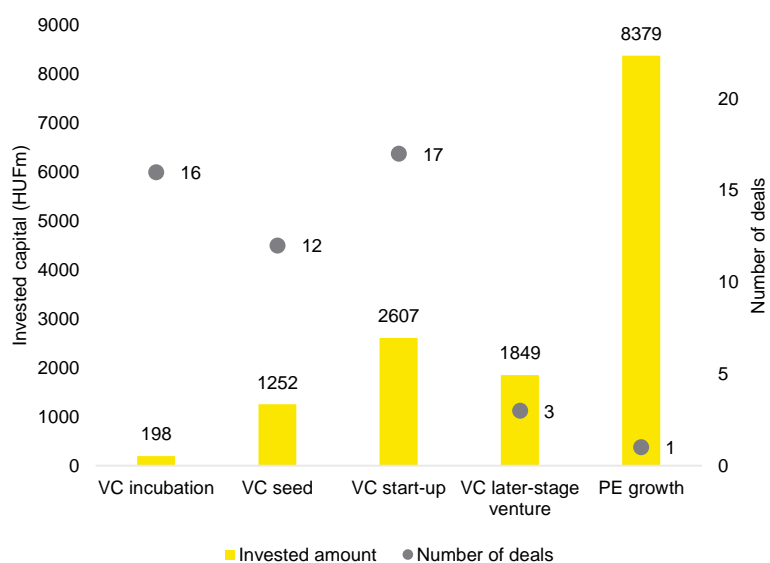


Chart 3. – Q2 2019 Invested capital by sector

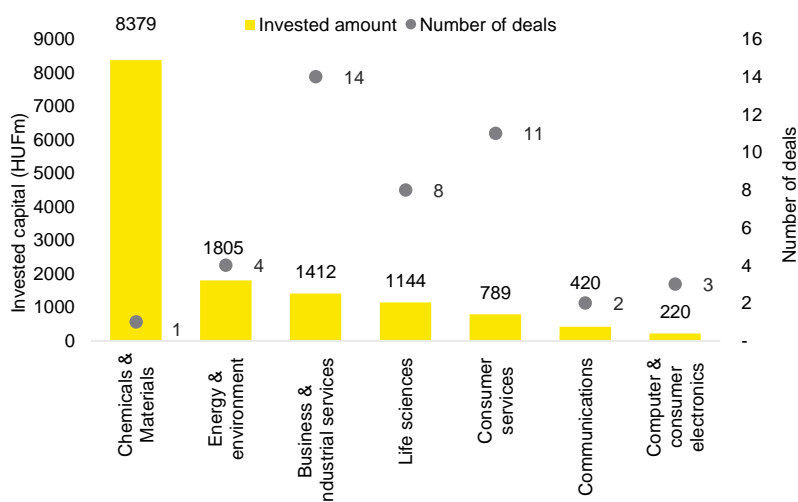


Table 1. – Quarterly breakdown of investments by sector

Sector	Q2 2017		Q2 2018		Q2 2019	
	Number of deals	Amount (HUFm)	Number of deals	Amount (HUFm)	Number of deals	Amount (HUFm)
Agriculture	-	-	3	23	-	-
Business & industrial products	1	1,000	3	1,479	1	9
Business & industrial services	-	-	8	350	14	1,412
Chemicals & materials	-	-	-	-	1	8,379
Communications	-	-	1	5	2	420
Computer & consumer electronics	1	125	4	164	3	220
Construction	-	-	-	-	-	-
Consumer goods & retail	-	-	7	390	1	9
Consumer services	3	737	14	400	11	789
Energy & environment	-	-	-	-	4	1,805
Financial services	-	-	2	14	3	88
Life sciences	-	-	5	368	8	1,144
Transportation	-	-	2	69	-	-
Real Estate	-	-	-	-	1	9
Total	5	1,862	49	3,260	49	14,285

Divestments

8 funds reported a total number of 21 divestments in Q2 2019. Divestments occurred in various sectors but the largest number of divestments – 4 out of 21 each - occurred in the life science and business & industrial services sectors (see Chart 4 below).

Based on the form of exits, divestments comprised of 8 sales to management, 4 divestment by other means, 4 divestment by trade sale, 3 sale to other private equity firm and 2 divestments by write-off. The life of exited investments varied between 1 to 12 years (see chart 5). The average life of the 21 exits in Q2 2019 was around 6 years.

Chart 4. – Q2 2019 Divestments based on sector and form of exit

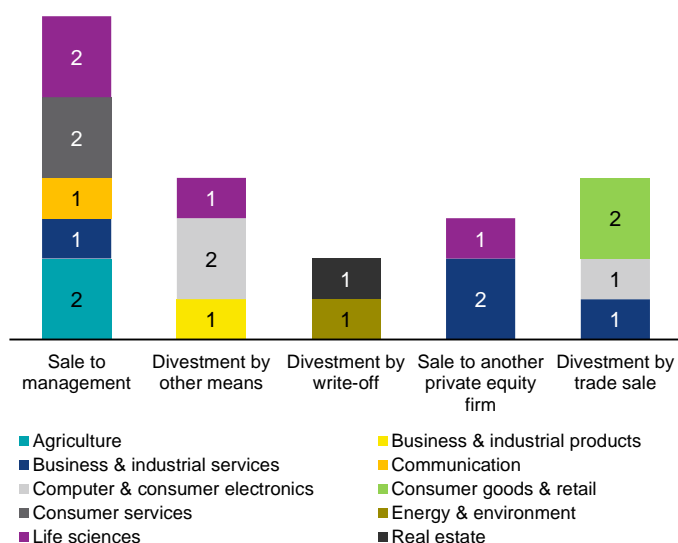
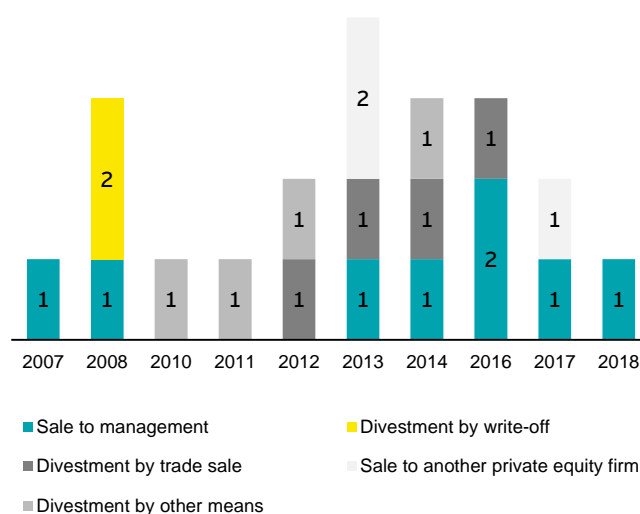


Chart 5. – Q2 2019 Divestments based on year of first investment and form of exit



Fund raising

There was no reported fundraising in Q2 2019.

Summary

During Q2 2019, 49 companies received HUF 14,285 million from VCs and PE funds. The largest amount was allocated in the PE growth phase to one company (HUF 8,378 million), but in number terms most of the transactions were in VC start-up phase (17 out of 49).

Companies operating in chemicals & materials and energy & environment sector received 71% of the total capital invested in the quarter. Considering the number of deals, the two most active sectors accounted for 15% of the total market activity and 51% of the number of transactions.

There were 21 divestments by 8 funds in various sectors.

There was no reported fundraising in Q2 2019.