



Venture Capital
and Private Equity
update
Hungary - 2020



Building a better
working world



HUNGARIAN PRIVATE EQUITY AND
VENTURE CAPITAL ASSOCIATION

Introduction

We are happy to announce the seventh edition of the annual Investment Monitoring Report that is an analysis of the Hungarian Venture Capital and Private Equity market's performance in 2020 prepared by the Hungarian Private Equity and 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 2020. 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.

Should you be interested in further industry related information or previous issues of the report please visit <http://www.hvca.hu/en/statistics/>.

Highlights - 2020

	Market statistics	Industry statistics
Number of investments	236	245
Total capital invested (million EUR)	226.3	192.1
Number of divestments	13	12
Total divestment value (million EUR)	46.0	9.1
Total fundraising value (million EUR)	156.4	

Equity investments

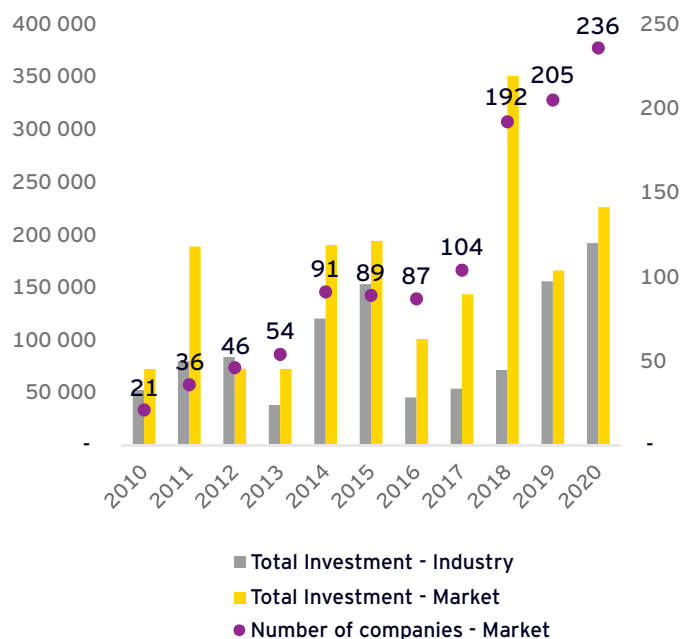
Market statistics

During 2020, EUR 226.3 million was invested into Hungarian companies through 236 transactions. There was a 15% increase in the total number of transactions, and 36% increase in the total invested amount compared to 2019. As a result, the average deal size increased by 18% from 2019 to 2020. The total amount in 2020 was the second highest value that were reported over the past ten years.

Industry statistics

In 2020, 245 investments were executed by Hungarian investors either in the domestic market or abroad (16% higher than in 2019). Total value of investments grew from EUR 156.0m to 192.1m between 2019 and 2020, resulting in a 7% increase in the reported average deal sizes compared to 2019 showing a slight increasing appetite for larger investments by Hungarian VC-s.

Chart 1.
Total investment and number of transactions
between 2010-2020 (in thousand EUR)



Equity investments - investment stage breakdown

Industry statistics

Similarly to 2019, most of the investments were initiated in the seed stage (174 out of 245) which was followed by the start-up stage (49 out of 245). The shares of total investment amounts are more balanced: 34% start-up, 27% seed, 26% growth capital stage and 9% later stage venture. In 2020, there were a total of four reported investments categorized as rescue & turnaround or buyout.

Compared to 2019, the average deal sizes of growth capital and seed stages investments increased significantly: growth capital phase grew by 72% to a average deal size of EUR 3.8m, seed stage increased by 38% to EUR 293k.

Market statistics

In terms of investment amount, the buyout stage had the highest reported value (23% of the total investments), the shares of other investment volume were 22% start-up, 22% seed, 18% growth capital stage and 11% later stage venture.

During 2020, the average deal size was EUR 947 thousand which is 18% higher than EUR 806 thousand in 2019.

In 2020, Hungarian companies in the start-up phase received on average 10% less capital per transaction (from both Hungarian and non-Hungarian investors) compared to deals when Hungarian investors invested into companies at the same stage (either in Hungary, or abroad).

Chart 2.
2020 Invested capital by investment stage
- industry statistics (in thousand EUR)

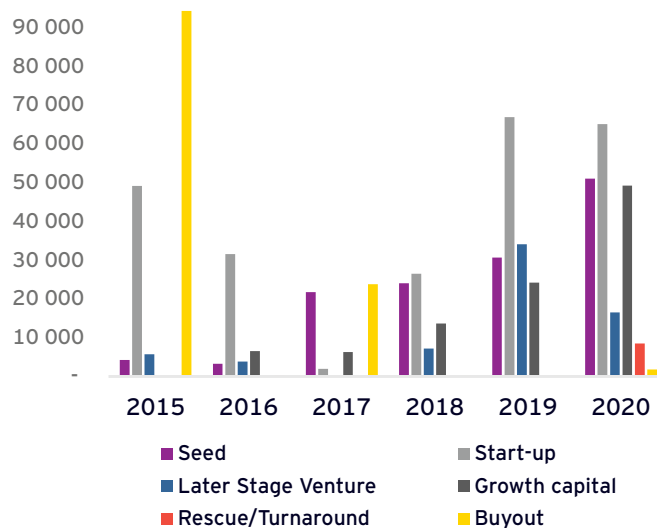


Chart 3.
2020 Invested capital by investment stage
- market statistics (in thousand EUR)

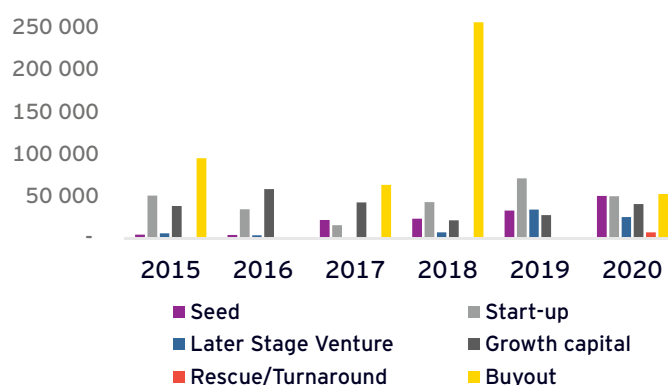
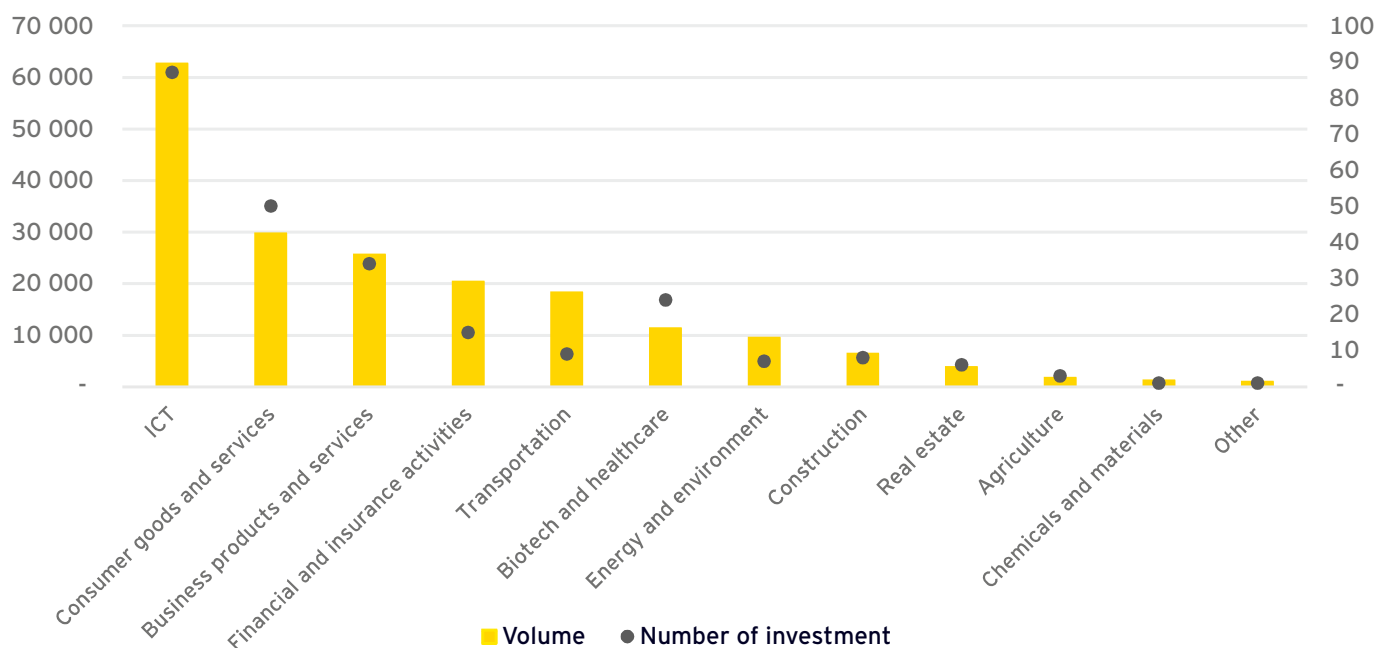


Chart 4. - 2020 Invested capital by sector - industry statistics (in thousand EUR)



Equity investments - sector breakdown

Market statistics

In case of Hungarian companies receiving investments, the two largest sectors by total invested amount were Financial and insurance activities and ICT (Information and communications technology) that together accounted for 52% of total investment value and 41% of total number of investments. In 2020, the largest transactions (considering average deal size) occurred in the Financial and insurance activities and Transportation, with average deal size of EUR 4.1 million and EUR 2.0 million respectively.

Industry statistics

The most active sector was Transportation with an average deal size of EUR 2.0 million, while the second largest was Energy and environment with an average deal size of EUR 1.4 million.

The most significant difference between industry and market statistics were reported in the Financial and insurance activities sector, showing a larger interest for companies operating in this sector by foreign investors. In this sector, the average deal size was EUR 4.1m according to market statistics versus 1.4m in the industry statistics.

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

€'000	2019				2020			
	Industry statistics		Market statistics		Industry statistics		Market statistics	
	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies
Agriculture	153	1	153	1	1 757	3	1 757	3
Business products and services	63 727	45	65 030	45	25 687	34	25 687	34
Chemicals and materials	-	-	-	-	1 240	1	-	-
ICT	44 234	72	44 237	64	62 720	87	52 996	80
Construction	100	1	100	1	6 465	8	6 465	8
Consumer goods and services	19 946	51	19 946	51	29 762	50	22 921	46
Energy and environment	10 784	7	18 809	8	9 558	7	10 197	8
Financial and insurance activities	9 128	11	9 128	11	20 417	15	65 173	16
Real estate	30	1	30	1	3 841	6	3 841	6
Biotech and healthcare	4 967	16	5 717	17	11 402	24	17 946	25
Transportation	2 936	7	2 825	6	18 300	9	18 300	9
Other	-	-	-	-	1 000	1	1 000	1
Total investment	156 005	212	165 976	205	192 148	245	226 283	236

Divestments

Considering industry statistics, 12 divestments were reported in 2020. The breakdown of divestments based on the form of exit was as follows: 4 Management/Owner buy-back, 3 Sale to another private equity firm, 3 Write off, 1 Sale to trade buyers, 1 Sale to financial institutions.

For divestment sector breakdown, Invest Europe collected only market statistics where 13 divestments were reported. Divestments mainly occurred in three sectors but the largest number of divestments was closed in Business products and services but considering reported divestment size, the most active sector was financial and insurance services which accounted for 73% of the total value with the average deal size of EUR 11.2 million.

Chart 5.
Divestment by sectors in 2020
- market statistics (in thousand EUR)

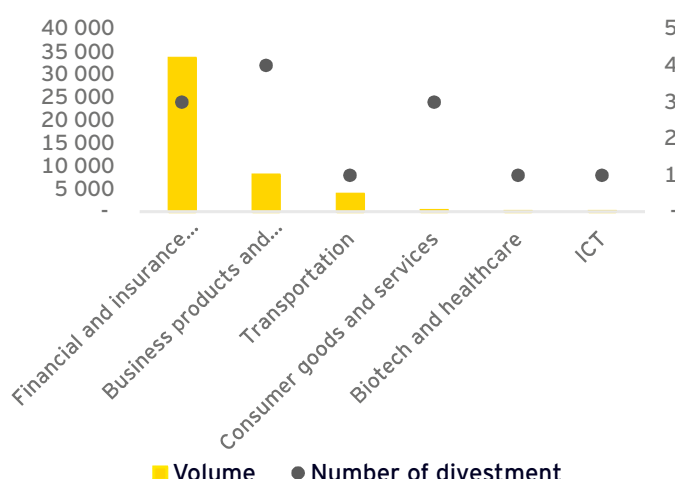
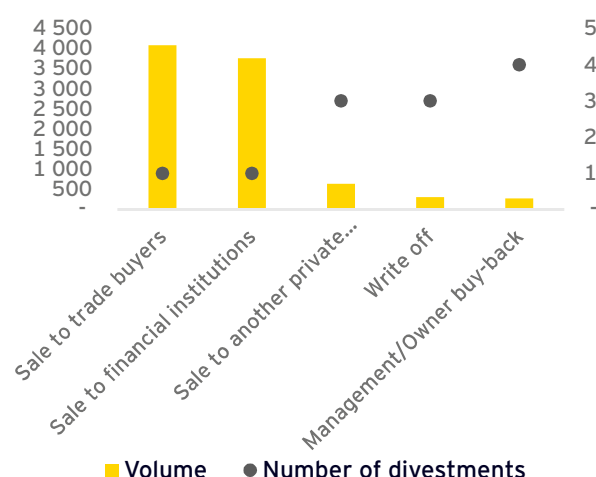


Chart 6.
Total divestment and number of companies by type of exit in 2020 - industry statistics (in thousand EUR)



Fund raising

Funds of EUR 156 million were raised in 2020, which is significantly lower than the reported fundraising in 2019. Considering geographic breakdown, 83.7% of the funds were raised from the CEE region, while the remainder was either raised from various other European countries or was unclassified.

Compared to 2019, government agencies and corporate investors became more dominant in relative terms in relation to fundraising activities while participation of banks fell back.

Chart 7.
Total funds raised breakdown by investor type in 2020 (in thousand EUR)

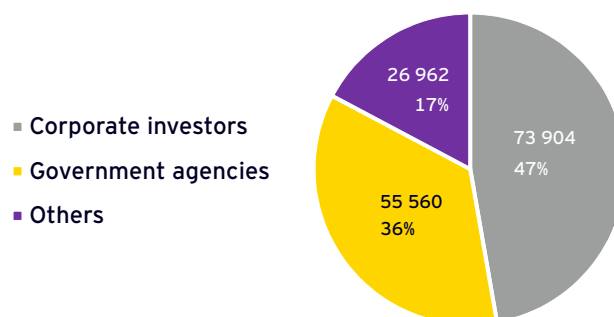
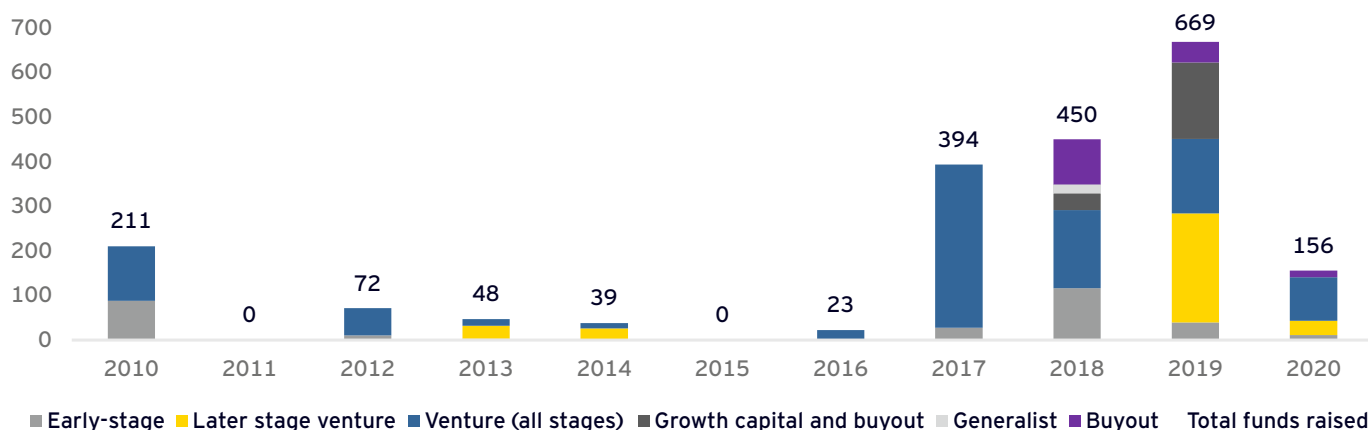


Chart 8. - Historical fundraising figures by target investment stage (in million EUR)



Summary - market statistics

During 2020, 236 companies received EUR 226.3 million investment from VCs and PE funds. The largest amount was allocated in the buyout phase (EUR 52.6 million), but majority of the transactions were closed in seed stage (173 out of 236). Compared to 2019, total investment value increased by 36.3% in 2020.

Companies operating in financial and insurance and information and communications technology (ICT) sectors received 52% of the total capital invested in 2020. Considering the number of transactions, financial and insurance activities and ICT accounted for 41% of all transactions.

There were 13 divestments in various sectors. The most common divestment type was sale to another private equity firm.

EUR 156 million was raised in 2020 mainly provided by corporate investors and government agencies.

Summary - industry statistics

In 2020, 245 transactions were executed by Hungarian VC and PE companies in Hungary or abroad. Total investment value was EUR 192.1 million, out of which the largest amount (EUR 65.1 million) was allocated to start-up stage companies. The largest number of companies among the different investment stages was seed investments. Average deal size increased by 6% compared to 2019.

Related to sector breakdown, industry statistics show similar trends as market statistics, with the exception of financial and insurance sector, in which local investors seem to be less engaged compared to foreign players.

12 divestments were reported, whereby 4 divestments were buy-back by Management or Owner.

[HVCA Comments]

The year 2020 despite the „Covid shock” in Q1, showed a strong increase in venture activity throughout Europe compare to 2019. Hungary was no exception as the total amount invested has grown 35% compare to previous year. However this is not coming out of nowhere, because in the previous two years more than EUR 1100 million was raised by Hungarian venture funds. As the investment data shows these funds still only deployed a little over EUR 400 million, so we could expect another strong year in 2021. Early stage venture transaction are still dominating the market, as they increased they number from 144 to 174, while the number of later stage deals remained flat compare to 2019. It is also worth to mention that the amount of growth equity investment has more than doubled while the number of deals stayed the same as in 2019. The total amount invested by local VCs outside Hungary almost doubled reaching 32M EUR, a promising sign that a growing number of local VCs were testing themselves in the neighboring countries.

In 2020 the total amount of newly raised funds took a hit, which can only partially explained by the Covid situation and the record breaking previous years, specially if we consider that during the same period western European VCs raised a record amount of new funds. The disappointment is even bigger, if we analyze that this fresh equity were provided mostly by the government agencies and corporates. Unfortunately the private LPs are almost totally absent from the investor side, which has not change much in the last 10 years.

In general the investment side of the market in 2020 continued its momentum and we expect that this will last trough 2021, however the fundraising scene needs an improvement specially if the government will not keep up its share from these activities.

Zsolt Weiszbart

Partner, Day One Capital
HVCA Board Member

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

For more information, please visit
www.ey.com/hu

© 2021 Ernst&Young Advisory Ltd.
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

About HVCA

Established in 1991, the Hungarian Venture Capital and Private Equity Association (HVCA) represents the interests of the private equity and venture capital industry in Hungary. It does by supporting its members and promoting adherence to the highest possible professional and ethical standards. The HVCA represents virtually every major player of the private equity and venture capital industry in Hungary, and it works in tight partnership with other international organizations of the private equity and venture capital industry. As the single and most important representative of the industry, the HVCA is in constant discussion with the financial and legislative institutions of Hungary and other professional organizations.

For more information please visit our website
<https://www.hvca.hu/EN/>

