

Venture Capital and Private Equity update Hungary - Q1 2016

Participants in the survey:

3TS Capital Partners
ABC
Alliance Jura Hongrie
Arx Equity Partners
Bonitás
CEE Equity Partners
Central Fund
Corvinus
DBH
Docler Investments
Euroventures
Finatech Capital
Finext Startup
iEurope Capital
Kaerous Capital
Mid Europa Partners
PBG-FMC
Primus
Riverside Europe
SZTA
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 Q1 2016.

The data was collected through questionnaires completed by our members. Sometimes 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/hu/statisztika/>.

Highlights - Q1 2016

- ▶ Number of closed transactions by VC: 26
- ▶ Number of divestments: 1
- ▶ VC funds investing in Q1 2016: 13
- ▶ Total capital invested: HUF 3.8 billion
- ▶ Top three most active industries (by value):
 1. Consumer services
 2. Business & industrial services
 3. Life sciences

Equity investments

During the first quarter of 2016 26 investments were closed in Hungary, with a total value of HUF 3.8 billion. This is significantly lower compared to Q1 2015, which was a particularly active period, in which 39 companies received HUF 8.6 billion equity investments.

The average transaction value was HUF 154 million with investment sizes varying from a HUF 1.5 million seed investment (first part of a larger capital injection) to a HUF 440 million later stage growth capital injection. The average investment sizes in 2015 were fairly consistently around HUF 220 million (HUF 171 million excluding PE investments), therefore the current quarter's investments show a substantial decrease in individual deal sizes.

13 VC funds invested in this quarter, which shows an increased activity compared to Q3 and Q4 2015, when only 10 and 12 funds reported investments, respectively.

Equity investments cont'd

50% of the total transaction value was invested as first time investment (down from 90% across 2015). The remaining part of the investments were follow-on capital injections, which were, on average, 60% of the initial contributions. Most of the follow-on investments, however, are related to companies which received their first equity investments in recent quarters in 2015 (79%).

13 funds have reported investments during this quarter, all of them investing less than HUF 600 million in total. The top three players were responsible for 42% of all investments, with at least HUF 450 million capital invested by each. This indicates a more segmented investment activity than in previous quarters, where the top three funds were responsible for at least 50% of the investments.

The most common investment stage, with 83% of all capital injected, was the VC start-up phase, in line with most quarters of 2015.

Equity investments - sector breakdown by value

The top three sectors received over HUF 700 million each, with a share of 64% from the total transaction values. The largest sectors were (in order of size of investments) Consumer services, Business & industrial services and Life sciences.

The sectors, where the most investments were made during 2015, were Business & industrial services and Energy & environment, both of which received investments in this quarter as well. However, this quarter had the lowest quarterly capital injections in the past 5 quarters for most major sectors (as seen on the table below). The Consumer services and Construction sectors were the only ones receiving more investments compared to Q4 2015. The below table provides details and comparisons to the quarters of 2015.

Sector	Q1 2015		Q2 2015		Q3 2015		Q4 2015		Q1 2016	
	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)
Business & industrial products	1	377	3	438	6	882	4	385	3	333
Business & industrial services	11 ¹	3,612 ¹	2	390	8	2,727	8	4,831	6	796
Chemicals & materials	-	-	-	-	-	-	1	18	-	-
Construction	-	-	-	-	-	-	-	-	1	43
Communications	2	521	4	1,016	-	-	-	-	-	-
Computer & consumer electronics	3	698	-	-	4	260	4	645	5	544
Consumer goods & retail	4	813	2	1,411	5	1,046	5	342	1	87
Consumer services	5	781	3	252	2	380	3	400	5	953
Energy & environment	6	1,259	4	1,702	3	1,981	5	1,291	2	390
Financial services	-	-	-	-	1	0	-	-	-	-
Life sciences	4	415	5	1,242	1	21	8	1,088	3	703
Real Estate	-	-	-	-	-	-	1	300	-	-
Transportation	2	170	-	-	-	-	2	155	-	-

Table 1. - Quarterly breakdown of investments by sector
¹ excluding an outstanding PE investment (1 transaction - HUF 95 billion)

Divestments

There has been one partial divestment reported in Q1 2016, disclosed by the Széchenyi Tőkealap.

The investment was initiated in 2014, in the Computer & consumer electronics sector.

Fund raising

There has been no fundraising reported in this quarter.

Summary

During Q1 2016 26 companies received HUF 3.8 billion from VC funds, most of which were in the VC start-up phase.

14 projects received minimum HUF 100 million (in line with previous quarters' distribution) and the average deal size was HUF 154 million.

The top 5 transactions accounted for 47% of total market activity, and the three most active funds made 42% of all investments.

Chart 1. - Q1'16 Invested capital by sector

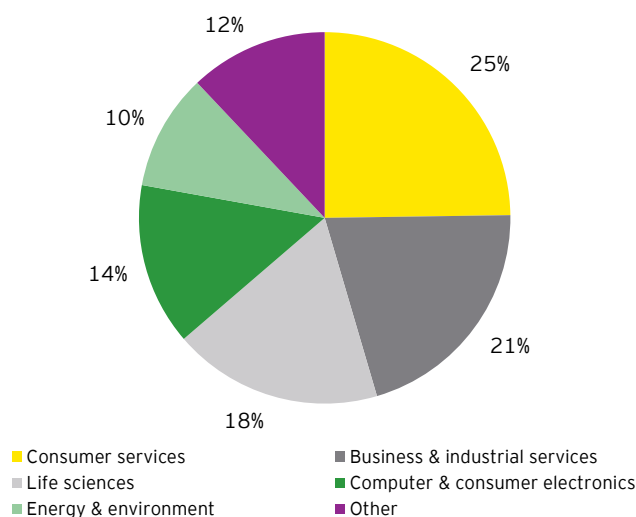


Chart 2. - Number of transactions - quarterly breakdown (including follow-on investments)

