

Venture Capital and Private Equity overview Hungary – 2014

Participants in the survey:

3TS Capital Partners
Alliance Jura Hongrie
Buran Venture
Corvinus
DBH Investment
Docler Investments
Enterprise Investors
Euroventures
iEurope Capital
Finatech Capital
Informatikai Kockázati
Tőkealapkezelő
Kaeros Capital
MFB Invest
Mid Europa Partners
Morando
PortfoLion
Primus
Riverside Europe
SZTA
Venturio
X-Ventures

The above response rate represents 84% of HVCA members.

** Methodology and terminology follows that of the European Venture Capital Association and as such might differ from other EY publications in the subject.*

Introduction

Dear Colleague,

We are happy to announce that the Hungarian Venture Capital Association in collaboration with EY has prepared an analysis on the Hungarian Venture Capital and Private Equity market's performance in 2014.

Given that the majority of the information was directly collected from the funds of the market, the study is able to provide a quicker outlook on the market's performance with greater detail than similar reports provided by the European Venture Capital Association.

The report has been commented by a HVCA Board member, discussing the market's performance in 2014, representing the perspective of Hungarian VC and PE funds.

The data was collected through questionnaires completed by the members of HVCA, and since sometimes these questionnaires are not completed in full, this may distort the outcome of the analysis. In addition to questionnaires we collected published transactions from various online news portals. *

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

Your sincerely,



Levente Zsembery

**HVCA, Chairman
X-Ventures, CEO**



Balázs Tüske

**HVCA, Member of the Board
EY, Partner**

Highlights – 2014

- ▶ Number of companies receiving investments by VC: **89**
- ▶ Number of companies receiving investments by PE: **7**
- ▶ Total amount invested: **HUF 54.9 billion (€178.1 million / \$227.1 million)**
- ▶ Most common phase of investment: **VC start-up stage**
- ▶ Number of divestments: **8**
- ▶ Top three most active industries (by value):
 - 1. Business & industrial services**
 - 2. Energy & environment**
 - 3. Business & industrial products**

Executive Summary

During 2014 96 new and existing companies received over HUF 54.9 billion from VC / PE funds in Hungary in 107 transactions.

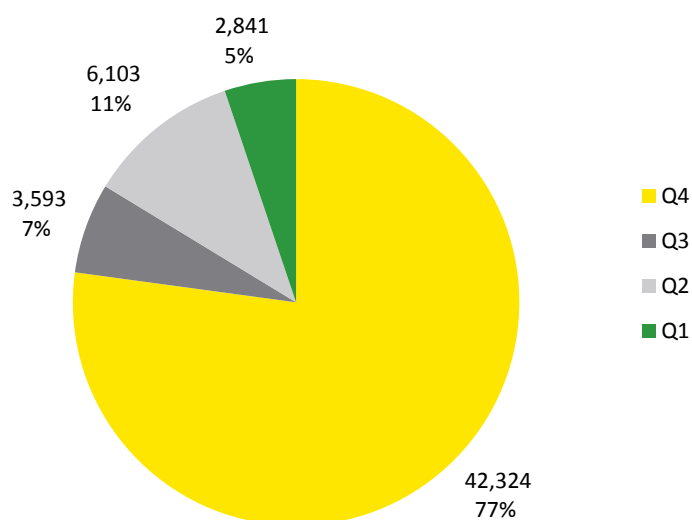
53 firms received minimum HUF 100 million, and 6 received HUF 1.0 billion or more in form of equity investment.

Top 5 transactions accounted for 70% of total market activity, and the 5 most active funds executed 70% of all investments.

The JEREMIE funds have made the most investments, providing funding for 48 companies, however the most capital was invested by the private funds, with 43% market share.

The most common stage of investment was the VC start-up phase, with 55 investments, however due to their higher value per deal, the PE growth stage dominated the market in terms of value with HUF 23.6 billion.

Quarterly breakdown of market activity (HUFm)



I. Equity investments

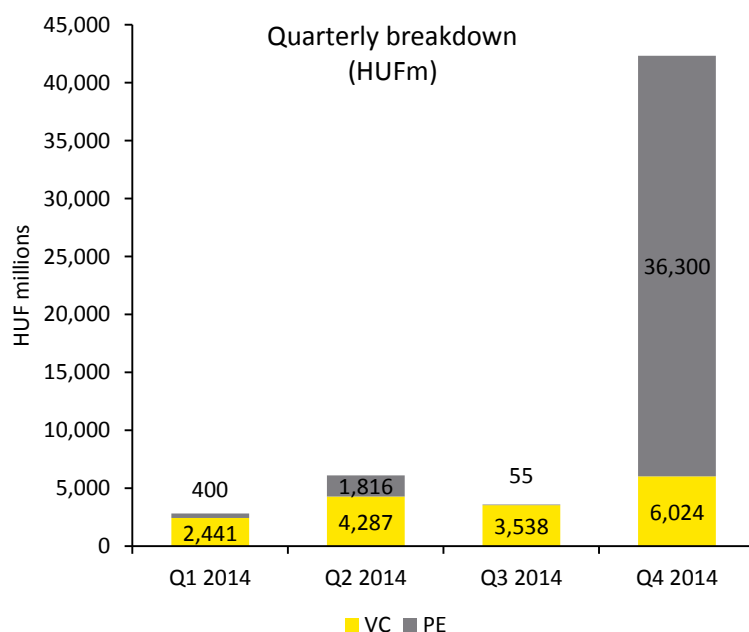
During 2014 96 companies received capital (through 107 separate equity investments) in Hungary with a total value of HUF 54.9 billion.

The average deal size of VC investments was HUF 170 million, while the average size of PE investments was HUF 4.8 billion. Investment sizes varied significantly from couple of millions up to HUF 15.0 billion.

The top 5 equity investments accounted for close to 70% of total investments in 2014.

As presented on the chart to the right, three quarters of total investments have been made between October and December in terms of value.

Even though the amount of investments was close to 40% higher during the 4th quarter, the significantly larger market activity was driven by a small number of outstandingly large deals executed by Private Equity funds.



Market activity breakdown by funds

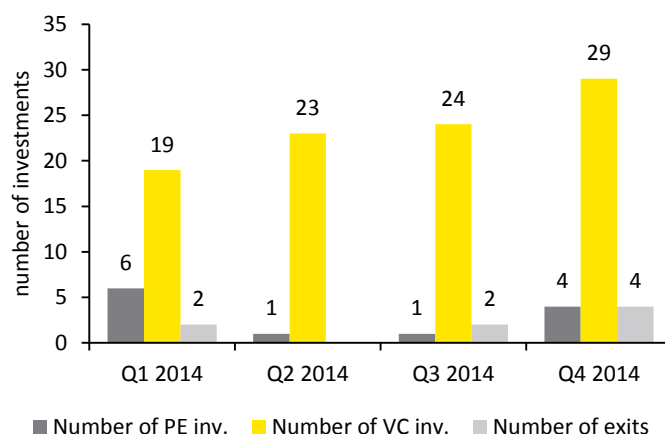
The study was based on the deals completed by 34 funds, based on information provided directly or extracted from public sources. 13 of these funds have achieved an accumulated annual investment of over HUF 1.0 billion, closing 89% of all transactions and the top 5 were responsible for over 71% of total investment value.

Only five funds invested in 4 or more companies during 2014, these five funds have achieved only 16% market share, suggesting that the total transaction value is spread across numerous players of the market with lower number of investments.

Also supporting the above is that funds closing only one investment in 2014 accounted for 47% of all the capital injections.

The average investment size was HUF 1.1 billion, which is skewed by the previously mentioned small number of larger investors.

Number of investments - quarterly breakdown



Market activity breakdown by funds (cont'd)

In terms of ownership of funds governmental, private and jointly backed funds show significant differences in their activities.

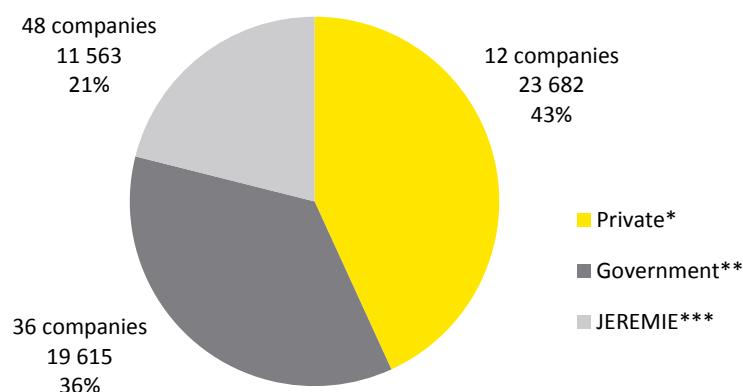
The three funds with public ownership have invested HUF 19.6 billion into 36 companies mainly in the start-ups phase, however these funds have represented themselves among the investments over HUF 1.0 billion as well.

The eleven privately managed funds have invested HUF 23.7 billion into 12 companies. However, the statistics mostly rely on estimates, as a significant number of privately managed funds do not disclose their exact investments or transaction sizes. Therefore, figures have to be extracted from publically available information.

19 out of the 34 funds in the study are JEREMIE funds, with on average 70% governmental capital and 30% private contributions. The 19 JEREMIE funds closed the highest number of transactions, amounting to a total of HUF 11.6 billion of investments across 48 companies.

The chart to the right describes the above presented distribution of funds' activities in terms of total size of investments.

Total investments by fund ownership types and number of companies receiving capital (HUFm)



* Privately managed VC/PE funds

** Funds with 100% governmental ownership and capital

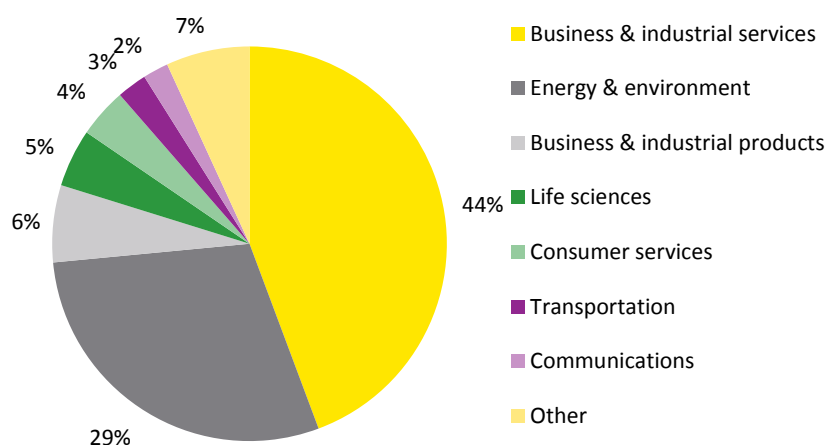
*** Funds founded through the Joint European Resources for Micro to medium Enterprises program (70% governmental, 30% private ownership)

Industry breakdown

Two sectors dominated the VC / PE investment market, which accounted for 73% of total value of equity investments.

The largest sectors included were (in order of size of investments) Business & industrial services, Energy & environment, Business & industrial products and Life sciences with 85% of the market.

Also notable, but having seen minor investments are the Consumer services, Transportation and Communication.



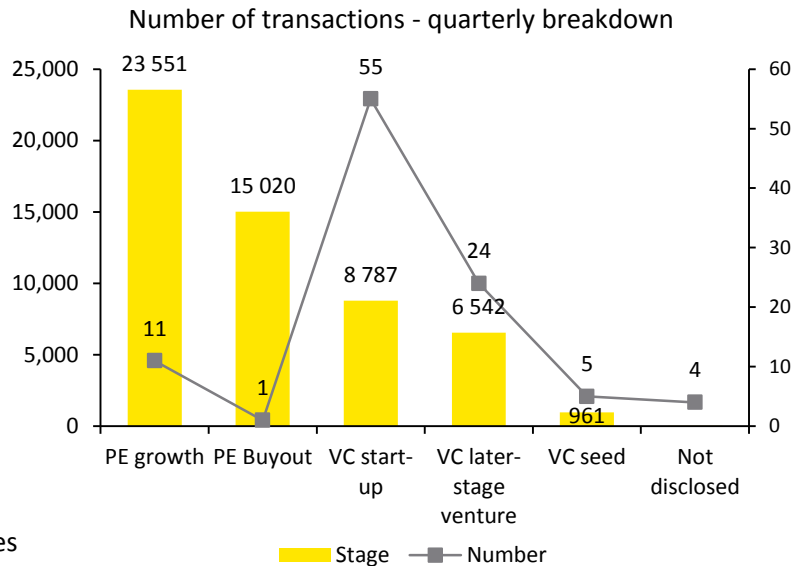
Sector	Q1 2014		Q2 2014		Q3 2014		Q4 2014	
	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)	Number of transactions	Amount (HUFm)
Business & industrial products	1	600	2	686	6	993	3	2 707
Business & industrial services	-	-	6	2 173	6	1 123	10	20 953
Chemicals & materials	-	-	1	50	3	313	-	-
Communications	3	-	1	46	1	55	3	649
Computer & consumer electronics	1	-	1	2 00	-	-	3	394
Consumer goods & retail	1	63	-	-	3	244	2	350
Consumer services	3	157	4	1 731	-	-	1	80
Energy & environment	4	485	-	-	-	-	3	15 523
Financial services	3	500	-	-	-	-	-	-
Healthcare services	-	-	1	210	-	-	-	-
Life sciences	6	600	5	428	4	653	6	805
Real estate	-	-	-	-	-	-	1	301
Transportation	-	-	1	74	2	212	1	1 061
Not specified	1	435	1	250	-	-	-	-

Investment stages

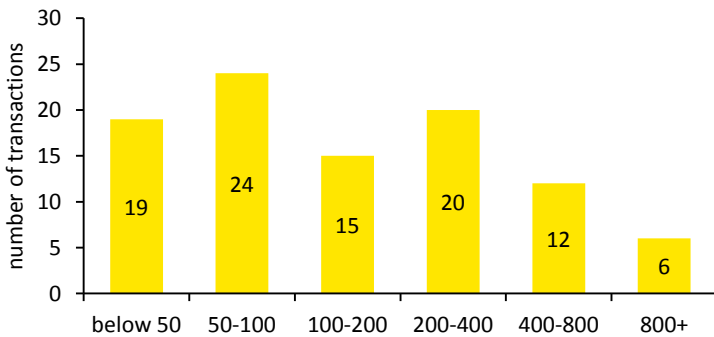
Almost all transactions in 2014 were first time investments, representing 94% of the transaction in terms of value, amounting HUF 51.4 billion.

The rest of the investments were follow-on capital injections started in previous years, accounting for 29% of the initial contributions. This would indicate that investors believe in these investments and are willing to increase their exposure with a view of growth and better exits.

The largest equity investments were closed in the PE growth phase followed by PE buyout phase and in terms of number of transactions the most common stage was the VC start-up phase with 55 companies receiving funds at this stage.



Number of total capital invested in value categories (HUFm)



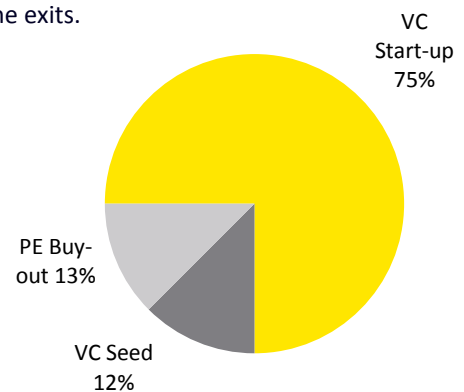
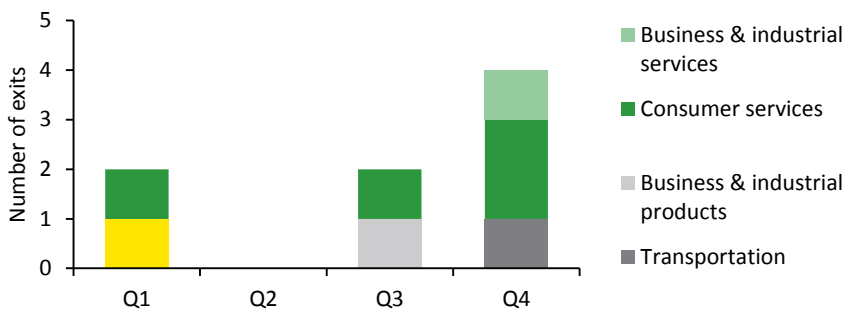
The size of investments and their distribution shows that the common investment targets on the market were companies in the different stages of the start-up phase.

More than half of the investments were under HUF 200 million, and only 6 outpaced HUF 800 million, all of which were in the billions category.

The median of investments has been consistently close to HUF 100 million across the quarters, over 55% of all companies receiving investments over this threshold.

II. Divestments

There were eight exits reported during 2014, and the total investment in these projects was HUF 611.5 million. The breakdown of exits can be found below broken down by industry and phase of the project as at the exits.



III. Fundraising

There wasn't any fundraising activity reported in 2014.

IV. Commentary

The following comments have been provided by the members of HVCA elaborating on the report and on the performance of the market in 2014. The below opinions represent the perspective of representatives of the market players and transactions advisors.

András Szombati, HVCA Board member, Partner at Primus Capital

„In the mirror of statistics, 2014 was a successful year for the Hungarian venture capital industry, especially for the JEREMIE sector. As in 2015 investment period ends for these funds (no cash disbursement is possible after this cut-off date) 2014 is optimally the last year to enroll new investments in the portfolio. This behavior of JEREMIE funds is clearly reflected in the statistics; 94% of the total investment made in 2014 (HUF 54.6 billion) are first round investments. This also sets forth that in 2015 the proportion of first round investments is expected to drop back, as in 2015 funds will concentrate on providing follow-on funding to the existing portfolio.

Also 2014 is a good illustration that the PE/VC industry is almost back to its “golden age” (2006-2009) when total investment amount fluctuated between USD 300-750 million annually. Though 2014 figure translates to USD 200 million, which falls short of the investment performance of the golden years, still we can consider this as an outstanding performance as:

- ▶ *Number of new (start-up phase) investments (55 in 2014) is the highest figures since the existence of the Hungarian VC/PE market.*
- ▶ *Venture capital transactions fulfilled a significant role in achieving the investment volume; around 30% in 2014, while less than 10% on average in the 2006-2009 period. This shows that the industry became more balanced and annual investment amount is not fully contributed by couple of mega Private equity deals only. (Average investment size decreased from USD 8.9 million (average in 1989-2010) to USD 0.7 million in 2014.)*
- ▶ *Early and development stage investments in the 2006-2009 period were dominated by the state-owned venture funds, which role has been successfully taken over by the JEREMIE funds, which behave as private funds.*

In terms of exits, the market is underperforming the historical average (8-10 annually in 2006-2009), but we have to bear in mind that the industry was restarted by the JEREMIE funds only in 2010. Calculating with an industry standard holding period of 5 years, exits are only expected to come in the 2017-2019 period.

Altogether 2014 justifies the beneficial effect of the JEREMIE program, and today we can talk about an active industry, characterized by a balanced structure of early and later stage investments.”

András Bányai, Manager at EY

„The Venture Capital and Private Equity investment overview report, while prepared on a somewhat different methodology, is in line with our M&A Barometer. Financial investors activity are close to parity with number of strategic deals and are relatively higher compared to past years or CSE average.

The deal population is a healthy mix of various transactions: in 2014, we have seen first time investments of VC funds (mostly JEREMIE II and III), some potentially last occasions of new investments from JEREMIE I funds, JEREMIE exits to strategic investors as well as a Private Equity making its first investment in Hungary.

On the other hand, we estimate that majority of exits were actually founders buying back their shares from the investors. We expect to see more open market exits to third party buyers this year and the appearance of foreign VCs / PEs investing into JEREMIE owned companies are yet to come, as well.

Many JEREMIE II and III funds are to have a busy year in 2015 if to spend all fundings till the year end. We also expect the JEREMIE Program to continue to dominate the Hungarian financial investment deals landscape and hopefully to build more and more companies that attract international attention and investment.”

Zoltán Siklósi, Managing Director at Invescom

„While JEREMIE activity is receiving most of the public attention, larger; PE-driven mid-market transactions are at least equally important contributors to M&A market momentum. We made the following observations in 2014.

- ▶ *Most PE investments have been made in growth financing, buy-out activity was limited.*
- ▶ *PE focus has been primarily the technology and services sectors.*
- ▶ *A number of ‘newcomer’ PE funds and PE backed companies discovered Hungary (and the CEE region), as a yet untapped geographic market with quality opportunities. The appearance of these players might contribute to an increased M&A activity going forward.*
- ▶ *Another pattern was the return of intra-region ‘buy-and-build’ strategies by PE players. We have also seen a significant platform acquisition in Hungary in 2014, as a positive yet unusual development, as Hungarian players normally become targets of regional consolidators.*

About us

HVCA



The Hungarian Venture Capital and Private Equity Association was established in 1991. It represents the interests of the venture capital and private equity sector in Hungary.

It is committed to promoting the concepts underlying the sector, assisting the work of its members, the elaboration of the highest professional and ethical standards and the monitoring of compliance with these.

The Association, functioning as the national professional organization of the venture capital and private equity sector, has undergone substantial development since its founding, as the association now has 74 members compared to the five at inception. Full members effect investments in listed or unlisted companies as a core activity. Associate members include firms which do not conduct venture capital and private equity investments as a core activity, but possess important know-how and experience related to the sector and provide numerous essential services for venture capital and private equity companies, such as legal advice, accounting services or M&A advisory services. (to learn more about HVCA please visit the following website: <http://www.hvca.hu/hu/>)

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