

Venture Capital and Private Equity Overview Hungary – 2017

hVca Hungarian Private Equity and
Venture Capital Association

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Data was provided by
Invest Europe / EDC.

The European Data
Cooperative (EDC) was
developed as a single data
entry point by Invest
Europe and its national
association partners to
collect data on fundraising,
investments and
divestments across Europe.

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Introduction

We are happy to announce the fourth edition of the annual Investment Monitoring Report that is an analysis of the Hungarian Venture Capital and Private Equity market's performance in 2017 prepared by the Hungarian 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 2017.

The report is prepared by HVCA and EY and should you be interested in further industry related information or previous issues of the report please visit <http://www.hvca.hu/hu/statisztika/>.

Highlights – 2017

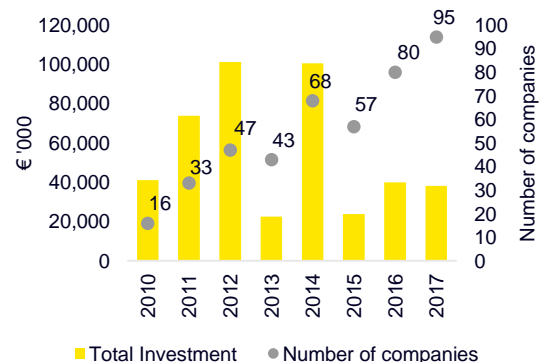
- ▶ Number of closed transactions by PEs and VCs: 95
- ▶ Number of divestments: 11
- ▶ Total capital invested: € 38.2 million
- ▶ Top three most active industries (by value):
 1. Transportation
 2. ICT (Communications, computers and electronics)
 3. Business products and services

I. Equity investments

During 2017, 95 transactions were closed in Hungary involving 95 target companies that received a total investment of € 38.2 million. In terms of capital invested this is slightly lower compared to 2016, when 80 companies received a total of € 40 million investment.

The average deal size was € 402 thousand which is ca. 20% lower than € 501 thousand in the previous year.

Chart 1. – Total investment and number of transactions
between 2010 - 2017



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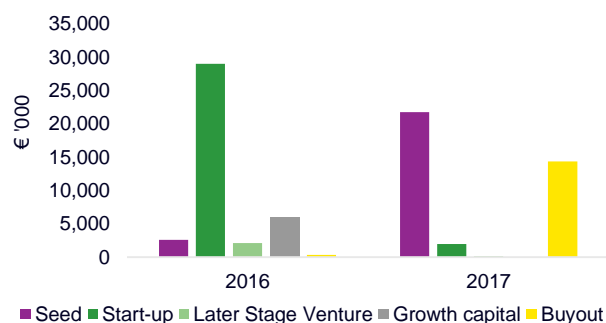
Equity investments by investment stage

In 2017, the most popular investment stage in terms of invested amount was seed capital (€ 21.7 million), followed by buyout (€ 14.4 million) and start-up (€ 2 million) – see chart 2.

92 out of the 95 transactions were seed investments with an average deal size of € 236 thousand in 2017.

88 out of the 95 transactions were initial investments for the target companies in 2017 (see chart 3).

Chart 2. – Invested capital by investment stage in 2016 - 2017



Equity investments by sector

Companies from seven sectors received funding in 2017, out of which Transportation accounted for 40% of total transaction value (see table below). Business products & services and ICT were the most popular based on number of total investments (28 and 24, respectively).

Chart 3. – Initial vs. Follow-on investment in 2016 - 2017

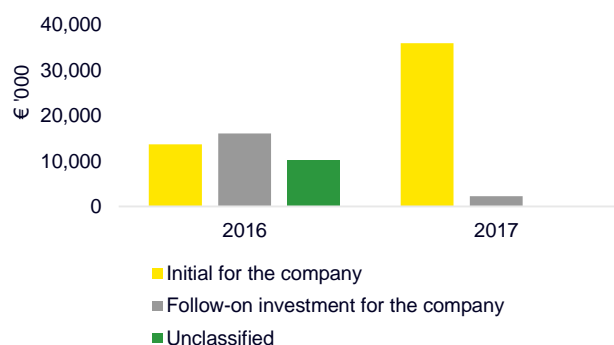


Chart 4. – Invested capital by sector in 2017 – by total investment value

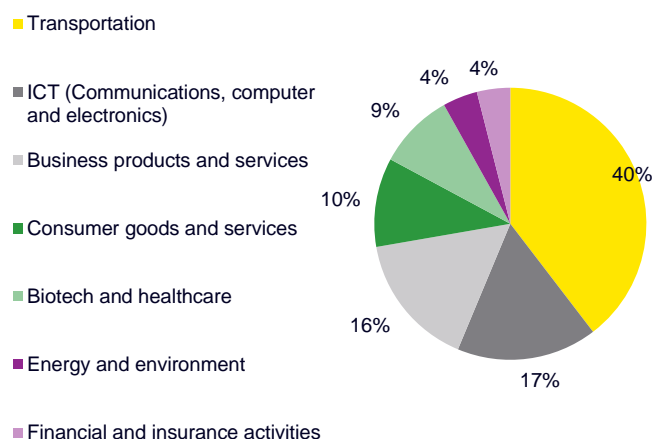


Chart 5. – Invested capital and number of companies by sector in 2017

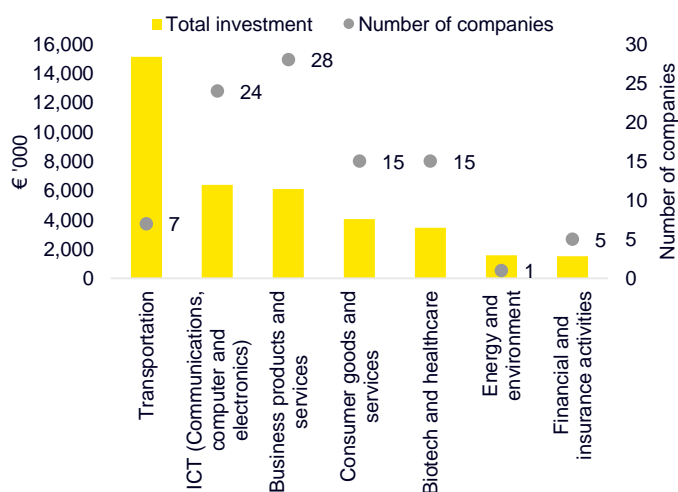


Table 1. – Invested capital and number of companies by sector in 2016 and 2017

Sector	2016		Number of companies		2017		Number of companies	
	Amount	%	Amount	%	Amount	%	Amount	%
Transportation	1,168	3	3	4	15,141	40	7	7
ICT (Communications, computer and electronics)	10,356	26	26	33	6,383	17	24	25
Business products and services	4,419	11	9	11	6,108	16	28	29
Consumer goods and services	10,128	25	23	29	4,044	11	15	16
Biotech and healthcare	2,779	7	11	14	3,462	9	15	16
Energy and environment	8,130	20	4	5	1,581	4	1	1
Financial and insurance activities	579	1	1	1	1,516	4	5	5
Construction	2,401	6	1	1	0	0	0	0
Chemicals and materials	88	0	2	3	0	0	0	0
Total investment	40,049	100	80	100	38,235	100	95	100

II. Divestments

There were 11 divestments in 2017 which amounted to € 249.1 million compared to 25 exits for € 59.0 million in 2016. Sale to another private equity firm accounted for 89% of the deal size which mostly related to 1 large transaction in the ICT sector in the amount of € 199.2 million (see charts 4 and 5).

Chart 6. – Divestments by sector in 2017

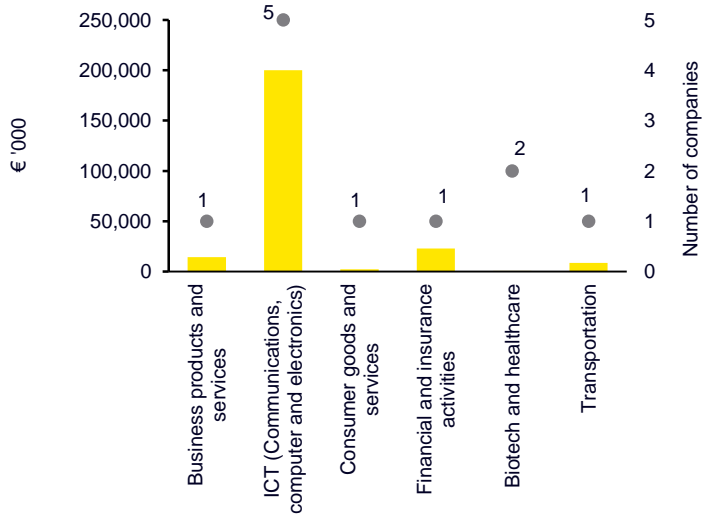
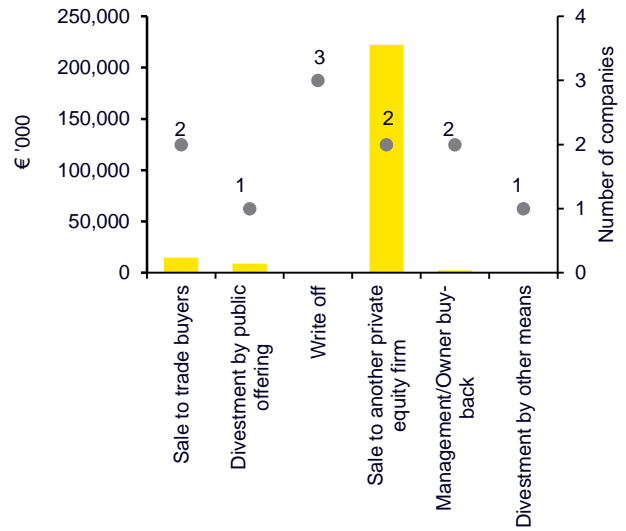


Chart 7. – Divestments by type in 2017

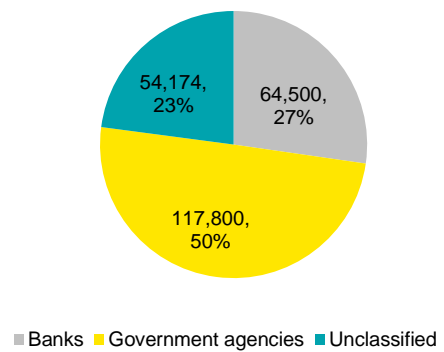


III. Fundraising

5 venture funds raised € 236.5 million in 2017 which is significantly higher compared to € 20.5 million raised by 1 fund in 2016.

The funds raised from government agencies and banks were entirely domestic, while the rest was unclassified.

Chart 8. – Fundraising by investor type in 2017 (€ '000)



IV. Comments of HVCA members

The venture capital industry showed signs of strengthening in 2017. Although the investment activity is predominantly related to government sponsored venture capital funds the number of transactions closed was near to hundred again. Nevertheless, in my opinion the most important trend of last year was that of fund raisings. Great news of 2017 seems to be the launch of five new venture capital funds, including private ones, raising altogether EUR230 million compared to one closing in 2016. It implies the stabilisation or even the strengthening of the of investment activity. These positive trends can be further reinforced by the launch of the new Jeremie funds in 2018. It is also a pleasure to note that, although the number of exits decreased compared to the previous year, there was a significant increase in the total value of exits. I am confident that this momentum will keep to 2018.

Levente Zsembery

HVCA, Chairman

X-Ventures, CEO

Reading the 2017 report on VC and PE activity in Hungary it strikes my eyes that a complete value chain of financial investors is finally shaping. The large number of initial, seed investments fill the gap in early-stage financing, creating the opportunity for startups to enter the market and develop their prototypes or bring them to the market, as opposed to previous years when due to their high risk these investments were rare. Investors' appetite for scalable, global stories is shown in the relatively high number of investments in ICT and B2B products/services, while on the other hand, the newly launched funds of 2017 and 2018 offer a better climate for follow-on investments for the successful startups on the domestic market. I strongly believe that the healthy ecosystem will benefit the Hungarian startup scene to catch up with our regional peers and thus attract international investors. This is an inevitable next step to help domestic ventures to become global players.

Dénes Szluha

HVCA, Board member

Hiventures, Investment Director