

Venture Capital and Private Equity update Hungary – 2022

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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 ninth edition of the annual Investment Monitoring Report that is an analysis of the Hungarian Venture Capital and Private Equity market's performance in 2022 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 2022. 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.

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 – 2022

	Market statistics	Industry statistics
Number of investments	184	198
Total capital invested (million EUR)	250,2	220,1
Number of divestments	36	37
Total divestment value (million EUR)	277,4	20,4
Total fundraising value (million EUR)	69,9	

Equity investments

Market statistics

During 2022, EUR 250.2 million was invested into Hungarian companies through 184 transactions. There was a 24.3% decrease in the total number of transactions, and 8% increase in the total invested amount compared to 2021. As a result, the average deal size increased by 43% from 2021 to 2022. The total amount in 2022 was the second highest value that were reported over the past ten years.

Industry statistics

In 2022, 198 investments were executed by Hungarian investors either in the domestic market or abroad (22% lower than in 2021). Total value of investments increase from EUR 174.5m to 220.1m between 2021 and 2022, resulting in a 62% increase in the reported average deal sizes compared to 2021 showing an increasing appetite for larger investments by Hungarian VC-s.

Equity investments – investment stage breakdown

Market statistics

In terms of investment amount, the growth capital had the highest reported value (33% of the total investments), the shares of other investment amount were 30% buyout stage, 20% start-up, 9% later stage venture and 7% seed stage.

During 2022, the average deal size was EUR 1,360 thousand which is 43% higher than EUR 951 thousand in 2021.

In 2022, Hungarian companies in the start-up phase received on average 5% 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).

Industry statistics

In 2022, most of the investments were initiated in the start-up stage (102 out of 198) which was followed by the seed stage (46 out of 198). The shares of total investment amounts are more balanced: 29% buyout, 26% start-up, 21% growth capital, 14% later stage venture, 8% seed and 2% rescue/turnaround stage venture. In 2022, there were a total of three reported investments categorized as rescue & turnaround or buyout.

Compared to 2021, the average deal sizes of seed capital and rescue/turnaround investments increased significantly: seed phase increased by 113% to an average deal size of EUR 0.402m, rescue/turnaround increased by 140% to EUR 1.281m.

Chart 1. – Total investment and number of transactions between 2013-2022

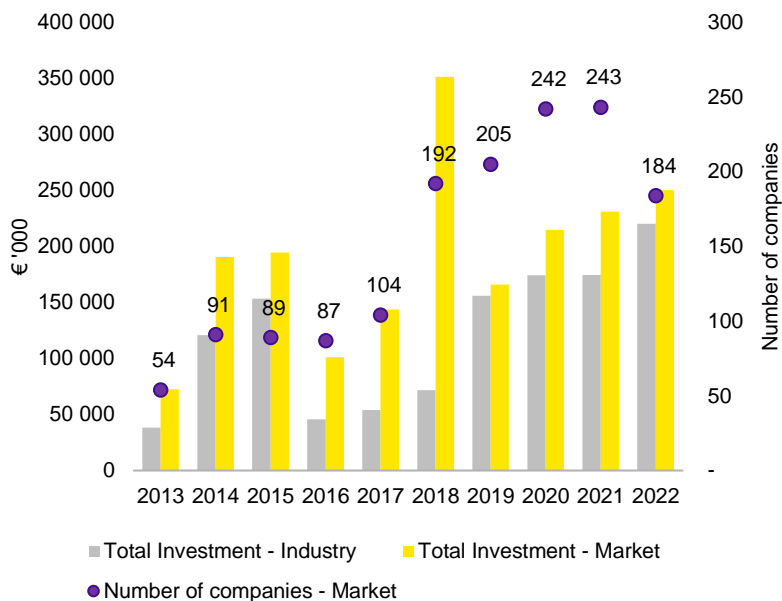


Chart 2. – 2022 Invested capital by investment stage – market statistics

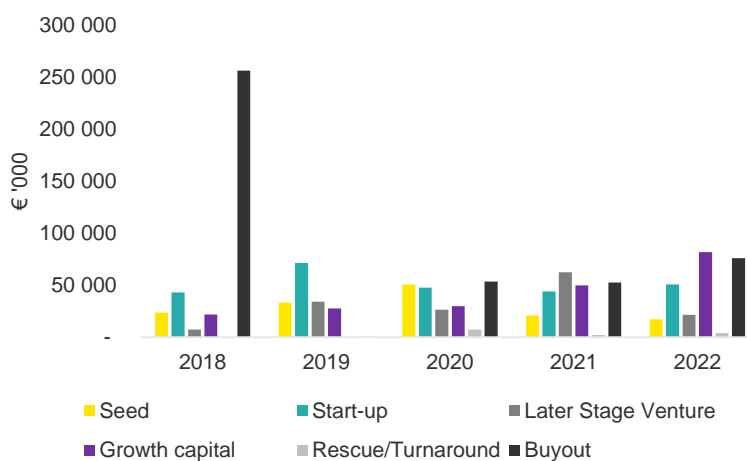


Chart 3. – 2022 Invested capital by investment stage – industry statistics

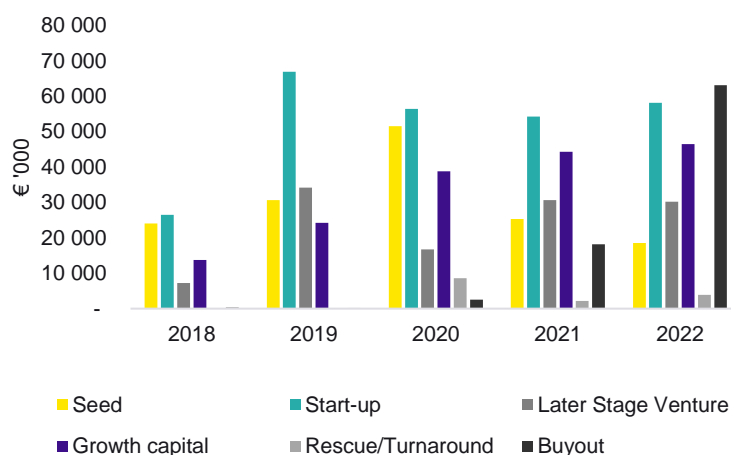
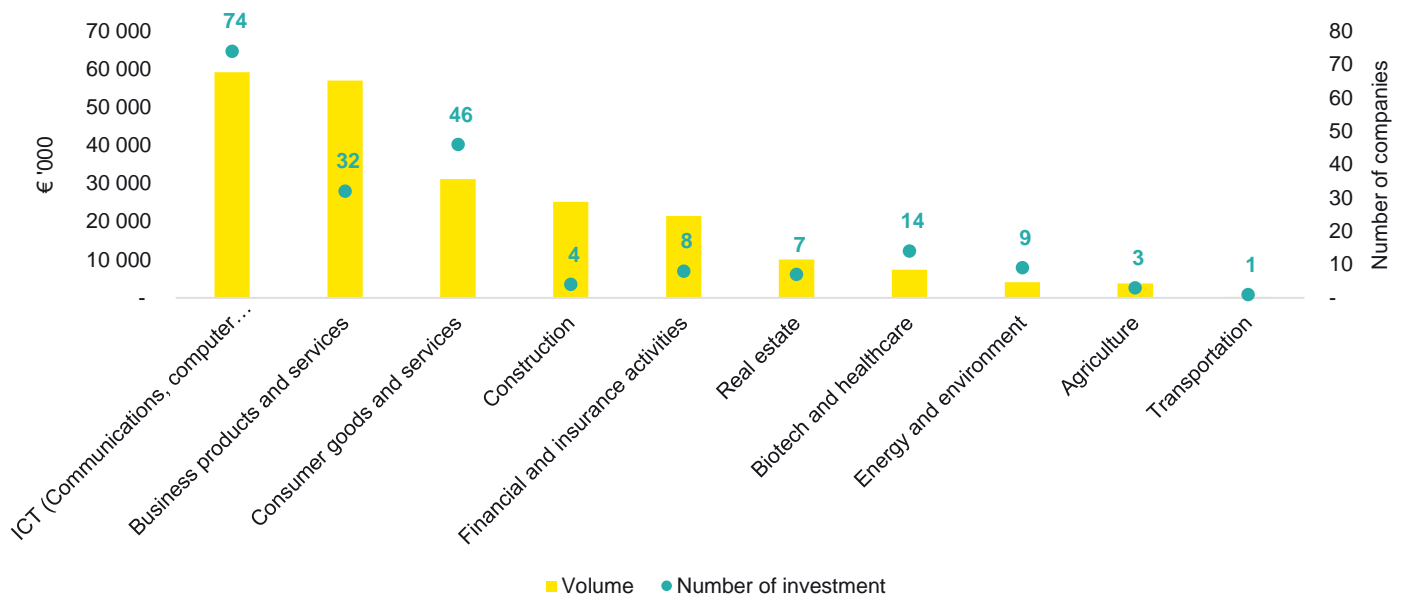


Chart 4. – 2022 Invested capital by sector – industry statistics



Equity investments – sector breakdown

Market statistics

In case of Hungarian companies receiving investments, the two largest sectors by total invested amount were ICT (Information and communications technology) and Business products and services that together accounted for 56% of total investment value and 51% of total number of investments. In 2022, the largest transactions (considering average deal size) occurred in the Construction and Financial and insurance, with average deal size of EUR 6.3 million and EUR 2.8 million respectively.

Industry statistics

The most active sector was ICT (Information and communications technology) with an average deal size of EUR 801 thousand, while the second largest was Business products and services with an average deal size of EUR 1.8 million.

The most significant difference between industry and market statistics were reported in the ICT sector, showing a larger interest for companies operating in this sector by foreign investors. In this sector, the average deal size was EUR 1.4 million according to market statistics versus EUR 801 thousand in the industry statistics.

Table 1. –Last two year’s breakdown of investments by sector

€ '000	2021				2022			
	Market statistics		Industry statistics		Market statistics		Industry statistics	
	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies
Agriculture	418	3	418	3	3 794	3	3 794	3
Business products and services	39 882	36	28 871	37	50 747	29	57 074	32
Chemicals and materials	1 486	1	2 443	2	-	-	-	-
ICT	68 417	75	44 534	84	88 714	65	59 290	74
Construction	2 384	3	2 384	3	25 230	4	25 230	4
Consumer goods and services	81 255	71	65 939	74	37 491	43	31 175	46
Energy and environment	14 731	8	4 905	6	4 296	9	4 135	9
Financial and insurance activities	6 198	11	10 698	13	19 741	7	21 541	8
Real estate	3 921	3	3 921	3	10 136	7	10 136	7
Biotech and healthcare	10 316	25	8 391	23	9 826	16	7 446	14
Transportation	2 029	7	2 029	7	267	1	267	1
Other	-	-	-	-	-	-	-	-
Total investment	231 038	243	174 534	255	250 241	184	220 087	198

Divestments

For divestment sector breakdown, Invest Europe collected only market statistics where 36 divestments were reported. Divestments mainly occurred in two sectors. The largest number of divestments was closed in ICT but considering reported divestment size, the most active sector was Energy and environment which accounted for 83% of the total value with the average deal size of EUR 76.8 million.

Considering industry statistics, 37 divestments were reported in 2022. The breakdown of divestments based on the form of exit was as follows: 13 Management/Owner buy-back, 12 Sale to trade buyers, 5 Write off, 5 Divestment by other means, 1 Repayment of preference shares/ loans or mezzanine, 1 Sale to another private equity firm.

Chart 5. – Divestment by sectors in 2022 – market statistics

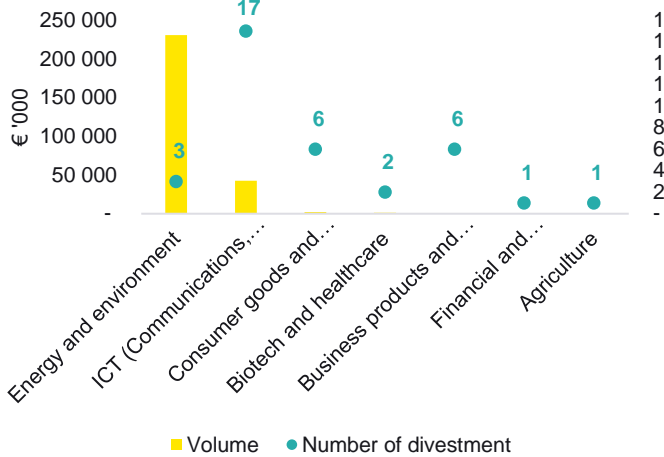
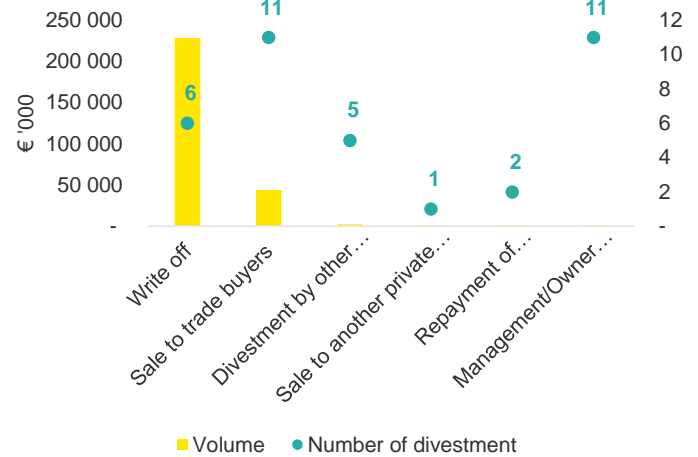


Chart 6. – Total divestment and number of companies by type of exit in 2022 – market statistics



Fund raising

Funds of EUR 69.9 million were raised in 2022, which is significantly lower than the reported fundraising in 2021. Considering geographic breakdown, 49% of the funds were raised from the CEE region, while the remainder was either raised from DACH or was unclassified.

Compared to 2021, other asset managers became more dominant in relative terms in relation to fundraising activities while participation of endowments and foundations, corporate investors, bank and government agencies fell back.

Chart 7. – Total funds raised breakdown by investor type in 2022 (in thousand EUR)

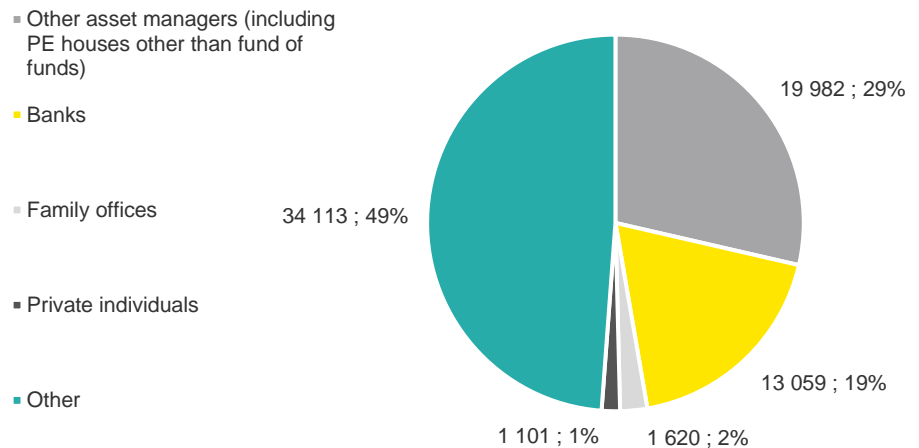
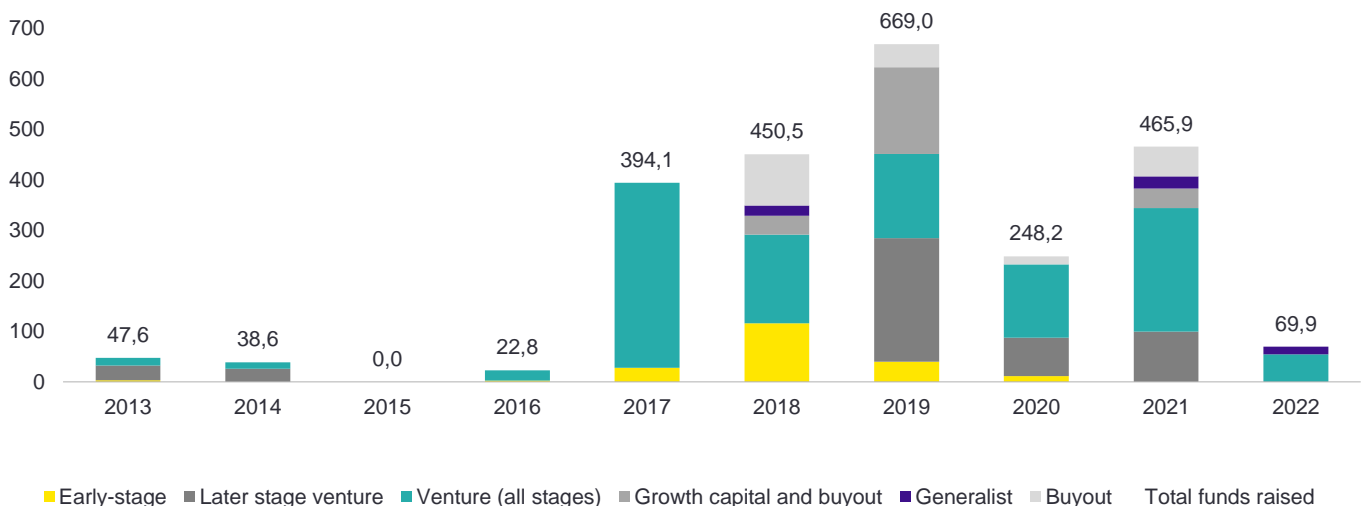


Chart 8. – Historical fundraising figures by target investment stage (in million EUR)



Summary – market statistics

During 2022, 184 companies received EUR 250.2 million investment from VCs and PE funds. The largest amount was allocated in the growth capital venture phase (EUR 81.6 million), but majority of the transactions were closed in start-up stage (94 out of 184). Compared to 2021, total investment value increased by 8.3% in 2022.

Companies operating in information and communications technology (ICT) and business products and services sectors received 56% of the total capital invested in 2022. Considering the number of transactions, ICT and consumer goods and services accounted for 59% of all transactions.

There were 36 divestments in various sectors. The most common divestment type was sale to trade buyers (11), management/owner buyback (11) and write-off (6). EUR 69.9 million was raised in 2022 mainly provided by other asset managers and banks.

* Due to the variable length of the transactions, the 2021 numbers have changed compared to the previous report.

Summary – industry statistics

In 2022, 198 transactions were executed by Hungarian VC and PE companies in Hungary or abroad. Total investment value was EUR 220.1 million, out of which the largest amount (EUR 63.1 million) was allocated to buyout stage companies. The largest number of companies among the different investment stages was start-up investments. Average deal size increased by 62% compared to 2021.

Related to sector breakdown, industry statistics show similar trends as market statistics, with the exception of communications technology (ICT) sector, in which local investors seem to be less engaged compared to foreign players.

37 divestments were reported, whereby 13 divestments were buy-back by Management or Owner.

Comments of HVCA member

Overall, the data suggests a mixed picture for the private equity and venture capital market in Hungary. While there was a decline in the total number of companies receiving investments from 255 in 2021 to 198 in 2022, there was a significant increase in the total investment amount from EUR 174,534 in 2021 to EUR 220,087 in 2022.

The decline in the number of companies receiving investments, particularly in the seed-stage and later-stage venture categories, indicates a potential slowdown in the creation and development of new businesses. This decline could be attributed mainly to the changing market conditions, and challenges faced by early-stage and mature companies seeking funding.

On the other hand, the substantial increase in total investment suggests that despite the decrease in the number of companies, there was a focus on backing high-potential companies and making larger investments. This is especially notable in the buyout category, where the investment amount increased significantly from EUR 18,129 in 2021 to EUR 63,076 in 2022.

The growth in start-up investments and VC-backed growth capital also indicates continued interest in supporting early-stage and scaling companies in Hungary. This suggests that investors and venture capitalists are still optimistic about the potential for growth and innovation within the start-up ecosystem. Additionally, the decrease in the number of companies receiving investments could be reflective of a more selective investment approach or consolidation within the market.

The most concerning fact is the substantial decline in new funds raised for private equity and venture capital investments in Hungary between 2021 and 2022. In 2021, the new funds raised were EUR 465,888, while in 2022, the new funds raised decreased significantly to EUR 69,874.

A decrease of this magnitude in new funds raised may indicate a potential slowdown in private equity and venture capital activity within the country. It could suggest a decrease in investor confidence or reduced interest in funding startups and growth-stage companies.

Zsolt Weiszbart

HVCA, Board member; Day One Capital, Partner