Venture Capital and Private Equity update
Hungary – 2023

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.

Contact:
research@investeurope.eu

Introduction

We are happy to announce the tenth edition of the annual Investment Monitoring Report that is an analysis of the Hungarian Venture Capital and Private Equity market's performance in 2023 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 2023. 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 – 2023

	Market statistics	Industry statistics
Number of investments	115	129
Total capital invested (million EUR)	105.4	127.4
Number of divestments	27	31
Total divestment value (million EUR)	10.3	17.5

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Equity investments

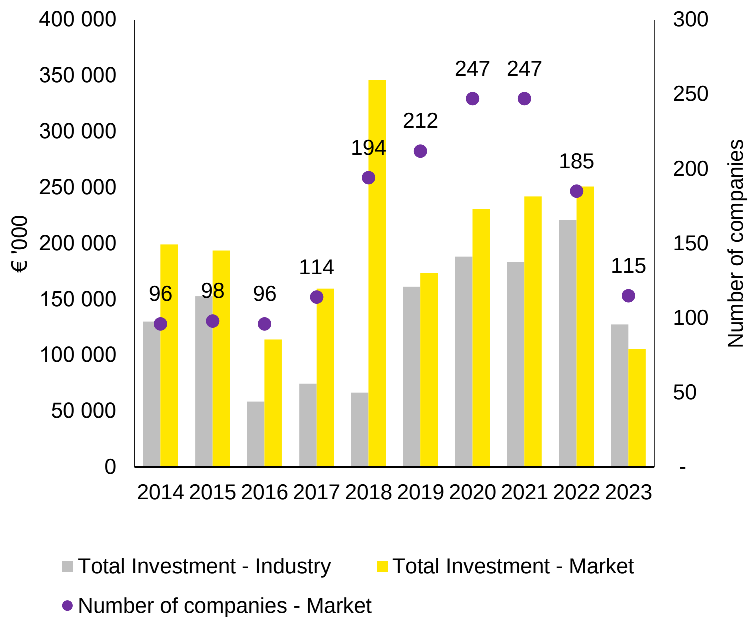
Market statistics

During 2023, EUR 105.4 million was invested into Hungarian companies through 115 transactions. There was a 37.8% decrease in the total number of transactions, and 58% decrease in the total invested amount compared to 2022. As a result, the average deal size decreased by 32.4% from 2022 to 2023. The total amount in 2023 was the lowest value that were reported over the past ten years.

Industry statistics

In 2023, 129 investments were executed by Hungarian investors either in the domestic market or abroad (35.2% lower than in 2022). Total value of investments decreased from EUR 220.7m to 127.4m between 2022 and 2023, resulting in a 10.9% decrease in the reported average deal sizes compared to 2022 showing a decreasing appetite for larger investments by Hungarian VC-s.

Chart 1. – Total investment and number of transactions between 2014-2023



Equity investments – investment stage breakdown

Market statistics

In terms of investment amount, the growth capital had the highest reported value (49.4% of the total investments), the shares of other investment amount were 39.1% start-up stage, 6.1% seed stage, 2.8% later stage, 2.7% buyout stage.

During 2023, the average deal size was EUR 916 thousand which is 32.4% lower than EUR 1 356 thousand in 2022.

In 2023, Hungarian companies in the start-up phase received on average 13% more 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 2023, most of the investments were initiated in the start-up stage (67 out of 129) which was followed by growth capital (27 out of 129). The shares of total investment amounts are as follows: 49.4% growth capital, 32% start-up stage, 8.7% seed stage, 7.7% later stage, 2.2% buyout stage. In 2023, there were no reported investments categorized as rescue & turnaround or buyout.

Compared to 2022, the average deal sizes of growth capital and start-up investments increased significantly: start-up increased by 19% to an average deal size of EUR 0.609m, growth capital increased by 24% to EUR 2.330m.

Chart 2. – 2023 Invested capital by investment stage – market statistics

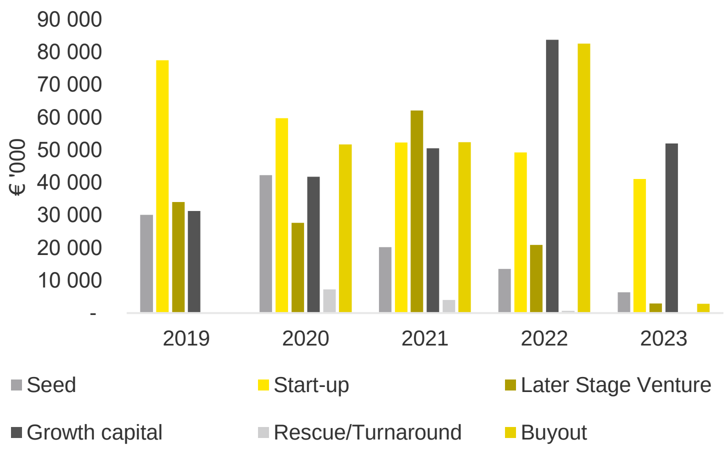


Chart 3. – 2023 Invested capital by investment stage – industry statistics

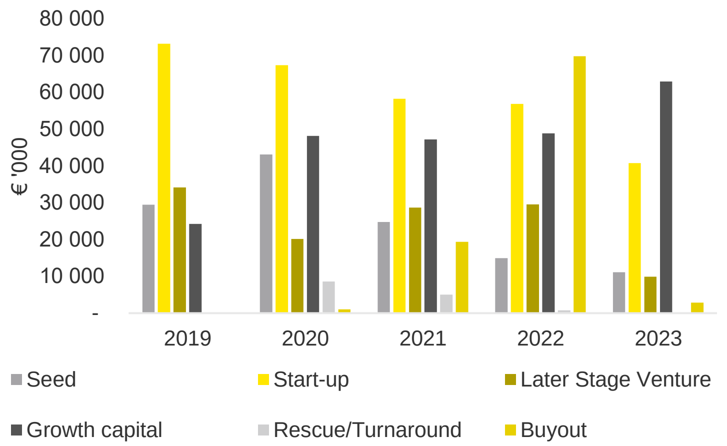
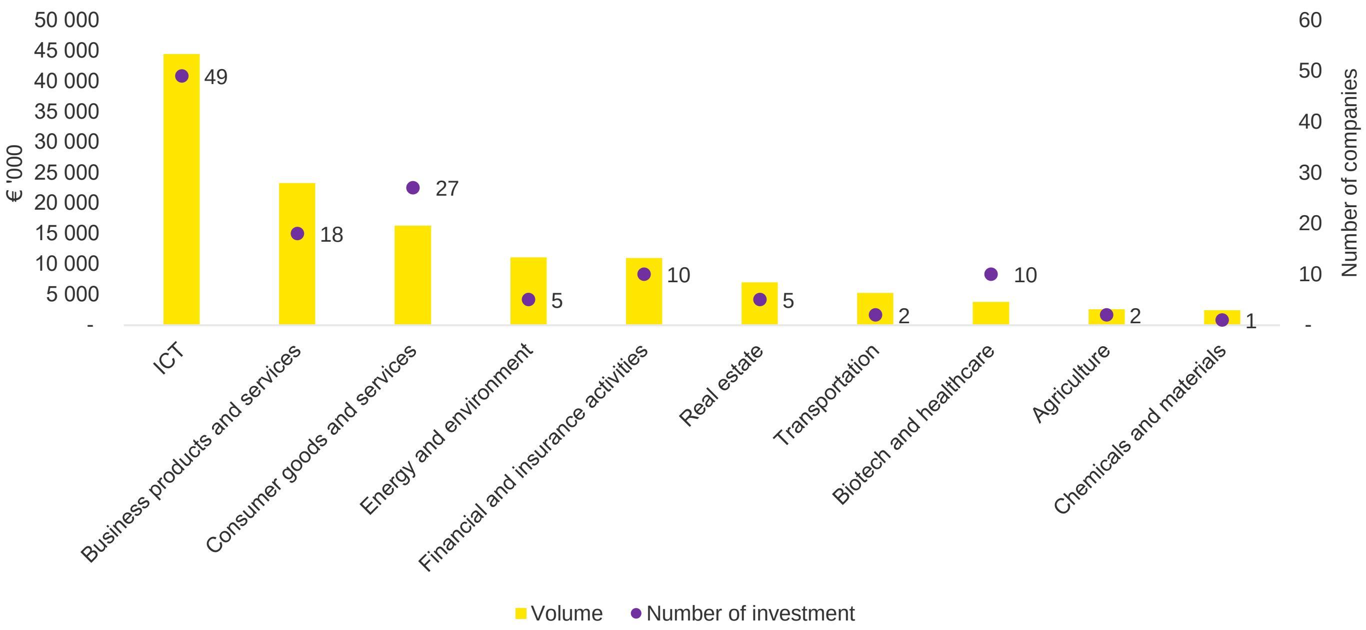


Chart 4. – 2023 Invested capital by sector – industry statistics



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 49.9% of total investment value and 50.4% of total number of investments. In 2023, the largest transactions (considering average deal size) occurred in the Energy and environment and Transportation sectors, with average deal size of EUR 2.78 million and EUR 2.76 million respectively.

Industry statistics

The most active sector was ICT (Information and communications technology) with an average deal size of EUR 908 thousand, while the second largest was Consumer goods and services with an average deal size of EUR 605 thousand.

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 domestic investors. In this sector, the average deal size was EUR 741 thousand according to market statistics versus EUR 908 thousand in the industry statistics.

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

€ '000	2022				2023			
	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	2 824	2	2 824	2	2 602	2	2 602	2
Business products and services	48 672	29	55 570	33	22 196	17	23 316	18
Chemicals and materials	-	-	-	-	2 447	1	2 447	1
ICT	89 922	65	60 498	74	30 398	41	44 473	49
Construction	32 425	3	32 425	3	-	-	-	-
Consumer goods and services	30 580	43	24 264	46	10 761	23	16 332	27
Energy and environment	4 296	9	3 565	8	11 105	4	11 113	5
Financial and insurance activities	19 879	9	21 679	10	3 757	8	11 007	10
Real estate	10 136	7	10 136	7	7 019	5	7 019	5
Biotech and healthcare	9 826	16	7 446	14	9 583	12	3 833	10
Transportation	2 267	2	2 267	2	5 529	2	5 281	2
Other	-	-	-	-	-	-	-	-
Total investment	**250 826**	**185**	**220 673**	**199**	**105 396**	**115**	**127 422**	**129**

Divestments

For divestment sector breakdown, Invest Europe collected only market statistics where 27 divestments were reported. Divestments mainly occurred in two sectors. The largest number of divestments (8) was closed in Business products and services, which accounted for 50.5% of all divestments considering the total divested amount. The second largest number of divestments (7) was closed in the ICT sector, which accounted for 8.5% of all divestments considering the total divested amount. Considering industry statistics, 31 divestments were reported in 2023. The breakdown of divestments based on the form of exit was as follows: 11 Management/Owner buy-back, 7 Sale to trade buyers, 7 Divestment by other means, 2 Write off, 2 Repayment of preference shares/ loans or mezzanine, 2 Sale to another private equity firm and 1 Sale to financial institutions .

Chart 5. – Divestment by sectors in 2023 – market statistics

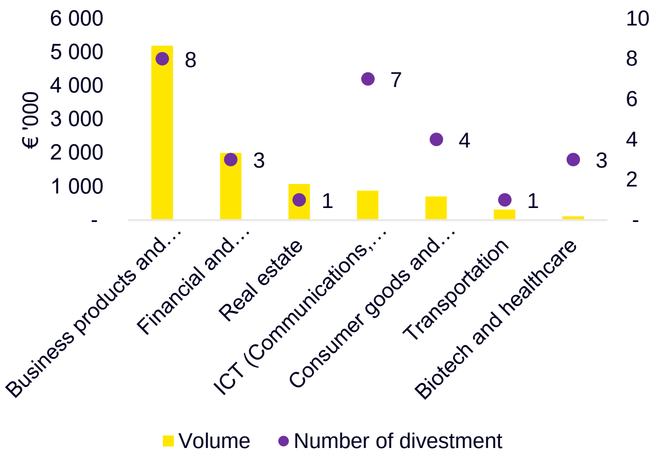
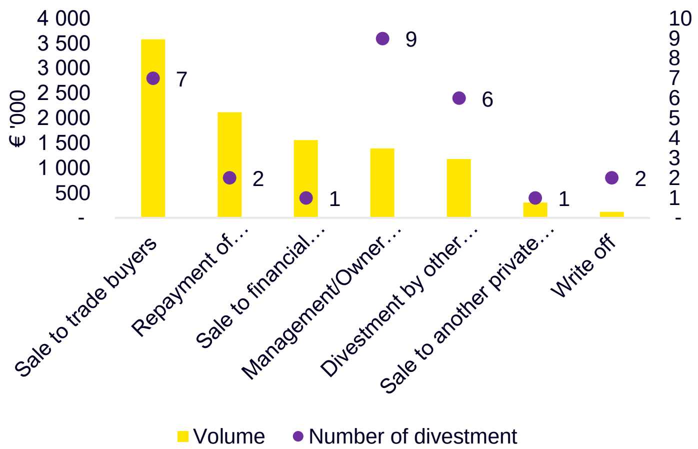


Chart 6. – Total divestment and number of companies by type of exit in 2023 – market statistics



Fund raisings

In 2023, there were not fundraisings reported.

Summary – market statistics

During 2023, 115 companies received EUR 105.4 million investment from VCs and PE funds. The largest amount was allocated in the growth capital venture phase (EUR 52 million), but majority of the transactions were closed in start-up stage (60 out of 115). Compared to 2022, total investment value decreased by 58% in 2023.

Companies operating in information and communications technology (ICT) and business products and services sectors received 49.9% of the total capital invested in 2023. Considering the number of transactions, ICT and consumer goods and services accounted for 55.7% of all transactions.

There were 27 divestments in various sectors. The most common divestment type was management/owner buy-back (9), sale to trade buyers (7), and divestment by other means (6).

Summary – industry statistics

In 2023, 129 transactions were executed by Hungarian VC and PE companies in Hungary or abroad. Total investment value was EUR 127.4 million, out of which the largest amount (EUR 62.9 million) was allocated to growth stage companies. The largest number of companies among the different investment stages was start-up investments (67 out of 129). Average deal size decreased by 10.9% compared to 2022.

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 more engaged compared to foreign players.

31 divestments were reported, whereby 11 divestments were buy-back by management or owner.

* Due to the variable length of the transactions, the 2022 numbers have changed compared to the previous report.

Comments of HVCA member

2023 was a challenging year for the venture capital and private equity market in Hungary. The number of Hungarian companies receiving VC or PE funding fell by 38% in 2023 compared to 2022 and in terms of value the decrease accounted for a drastic 58%. This trend shows that the VC and PE market slowed down to a level, which we have not seen during the last ten years.

The decline of funding was especially notable in the seed and later stage venture funding categories, while startup stage funding remained relatively stable. The reason behind this trend could be the lack of investor interest in seed stage funding and the scalability of later stage venture companies. However, they main hit was taken in the buyout funding category, which almost completely evaporated in 2023.

On a different note, one of the main reasons for the low funding amount to Hungarian companies in 2023 was the lack of funding from non-Hungarian investors. While in recent years this amount was quite significant (EUR 71 million in 2020, EUR 92 million in 2021, EUR 70 million in 2022), 2023 showed a record low EUR 8 million funding from international investors into Hungarian ventures.

On the investor side, VC-s and PE-s also experienced a downturn in the number of deals by 35% in 2023 compared to 2022 (129 in 2023 and 198 in 2022), however in terms of funding value the 42% drop in their investments (EUR 127.4 million in 2023 and EUR 220.1 million in 2022) was smaller compared to the funding of Hungarian companies. The average deal sizes fell by 32% on the company side and 11% on the investor side, indicating a slowdown in late-stage funding rounds and decreasing appetite for larger investments by Hungarian VC-s.

In terms of industries ICT and Business products and services remained the top 2 industries in 2023 both in market and industry statistics. However, 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 domestic investors.

In 2023, there were no fundraisings reported for any VC or PE firms in Hungary, indicating that the slowdown in the exit markets also negatively affected the creation of new funds in the country. This trend clearly shows that after years of growth in funding of companies and fundraising of investors 2023 meant challenges for all ecosystem players. We expect that this year meant the bottom for the ecosystem and look forward to the better investment appetite in 2024.

Balázs Haszonics,

Lead Ventures, CEO, HVCA Board Member, Treasurer