Central and Eastern Europe Statistics 2010

An EVCA Special Paper

Edited by the EVCA Central and Eastern Europe Task Force

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PEREP ANALYTICS

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EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION

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EVCA

The European Private Equity & Venture Capital Association

EVCA is the voice of European private equity and venture capital.

We promote the interests of our more than 1,200 members, to ensure they can conduct their business effectively. EVCA engages policymakers and promotes the industry among key stakeholders, including institutional investors, entrepreneurs and employee representatives.

EVCA develops professional standards, research reports and holds professional training and networking events.

EVCA covers the whole range of private equity, from early-stage venture capital to the largest buyouts.

EVCA Central and Eastern Europe Task Force

Since 2003, the EVCA Central and Eastern Europe Task Force has undertaken initiatives specifically aimed at the development and promotion of private equity and venture capital in the region of Central and Eastern Europe (CEE). Among its accomplishments, the Task Force published Central and Eastern Europe Success Stories in October 2004, and special papers dedicated to annual statistics for 2005, 2006, 2007, 2008, 2009 and 2010. The Task Force also seeks to develop CEE topics of interest in other EVCA publications and conferences. Information about the members of the Task Force may be found at www.evca.eu.

PEREP_Analytics

PEREP_Analytics™ is a centralised, non-commercial pan-European private equity database. Currently it is the joint statistical platform of EVCA and 19 national and regional private equity and venture capital associations across Europe, of which seven are from the CEE region: CVCA (Croatia), CVCA (the Czech Republic), EstVCA (Estonia), HVCA (Hungary), LTVCA (Lithuania), PPEA (Poland), SEEPEA (South Eastern Europe) and SLOVCA (Slovakia).

The quantitative and qualitative data collected via PEREP_Analytics serves:

- the needs of all stakeholders for market approach statistics
- the need for accurate, consistent and timely data
- the need for timely ad hoc analyses
- the intrinsic private equity market evolution, which has seen cross-border transactions become the norm, rather than the exception
- the needs of industry practitioners, investors, international organisations, governments and other stakeholders, all of which demand private equity statistics

Figures are updated on a continuous basis and are thus subject to change.

Disclaimer

Contents

About this report

This document provides annual activity statistics for the private equity and venture capital markets of Central and Eastern Europe in 2010. Similar statistics for 2009, 2008, 2007, 2006 and 2005 were published respectively in EVCA's *Central and Eastern Europe Statistics 2009* (published July 2010), *Central and Eastern Europe Statistics 2008* (published July 2009), *Central and Eastern Europe Statistics 2007* (published September 2008), *Central and Eastern Europe Statistics 2006* (published October 2007) and *Central and Eastern Europe Statistics 2005* (published November 2006). The statistics contained herein are based solely on the "market approach" (whereby information is compiled to show activity in a particular country), rather than the "industry approach" (which shows the activity of fund managers based in a particular country). EVCA believes this gives a more accurate picture of the overall investment trends and activities in the markets of Central & Eastern Europe (CEE) due to the predominance of regional funds and fund managers. For the purposes of this publication, CEE comprises the countries of Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

Amendments of prior years' statistics

All data reported in this publication is based on PEREP_Analytics, which is continuously updated and therefore subject to change. Continual updating strives to achieve the highest level of accuracy, however, the results depend on the timely submissions of information from private equity fund managers. As noted in last year's publication, the year 2007 was a start-up year for the PEREP_Analytics database and it was put to a quality review in mid-2009. Due to this review, a number of material amendments were made in the 2009 CEE Statistics publication to correct historical data presented in earlier years' editions of this publication.
For more details of what was amended, please refer to last year's publication.

The foregoing methodology has also led to some non-material corrections of 2009 data presented in this publication as compared to the previous year's publication. EVCA always recommends readers to use the most recent publication when analysing historical data to ensure the highest accuracy.

1. Introduction

Dear colleague,

Lately, when people talk of 'Europe' in the global media, the conference circuit or investor meetings, it tends to conjure images of a mature, low-growth region, consisting of advanced, if sometimes bureaucratic, economies saddled with a deeply troubled periphery. The reality is far more diverse.

For one, this image ignores the large swathe of young, entrepreneurial economies across Europe's central and eastern flank, collectively known as 'Central & Eastern Europe' or 'CEE'. This region, which proudly stretches from the Baltic Sea round to the Adriatic and Black Seas, is an exciting area of investment opportunity, where the 'convergence' story continues to be a key driver of economic and social development.

'CEE' itself belies a highly heterogeneous collection of economies, where local and regional expertise can provide a competitive advantage for investors in the region's new and established enterprises. With its central location, proximity to export markets, well-educated and productive labour force and robust internal demand, CEE has become a preferred destination in the European neighbourhood for numerous sectoral investors, from automotive to IT and retail. With the vast majority of CEE countries now members of the EU, the region not only offers high growth potential, but at the same time the stability and security of the EU framework.

Thanks to the region's dynamism, it weathered the recent global financial crisis rather well. Its largest economy, Poland, was hailed as a 'green island', the only European country not having fallen into recession, and the latest forecasts for 2011 show a positive outlook for the whole region. While the economic performance of these 'emerging' European markets hasn't quite matched that of some hype-filled emerging markets in Asia and Latin America, the region's resilience through the crisis has helped shift perceptions of the relative risk between mature and developing markets.

The region's capital markets are still developing and will benefit from growing investor interest in the region and more policies that promote inward investment. The successful Warsaw Stock Exchange, backed in part by the country's pension schemes, provides a useful source of equity in that country, but increasingly, private equity and venture capital are seen as a key source of fuel for entrepreneurial growth. Yet despite this, private equity investment is just 0.11% of the region's GDP (compared to 0.77% in Sweden and 0.75% in the UK). This shows that the region has significant long-term untapped potential awaiting those investors willing to recognize CEE as a truly attractive region of Europe

This special paper on Central and Eastern Europe private equity and venture capital activity has been prepared to increase the transparency of the region's investment activity, and help GPs, LPs and advisers encompass the results of private equity and venture capital across the whole region.


Dörte Höppner
EVCA Secretary General

Robert Manz
Chairman of the
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2. Executive summary

Fundraising market in the region

- Fundraising for the CEE region reached €645m in 2010, 61% above the 2009 level. While this increase compares favourably with the 13% increase in fundraising across Europe as a whole, it should be noted that very few CEE buyout funds went out into the market in both 2009 and 2010, and that generally, private equity firms active in the CEE region still had sufficient capital to invest after the preceding years of strong fundraising.
- CEE fundraising represented 3% of the total funds raised in Europe in 2010.
- Government agencies, which increased their commitments by 170% compared to 2009 (to €376m), remained the leading source of capital for CEE funds, accounting for more than half of total fundraising sources in 2010.
- 80% of the funds raised for the CEE region in 2010 originated from Europe.

Investment activity

- Investment in the CEE region slowed down in 2010, with €1.3bn invested, down from more than €2bn in each of the three previous years. The CEE region lagged behind the trend of Europe as a whole, which showed significant growth in investments in 2010, up nearly 80% compared to 2009. However, in 2009 the CEE region had maintained investment levels compared to 2008 while Europe had shown a steep decline.
- Investments by value in the CEE region represented 3% of total private equity investments in Europe, down from 11% in 2009.
- Overall investment values in 2010 represented 0.119% of the CEE region's GDP, slightly less than in 2009, but only 38% of the level achieved in 2010 in Europe as a whole (0.314% of GDP).
- Despite the lower value of investments, more than 160 companies received private equity backing in 2010, an increase of nearly 30% compared to 2009 (125 companies).
- Similar to previous years, investment activity in the CEE region in 2010 was highly concentrated in the larger countries in the region, with six countries (Poland, the Czech Republic, Romania, Ukraine, Bulgaria and Hungary) accounting for 94% of the total investment value in 2010 and 68% of the total number of companies financed.
- Poland alone accounted for just over half of the total amount invested in the region, attracting €657m of investment.
- Consumer goods & retail remained the most invested sector in value in 2010 (€319m), despite a sharp decrease from the 2009 level (€865m). The communications sector remained the most popular in terms of number of companies financed (26).
- Buyouts' investment value in the CEE region decreased by about 65% in 2010 to €660m and the CEE market was less buyout-oriented than the total European market – buyouts accounted for 51% of CEE investment value, compared with 71% in Europe as a whole.
- Growth capital investments went up by almost 50% to €525m, accounting for 41% of the total CEE investment value, while venture capital investments increased by 40% to €66m, 5% of the total for CEE.
- Only 36% of the companies financed in the CEE region were venture-backed companies, compared to a Europe-wide figure of 60%.

Divestment activity

- CEE divestments at cost of initial investment in 2010 (€300m) more than doubled versus 2009 (€132m). This increase compares favourably to a 64% rise in Europe overall.
- Trade sale was the most common exit method by amount divested at cost in 2010 (39% of total), while sales to management came first when ranked by number of companies exited (28% of total).
- Write-offs represented a sizeable portion of divestments measured by amount divested at cost, at 28% of total divestments, in line with the trend in Europe (22%). However, it should be noted this is the first time that write-off's had a material showing in divestments in the CEE region.

3. Fundraising

In 2010, fundraising for the CEE region[1] recovered significantly from the 2009 level, at €645m, a 61% year-on-year increase. In Europe as a whole, fundraising went up by only 13%. However, it should be noted that very few CEE buyout funds went out into the market in 2009 or 2010, and that private equity firms active in the CEE region still generally had sufficient capital to invest after the preceding years of strong fundraising.

CEE fundraising represented 3% of the total funds raised in Europe in 2010, similar to 2008, but down from the 2009 level of 11%. All fundraising in 2010 was made by independent funds, with none by captives.

Figure 1 - Fundraising for CEE private equity, 2003-2010 (in € million)

Source: EVCA/PEREP_Analytics for 2007-2010 data.
EVCA/Thomson Reuters/PricewaterhouseCoopers for previous years' data.
Disclaimer: Data is continuously updated and therefore subject to change.

1 Fundraising for CEE includes funds raised by advisory teams based in the region and funds raised from teams outside the region that are 100% dedicated to the CEE region. The data does not include those funds that may allocate a portion of their capital to CEE but whose primary focus is elsewhere. As the vast majority of private equity funds raised for CEE were for the region as a whole – and not for any specific country – fundraising is presented here as a total pool of capital raised for the region.

The increase in fundraising in 2010 was mainly driven by early-stage and growth capital funds. Close to €110m was raised by early-stage funds, which benefited from the strong support of government agencies (70% of the total raised by early-stage funds). Growth capital funds raised €158m, up from only €6m in 2009. In 2010, less buyout funds were actively raising new capital than in 2009.

As a result buyout funds raised only €143m, 27% below the 2009 level of €197m. Mezzanine fundraising was the most consistent year-on-year, down only 7% to €130m. However, it must be noted that fundraising in the CEE region remains subject to significant annual swings, depending on when CEE fund managers are in or out of the market for new funds. This is particularly true when analysing the categories of funds raised.

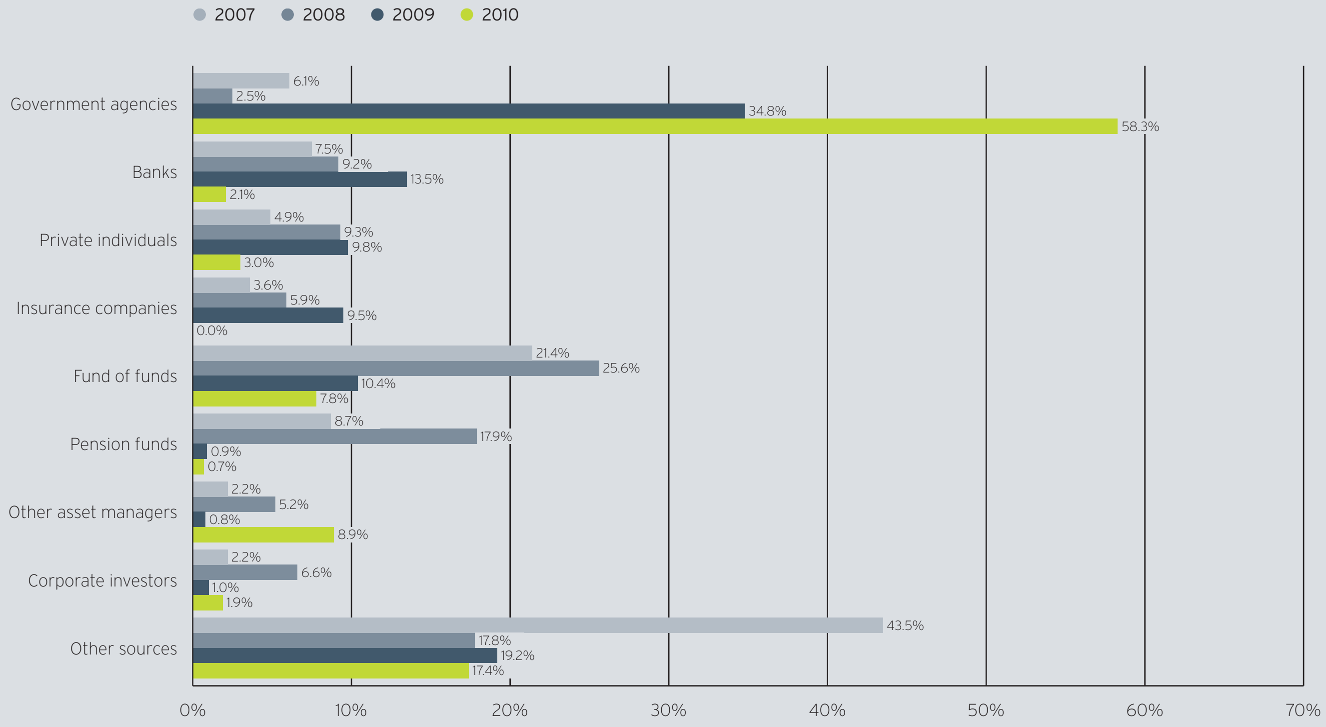
Table 1 - CEE funds raised, 2009-2010 – incremental closings during the year (in € x 1,000)

	2009		2010	
Amounts in € thousands	**Amount**	**%**	**Amount**	**%**
Funds raised by fund stage focus				
Early-stage	12,300	3.1	108,880	16.9
Later-stage venture	26,000	6.5	8,420	1.3
Balanced	13,500	3.4	66,030	10.2
Total venture	**51,800**	**12.9**	**183,330**	**28.4**
Growth capital	6,300	1.6	158,390	24.6
Buyout	197,140	49.2	143,100	22.2
Mezzanine	140,000	35.0	130,000	20.2
Generalist	5,070	1.3	30,000	4.7
Total funds raised	**400,310**	**100.0**	**644,820**	**100.0**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Government agencies, which increased their commitments by 170% compared to 2009 (to €376m), remained the leading source of capital for CEE funds, accounting for more than half of total fundraising sources in 2010. Similar to the wider trend across Europe, commitments from funds-of-funds and pension funds remained extremely low compared to the 2007 and 2008 levels, accounting for 8% and 1% of the total, respectively. Other asset managers became the second-largest source of capital for CEE funds, accounting for 9% of total funds raised in 2010.

Figure 2 - Sources of capital raised for CEE private equity in 2007-2010 (% of total)



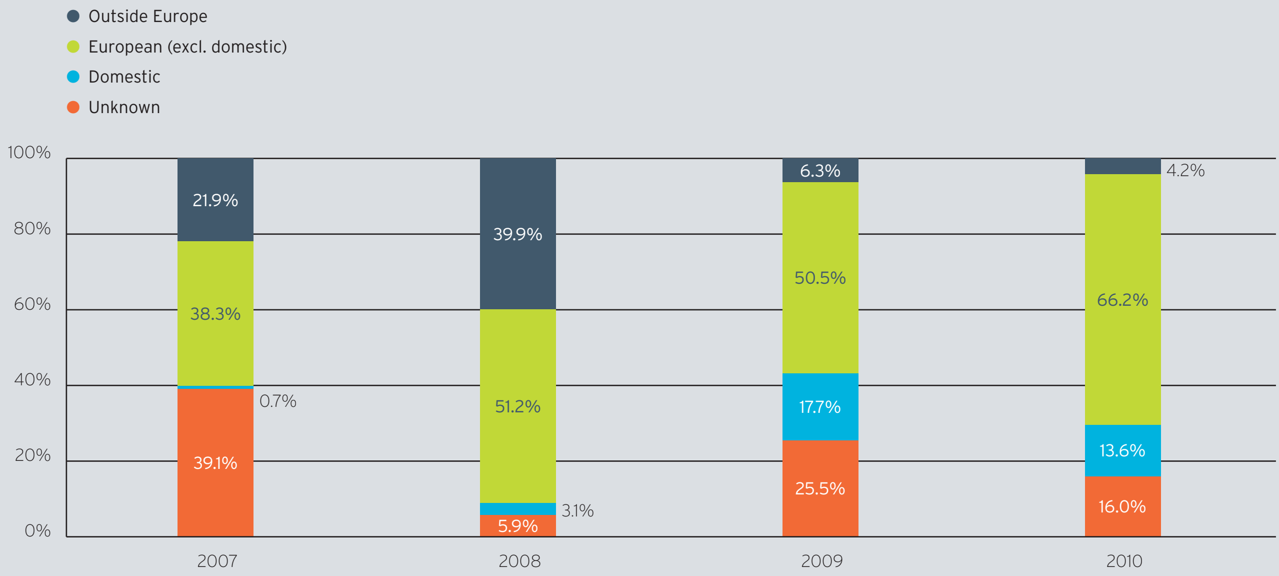
Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

European investors in total (both domestic and non-domestic) continued to grow in importance in 2010, making up nearly 80% of funds raised for CEE private equity funds. Just over 30% of the funds committed by non-domestic European Limited Partners (LPs) came from the UK. The capital raised from LPs located in the CEE region increased in absolute terms to €88m, from €71m in 2009. However, the percentage of funds raised domestically in the CEE region remained far below the average in the overall European market (14% of total in CEE against 46% in Europe). The absolute amounts raised domestically over the past two years is an improvement compared to prior periods and was driven by a mix of local sources, in particular government agencies investing under local programs to promote venture capital, and private individuals (including entrepreneurs).

However, it remains clear that local CEE institutional investors are still absent and not investing in the private equity asset class.

Please note that the percentage of funds raised attributed to domestic sources has been revised downward in years 2007 and 2008 compared to earlier publications[2].

Figure 3 - Geographic sources of funds raised for CEE private equity, 2007-2010 (% of total)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

2 This was due to a re-classification of some fund sources to European non-domestic. Please see methodology section for more details.

Eight funds reached final closings in 2010, up from three in 2009. Most of the funds were venture focused, with one being growth oriented, and no buyout funds. The average size of venture funds that reached a final closing in 2010 was approximately €20m.

Table 2 - Funds raised in 2009-2010 – final closings in the year by independent funds – cumulative amount raised since inception (in € x 1,000)

	2009		2010	
Amounts in € thousands	**Amount**	**Number of funds**	**Amount**	**Number of funds**
Funds raised by fund sectoral focus				
Early-stage	9,100	1	82,020	4
Later-stage venture	0	0	8,420	1
Balanced	0	0	46,030	2
Total venture	**9,100**	**1**	**136,470**	**7**
Growth capital	98,300	1	20,000	1
Buyout	388,290	1	0	0
Mezzanine	0	0	0	0
Generalist	0	0	0	0
Independent funds raised	**495,690**	**3**	**156,470**	**8**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

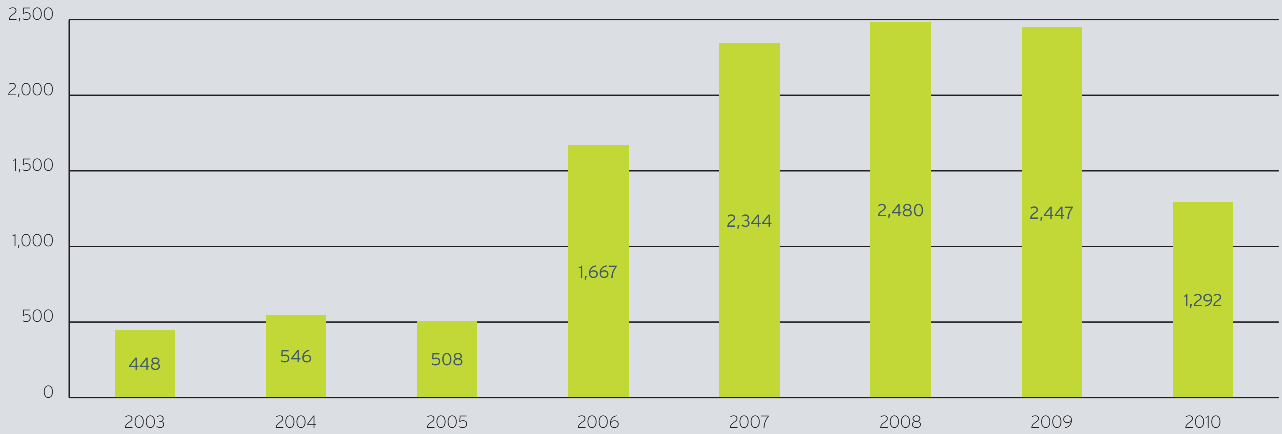
4. Investment activity

Private equity investment in the CEE region in 2010 decreased significantly in value, with €1.3bn invested in the region, down by nearly 50% from more than €2bn in each of the three previous years. It is interesting to compare this to Europe overall, where investment activity increased by some 80% in 2010. Over the past two years, one may observe a lag in investment trends in the CEE region compared to Europe. In 2009, the level of CEE investment was relatively stable despite Europe having declined by nearly 60%.

Altogether, investment activity in the CEE region represented 3% of the total investment value in Europe in 2010, down from 11% in 2009.

Despite the decrease in value of investments, the number of deals completed rose significantly. More than 160 companies received private equity backing in 2010, an increase of about 30% compared to 2009 when 125 companies were private equity financed.

Figure 4 - Annual investment value in the CEE region 2003-2010 (in € million)



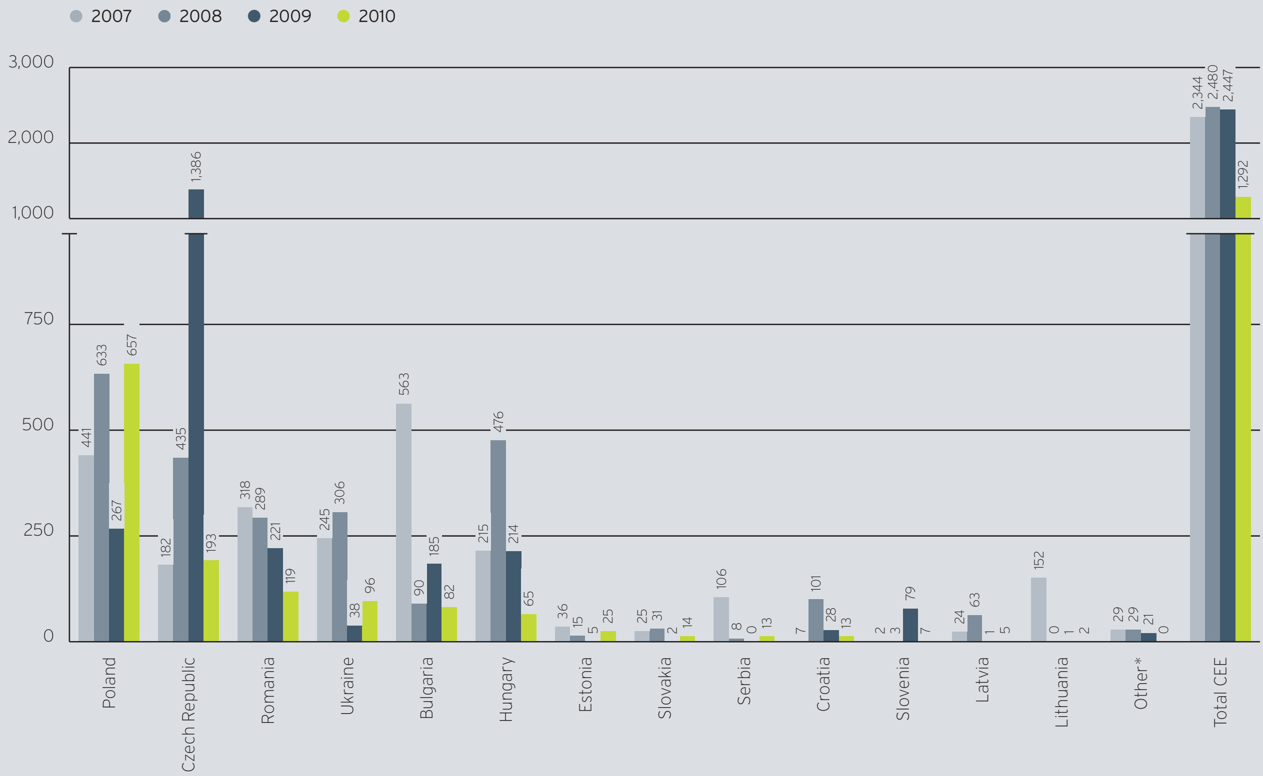
Source: EVCA/PEREP_Analytics for 2007-2010 data.
Thomson-Reuters/PriceWaterhouseCooper for previous' years data.

Similar to previous years, investment activity in the CEE region in 2010 was highly concentrated in the larger countries. Poland, the Czech Republic, Romania, Ukraine, Bulgaria and Hungary together accounted for 94% of the total investment value in 2010 and 68% of the total number of companies financed.

Poland was by far the largest CEE private equity investment market in 2010, accounting for more than half of the total amount invested in the region. It attracted €657m of investment, more than twice the amount invested in Poland in 2009. Nearly 80% of all buyout investments (by value) in CEE took place in Poland in 2010, a major shift from the previous year when the Czech Republic accounted for more than half of the region's buyout activity. A total of 44 Polish companies received private equity investment in 2010, 27% of the total number of companies invested in the CEE region.

The Czech Republic (€193m), Romania (€119m) and Ukraine (€96m) came next in the investment ranking in 2010. The Czech republic experienced a significant decrease in investment value compared to 2009, but the exceptional level of investment recorded in the Czech Republic in 2009 was driven by a small number of large investments, some of which were in companies active not only in the Czech Republic but also across the region. Also, it should be noted that year-on-year changes in the reported investment amounts for other individual CEE countries may be directly affected by a limited number of large transactions as well. What remains clear is that private equity fund managers mostly operate on a regional basis and are ready to complete transactions in those countries where the deals are most attractive.

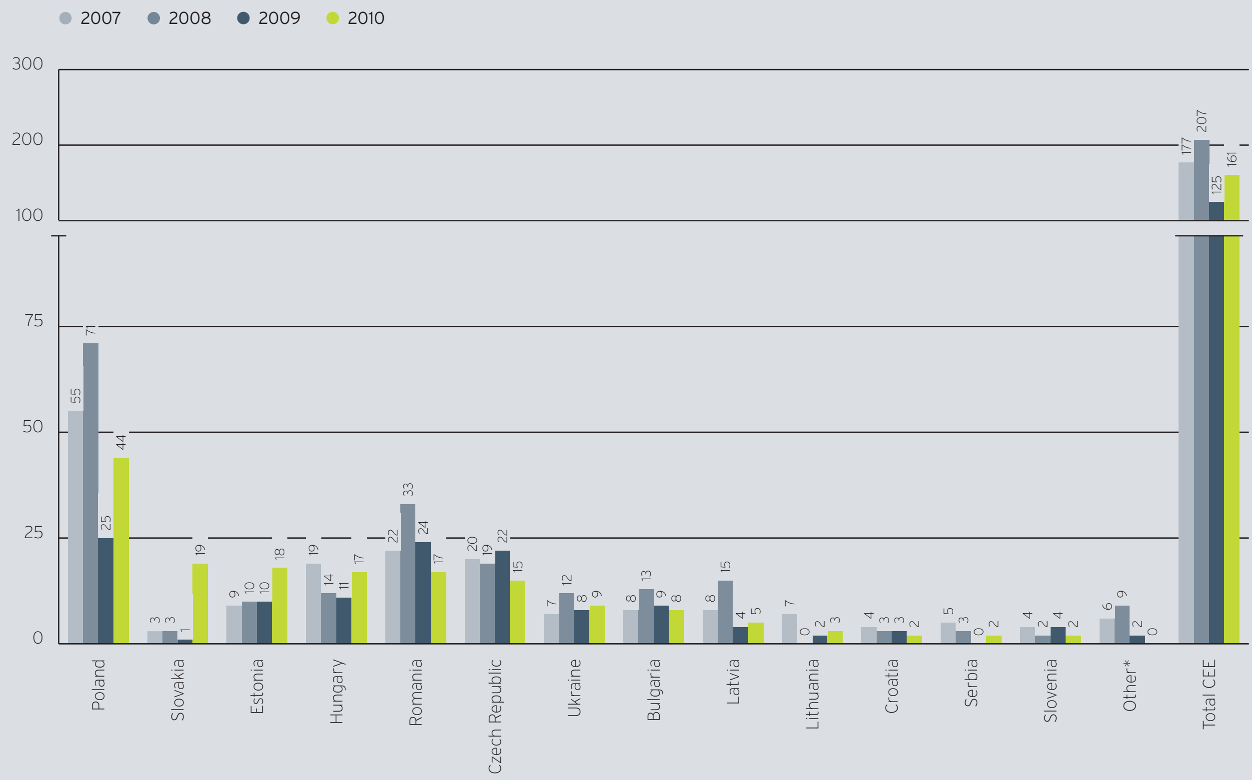
Figure 5 - Annual investments in the CEE region, 2007-2010 (no bank leverage included) (in € million)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.
* Bosnia-Herzegovina, Macedonia, Moldova, Montenegro

Slovakia, which historically saw very few deals completed on a yearly basis, recorded 19 company transactions in 2010, and was the second most active market in the CEE region in this respect. Most of the Slovak companies financed received venture financing (11 companies). Estonia saw a similar level of activity, with 18 transactions closed, of which 12 took place in the venture segment. Nevertheless, the CEE market remained largely buyout & growth oriented, with more than 100 companies financed in the buyout & growth segments.

Figure 6 - Annual investments in the CEE region, 2007-2010 (number of companies)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.
* Bosnia-Herzegovina, Macedonia, Moldova, Montenegro

In terms of sector activity, the area of consumer goods & retail remained the most invested sector in value in 2010 (€319m), despite a sharp decrease from the 2009 level (€865m). Consumer goods & retail accounted for 25% of the total CEE investment amount, while the number of companies from this sector that received financing remained stable (22).

Similar to 2008 and 2009, the communications sector came second by amount in 2010 (€164m), despite a 69% drop in value terms, and represented 13% of total CEE investment value. Life sciences attracted the third-largest amount of investment (€159m), just ahead of financial services (€107m). Overall, 2010 was a year of less sector concentration, with the top five sectors accounting for 65% of investment activity versus 86% in 2009.

Table 3 - Annual investments in CEE by sector, 2009-2010 (in € x 1,000)

	2009		2010	
Amounts in € thousands	**Amount**	**%**	**Amount**	**%**
Sector focus				
Agriculture	82	0.0	43,794	3.4
Business and industrial products	34,235	1.4	47,048	3.6
Business and industrial services	32,921	1.3	71,730	5.6
Chemicals and materials	6,882	0.3	21,822	1.7
Communications	535,664	21.9	164,387	12.7
Computer and consumer electronics	173,598	7.1	97,448	7.5
Construction	16,849	0.7	15,211	1.2
Consumer goods and retail	864,504	35.3	319,001	24.7
Consumer services	24,386	1.0	99,619	7.7
Energy and environment	248,377	10.2	93,692	7.3
Financial services	249,536	10.2	107,487	8.3
Life sciences	210,591	8.6	158,838	12.3
Real estate	45,555	1.9	4,258	0.3
Transportation	0	0.0	47,351	3.7
Unknown	3,858	0.2	0	0.0
Total investment in year	**2,447,036**	**100.0**	**1,291,685**	**100.0**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

In terms of number of companies financed, communications remained at the top of the list, with 26 companies, accounting for 16% of the total. Consumer goods & retail was the second-most-targeted sector, with 22 companies financed (14% of the total).

Table 4 - Annual investments in CEE by sector, 2009-2010 (in number of companies)

	2009		2010	
	Number of companies	%	Number of companies	%
Sector focus				
Agriculture	1	0.8	5	3.1
Business and industrial products	8	6.4	9	5.6
Business and industrial services	6	4.8	11	6.8
Chemicals and materials	3	2.4	4	2.5
Communications	36	28.8	26	16.1
Computer and consumer electronics	12	9.6	16	9.9
Construction	3	2.4	8	5.0
Consumer goods and retail	21	16.8	22	13.7
Consumer services	5	4.0	10	6.2
Energy and environment	9	7.2	9	5.6
Financial services	7	5.6	15	9.3
Life sciences	9	7.2	16	9.9
Real estate	3	2.4	2	1.2
Transportation	0	0.0	8	5.0
Unknown	2	1.6	0	0.0
Total investment in year	**125**	**100.0**	**161**	**100.0**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

In 2010, the ratio of private equity investment value to GDP in the CEE region was 0.119%, only 38% of the Europe-wide average of 0.314%. In 2009, the CEE figure had been exceptionally 30% above the European average. As noted in last year's publication, in 2009 the ratio was greatly affected by exceptional investment levels in the Czech Republic coupled with the sharp decrease in the value of private equity investments in the main European markets as a result of the financial and economic crisis.

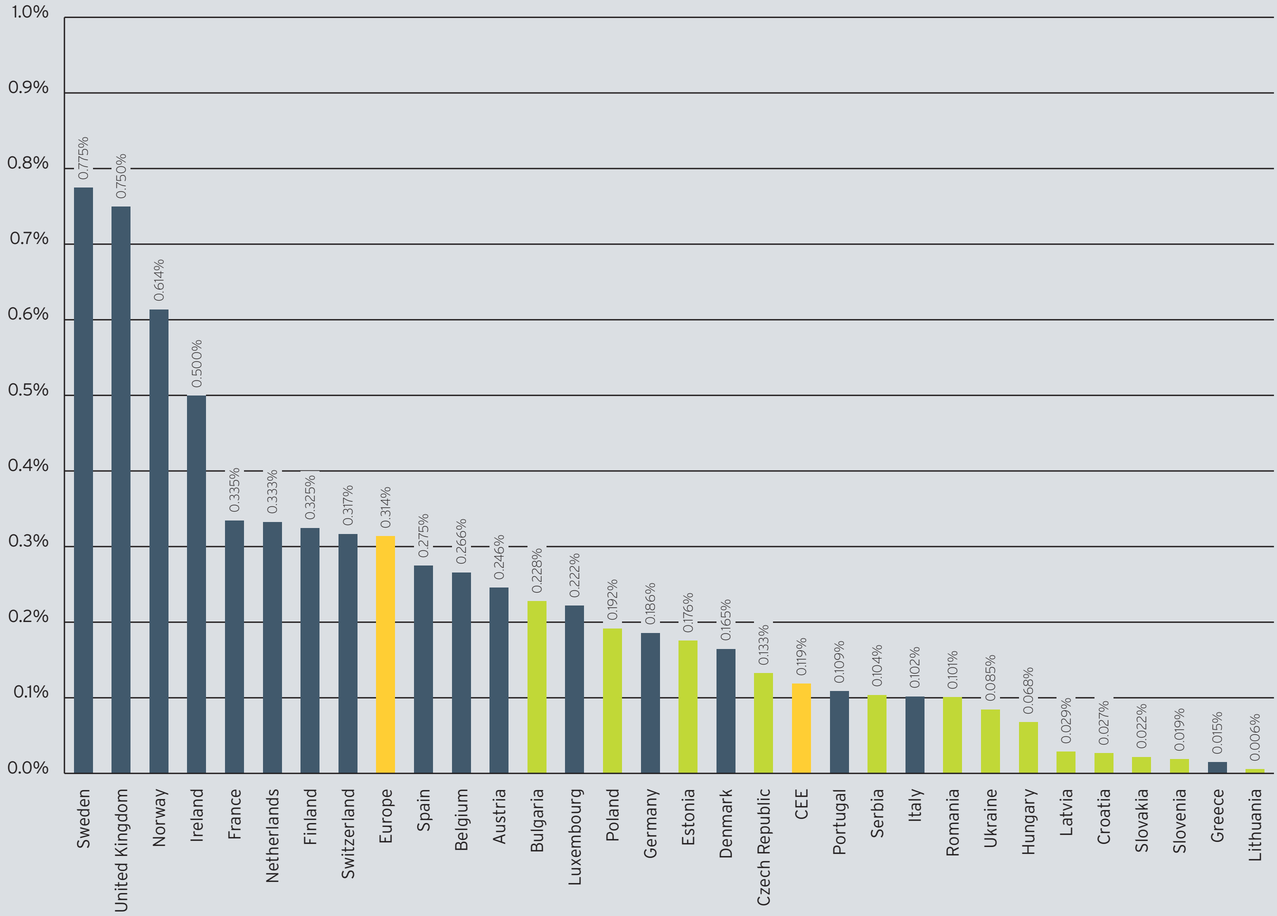
The lower comparative investment to GDP level seen in the CEE region in 2010 is more representative of the historical trend and indicates the continuing potential in the CEE region for further private equity development.

Table 5 - Private equity investment by amount (in € x 1,000) and as a percentage of GDP in CEE, 2009-2010

	Total investment		Investment as % of GDP	
	2009	**2010**	**2009**	**2010**
Bosnia-Herzegovina	6,267	0	0.052%	0.000%
Bulgaria	185,165	82,238	0.530%	0.228%
Croatia	28,154	12,500	0.061%	0.027%
Czech Republic	1,385,776	193,211	1.010%	0.133%
Estonia	4,507	25,461	0.033%	0.176%
Hungary	213,637	65,046	0.223%	0.068%
Latvia	997	5,280	0.005%	0.029%
Lithuania	1,183	1,604	0.004%	0.006%
Macedonia	14,388	0	0.217%	0.000%
Moldova	0	0	0.000%	0.000%
Montenegro	0	0	0.000%	0.000%
Poland	266,994	656,754	0.089%	0.192%
Romania	220,881	119,138	0.187%	0.101%
Serbia	0	13,208	0.000%	0.104%
Slovakia	1,739	14,473	0.003%	0.022%
Slovenia	79,130	6,945	0.224%	0.019%
Ukraine	38,219	95,827	0.045%	0.085%
Total CEE	**2,447,036**	**1,291,685**	**0.241%**	**0.119%**
Total Europe	**23,245,901**	**41,231,931**	**0.186%**	**0.314%**

Source: EVCA/PEREP_Analytics for investment data and Thomson Reuters for GDP data.
Disclaimer: Data is continuously updated and therefore subject to change.

Figure 7 - Private equity investments as a percentage of GDP for Europe, CEE and selected European countries, 2010



Source: EVCA/PEREP_Analytics for investment data and Thomson Reuters for GDP data.
Disclaimer: Data is continuously updated and therefore subject to change.

4. Market segments

In 2010, the total amount invested in buyouts in the CEE region decreased by 65% compared to 2009, to €660m, with the buyouts' share of overall CEE investment dropping from 76% in 2009 to 51% in 2010. At the same time, the amount invested in growth capital went up by almost 50% year-on-year to €525m in 2010, accounting now for 41% of the total CEE investment value.
Venture capital investment increased in the same period by 40% to €66m, accounting for 5% of the total private equity investment in CEE in 2010.

With only 51% of CEE investment directed into buyouts, the CEE market was less buyout-oriented than Europe as a whole, which saw 71% of investment devoted to buyouts. Venture capital investment in CEE (at 5%) remained at a much lower level than in Europe as a whole (9%).
Only 36% of the companies financed in the CEE region were venture-backed companies, compared to a Europe-wide figure of 60%. This once again confirms the continuing existence of a more pronounced "equity gap" in the CEE region than in Europe as a whole, although the recent increased fundraising aimed at the venture segment is expected to start addressing this gap.

Table 6 - Type of investment in CEE and Europe, 2010 (no bank leverage included) (in € x 1,000)

Amounts in € thousands	Total CEE	% of total	Total Europe	% of total
Stage focus				
Seed	3,381	0.3	111,308	0.3
Start-up	27,411	2.1	1,730,420	4.2
Later-stage venture	34,709	2.7	1,671,937	4.1
Total venture	**65,501**	**5.1**	**3,513,664**	**8.5**
Growth	524,730	40.6	6,366,528	15.4
Rescue/Turnaround	4,573	0.4	490,711	1.2
Replacement capital	37,161	2.9	1,734,743	4.2
Buyout	659,720	51.1	29,126,285	70.6
Total 2010	**1,291,685**	**100.0**	**41,231,931**	**100.0**
Total 2009	2,447,036		23,245,901	

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Table 7 - Type of investment in CEE, 2009-2010 (in € x 1,000)

	2009		2010	
Amounts in € thousands	Amount	Number of companies	Amount	Number of companies
Stage focus				
Seed	461	3	3,381	12
Start-up	10,537	19	27,411	33
Later-stage venture	35,935	15	34,709	13
Total venture	**46,933**	**36**	**65,501**	**58**
Growth	354,955	45	524,730	62
Rescue/Turnaround	6,800	3	4,573	2
Replacement capital	170,745	5	37,161	6
Buyout	1,867,604	40	659,720	35
Total	**2,447,036**	**125**	**1,291,685**	**161**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Table 8 - Type of investment by CEE country, 2010 (no bank leverage included) (in € x 1,000)

2010

Amounts in € thousands	Bulgaria	Croatia	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine	Other*
Stage focus														
Seed	0	0	0	786	853	0	0	0	0	0	1,742	0	0	0
Start-up	1,328	300	13,139	3,375	5,761	206	104	1,293	1,904	0	0	0	0	0
Later-stage venture	0	0	9,910	732	11,286	0	0	1,272	10,050	0	330	1,129	0	0
Total venture	**1,328**	**300**	**23,048**	**4,893**	**17,900**	**206**	**104**	**2,565**	**11,954**	**0**	**2,072**	**1,129**	**0**	**0**
Growth	80,910	0	145,017	11,931	6,897	5,074	0	114,454	45,184	13,208	9,346	0	92,711	0
Rescue/Turnaround	0	0	0	0	0	0	1,500	3,073	0	0	0	0	0	0
Replacement capital	0	0	0	3,200	0	0	0	16,145	12,000	0	0	5,816	0	0
Buyout	0	12,200	25,146	5,438	40,249	0	0	520,517	50,000	0	3,055	0	3,116	0
Total	**82,238**	**12,500**	**193,211**	**25,461**	**65,046**	**5,280**	**1,604**	**656,754**	**119,138**	**13,208**	**14,473**	**6,945**	**95,827**	**0**

2009

Amounts in € thousands	Bulgaria	Croatia	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine	Other*
Stage focus														
Seed	0	0	0	451	0	0	0	0	10	0	0	0	0	0
Start-up	1,600	0	0	2,292	1,255	0	145	0	4,170	0	0	900	175	0
Later-stage venture	2,437	0	29,987	0	362	0	0	634	0	0	1,739	776	0	0
Total venture	**4,037**	**0**	**29,987**	**2,743**	**1,617**	**0**	**145**	**634**	**4,180**	**0**	**1,739**	**1,676**	**175**	**0**
Growth	582	14,417	192,027	1,764	956	197	1,038	61,559	67,888	0	0	1,000	7,260	6,267
Rescue/Turnaround	0	0	400	0	0	300	0	6,100	0	0	0	0	0	0
Replacement capital	0	0	139,965	0	8,640	0	0	99	22,041	0	0	0	0	0
Buyout	180,546	13,736	1,023,397	0	202,424	500	0	198,602	126,772	0	0	76,454	30,784	14,388
Total	**185,165**	**28,154**	**1,385,776**	**4,507**	**213,637**	**997**	**1,183**	**266,994**	**220,881**	**0**	**1,739**	**79,130**	**38,219**	**20,655**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.
*Other includes: Bosnia-Herzegovina, Macedonia, Moldova and Montenegro.

6. Exits

The level of CEE divestments at cost of initial investment in 2010 was €300m, more than double the amount in 2009 (€132m), showing improvement after a continuous decrease in 2008 and 2009 from the 2007 peak (€453m). The 127% increase in CEE in 2010 compares favourably to a 64% rise in Europe overall. Altogether, CEE divestments at cost accounted for 1.6% of the total exit value in Europe.

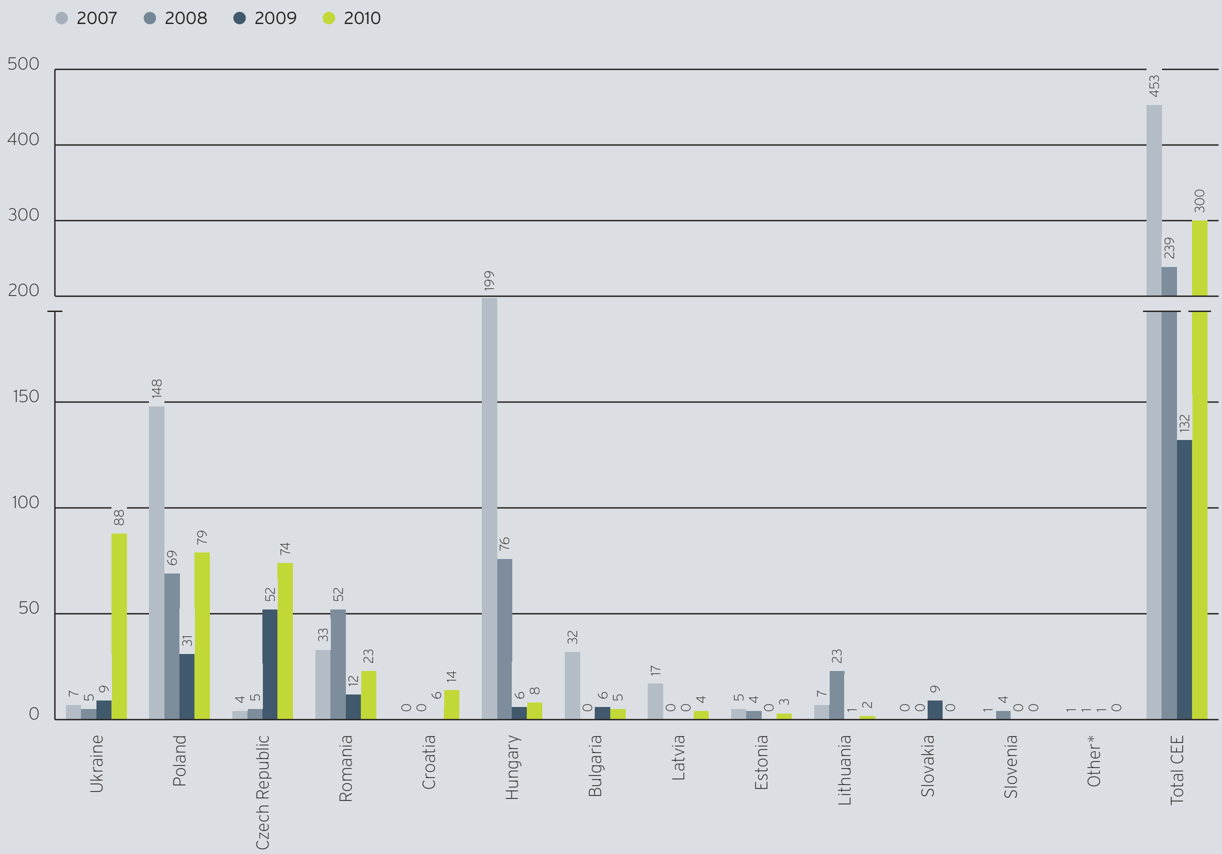
Figure 8 - Annual divestment value in the CEE region 2003-2010 (exit value at investment cost) (in € million)

Source: EVCA/PEREP_Analytics for 2007-2010 data.
EVCA/Thomson Reuters/PricewaterhouseCoopers for previous years' data.
Disclaimer: Data is continuously updated and therefore subject to change.

Ukraine, Poland and the Czech Republic accounted for 29%, 26% and 25% of the amount divested in the CEE region, respectively. A total of 55 companies were exited in 2010, up 45% from 38 companies in 2009, which compares favourably to a 14% rise in the number of companies exited in Europe as a whole.

More than a third of the exited companies were located in Poland, while the Czech Republic and Hungary each accounted for 16% of the total.

Figure 9 - Divestment by CEE country (exit value at investment cost), 2007-2010 (in € million)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.
* Bosnia-Herzegovina, Macedonia, Serbia, Slovenia

Trade sale was the most common exit method by amount divested at cost in the CEE region in 2010 (39% of total), while sales to other private equity firms (the main exit route in overall Europe) accounted for 22% of the total, in line with the average of the previous three years. Divestment by public offering, typically an area where CEE is relatively strong compared to Europe, was near zero percent of exit value in CEE in 2010 whereas in Europe overall it grew significantly to 10% of exit value.

The CEE region historically showed very little in the way of write-offs and had been spared from any significant write-offs since the start of the recent financial crisis (only 1% of divestment value in 2009).

However, in 2010 the region recorded eight write-offs, accounting for 28% of total exit value at investment cost. This was comparable to the average for Europe as a whole over the past two years, which recorded 22% of exits (at investment cost) as write-offs in 2010 and 36% in 2009.

Measuring the relative importance of exit methods by number of companies exited (i.e. not by amount) in 2010 in CEE, sales to management came first with 28% of the total, followed by trade sales with 22% and sales to another private equity house with 21%.

Table 9 - Exits in CEE vs total Europe, 2010 (exit value at investment cost) (in € x 1,000)

Amounts in € thousands	Total CEE	% of total	Total Europe	% of total
Exit route				
Divestment by trade sale	115,496	38.6	4,253,987	22.4
Divestment by public offering	1,493	0.5	1,985,461	10.4
Divestment on flotation (IPO)	*0*	*0.0*	*998,639*	*5.2*
Sale of quoted equity	*1,493*	*0.5*	*986,821*	*5.2*
Divestment by write-off	82,721	27.6	4,084,283	21.5
Repayment of silent partnerships	0	0.0	111,514	0.6
Repayment of principal loans	1,582	0.5	601,576	3.2
Sale to another private equity house	65,039	21.7	6,268,975	32.9
Sale to financial institution	181	0.1	451,562	2.4
Sale to management (MBO)	30,096	10.0	832,796	4.4
Divestment by other means	2,923	1.0	438,466	2.3
Total 2010	**299,531**	**100.0**	**19,028,618**	**100.0**
Total 2009	**131,919**		**11,626,930**	

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Table 10 - Exits in CEE, 2009-2010 (exit value at investment cost) (in € x 1,000)

Amounts in € thousands	2009 Amount	2009 Number of companies	2010 Amount	2010 Number of companies
Exit route				
Divestment by trade sale	16,326	9	115,496	13
Divestment by public offering	17,541	5	1,493	3
Divestment on flotation (IPO)	*3,267*	*1*	*0*	*0*
Sale of quoted equity	*14,274*	*4*	*1,493*	*3*
Divestment by write-off	4,261	3	82,721	8
Repayment of silent partnerships	0	0	0	0
Repayment of principal loans	8,615	4	1,582	3
Sale to another private equity house	21,456	4	65,039	12
Sale to financial institution	53,043	5	181	2
Sale to management (MBO)	7,692	6	30,096	16
Divestment by other means	2,986	6	2,923	1
Total 2010	**131,919**	**38**	**299,531**	**55**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

The most divested sectors in 2010 were energy & environment (€73m), financial services (€63m), consumer goods & retail (€51m) and business & industrial products (€39m). Together, they accounted for more than 75% of the total amount divested at cost. The communications sector saw the greatest number of companies exited, accounting for 27% of the total.

Table 11 - CEE Divestments by sector, 2009-2010 (exit value at investment cost) (in € x 1,000)

	2009		2010	
Amounts in € thousands	**Amount**	**Number of companies**	**Amount**	**Number of companies**
Sector focus				
Agriculture	0	0	0	0
Business and industrial products	19,941	4	39,237	8
Business and industrial services	11,049	2	1,519	2
Chemicals and materials	4,359	2	14,000	1
Communications	17,633	7	33,183	15
Computer and consumer electronics	25,408	5	1,974	2
Construction	0	0	2,110	2
Consumer goods and retail	44,368	8	50,561	7
Consumer services	1,683	3	4,722	5
Energy and environment	152	1	73,200	4
Financial services	4,896	2	62,754	6
Life sciences	448	1	15,952	2
Real estate	1,981	3	0	0
Transportation	0	0	317	1
Unknown	0	0	0	0
Total divestment in year	**131,919**	**38**	**299,531**	**55**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

7. The CEE venture capital market

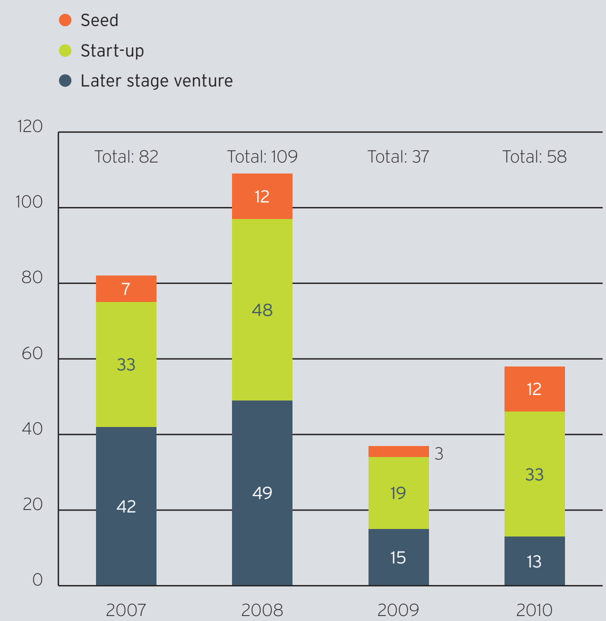
With €66m invested in 58 companies in 2010, the CEE venture capital market accounted for only 2% of total European venture investments by amount and number of companies. Compared to 2009, the value invested in CEE venture went up by 40%, triggered by a sharp increase in start-up venture investments. The number of companies financed in 2010 went up by more than 57%, driven by a 74% increase in the number of start-up companies and a four-fold increase in the number of seed companies financed.

Early-stage (seed and start-up) companies accounted for almost 80% of the total venture companies financed in 2010 in the CEE region, compared to 67% in Europe as a whole. However, the region was much more seed oriented than Europe overall, with 20% of the venture-backed companies receiving seed financing, compared with only 12% in overall Europe. By amount invested, the CEE venture market was slightly more oriented towards later-stage investment than the overall European venture market. Later-stage investments accounted for 53% of total venture investment in CEE compared with 48% in the overall European market.

Figure 10 - CEE venture capital investments by stage, 2007-2010 (amount in € million)

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Figure 11 - CEE venture capital investments by stage, 2007-2010 (number of companies)



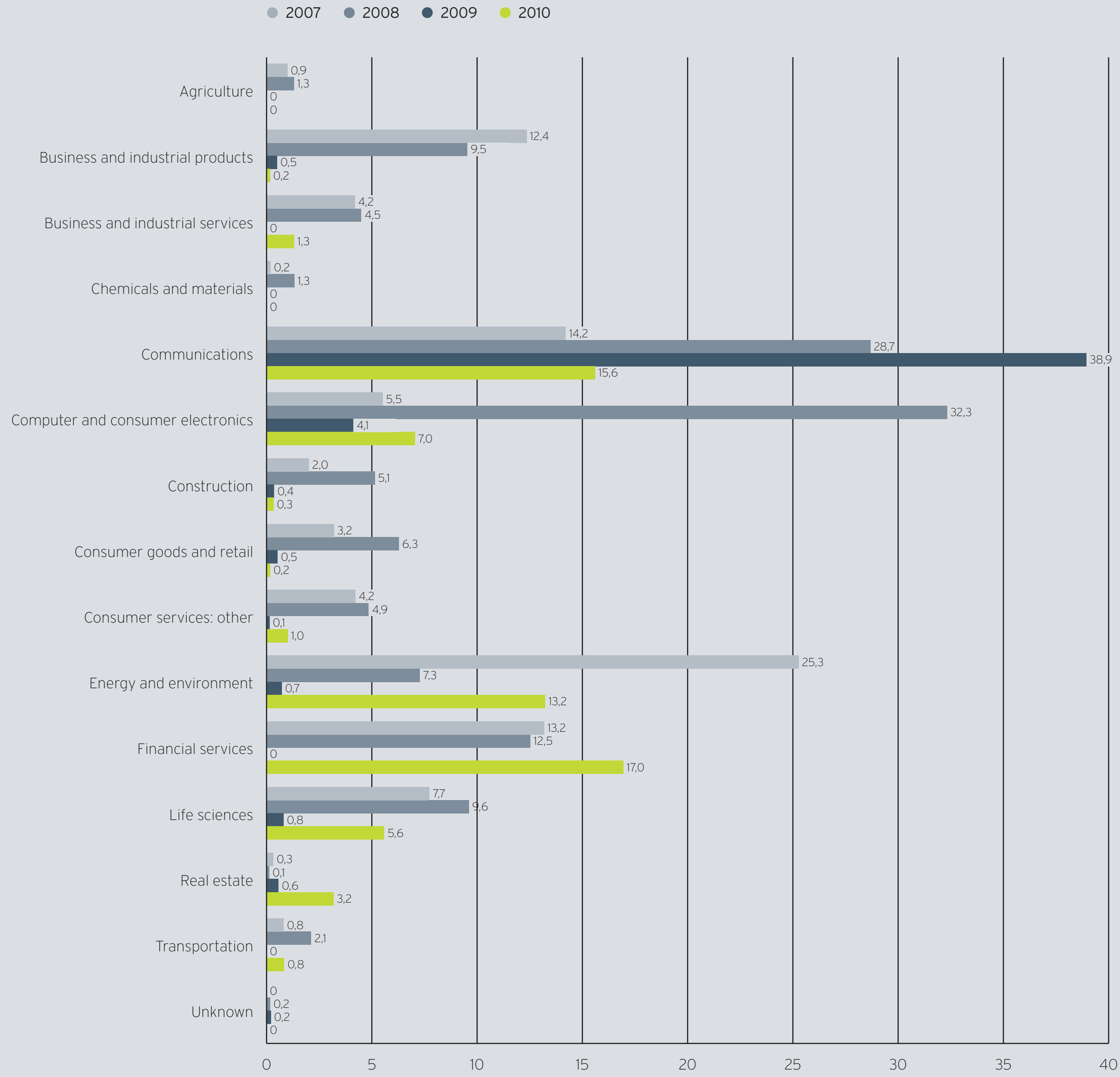
Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

The Czech Republic again topped the list of CEE countries for most venture investment, and alone accounted for 35% of venture investment value in the CEE region in 2010. Hungary came second, with 27% of the total, followed by Romania with 18%. In terms of the number of companies financed, Estonia topped the list, with 12 companies, followed by Hungary and Slovakia (11 companies each).

With €17m (invested across 3 companies), financial services was the most funded in the venture segment in 2010, followed closely by communications (€16m across 14 companies) and energy & environment (€13m across 3 companies).

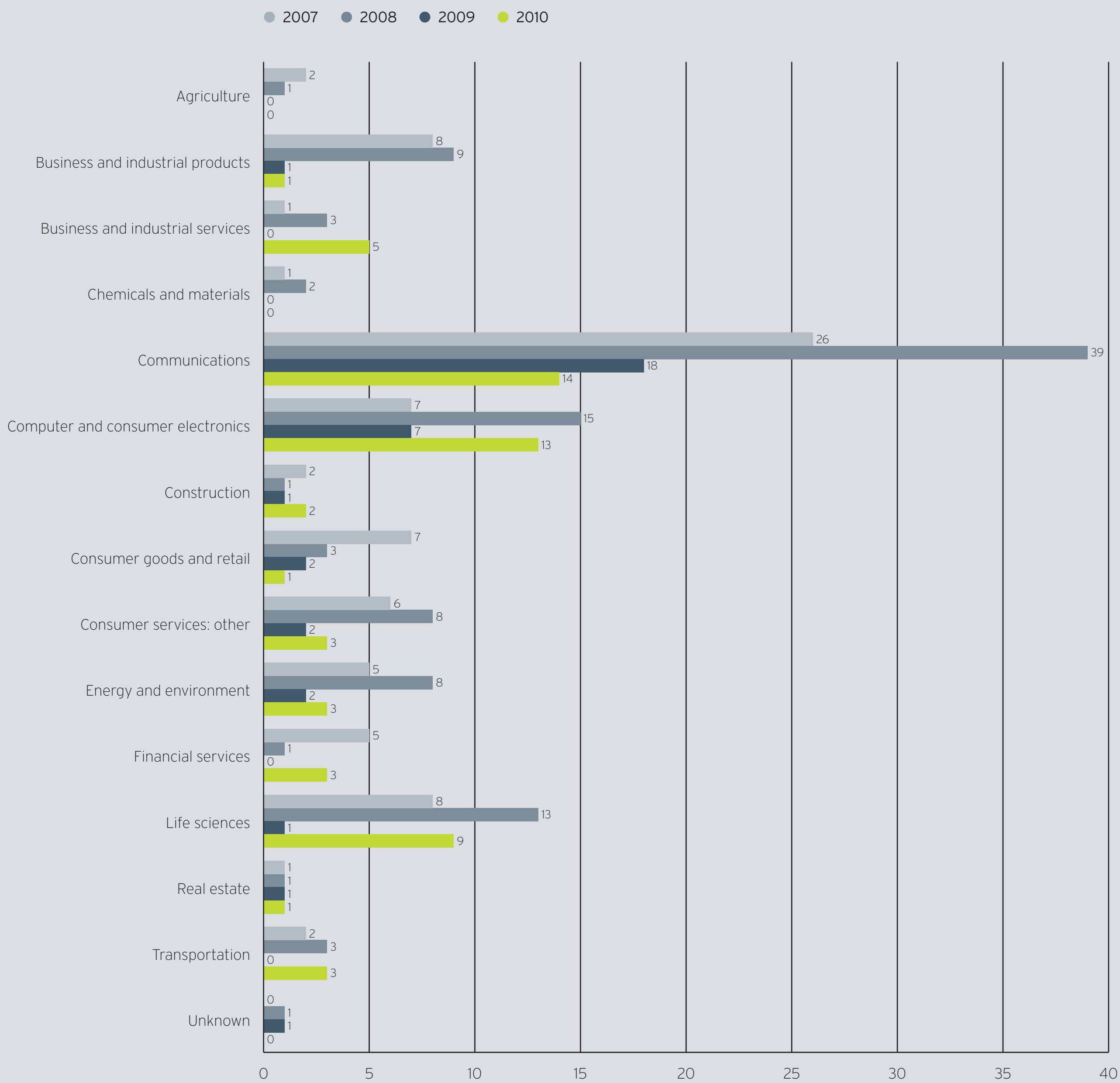
Our partner: **Gide Loyrette Nouel Warsaw Office**

Figure 12 - CEE venture capital investments by sector, 2007-2010 (amount in € million)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Figure 13 - CEE venture capital investments by sector, 2007-2010 (number of companies)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

In 2010, 28 venture-backed companies were exited (accounting for 51% of all CEE companies exited), with a total amount divested at cost of €71m (24% of total CEE divestment at cost). Venture divestments increased by 250% by amount at cost and by 75% in terms of number of companies exited compared to 2009.

Close to 40% of venture divestment at cost in 2010 was accounted for by sales to management, while trade sales accounted for 27% and sales to other private equity houses for 25%. Write-offs accounted for only 6% of total value at cost, compared with 14% in the whole of Europe.

Table 12 - CEE venture capital divestments by stage, 2009-2010 (exit value at investment cost) (in € x 1,000)

	2009		2010	
Amounts in € thousands	**Amount**	**Number of companies**	**Amount**	**Number of companies**
Exit route				
Divestment by trade sale	3,805	4	19,007	2
Divestment by public offering	124	2	1,493	3
Divestment on flotation (IPO)	*0*	*0*	*0*	*0*
Sale of quoted equity	*124*	*2*	*1,493*	*3*
Divestment by write-off	4,261	3	4,138	4
Repayment of silent partnerships	0	0	0	0
Repayment of principal loans	4,000	1	42	1
Sale to another private equity house	585	2	18,023	6
Sale to financial institution	4,363	2	150	1
Sale to management (MBO)	1,757	3	28,298	11
Divestment by other means	1,675	3	0	0
Total divestment in year	**20,569**	**16**	**71,150**	**28**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

8. CEE buyout and growth market

For the purposes of this section, unless otherwise specifically stated, "buyout & growth" refers to buyouts, growth capital, rescue/turnaround and replacement transactions.

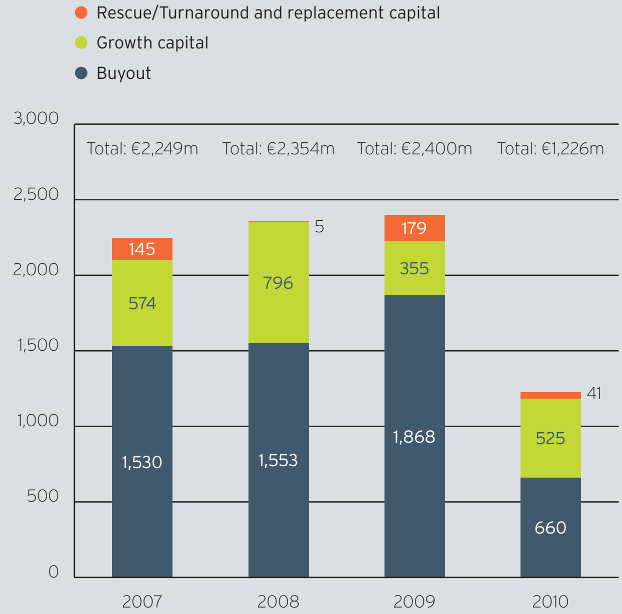
In the CEE region in 2010, €1.2bn was invested across 105 buyout & growth capital companies – half the amount invested in 2009 (€2.4bn), but 12 companies more. By comparison, in Europe as a whole, buyout & growth capital investment in value terms increased two-fold year-on-year in 2010.

Similar to the prior two years, buyout & growth investment accounted for 95% of total investment value in the CEE region. However, in terms of companies financed, buyout & growth's share dropped slightly - from 72% in 2009 to 64% in 2010. This was largely due to the large increase in the number of venture companies financed against a relatively small increase in the number of growth capital and buyout deals.

Looking at the sub-segments of CEE buyout & growth individually, compared to 2009, buyouts in 2010 decreased by 65%, driven primarily by a lack of large and mega transactions, which caused the average buyout deal size to decrease by 60%. Growth capital investment went up in value by 48%, mainly due to a 7% increase in the average growth capital investment size and a 38% increase in the number of growth companies financed. Replacement capital investment went down by 78% to €37m in 2010.

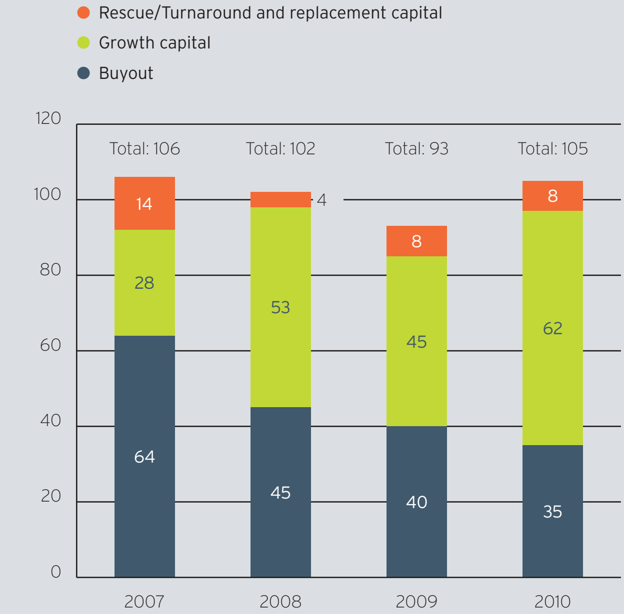
CEE buyout & growth investment in 2010 accounted for 3% of total European buyout & growth investment value, down from 12% in 2009. By number of companies financed, the CEE region accounted for 5% of the companies financed with buyout & growth capital in Europe as a whole in 2010.

Figure 14 - CEE buyout & growth investment by stage, 2007-2010 (amount in € million)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Figure 15 - CEE buyout & growth investment by stage, 2007-2010 (number of companies)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Investment in the CEE buyout & growth capital market in 2010 was concentrated in Poland, which accounted for €654m or 53% of the total value. This was driven by Poland capturing €521m of buyout transactions, or 79% of all buyout investment activity in 2010. The Czech Republic followed as the second largest buyout & growth market in the region in 2010 with 14% of the total investment value, followed by Romania (9%) and Ukraine (8%). In terms of number of companies financed in the buyout & growth segment, Poland came first as well, accounting for 35% of the total, followed by Romania with 13%.

The total transaction value (i.e. including debt and other non-private equity financing) of CEE buyouts in 2010 was €1.1bn, down from €3.4bn in 2009. No large nor mega buyouts took place in 2010 in the region. A large majority of the buyout companies financed (81%) were small buyouts, but most of the equity invested (64%) went into mid-market transactions. The ratio of private equity contribution vs total transaction value for small buyouts was 74%, and only 54% for mid-market deals.

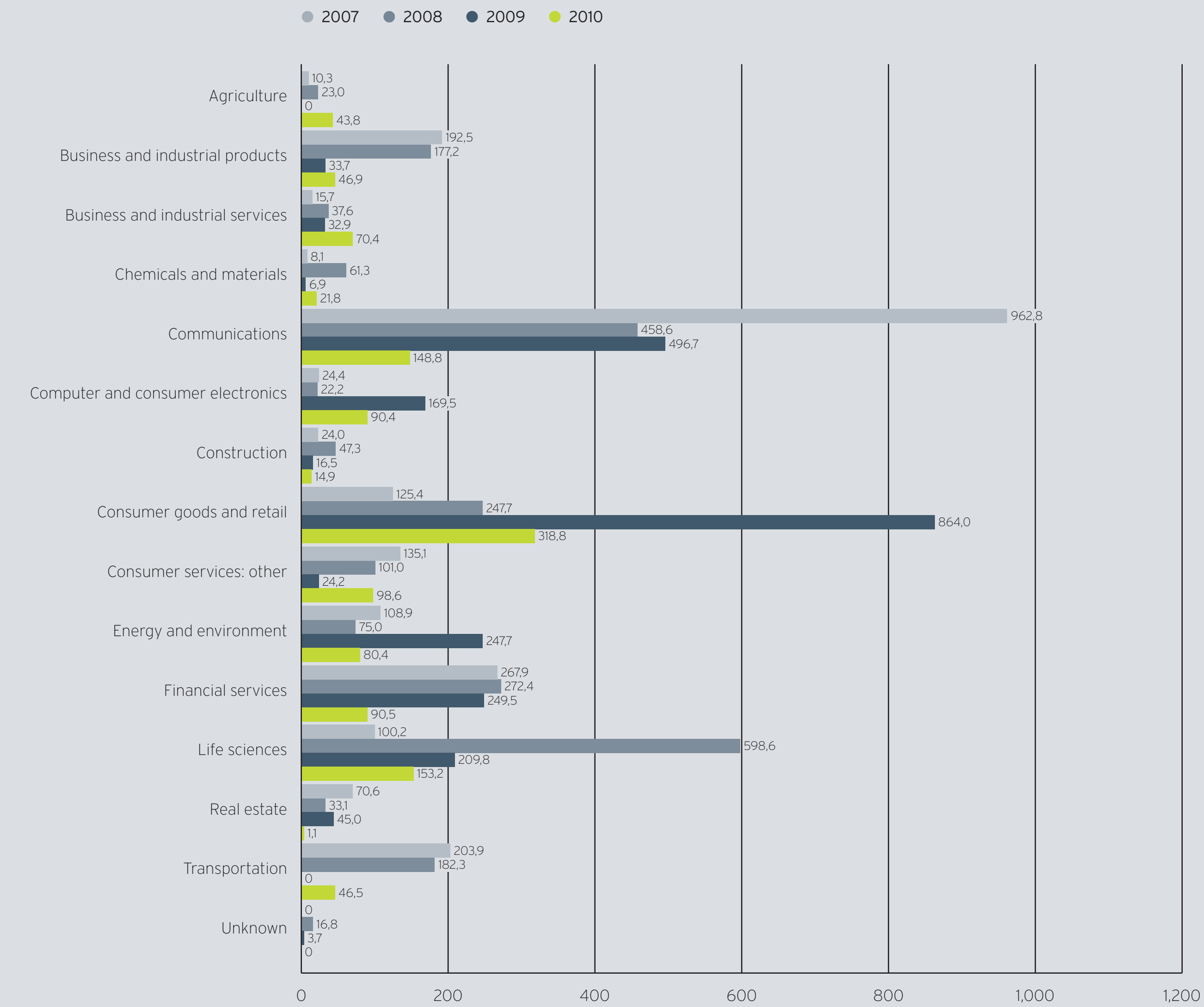
Table 13 - Equity and transaction value by type of buyout in 2009-2010 (in € x 1,000)

Amounts in € thousands	Amount (equity value)	%	Number of companies	%	Transaction value	%	Equity contribution of PE firms (in %)
2010							
Buyout investment size							
Small	238,599	36.2	29	80.6	322,210	29.3	74.1
Mid-market	421,121	63.8	7	19.4	776,136	70.7	54.3
Large and mega	-	-	-	-	-	-	-
Total buyout	**659,720**	**100.0**	**35**	**100.0**	**1,098,346**	**100.0**	**60.1**
2009							
Small	218,475	11.7	30	75.0	318,612	9.3	68.6
Mid-market	729,129	39.0	8	20.0	997,363	29.1	73.1
Large and mega	920,000	49.3	2	5.0	2,110,000	61.6	43.6
Total buyout	**1,867,604**	**100.0**	**40**	**100.0**	**3,425,975**	**100.0**	**54.5**

Source: EVCA/PEREP_Analytics
Note: The difference between the "equity value" and "transaction value" consists of the participation of syndicate members other than private equity firms (i.e. corporates, individuals, financial institutions) and leverage (debt provided by banks or others).

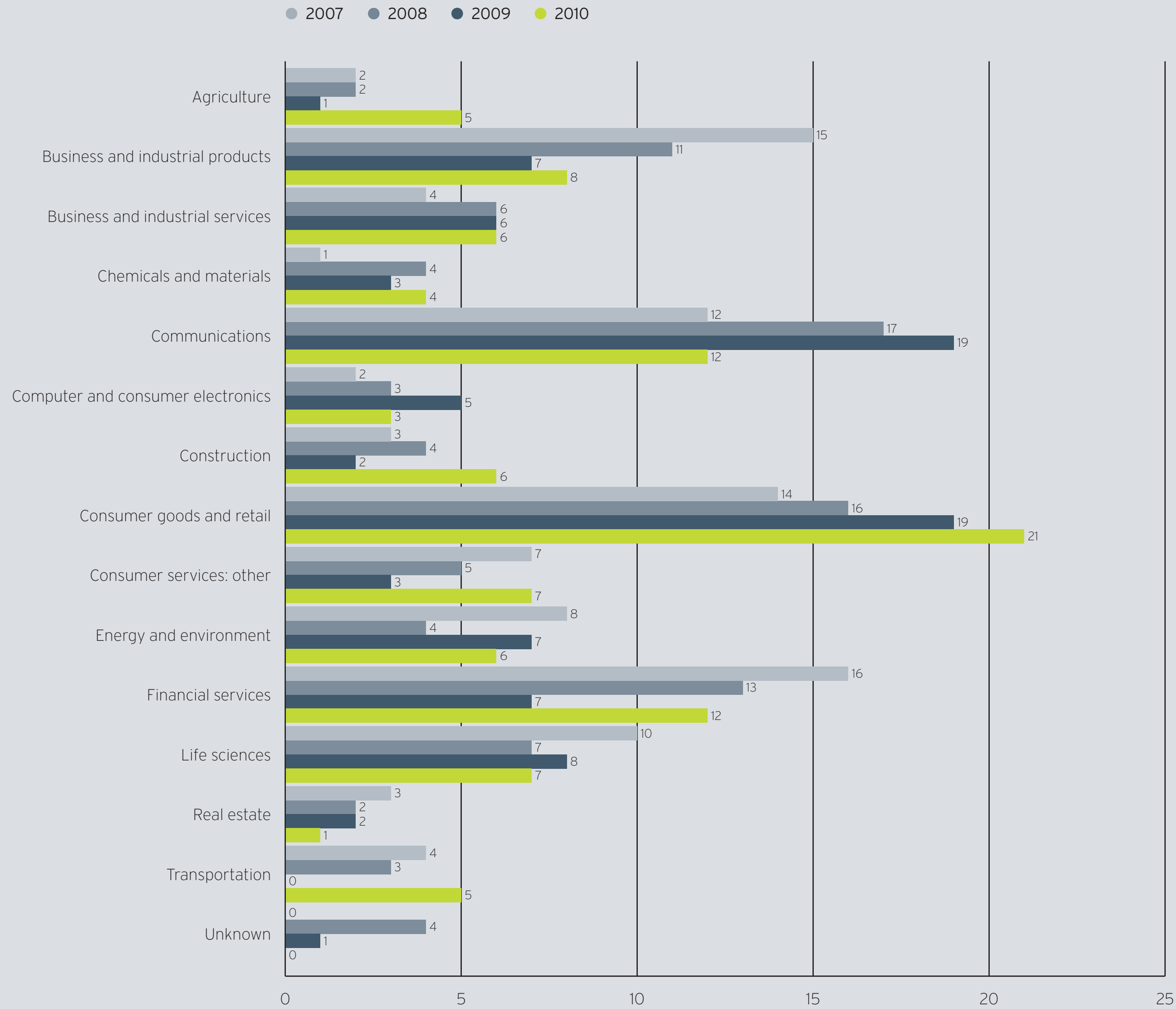
The consumer goods & retail sector attracted 26% of CEE buyout & growth investment (€319m) in 2010, driven by a relatively high number of companies financed (21 or 20% of the total). Life sciences was the second most popular sector, accounting for 13% of total investment value, followed closely by communications with 12% of the total.

Figure 16 - CEE buyout & growth investment by sector, 2007-2010 (amount in € million)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Figure 17 - CEE buyout & growth investment by sector, 2007-2010 (number of companies)



Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

Divestment at cost from companies in the CEE buyout & growth segment more than doubled in 2010, while the number of buyout & growth companies exited went up by 36% (30 in 2010 compared with 22 in 2009). Trade sale was the main exit method, with €96m divested at cost from 11 companies. The buyout and growth segment accounted for 95% of total CEE divestment by write-off in 2010, with four transactions (out of a total of eight in CEE).

Table 14 - CEE Buyout & growth divestment by exit route, 2009-2010 (exit value at investment cost) (in € x 1,000)

	2009		2010	
Amounts in € thousands	**Amount**	**Number of companies**	**Amount**	**Number of companies**
Exit route				
Divestment by trade sale	12,521	5	96,489	11
Divestment by public offering	17,417	3	0	0
Divestment on flotation (IPO)	*3,267*	*1*	*0*	*0*
Sale of quoted equity	*14,150*	*2*	*0*	*0*
Divestment by write-off	0	0	78,582	4
Repayment of silent partnerships	0	0	0	0
Repayment of principal loans	4,615	3	1,541	2
Sale to another private equity house	20,871	2	47,017	7
Sale to financial institution	48,680	3	31	1
Sale to management (MBO)	5,935	3	1,798	5
Divestment by other means	1,310	3	2,923	1
Total divestment in year	**111,349**	**22**	**228,381**	**30**

Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

9. Methodology

Fundraising

As the vast majority of private equity funds raised for CEE were for the region as a whole, and not for any specific country, fundraising is presented in this paper as a total pool of capital raised for the region. Moreover, fundraising is limited to capital raised by funds that have declared CEE to be their target region. The data does not include those funds that may allocate a portion of their capital to the CEE region but whose primary focus is elsewhere.

The funds included in the statistics are:

- private equity funds making direct private equity investments
- mezzanine private equity funds
- co-investment funds
- rescue/turnaround funds

The following funds are excluded from the statistics:

- infrastructure funds
- real estate funds
- distress debt funds
- primary funds-of-funds
- secondary funds-of-funds

Restatement of geographical sources of funds:

Capital raised from an LP located in the same country as the fund it commits to, is usually considered as domestically raised in the EVCA classification. However, the CEE fundraising data includes private equity funds located outside of the region but fully dedicated to the region (e.g.: a UK fund focused on the CEE region). Historically, when such funds raised capital from LPs located in the same country, these funds were recorded as domestic. Starting from 2011, it has been decided to review this methodology and only consider the capital raised from CEE based LPs as domestic funds raised. We believe this gives a more accurate picture of the location of LPs committing to CEE focused funds. The result of this change in methodology was a significant decrease in funds raised domestically in 2007 and 2008, and a strong increase in funds raised from other Europe.

Investments

Investments and divestments are aggregated via two methods – industry statistics and market statistics.

Industry statistics consist of aggregation of the figures according to where the private equity firm investing in a particular company is domiciled. At the European level, this means investments/divestments made by European private equity firms.

Market statistics consist of aggregation of the figure according to where the portfolio company is domiciled. At the European level, this means investments in European companies or divestments from European companies, regardless of the location of the private equity firm.

This report uses only market statistics.

Buyout split

Buyout investments are split into four classes: small, mid-market, large, and mega. In this report, the classification is based on the transaction value of the buyout deals. If two syndication partners invest equity values of €100m and €200m respectively for a total transaction value of €600m, the deal will be classified under large deals with equity value of €300m and transaction value €600m.

Buyout deals	Transaction value (€m)
Small	<50
Mid-market	50 ≤ X <500
Large	500 ≤ X <1,000
Mega	≥1,000

Divestments

Divestment amounts are measured by cost of investment, not actual proceeds.

Number of companies

The number of companies represents a distinct list of entities receiving investments throughout the reporting year. So if a company receives two investments during the year, the number of companies will equal one, but the number of investments will equal two.

In some cases, subtotals and totals may not appear to add up to the same number of companies as individual items in the tables. This can be explained by understanding the issue of counting distinct entities.

So for a company receiving multiple distinct rounds of financing in a year – in this example, a later-stage venture investment of €1m by one investor in January, followed by a management buyout of €20m in November with two investors – the tables would indicate the following:

Stage	Amount	Companies
Later-stage venture	1,000	1
Management buyout	20,000	1
Total investment	21,000	1

The total number of companies invested in corresponds to the number in the "Total Investment" category under "Companies". Because any one company can be recorded under several subcategories, the sum of all subcategories can exceed the number of companies that receive investment. So although the table appears to indicate the total number of companies would be two (one later-stage venture and one buyout) the total is recorded as one. This will only affect counts of companies – it does not affect the amounts – and makes any average more accurate.

The same applies to the total number of venture companies. A venture company receiving both seed and start-up financing would be recorded as one seed company and one start-up company. However, in the total number of venture companies, it would be counted only once.

Data updates

PEREP_Analytics offers private equity market participants the possibility to submit surveys and validate previously populated data captured from public information sources at various stages of time. For example, if a player submits information about a divestment, and the corresponding investment has never been previously reported or captured, the PEREP Analyst will create the investment so that no portfolio company is reflected with negative capital flow in the database. Moreover, some information is disclosed on the website of the private equity players at a later stage, after the cut-off for producing the EVCA Yearbook, and thus is subsequently processed in the database. For all the above reasons, figures may be updated year on year to reflect the latest available statistics for previously released years starting with 2007.

10. Definitions

- **Private equity:** Private equity provides equity capital to enterprises not quoted on a stock market.
  Private equity includes the following investment stages: venture capital, growth capital, replacement capital, rescue/turnaround and buyouts. Private equity funds are pools of capital managed in general as closed-end, fixed-life funds doing primarily equity capital investments into enterprises (i.e. direct private equity funds as opposed to primary or secondary private equity fund of funds) not quoted on a stock market.

- **Venture capital:** Venture capital is, strictly speaking, a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business.

Type of investors (fundraising tables):

- **Corporate investor:** Corporations that produce products (manufacturing companies) or deliver non-financial services. This definition excludes banks, funds-of-funds, insurance companies, pension funds and other asset managers.

- **Endowment:** An institution that is bestowed money (and possibly other assets) via a donation with the stipulation to invest it and use the gains for specific objectives so that the principal remains intact (for perpetuity, for a defined period of time or until sufficient assets have been accumulated to achieve a designated purpose).

- **Family office:** An office that provides services such as investment management and other services (accounting, tax and financial advice etc) to one or several families.

- **Foundations:** A non-profit organisation through which private wealth is contributed and distributed for public purposes (most often charitable purposes). It may either donate funds and support other organisations or be the sole source of funding for its own charitable activities.

- **Fund of funds:** A private equity fund that primarily invests and commits equity to private equity funds.

- **Other asset manager:** Financial institutions (other than bank, endowment, family office, foundation, insurance company or pension fund) managing a pool of capital by investing it across asset classes with the purpose to generate financial returns. This category may include direct private equity funds that occasionally do indirect investments, but excludes funds-of-funds, which are a distinct category.

- **Government agencies:** Country, regional, governmental and European agencies or institutions for innovation and development (including structures such as the EBRD or EIF).

- **Sovereign wealth funds:** state-owned investment fund managing a pool of money derived from a country's reserves. The funding for a sovereign wealth fund (SWF) comes from central bank reserves that accumulate as a result of budget and trade surpluses, and from revenue generated from the exports of natural resources.

Fund stage focuses (fundraising tables):

- **Early-stage fund:** A venture capital fund focused on investing in companies in the early stages of their lives.

- **Later-stage fund:** A venture capital fund focused on investing in later-stage companies in need of expansion capital, usually providing third- or fourth- (or a subsequent) rounds of venture investment.

- **Balanced fund:** A venture capital fund focused on both early-stage and development, with no particular concentration on either.

- **Growth fund:** Funds whose strategy is to invest in or acquire relatively mature companies that are looking for capital to expand or restructure operations; they often provide the first private equity investment in a company.

- **Buyout fund:** A fund whose strategy is to acquire other businesses.

- **Mezzanine fund:** A fund that provides debt (generally subordinated) to facilitate the financing of buyouts, frequently alongside a right to some of the equity upside.

- **Generalist fund:** a funds with either a stated focus of investing in all stages of private equity investment, or with a broad area of investment activity.

Stage definitions (investment tables):

Several financing stages can be identified in relation to the stages of development of a private-equity-backed company:

- **Seed:** Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.

- **Start-up:** Financing provided to companies for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but not sold their product commercially.

- **Other early-stage:** Financing to companies that have completed the product development stage and require further funds to initiate commercial manufacturing and sales. They will likely not yet be generating a profit.

- **Later-stage venture:** Financing provided for the expansion of an operating company, which may or may not be breaking even or trading profitably. Later-stage venture tends to finance companies already backed by VCs, and therefore involves third- or fourth- (or a subsequent) rounds of financing.

- **Growth:** A type of private equity investment – most often a minority investment but not necessarily – in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business. Growth capital tends to be a company's first private equity financing. Additionally, most investments made by buyout funds into venture stages would be defined as growth capital.

- **Bridge financing:** Financing made available to a company for the period of transition between being privately owned and publicly quoted.

- **Rescue/turnaround:** Financing made available to an existing business, which has experienced trading difficulties, with a view to re-establishing prosperity.

- **Secondary purchase/replacement capital:** The purchase of a minority stake of existing shares in a company from another private equity firm or from another shareholder or shareholders.

- **Refinancing bank debt:** An injection of capital to reduce a company's level of gearing.

- **Management buyout:** Financing provided to enable current operating management and investors to acquire existing product lines or businesses.

- **Management buy-in:** Financing provided to enable a manager or group of managers from outside the company to buy in to the company with the support of private equity investors.

- **Public-to-private:** A transaction involving an offer for the entire share capital of a listed target company for the purpose of delisting the company. Management may be involved in the offering.

- **Other PIPE:** A private investment in public equity, as a minority or majority stake, without taking the company private.

- **Other (leveraged) buyout:** Financing provided to acquire a company (other than MBI, MBO, public-to-private or other PIPE). It may use a significant amount of borrowed money to meet the cost of acquisition.

- **Secondary buyout:** A secondary buyout is a form of buyout where both buyer and seller are private equity firms or financial sponsors (ie a leveraged buyout of a company that was acquired through a leveraged buyout). Secondary buyouts differ from secondaries or secondary market purchases which typically involve the acquisition of portfolios of private equity assets, including limited partnership stakes and direct investments in corporate securities.

Mapping the above stages into the five main stages described in this publication leads to the following classification:

- Seed: seed
- Start-up: start-up, other early stage
- Later-stage venture: later-stage venture, bridge financing
- Growth: growth
- Rescue/turnaround: rescue/turnaround
- Replacement capital: secondary purchase/replacement capital, refinancing bank debt
- Buyouts: management buyout, management buy-in, public-to-private, other PIPE, leveraged buyout,

Mapping the above stages into the two main stages – venture and buyout & growth - leads to the following classification:

- **Venture deals:** seed, start-up, later-stage venture
- **Buyout & growth deals:** growth, rescue/turnaround, replacement capital, buyouts

Amounts definition:

- **Equity value:** Stricto sensu, the amount of capital invested to acquire shares in an enterprise. The equity value includes equity, quasi-equity, mezzanine, unsecured debt and secured debt financing provided by funds raised by private equity firms focused primarily on direct investments (including co-investment funds) or incorporated direct private equity firms investing from the balance sheet (evergreen and direct captive private equity programmes).

Sectoral definitions (investment tables):

For a complete picture of the sectoral classification and its mapping to the NACE standardised sectoral classification of Eurostat (NACE Rev. 2, 2007), go to www.evca.eu//uploadedFiles/sectoral_classification.pdf

This link above shows the map between the old EVCA sectors, the new 67 sectors used in the online survey by PEREP, their grouping into the 14 sectoral classes used in the sectoral distribution of investments in the EVCA Yearbook, and their further grouping into the seven sectoral clusters used in the fundraising by fund sectoral focus in the EVCA Yearbook and in this publication.

Divestment methods (divestment tables):

- **Divestment on flotation (IPO):** An initial public offering (IPO) is the sale or distribution of a company's shares to the public for the first time by listing the company on the stock exchange. It is one way a private equity firm can sell its shares and exit an investment.

- **Sale of quoted equity post-flotation:** This relates to the sale of quoted shares only if connected to a former private equity investment, such as the sale of quoted shares after an IPO and lock-up period restricting sales of shares for a defined period of time.

- **Repayment of preference shares/loans:** If a private equity firm provided loans or bought preference shares in the company at the time of investment, then their repayment according to the amortisation schedule represents a decrease of the financial claim of the firm into the company, and hence a divestment.

- **Repayment of silent partnership:** A silent partnership belongs to the so-called mezzanine financing instruments. It is similar to a long-term bank loan but, in contrast to a loan, a silent partnership is subject to a subordination clause, so that in the event of insolvency all other creditors are paid before the silent partner. The company has to repay the partnership and has to pay interest and possibly a profit-related compensation. The subordination clause gives the capital the status of equity despite its loan character. This financing instrument is frequently used in Germany.

- **Sale to another private equity house:** The sale of company shares to another private equity fund.

- **Sale to financial institution:** The sale of company shares to banks, insurance companies, pension funds, endowments, foundations and other asset managers other than private equity firms.

- **Sale to trade buyers:** The sale of company shares to industrial investors.

- **Divestment by write-off:** The total or partial write-down of a portfolio company's value to zero or a symbolic amount (sales for a nominal amount) with the consequent exit from the company or reduction of the share owned. The value of the investment is eliminated and the return to investors is equal or close to -100%.

For more information on the methodology of this report, please contact research@evca.eu.

About Gide Loyrette Nouel Warsaw Office

Gide Loyrette Nouel was one of the first international legal practices to open an office in Poland in 1990. Today, the Firm employs 50 lawyers and tax advisors in Warsaw and is frequently called upon to offer legal support to its local and international clients. With 19 offices around the world, Gide Loyrette Nouel (GLN) prides itself on offering expert international and local advice. GLN Warsaw's clients include financial institutions, banks, insurance companies, investors, real estate developers, public companies and government ministries. The Firm advises some of the top players in Poland including: Enterprise Investors, Abris Capital Partners, Innova Capital, Bain Capital, Deutsche Bank PBC, Bank Zachodni WBK, Bank Gospodarstwa Krajowego, Société Générale, BRE Bank, Pekao S.A., PKO BP, BNP Paribas, DnB Nord Bank, Dalkia (Veolia), Finmeccanica Group, L'Oréal, France Télécom, Telekomunikacja Polska, PGNiG, KGHM Polska Miedz, ArcelorMittal, Unibail-Rodamco, Neinver, EDF, Sita Suez, Bonduelle, Danone, Citroën, Peugeot, Renault.

The Warsaw Office provides a wide range of legal services, including:

- M&A and Corporate law
- Private Equity
- Banking & Finance
- Capital markets
- Energy, Infrastructure & Public law
- Real Estate
- Litigation and Arbitration
- Restructuring and Insolvency law
- Tax law
- Intellectual Property
- Labour law
- Competition law

Expertise and practice areas

Mergers, acquisitions and corporate law

Over the last 18 years, GLN Warsaw has been involved in a large number of transactions: share and asset transactions on the private market, both domestic and international; public tenders and IPOs; private equity deals; LBOs; privatisation transactions; mergers and spin-offs, including cross-border operations.

Banking and finance

The Banking & Finance team has outstanding expertise in complex international financing projects. GLN Warsaw represents Polish and international banks, corporations and financial institutions as lenders, borrowers, issuers, guarantors, arrangers and institutional investors on various structured finance transactions including LBOs, private equity and mezzanine finance deals.

Energy, infrastructure and public law

GLN Warsaw provides legal counsel to the energy and infrastructure sectors in Poland. The Firm regularly advises on privatisations, acquisitions, regulatory issues, energy, gas and commodities trading and infrastructure investment projects (motorways, pipelines, railways, sea terminals, mining operations) as well as on project finance, public procurement and state aid.

Real estate

One of the core activities of the Warsaw Office. The team provides assistance at all stages of real estate-related projects including acquisition, development, zoning and construction, financing, commercialisation, letting out, sale, administrative and regulatory aspects.

Litigation and arbitration

The Firm has extensive experience in handling litigation, arbitration and administrative proceedings and regularly advises on cross-border cases with the support of GLN's International Dispute Resolution team.

Restructuring and insolvency law

GLN represents companies in bankruptcy proceedings and restructuring operations, both domestic and cross-border (including European bankruptcy proceedings). GLN also provides a broad scope of advisory services to Polish and foreign creditors in bankruptcy proceedings against their debtors.

Tax law

GLN Warsaw provides tax advisory services relating to various types of transactions such as mergers and acquisitions, restructurings, deals involving trade in real estate, industrial property and new technologies as well as financial transactions.

Intellectual property

GLN Warsaw provides legal services in trademark law as well as industrial and intellectual property rights, counteracting infringements of copyright and neighbouring rights, combating unfair competition practices, as well as assistance in negotiations and representation in litigation.

Labour law

GLN Warsaw provides legal assistance in employment related issues, including individual employment relationships, the organisation of employment and remuneration systems, establishing personnel policy and drafting internal employment-related legal acts, conducting collective employment-related negotiations and providing advice in employment restructuring and lay-offs.

Competition law

GLN Warsaw advises clients on all matters relating to competition protection, consumer protection law and commercial agreements, including distribution systems with regard to domestic and community law.

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