Central and Eastern Europe Statistics 2011

An EVCA Special Paper
Edited by the EVCA Central and Eastern Europe Task Force

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PEREP_ANALYTICS

GLN
Gide Loyrette Nouel

EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION

Our partner: Gide Loyrette Nouel Warsaw Office

About the EVCA

European Private Equity & Venture Capital Association

The 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.

The EVCA engages policymakers and promotes the industry among key stakeholders, including institutional investors, entrepreneurs and employee representatives.

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

The 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, 2010 and 2011. 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 the EVCA and 19 national and regional private equity and venture capital associations across Europe, of which eight are from the CEE region: CVCA (Croatia), CVCA (the Czech Republic), EstVCA (Estonia), HVCA (Hungary), LTVCA (Lithuania), PSIK (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 2011. Similar statistics for 2010, 2009, 2008, 2007, 2006 and 2005 were published respectively in EVCA's *Central and Eastern Europe Statistics 2010* (published July 2011), *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". Here, information is compiled to show activity in a particular country, regardless of the origin of private equity fund managers, rather than the "industry approach" which shows the activity of fund managers based in a particular country. The 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 from 2007 through 2011 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. In order to ensure highest standards of data quality all data collected through PEREP_Analytics since 2007 was reviewed and if necessary restated.

The foregoing methodology has led to a number of corrections of prior years' data presented in this publication as compared to the previous year's publication. The key areas of correction relate to:

- Deletion of data relating to certain reporting entities that upon further examination cannot be classified as private equity investors (with the most important impact in total investment amounts in 2007 and 2008 being reduced by €143 m and €91m respectively). See methodology for the definition of monitored funds.
- Review of reclassifications of earlier years' transactions into Later Stage Venture and Growth Capital resulted in an increase of venture investments (and decrease of buyout investments accordingly) by €27 and €72 in 2007 and 2008, respectively.
- Change of methodology regarding classification of add-on investments. According to EVCA methodology, an add-on deal (the acquisition of a Company B for the purpose to integrate it into a Portfolio Company A) should be reported as a buyout deal in Company B. Prior to this change, the investment was reported as a growth investment into Company A. The aim of the change in methodology is to reflect the use of the invested capital, which is in this case the acquisition of company B. This way all the market characteristics of company B will be better captured in our annual figures including capital flows to countries and sectors.
- New transactions for previous years have been added, as the information became available after the closing of previous reports.

Due to the continuous updating of the statistics, the reader may find other, less material, changes in historical data compared to prior years' publications. EVCA always recommends readers to use the most recent publication when analysing historical data to ensure the highest level of accuracy.

1. Introduction

Dear colleague,

Europe continues to be challenged by volatile markets, heated debates on austerity policies versus stimulus programs, and questions about policy effects on the overall European economy. Within this picture, Central and Eastern Europe has for the most part fared well over the past year and has proven to be an area of reasonable stability with relative fiscal prudence and continued positive prospects. Following on from the global financial crisis of the past years, the CEE region has in most cases maintained (or in some cases restored) its economic order. Although somewhat recently overlooked by the global LP investor community, the CEE region remains a region with attractive prospects and a compelling convergence story that seems to have been forgotten as other global news events of the day have turned attention elsewhere.
We present this report with the hope that it will help readers once again take note of the potential for private equity in the CEE region.

As this report illustrates in some detail, private equity in the CEE region has demonstrated strength and resilience and the year 2011 was another year of growth and recovery from recent trough seen in 2009. In nearly all key areas, the CEE private equity industry showed positive dynamics in 2011, from fundraising to exits and even including increased levels of venture capital financing. Our statistics indicate that the CEE region (i) is not over-run with excess funding as investment levels exceeded fundraising levels for the third year in a row, (ii) is still under-financed with investments compared to GDP remaining at historically below European-average levels, indicating a structural growth potential, and (iii) that divestments maintain a healthy balance with very few write-offs and secondary transactions. A number of local country-supported programs aimed at closing the "equity gap" have started to show their impact with growing levels of companies receiving venture financing, a major positive for the region's early-stage entrepreneurs. We believe these are noteworthy characteristics and underpin the strong potential of the region.

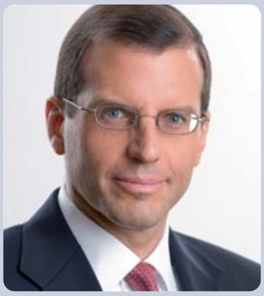
In volatile times, robust private equity and venture capital activity shows the commitment of the CEE region's fund managers to financing promising entrepreneurial companies, to building better enterprises and to adding value in all possible respects. The CEE region has a strong cadre of long-term experienced private equity investment groups, able to understand global impacts on their region, and confident that investors will continue to benefit from the region's positive attributes and prospects. We invite our readers to look deeper into their optimism and we hope this report will help set the proper framework for these discussions.

The EVCA in collaboration with the EVCA Central and Eastern Europe Task Force as well as PEREP_Analytics is pleased to provide this special paper on Central and Eastern Europe private equity and venture capital activity. The purpose of this report lies in increasing the transparency of the region's investment activity, and providing GPs, LPs and advisers with insights into the presence of private equity and venture capital across the whole region.

Best regards,

Dörte Höppner
EVCA Secretary-General

Robert Manz
Chairman of the
EVCA CEE Task Force



2. Executive summary

Fundraising market in the region

- In 2011, fundraising for the CEE region continued the recovery initiated in 2010. The total amount raised was €941m, which represents a 135% increase compared to 2009 and a 48% increase compared to 2010. Aggregated growth over the past two years is similar to the trend for Europe as a whole.
- The 2011 increase in fundraising for the CEE region was driven by buyout funds, which raised €488m, representing 52% of the total amount raised.
- CEE fundraising represented 2.4% of the total funds raised in Europe in 2011.This outcome is less than the 2.9% level in 2010 but similar to 2009.
- Funds of funds emerged as the leading source of funding in 2011, accounting for €241m or 25.6% of total funds raised. Government agencies contributed a significant €133m, or 14% of the total in 2011, but represented a much smaller proportion than in 2010 when this source accounted for €371m or 59% of the total amount raised.
- A government initiative in a single country caused the capital raised from LPs located in the CEE region to increase significantly in absolute terms to €343m, from €82m in 2010. Thanks to this, domestic sources accounted for 36.5% of overall funds raised for CEE in 2011, a first for the region. However, this was driven by a local Croatian government-led initiative that boosted fundraising in Croatia from LPs located in the CEE region to €289m, accounting for 84% of the total 2011 domestic fundraising. Excluding this amount, which is only to be used for investments in Croatia, the level of domestic fundraising would have been 8.3%, in line with the historically very low participations by CEE LPs, and indicating no change in the trend across nearly the whole region.
- The average size of new funds reaching a final closing in 2011 was €27m, 40% higher than in 2010.

Investment activity

- A total of €1,244m was invested in the CEE region in 2011, a slight decrease of 4.6% compared to 2010.
- Investments by value in the CEE region represented 2.8% of the total investment value in Europe in 2011, down from 3.1% in 2010.
- Total investments as a percentage of GDP remained relatively constant for both the CEE region and for Europe as a whole in 2011. The CEE region recorded 0.105% compared to the Europe-wide average of 0.326%. This continues the historical trend of a gap between CEE and Europe overall, and indicates the continuing potential of the CEE region for development of private equity.
- The number of completed deals continued to rise significantly in 2011. 195 companies in the CEE region received private equity backing in 2011, an increase of 17% compared to 2010 when 166 companies were private equity financed. This was driven by an increase in the number of companies receiving venture financing.
- Investment activity was concentrated in the CEE region's larger countries in 2011, similar to previous years. Poland, Hungary, the Czech Republic, Romania and Ukraine together accounted for 92% of the total investment value in 2011 and for 70% of the total number of companies financed.
- Poland alone accounted for the largest share of investments in the region in 2011, similar to 2010. This country attracted €681m or nearly 55% of the total amount invested in CEE, and it was driven by two large buyout deals that accounted for nearly half the invested amount.

- The consumer goods & retail sector received the most investment by value in 2011 with €296m and accounted for 24% of the total CEE investment amount. The communications sector came second by amount (€267m) and life sciences third (€118m). In terms of number of companies financed, the two most active sectors were communications (38 companies) and computer and consumer electronics (35 companies).

- By type of investment, buyouts grew by nearly 20% in 2011 vs. 2010 to €858m and represented 69% of the value of total CEE investment activity. Growth capital investments decreased by almost 45% to €267m or 22% of the total. In total, buyout & growth investments were 91% of the CEE investment activity in 2011, very similar to Europe as a whole at 89%, but with CEE still having a relatively higher proportion of growth capital investments.

- Venture capital investments grew significantly by 57% to account for 7.6% of total investments in CEE in 2011. This represents one of the highest proportions of venture investments in the history of CEE private equity, close to the level recorded in 2008 (8.5%). It was driven primarily by a significant 85% increase in start-up investments. The number of venture financed companies grew to 97, or 49% of all companies receiving private equity investment in CEE in 2011. It is clear that certain countries' programs targeted to close the "equity gap" are starting to have an impact.

Divestment activity

- In 2011, divestments at cost in CEE increased significantly and reached €1,383m, a level three times higher than the previous peak recorded in 2007. This result was driven to a large extent by two large transactions, which comprised an aggregate €1,020m or 74% of the total exit value.

- CEE divestments at cost accounted for 4.7% of the total exit value in Europe, whereas in 2010 CEE accounted for only 1.6% of total European divestments.

- Trade sale was the most used exit route in 2011, accounting for 64% of total amount of divestment at cost, whereas sale to financial institution accounted for 26% of the total. By number of companies, trade sale was also the leading exit method, with 18 companies or 26% of the total 68 companies exited, and repayment of principal loans second with 17 companies or 25% of the total.

- Only two write-offs occurred throughout the year in CEE in 2011, returning to the long-term historical trend of a very low level of write-offs in the CEE private equity industry. By comparison, write-offs accounted for almost 13% of the total amount divested at cost for Europe overall.

- Hungary, the Czech Republic and Poland accounted for 50%, 29% and 13% of the amount divested in the CEE region, respectively, in 2011

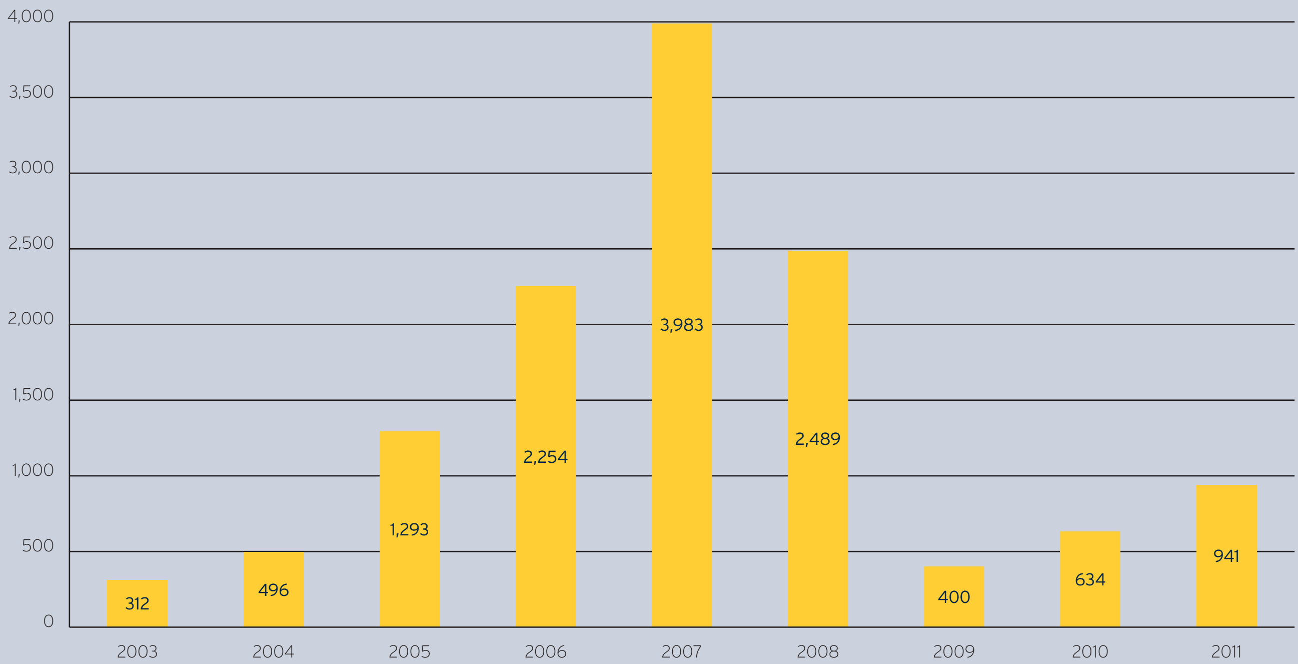
- By sector, the chemicals and materials sector recorded the most divestment by value at investment cost, accounting for 49% of the total for 2011. This was followed by the communications sector, which accounted for 32% of the total.

3. Fundraising

In 2011, fundraising for the CEE region[1] continued the recovery initiated in 2010. The total amount raised in 2011 was €941m, which represents a 48% increase compared to the previous year and a 135% increase compared to 2009. While total European fundraising recorded an 80% increase in 2011, the growth in fundraising for the CEE region aggregated for the past two years was at a similar level to that in Europe as a whole over the same time period. As a result of strong fundraising in the 2006-2008 period, fund managers who had raised funds in that period were mostly not yet back in the market in 2011 with new funds or had not yet reached closings. This is expected to change in the next 2-3 years, although fund managers expect longer time periods to close their funds. The average size of new funds that reached a final closing during 2011 was €27.3m, 40% higher than the previous year.

CEE fundraising represented 2.4% of the total funds raised in Europe in 2011, which is less than in 2010 (almost 3%) but similar to 2009. All fundraising in 2011 was made by independent funds.

Figure 1 - Fundraising for CEE private equity, 2003-2011 (in € million)



Source: EVCA/PEREP_Analytics for 2007-2011 data.
EVCA/Thomson Reuters/PricewaterhouseCoopers for previous years' data.
Disclaimer: Data is continuously updated and therefore subject to change.

1 Fundraising for CEE comprises funds raised by fund managers based in the region as well as funds raised by managers 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.

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Whereas the 2010 increase in fundraising was driven by early-stage and growth capital funds, in 2011 buyout funds and also balanced funds together accounted for 68% of fundraising. More than €488m was raised by buyout funds alone, which was strongly supported by funds of fund investors, who accounted for more than 45% of this amount. Balanced funds raised €156m, which presents a 136% increase from 2010, and was driven primarily by a government-supported initiative in Croatia. Thanks to this, and despite that in 2011 fundraising for early-stage funds was down by 21% compared to 2010, total venture fundraising continued its rising trend in 2011.

Although growth capital fundraising reached only half of its 2010 level, it should be noted that the line between buyout and growth capital funds in the CEE region is often blurred and transactions often combine both forms of investment. Overall, 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 needs to be taken into account particularly when analysing the categories of funds raised.

Table 1 - CEE funds raised, 2010-2011 – incremental closings during the year (in € x 1,000)

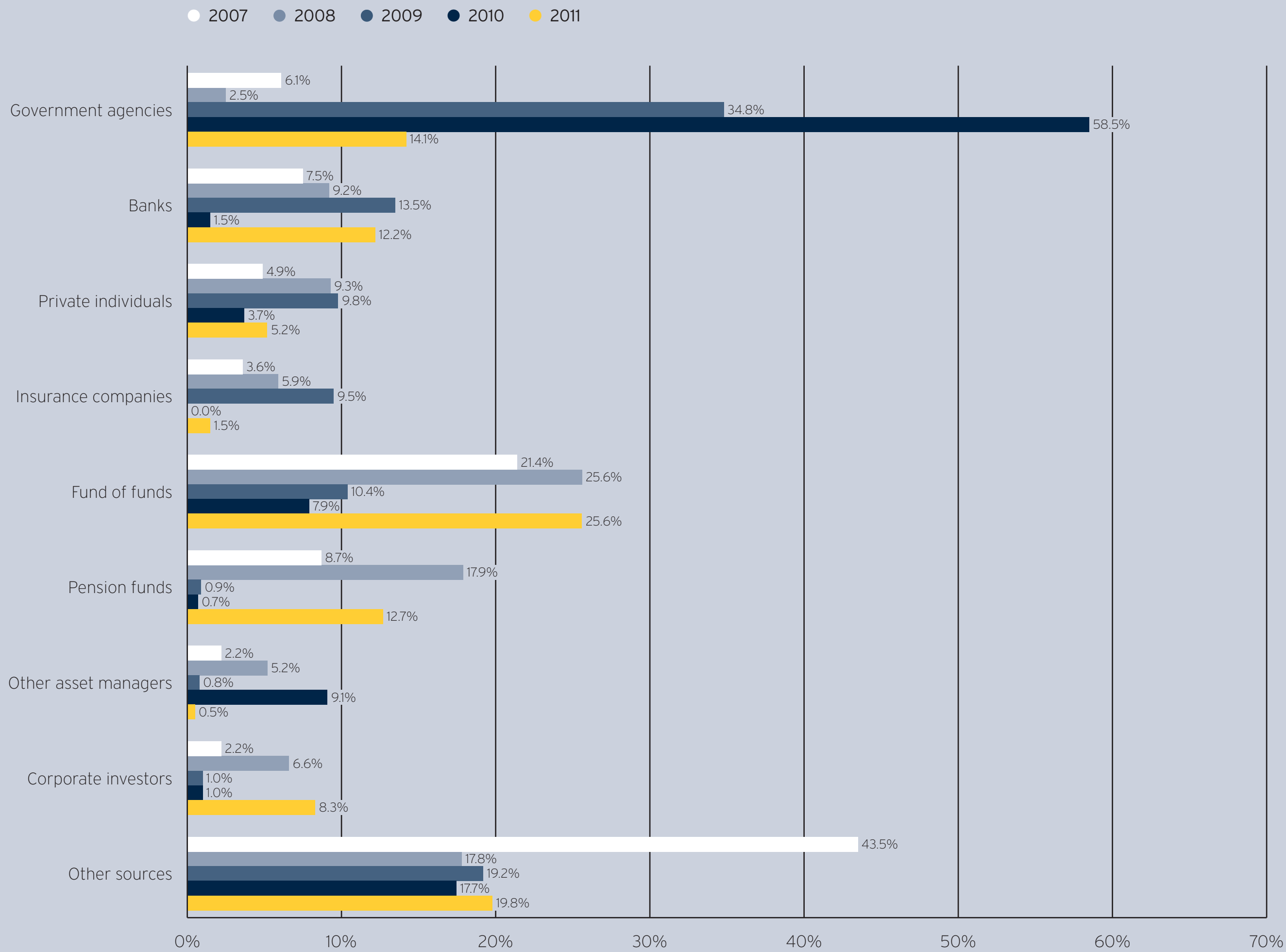
	2010		2011	
Amounts in € thousands	**Amount**	**%**	**Amount**	**%**
Funds raised by fund stage focus				
Early-stage	90,270	14.2	71,020	7.6
Later-stage venture	16,080	2.5	2,460	0.3
Balanced	66,030	10.4	155,590	16.5
Total venture	**172,380**	**27.2**	**229,070**	**24.4**
Growth capital	158,390	25.0	83,300	8.9
Buyout	143,100	22.6	488,280	51.9
Mezzanine	130,000	20.5	140,000	14.9
Generalist	30,000	4.7	0	0.0
Total funds raised	**633,870**	**100.0**	**940,650**	**100.0**

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

In comparison to the 2009-2010 period, government agencies accounted for a significantly smaller proportion of CEE fundraising in 2011, but nonetheless remained the second largest source of capital with 14.1% of total capital raised vs. 58.5 % in 2010. Conversely, funds of funds, pension funds and banks showed significantly increased participation in CEE fundraising in 2011, in percentage terms nearly in line with 2008 levels.

Funds of funds emerged as the leading source of capital for CEE funds, accounting for 25.6% of total fundraising sources in 2011. Pension funds and banks followed with 12.7% and 12.2% of the total, respectively. Finally, corporate investors showed an interest in buyout, growth and balanced funds, once again providing a noticeable amount of capital, with more than 8.3% of the total raised in 2011.

Figure 2 - Sources of capital raised for CEE private equity in 2007-2011 (% of total)

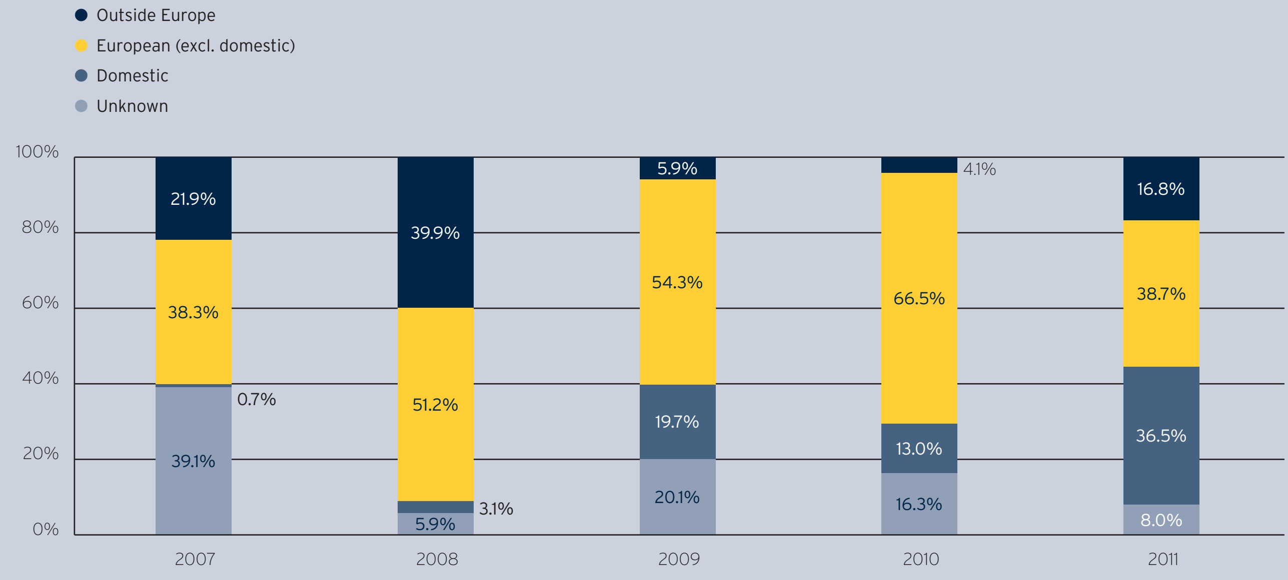


Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

European institutional investors in total (both domestic and non-domestic) continued to be the main source of funds, making up 75% of funds raised for CEE private equity funds in 2011. The capital raised from domestic sources within the CEE region showed a significant increase in absolute terms to €343m in 2011, from €82m in 2010. This was driven by a new government-led initiative in Croatia called "Economic Cooperation Funds" that matches government funding to that of non-government sources from Croatia and the CEE region. It accounted for €289m, or 84% of the total amount of domestic sources. These funds have the restriction to invest only in Croatia.

Other drivers of domestic sources are government-supported programs in Poland and Hungary. Thanks to these efforts, the CEE region as a whole registered 36.5% of total fundraising as coming from domestic sources, a level similar to Europe as a whole at 34.3%. While this level is unprecedented for the CEE region, it is highly concentrated in just one country, and clearly does not reflect any region-wide trend. Excluding the Croatian program, domestic funding sources would have accounted for only 8.3% of total capital raised, a low level in line with historical trends.

Figure 3 - Geographic sources of funds raised for CEE private equity, 2007-2011 (% of total)[2]



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

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

Nine funds reached final closings in 2011, compared to eight in the previous year. As in 2010, most of the funds were venture focused and one fund was growth capital oriented. No buyout funds reached a final closing in 2011, similar to 2010. The average size of venture funds that reached a final closing in 2011 was approximately €27m, compared to €20m in 2010.

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

	2010		2011	
Amounts in € thousands	**Amount**	**Number of funds**	**Amount**	**Number of funds**
Funds raised by fund sectoral focus				
Early-stage	82,020	4	59,730	4
Later-stage venture	8,420	1	10,120	1
Balanced	46,030	2	124,840	3
Total venture	**136,470**	**7**	**194,690**	**8**
Growth	20,000	1	51,300	1
Buyout	0	0	0	0
Mezzanine	0	0	0	0
Generalist	0	0	0	0
Independent funds raised	**156,470**	**8**	**245,990**	**9**

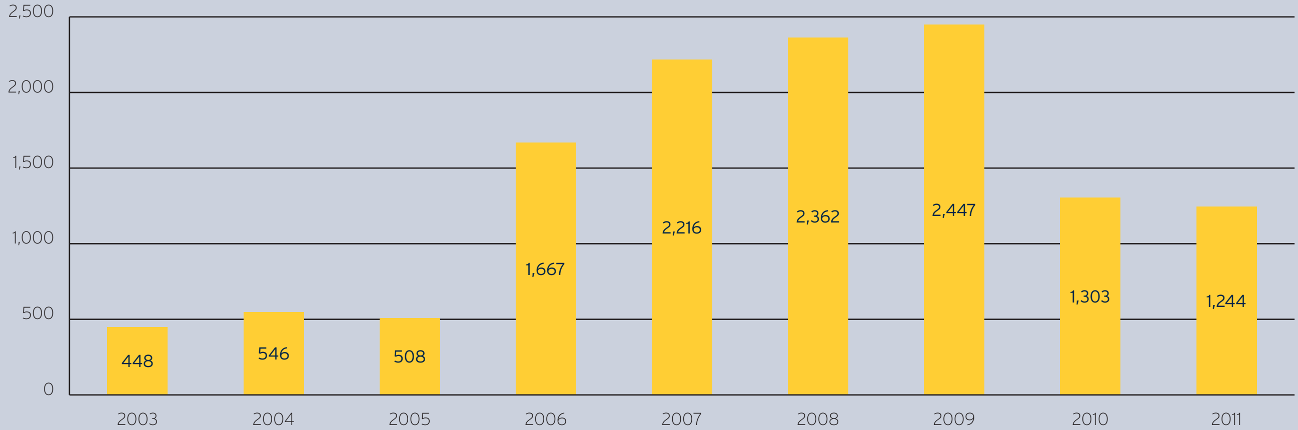
Source: EVCA/PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

4. Investment activity

In 2011, private equity investment in the CEE region was rather stable and only decreased slightly, totalling €1.244bn. This represents a 4.6% decrease in value compared to 2010. During the same period, investment in Europe showed a slight increase of 5.8% to reach €44.1bn. Altogether, investment activity in the CEE region represented 2.8% of the total investment value in Europe in 2011, down from 3.1% in 2010.

Despite the decrease in value of investments, the number of completed deals continued to rise significantly in the CEE region. A total of 195 companies received private equity backing in 2011, an increase of about 17% compared to 2010 when 166 companies were financed with private equity.

Figure 4 - Annual investment value in the CEE region 2003-2011 (in € million)



Source: EVCA/PEREP_Analytics for 2007-2011 data.
Thomson-Reuters/PriceWaterhouseCooper for previous' years data.

As in previous years, investment activity in the CEE region in 2011 was highly concentrated in the larger countries of the region. Poland, Hungary, the Czech Republic, Romania and Ukraine together accounted for 92% of the total investment value in 2011 and 70% of the total number of companies financed.

Poland was again by far the largest CEE private equity investment market in 2011, accounting for nearly 55% of the total amount invested in the region. Polish companies attracted €681m of investment in 2011, a 3.6% increase from 2010 and representing the highest amount in the past five years. This was partly driven by two sizeable buyout deals representing just over half the total investment amount in Poland. Furthermore, nearly 57% of all buyout investments (by value) in CEE took place in Poland in 2011, a tendency initiated in 2010 when most buyout investments already took place in Poland. A total of 57 Polish companies received private equity investment in 2011, 29% of the total number of companies invested in the CEE region.

Hungary (€195m), the Czech Republic (€139m), Romania (€66m) and Ukraine (€63m) came next in the investment ranking in 2011. The value of investments in Hungary grew to almost three times the level of 2010, driven by a nearly four times higher level of buyout investment (in five companies) and a doubling of venture investments. The strong growth in venture deals in Hungary, supported by targeted funding programs, caused the number of companies financed to more than double to 37 in 2011.

In the Czech Republic, after the exceptional level of investment in 2009 that was driven by a very concentrated number of sizeable buyout deals, investments continued to decrease in 2011, dropping 28% in value compared to 2010 and reaching their lowest level since 2007. This was driven by a significant decrease in growth capital and venture investments but countered with an increase of buyout investments compared to 2010. Romania and Ukraine also showed lower levels of investment value in 2011 compared to 2010, with decreases of 45% and 34%, respectively, coming from less capital invested in buyout and growth deals. Investment levels in Bulgaria decreased significantly in 2011, as no large transactions took place during the year. The other smaller countries of the region showed some changes both up and down compared to 2010 but remained stable overall.

It should be noted that year-on-year changes in the reported investment amounts for individual CEE countries may be directly affected by a limited number of large transactions in a particular country. Private equity fund managers in CEE mostly operate on a regional basis and are ready and resourced to complete transactions in those countries where the deals are most attractive.

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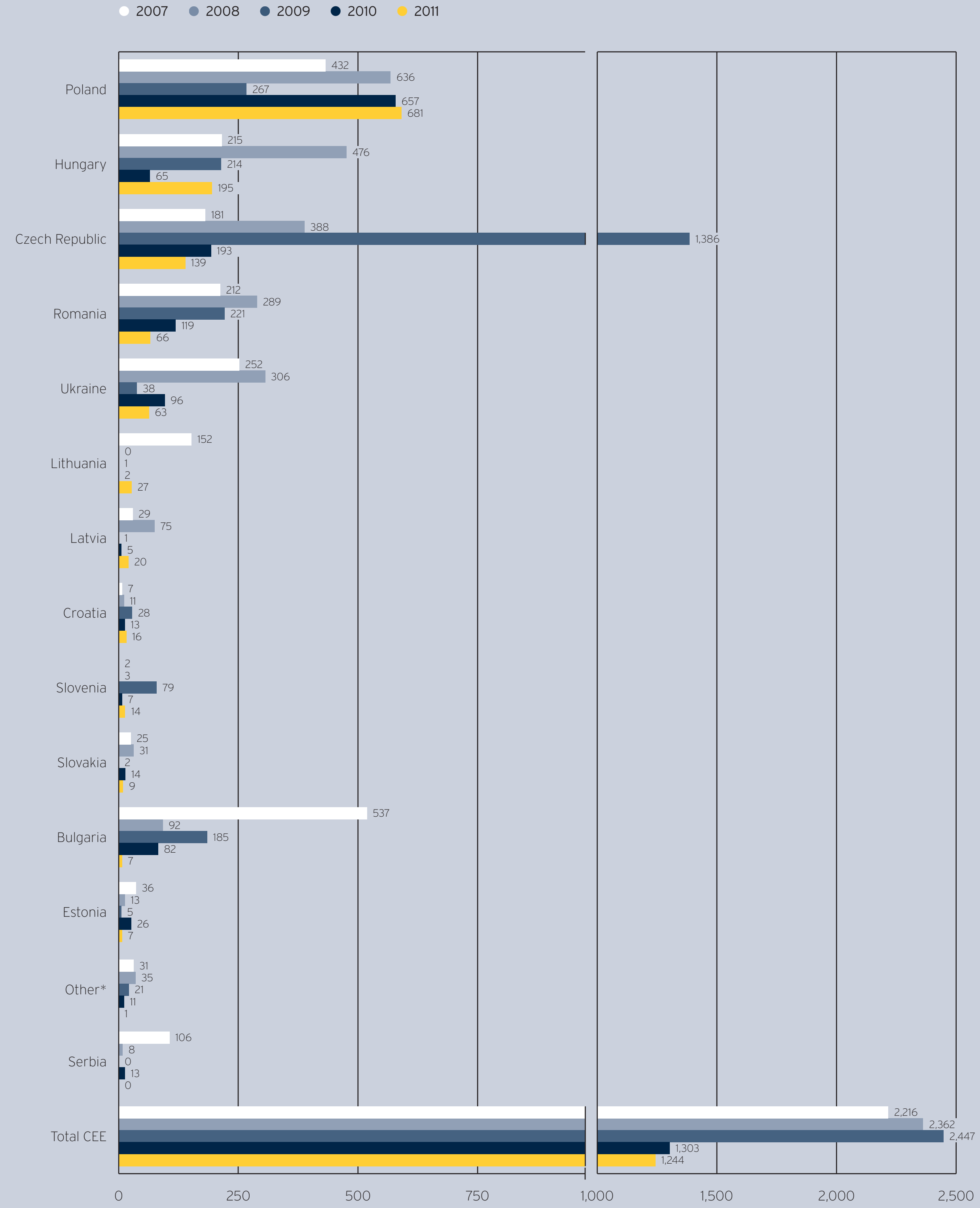
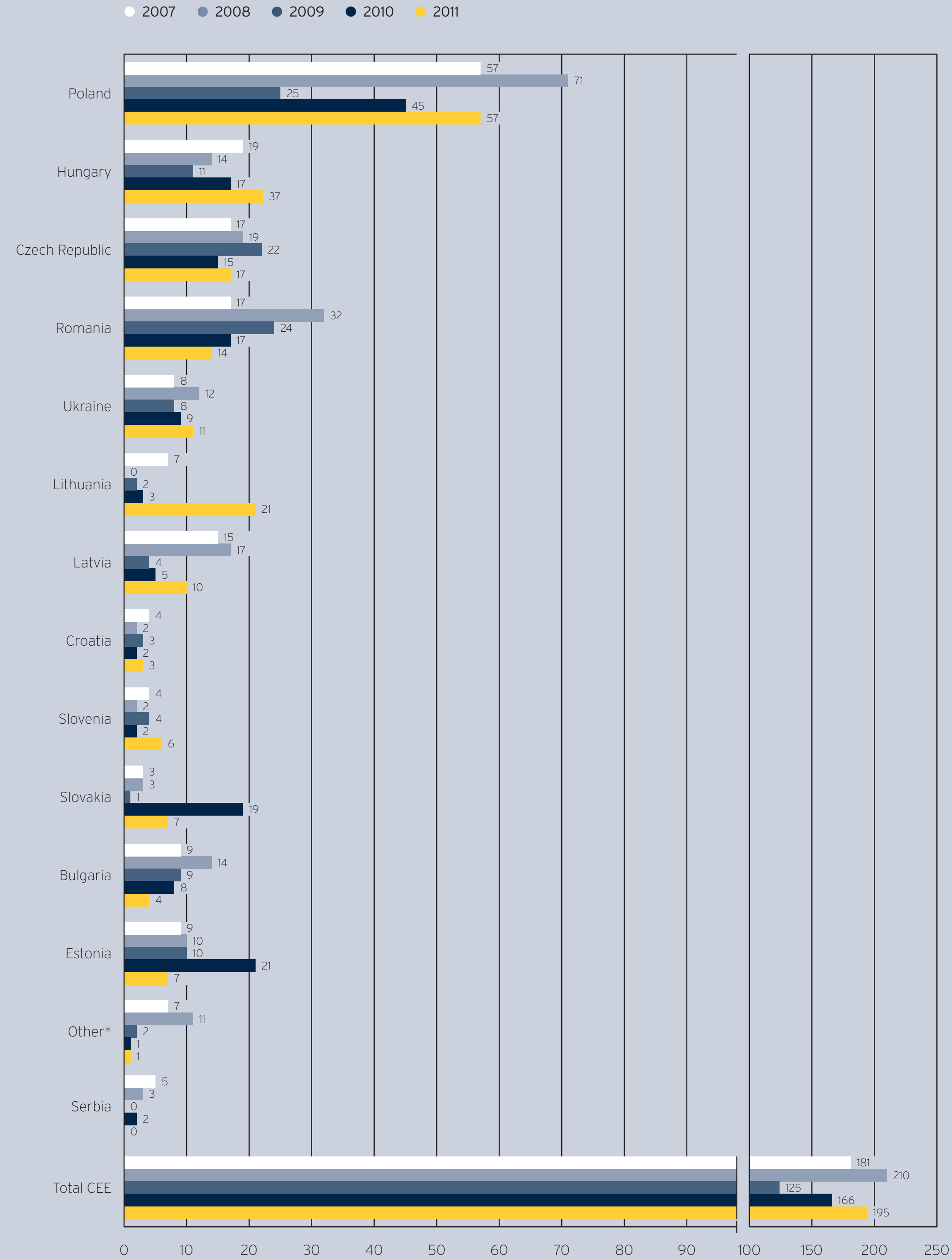
Figure 5 - Annual investments in the CEE region, 2007-2011 (no bank leverage included) (in € million)



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

Figure 6 - Annual investments in the CEE region, 2007-2011 (number of companies)



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

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In terms of the number of companies receiving private equity investments in the CEE region, the growth between 2011 and 2010 was overall driven by an increase of companies receiving venture financing. The total increase year-on-year of a net 29 companies is derived from an increase of 36 venture backed companies and a net decrease of 6 companies receiving buyout and growth investments. The CEE region was therefore showing an almost equal balance in 2011 between venture backed companies (97) and companies benefitting from buyout and growth financing (99).

The countries showing the largest changes in the number of companies subject to private equity investments in 2011 were Hungary (+20 companies year-on-year), Lithuania (+18) and Poland (+12). In the cases of Hungary and Poland, the growth was nearly exclusively led by an increase in venture-backed companies, whereas in Lithuania it was balanced across venture, growth and buyout transactions. Those countries showing the largest decreases in 2011 were Estonia (-14) and Slovakia (-12), both of which were driven by a decrease in venture financed deals.

In terms of sector activity, consumer goods & retail received the most investment by value, just as in 2010. €296m of investments were made in this sector in 2011, a 10% decrease from the €330m recorded in 2010, but still accounting for 24% of total investments in the CEE region. As in the three previous years, the communications sector was second by amount invested in 2011 at €267m, showing a 61 % increase compared to the 2010 level, and comprising 21% of total CEE investments. Despite a 25% decrease from 2010, life sciences still attracted the third largest amount of investment (€118m) in 2011. This was just ahead of business and industrial products (€109m), a sector in which investment grew by 132% in 2011 and accounted for almost 9% of the total amount invested in the CEE region. Investment in the transportation sector also showed significant growth of over 90% in 2011 vs. 2010 to €91m. This sector represented over 7% of the region's total investments.

Table 3 - Annual investments in CEE by sector, 2010-2011 (in € x 1,000)

	2010		2011	
Amounts in € thousands	**Amount**	**%**	**Amount**	**%**
Sector focus				
Agriculture	43,794	3.4	6,721	0.5
Business and industrial products	46,861	3.6	108,845	8.8
Business and industrial services	71,730	5.5	41,021	3.3
Chemicals and materials	21,822	1.7	10,688	0.9
Communications	165,355	12.7	267,043	21.5
Computer and consumer electronics	97,599	7.5	55,680	4.5
Construction	14,906	1.1	30,626	2.5
Consumer goods and retail	330,165	25.3	296,028	23.8
Consumer services	99,619	7.6	68,026	5.5
Energy and environment	93,692	7.2	50,842	4.1
Financial services	107,487	8.2	97,994	7.9
Life sciences	158,838	12.2	118,418	9.5
Real estate	4,258	0.3	0	0.0
Transportation	47,351	3.6	91,436	7.4
Unknown	0	0.0	213	0.0
Total investment in year	**1,303,476**	**100.0**	**1,243,580**	**100.0**

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

In terms of number of companies financed by sector, communications remained at the top of the list, with 38 companies in 2011, accounting for 19.5% of the total. Notably, the computer and consumer electronics sector, which only accounted for 4.5% of total investments by value, was the second-most active sector by number of companies, with 35 financed, representing 17.9% of the total number of companies receiving investments in 2011. This results from a higher level of activity in this sector by venture funds.

Table 4 - Annual investments in CEE by sector, 2010-2011 (in number of companies)

	2010		2011	
	Number of companies	**%**	**Number of companies**	**%**
Sector focus				
Agriculture	5	3.0	3	1.5
Business and industrial products	10	6.0	18	9.2
Business and industrial services	11	6.6	9	4.6
Chemicals and materials	4	2.4	4	2.1
Communications	28	16.9	38	19.5
Computer and consumer electronics	17	10.2	35	17.9
Construction	7	4.2	8	4.1
Consumer goods and retail	24	14.5	18	9.2
Consumer services	10	6.0	11	5.6
Energy and environment	9	5.4	17	8.7
Financial services	15	9.0	12	6.2
Life sciences	16	9.6	14	7.2
Real estate	2	1.2	0	0.0
Transportation	8	4.8	5	2.6
Unknown	0	0.0	3	1.5
Total investment in year	**166**	**100.0**	**195**	**100.0**

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

In 2011, the ratio of private equity investment value to GDP in the CEE region was 0.105% compared to the Europe-wide average of 0.326%. Total investment as a percentage of GDP remained relatively constant for both Europe overall and the CEE region in comparison to 2010, with the CEE level at approximately one third of the European level. This gap is in line with the historical trend of the CEE region's investment levels and indicates the region's long-term potential for further private equity development.

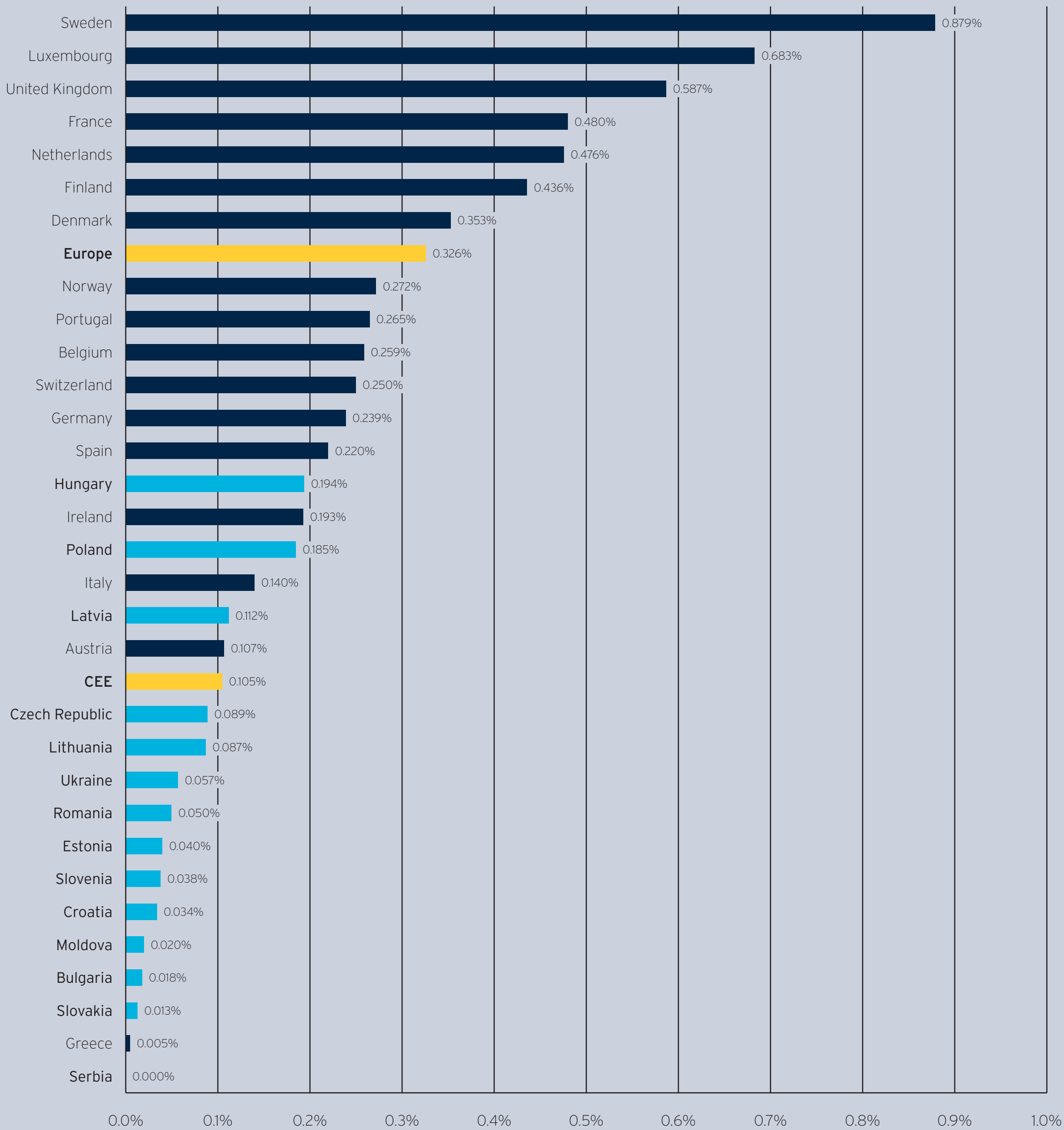
Poland and Hungary, each with just under 0.2% of investment vs. GDP in 2011, both significantly exceeded the CEE region's average. However, neither came close to the Europe-wide average, despite being the most active investment countries during the year.

Table 5 - Private equity investment by amount (in € x 1,000) and as a percentage of GDP in CEE, 2010-2011

	Total investment		Investment as % of GDP	
	2010	**2011**	**2010**	**2011**
Bosnia-Herzegovina	0	0	0.000%	0.000%
Bulgaria	82,238	7,225	0.229%	0.018%
Croatia	12,500	15,625	0.027%	0.034%
Czech Republic	192,973	138,906	0.124%	0.089%
Estonia	26,382	6,508	0.184%	0.040%
Hungary	65,046	194,856	0.067%	0.194%
Latvia	5,280	20,222	0.029%	0.112%
Lithuania	1,604	26,671	0.006%	0.087%
Macedonia	0	0	0.000%	0.000%
Moldova	10,860	975	0.243%	0.020%
Montenegro	0	0	0.000%	0.000%
Poland	657,002	680,627	0.186%	0.185%
Romania	119,138	65,918	0.098%	0.050%
Serbia	13,208	0	0.045%	0.000%
Slovakia	14,473	9,149	0.022%	0.013%
Slovenia	6,945	13,589	0.020%	0.038%
Ukraine	95,827	63,309	0.092%	0.057%
Total CEE	**1,303,476**	**1,243,580**	**0.115%**	**0.105%**
Total Europe	**41,689,066**	**44,093,204**	**0.320%**	**0.326%**

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, 2011



Source: EVCA/PEREP_Analytics for investment data and Thomson Reuters for GDP data.
Disclaimer: Data is continuously updated and therefore subject to change.
By country of destination of investment.
GDP figure from Serbian Statistical Office.

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5. Market segments

Buyout investments in the CEE region in 2011 grew by almost 20% compared to 2010 and reached €858m. As a share of overall CEE private equity investment, buyouts increased from 55% in 2010 to 69% in 2011. The other main shift in the structure by type of investment is the nearly 45% decrease of the amount invested in growth capital investments, from €482m in 2010 to €267m in 2011. This resulted in growth capital investments dropping from 37% of total investment to only about 22%. During 2011, it was highly notable that total venture capital investments increased by more than 57% compared to 2010 both by amount and number of backed companies, reaching €94m invested in 97 companies. The growth in venture amount invested was primarily driven by an 85% increase in start-up financings, followed by a 34% increase in later-stage venture investments. By number of companies, both start-up and later-stage venture showed significant increases in 2011, growing 76% and 142%, respectively.

A significant portion of this growth was seen in Poland and Hungary. It was clear in 2011 that these countries' targeted efforts to fill the "equity gap" were starting to show effect.

In 2011, the CEE region's structure of investment by type more closely matched Europe overall than in previous years. Buyouts remained the most prevalent segment, with 69% of total investments in CEE vs 77% in Europe overall. Venture, at 7.6% of total investments in CEE, was nearly the same as 8.3% in all of Europe, and a proportion similar to the peak level achieved in 2008 of 8.5%. Where CEE remained ahead of Europe was in growth capital investments, with CEE at 22% vs. 12% in Europe. This is logical as many CEE private equity fund managers seek to finance growth companies and it is likely that growth capital will remain above average in the region.

Table 6 - Type of investment in CEE and Europe, 2011 (no bank leverage included) (in € x 1,000)

Amounts in € thousands	Total CEE	% of total	Total Europe	% of total
Stage focus				
Seed	4,256	0.3	162,155	0.4
Start-up	52,513	4.2	1,795,104	4.1
Later-stage venture	37,439	3.0	1,705,149	3.9
Total venture	**94,209**	**7.6**	**3,662,408**	**8.3**
Growth	267,284	21.5	5,096,498	11.6
Rescue/Turnaround	1,923	0.2	392,224	0.9
Replacement capital	21,770	1.8	854,749	1.9
Buyout	858,394	69.0	34,087,325	77.3
Total 2011	**1,243,580**	**100.0**	**44,093,204**	**100.0**
Total 2010	**1,303,476**		**41,689,066**	

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

By companies, in 2011 CEE's buyout & growth investments segment accounted for 51% of the total companies receiving private equity investment, compared to 39% for Europe overall. Conversely, 49% of total companies were venture-backed in CEE in 2011 compared to 61% in all of Europe.

Table 7 - Type of investment in CEE, 2010-2011 (in € x 1,000)

	2010		2011	
Amounts in € thousands	**Amount**	**Number of companies**	**Amount**	**Number of companies**
Stage focus				
Seed	3,552	15	4,256	9
Start-up	28,409	34	52,513	60
Later-stage venture	27,844	12	37,439	29
Total venture	**59,805**	**61**	**94,209**	**97**
Growth	482,217	63	267,284	59
Rescue/Turnaround	4,573	2	1,923	1
Replacement capital	37,161	6	21,770	2
Buyout	719,720	36	858,394	40
Total	**1,303,476**	**166**	**1,243,580**	**195**

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

Table 8 - Type of investment by CEE country, 2010-2011 (no bank leverage included) (in € x 1,000)

2011

Amounts in € thousands	Bulgaria	Croatia	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine	Other*
Stage focus														
Seed	0	0	0	137	3,445	0	0	674	0	0	0	0	0	0
Start-up	100	5,625	2,713	1,192	27,388	2,450	546	10,697	0	0	0	1,802	0	0
Later-stage venture	324	0	2,783	0	9,198	403	2,185	15,281	4,000	0	0	0	3,266	0
Total venture	**424**	**5,625**	**5,496**	**1,329**	**40,031**	**2,853**	**2,731**	**26,652**	**4,000**	**0**	**0**	**1,802**	**3,266**	**0**
Growth	6,801	0	7,733	4,200	494	1,500	10,294	162,856	31,763	0	9,149	4,920	26,600	975
Rescue/Turnaround	0	0	0	0	0	0	0	1,923	0	0	0	0	0	0
Replacement capital	0	0	0	0	0	3,270	0	0	18,500	0	0	0	0	0
Buyout	0	10,000	125,678	979	154,331	12,600	13,646	489,196	11,654	0	0	6,867	33,443	0
Total	**7,225**	**15,625**	**138,906**	**6,508**	**194,856**	**20,222**	**26,671**	**680,627**	**65,918**	**0**	**9,149**	**13,589**	**63,309**	**975**

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	957	853	0	0	0	0	0	1,742	0	0	0
Start-up	1,328	300	13,139	4,125	5,761	206	104	1,541	1,904	0	0	0	0	0
Later-stage venture	0	0	9,910	732	11,286	0	0	1,272	3,185	0	330	1,129	0	0
Total venture	**1,328**	**300**	**23,048**	**5,814**	**17,900**	**206**	**104**	**2,813**	**5,089**	**0**	**2,072**	**1,129**	**0**	**0**
Growth	80,910	0	84,779	11,931	6,897	5,074	0	114,454	52,049	13,208	9,346	0	92,711	10,860
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	85,146	5,438	40,249	0	0	520,517	50,000	0	3,055	0	3,116	0
Total	**82,238**	**12,500**	**192,973**	**26,382**	**65,046**	**5,280**	**1,604**	**657,002**	**119,138**	**13,208**	**14,473**	**6,945**	**95,827**	**10,860**

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

6. Exits

CEE divestments, measured at historical investment cost, increased significantly in 2011 and reached a level three times higher than the previous peak recorded in 2007. In 2011 exits were €1,383m at cost, compared to €297m in 2010. The result in 2011 was, however, to a large extent driven by two large transactions, which comprised an aggregate €1,020m or 74% of the total exit value.

Altogether, CEE divestments at cost accounted for 4.7% of the total exit value in Europe, compared to just 1.6% of overall European divestments in 2010.

Figure 8 - Annual divestment value in the CEE region 2003-2011 (exit value at investment cost) (in € million)

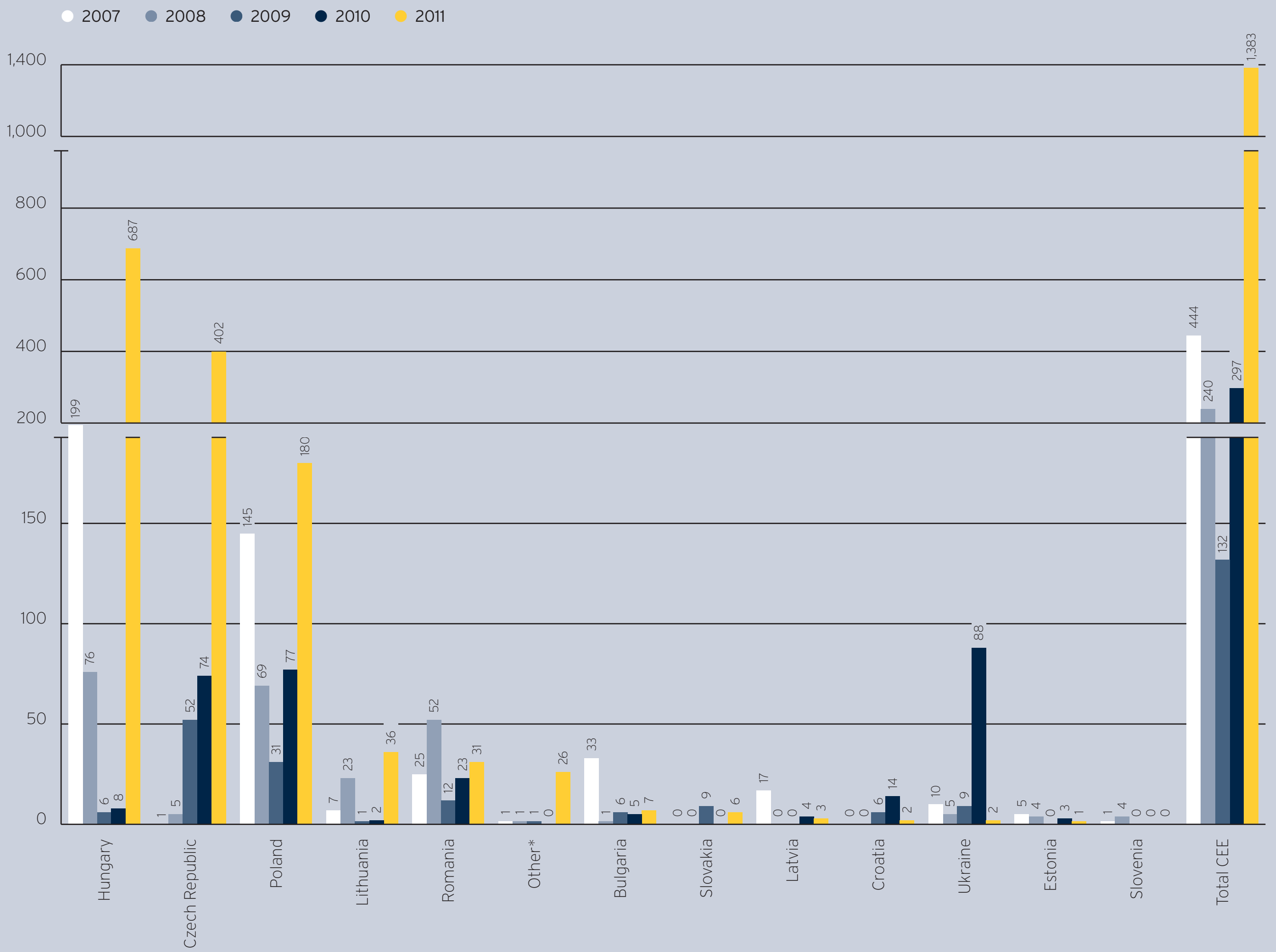
Source: EVCA/PEREP_Analytics for 2007-2011 data.
EVCA/Thomson Reuters/PricewaterhouseCoopers for previous years' data.
Disclaimer: Data is continuously updated and therefore subject to change.

Hungary, the Czech Republic and Poland accounted for 50%, 29% and 13% of the amount divested in the CEE region, respectively.

A total of 68 companies were exited in 2011. This represents a 36% increase from the 50 companies exited in 2010. The ranking by number of companies divested differs slightly: 35% of the exited companies were located in Poland, 16% in Hungary and 13% in the Czech Republic.

Slovakia showed 7 companies exited (10% of the total) but with only €6m of exit value. Meanwhile the three Baltic countries showed an aggregated 6 companies divested (9% of the total), and registered a total of €40m of exit value.

Figure 9 - Divestment by CEE country (exit value at investment cost), 2007-2011 (in € million)



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

In 2011, trade sale and sale to financial institution stood out as the two most prominent exit routes in the CEE region. The amount of exit value recorded in these two categories is highly driven by the two large exits (noted earlier) that occurred in 2011. As in 2010 and in most historical periods, trade sale was by far the most common exit method, accounting for 64.3% of total exit value by amount divested at cost in the CEE region in 2011. This is in line with figures for Europe as a whole, which also show trade sale to be the main exit route, but only as 37% of the total exit value. The second most common exit route for CEE in 2011 was sale to financial institution, which represented 26.5% of the total value of divestments at cost.
This contrasts sharply with the corresponding figure of just 4.3% of sales to financial institutions for Europe as a whole. In line with long-term historical trends, CEE fund managers did not rely on sales to other private equity firms as an important exit route in 2011, with only 2.2% of exit value achieved in this manner. This compares to 26% of exit value generated by this exit route in Europe as a whole.

As in 2010, the CEE region saw few divestments by public offering (3% of exit value in 2011) whereas in Europe overall this route continued to represent more than 10% of exit value.

The CEE region has historically experienced very few write-offs. An exception was the year 2010, when write-offs accounted for nearly 28% of total exit value. In 2009, the first year of the recent financial crisis, CEE write-offs were only 3% of exit value. 2011 has taken the region back to its historical trend, with only two write-offs recorded throughout the year, accounting for 2% of exit value in 2011. This compares starkly to Europe as a whole, where write-offs in 2011 accounted for 13% of the total amount of exit value.

Table 9 - Exits in CEE vs. total Europe, 2011 (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	888,503	64.3	10,951,436	36.9
Divestment by public offering	41,792	3.0	3,530,037	11.9
Divestment on flotation (IPO)	*22,706*	*1.6*	*493,453*	*1.7*
Sale of quoted equity	*19,086*	*1.4*	*3,036,584*	*10.2*
Divestment by write-off	27,100	2.0	3,846,619	13.0
Repayment of silent partnerships	297	0.0	323,434	1.1
Repayment of principal loans	14,232	1.0	1,077,506	3.6
Sale to another private equity house	29,815	2.2	7,828,739	26.4
Sale to financial institution	366,096	26.5	1,261,159	4.3
Sale to management (MBO)	4,568	0.3	659,532	2.2
Divestment by other means	10,132	0.7	161,265	0.5
Total 2011	**1,382,534**	**100.0**	**29,639,727**	**100.0**
Total 2010	**297,462**		**19,119,297**	

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

Ranking exit routes by number of companies in 2011 shows a relatively similar outcome to the preceding analysis by exit value at cost. However, one notable exception is the number of companies divested by repayment of principal loans. By number of companies divested, this exit route was the second most popular (17 companies or 25% of total) following divestments by trade sale (18 companies or 26% of total).

Repayment of principal loans as a divestment route in 2011 was driven by 8 exited companies in Hungary and 6 companies in Slovakia. On average the amount of exit value at historical cost per exited company in CEE via repayment of principal loan was quite small at only €0.8m compared to €20.3m per exited company for all exits in 2011.

Table 10 - Exits in CEE, 2010-2011 (exit value at investment cost) (in € x 1,000)

	2010		**2011**	
Amounts in € thousands	**Amount**	**Number of companies**	**Amount**	**Number of companies**
Exit route				
Divestment by trade sale	115,496	13	888,503	18
Divestment by public offering	586	2	41,792	6
Divestment on flotation (IPO)	*0*	*0*	*22,706*	*3*
Sale of quoted equity	*586*	*2*	*19,086*	*3*
Divestment by write-off	82,721	8	27,100	2
Repayment of silent partnerships	0	0	297	1
Repayment of principal loans	1,582	3	14,232	17
Sale to another private equity house	65,008	11	29,815	5
Sale to financial institution	150	1	366,096	10
Sale to management (MBO)	28,996	14	4,568	4
Divestment by other means	2,923	1	10,132	5
Total 2011	**297,462**	**50**	**1,382,534**	**68**

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

The most divested sectors in 2011 were chemicals and materials (€679m) and communications (€435m via 15 companies – but one company accounting for 80% of this sector's exit value). These two sectors accounted for more than 81% of the total amount divested at cost. Notably, life sciences and business and industrial products showed significant increases in exit value, with growth vs. 2010 of 344% and 122%, respectively.

Similar to 2010, the communications sector showed the greatest number of companies exited (15 companies accounting for 22% of the total), followed by the consumer goods and retail sector (11 companies, 16% of the total).

Table 11 - CEE Divestments by sector, 2010-2011 (exit value at investment cost) (in € x 1,000)

	2010		2011	
Amounts in € thousands	**Amount**	**Number of companies**	**Amount**	**Number of companies**
Sector focus				
Agriculture	0	0	778	2
Business and industrial products	38,331	7	85,263	9
Business and industrial services	1,519	2	3,900	1
Chemicals and materials	14,000	1	679,223	1
Communications	33,183	15	435,805	15
Computer and consumer electronics	1,974	2	2,484	5
Construction	2,110	2	0	0
Consumer goods and retail	50,561	7	41,220	11
Consumer services	3,622	3	26,819	6
Energy and environment	73,200	4	10,739	8
Financial services	62,692	4	23,178	7
Life sciences	15,952	2	70,899	2
Real estate	0	0	0	0
Transportation	317	1	2,227	1
Unknown	0	0	0	0
Total divestment in year	**297,462**	**50**	**1,382,534**	**68**

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

7. The CEE venture capital market

In 2011, €94m of venture capital was invested in 97 companies located in the CEE region. Both by amount and number of companies, the results represent an increase of more than 57% compared to 2010.

Overall, the CEE venture capital market accounted for 2.6% of total European venture capital investments by amount and 3.3% in number of companies.

Figure 10 - CEE venture capital investments by stage, 2007-2011 (amount in € million)

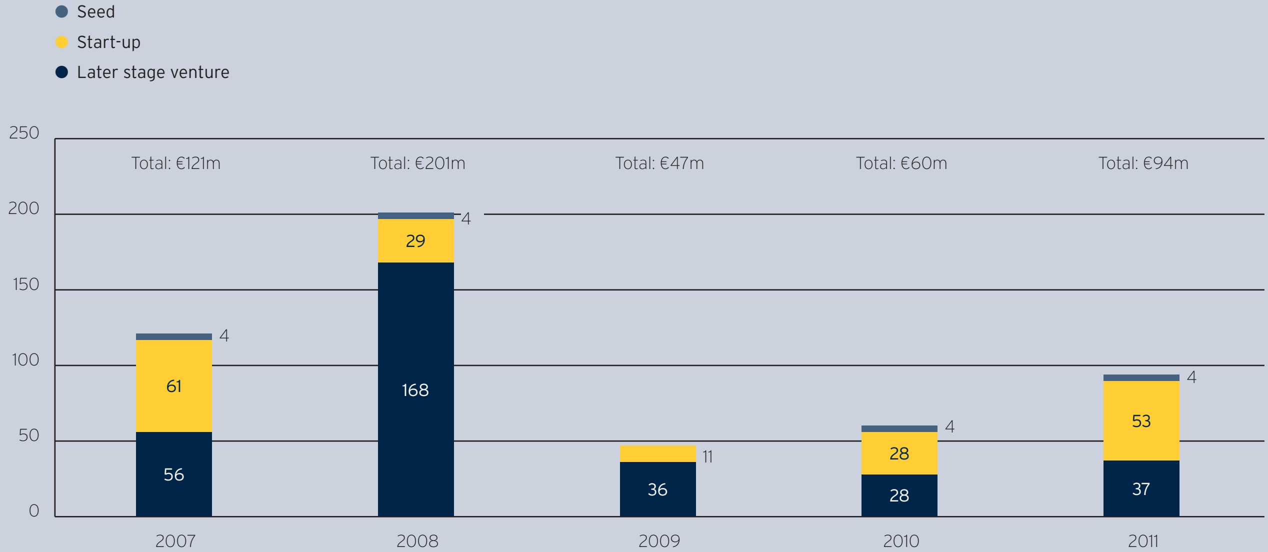
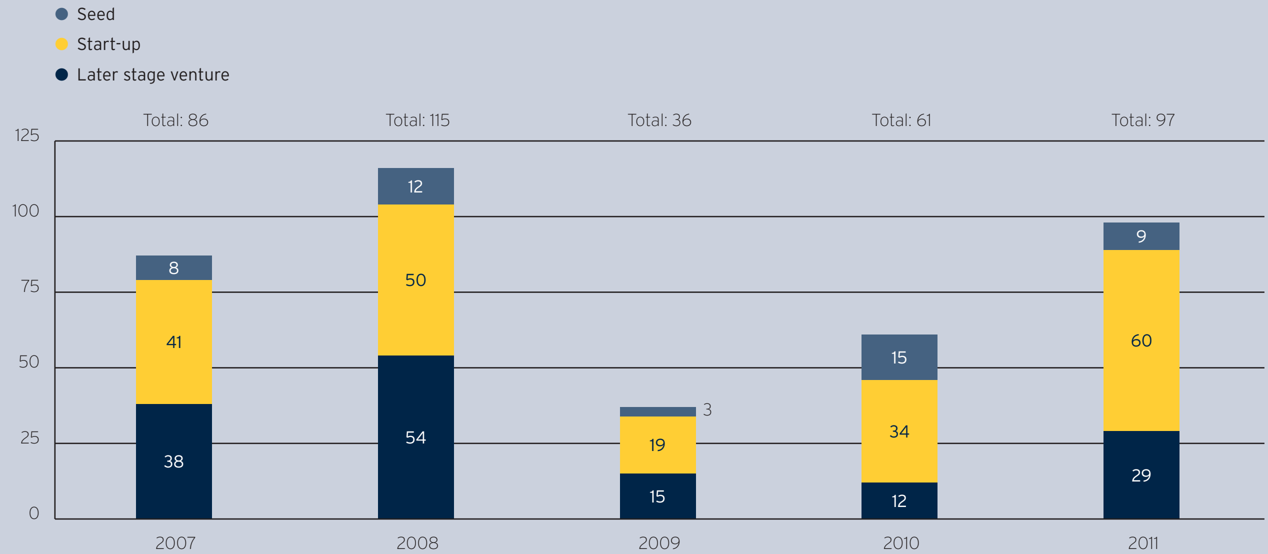


Figure 11 - CEE venture capital investments by stage, 2007-2011 (number of companies)



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

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The amount invested in venture in 2011 represents just 47% of the peak in 2008, but the number of companies receiving venture investments already stood at 84% of the level recorded in 2008.

The increase in CEE venture investments in 2011 was driven predominantly by start-up stage investments, which grew year-on-year by 85% in amount and 76% in number of companies. Start-up investments accounted for 56% (by amount) and 62% (by companies) of total venture capital financing in 2011 in CEE. Later stage venture also experienced a significant increase in 2011, growing 34% by amount and 142% by number of companies. Seed financing, on the other hand, remained constant by amount, and the number of companies receiving seed investment dropped from 15 to 9.

By number of companies, the composition of the CEE venture capital market in 2011 was very similar to that of Europe as a whole. In both regions, early-stage (seed and start-up) companies accounted for around 70% of the total venture companies financed in 2011 and start-ups predominated.

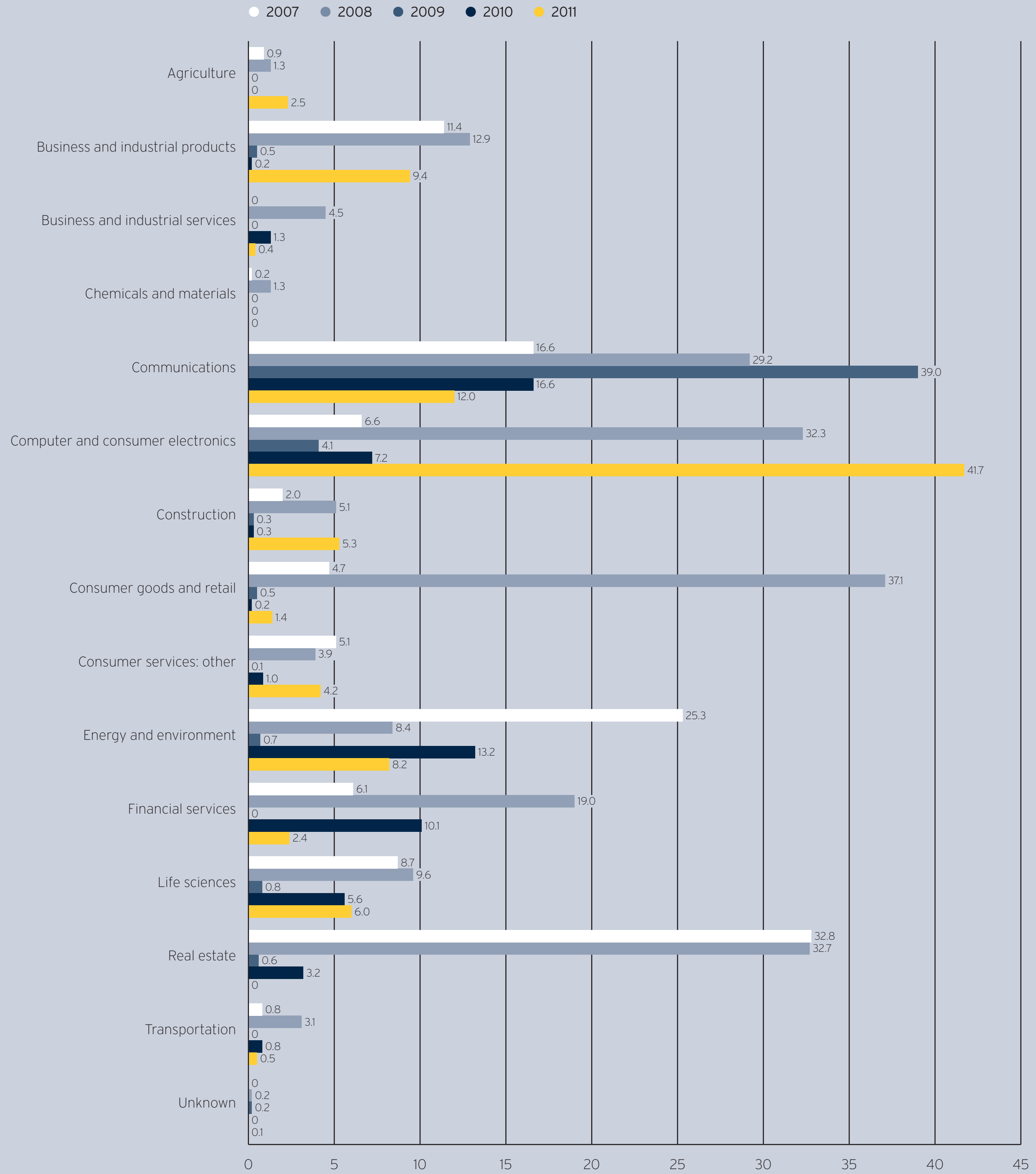
By amount invested per venture investment stage, the CEE and the overall European venture market were also very similar. In 2011, the CEE venture market was slightly more oriented towards early-stage investment than the European venture market overall. Early-stage investments accounted for 60% of total venture investment in CEE compared with 53% in the overall European market.

By country, Hungary recorded the greatest amount of venture capital investments in CEE in 2011, with €40m, or 42% of the total across the region. It reflects a significant increase of 124% versus 2010. Poland was the second largest CEE venture market in 2011, with €27m invested, an increase of more than 9 times the 2010 level, and accounting for 28% of the regional total in 2011. The Czech Republic recorded €5.5m of venture capital investments in 2011, only a quarter of its investment value in 2010, consequently losing the top position in the region. The Czech Republic and Croatia each had 6% of the CEE venture investment market in 2011, demonstrating how uneven investment activity is across the region.

In terms of the number of companies that were venture financed in 2011, Hungary led the region with 29 companies, followed by Poland (27) and Lithuania (12).

By sector, computer and consumer electronics received the most venture capital investments in CEE in 2011 with approximately €42m invested across 29 companies. Although the amount invested in communications-related companies continued to decline, dropping by 28% versus 2010, this sector has consistently since 2007 had the largest number of venture-financed companies in CEE, and remained at the top of the list in 2011 with 29 companies.

Figure 12 - CEE venture capital investments by sector, 2007-2011 (amount in € million)



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

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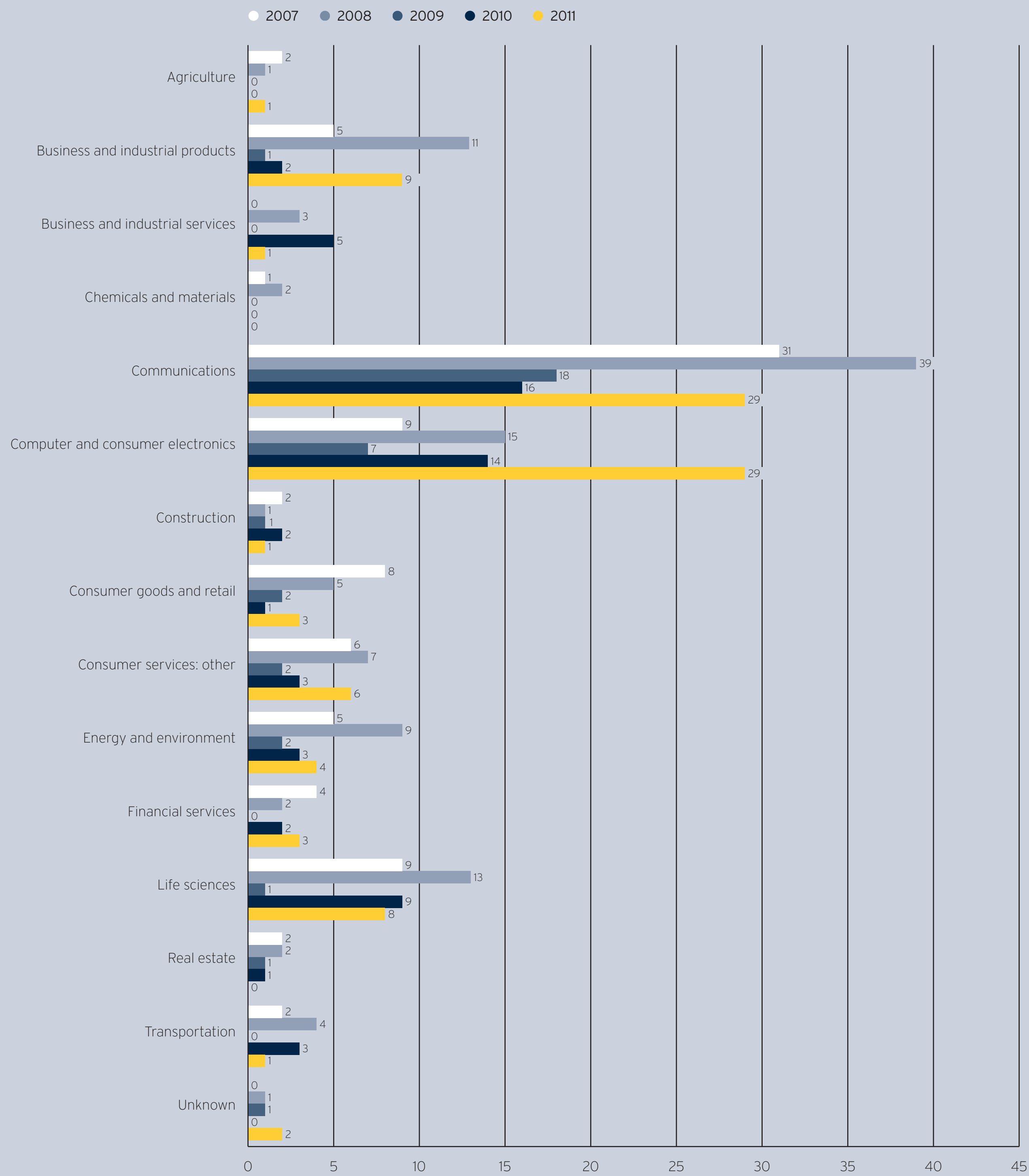
Figure 13 - CEE venture capital investments by sector, 2007-2011 (number of companies)



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

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In 2011, 25 venture-backed companies were exited (accounting for 37% of all CEE companies exited). The total amount divested at cost was €28m, which accounted for just 2% of total CEE divestments. CEE venture divestments in 2011 decreased by 59% by amount at cost, but match the number of companies exited in 2010.

Two IPOs accounted for about 38% of venture divestments at cost in 2011. Trade sales represented one third of companies exited and made up almost one quarter of the divestment amount. Repayment of principal loans represented close to 20% of divestment activity, both in terms of number of companies exited and amount. Notably, only one write-off was recorded in the CEE region among venture investments in 2011 compared to 213 write-offs, or 21% of all venture exits in Europe as a whole (by number of companies).

Table 12 - CEE venture capital divestments by stage, 2010-2011 (exit value at investment cost) (in € x 1,000)

	2010		2011	
Amounts in € thousands	**Amount**	**Number of companies**	**Amount**	**Number of companies**
Exit route				
Divestment by trade sale	19,007	2	6,368	8
Divestment by public offering	586	2	10,752	3
Divestment on flotation (IPO)	*0*	*0*	*10,706*	*2*
Sale of quoted equity	*586*	*2*	*46*	*1*
Divestment by write-off	4,138	4	2,100	1
Repayment of silent partnerships	0	0	0	0
Repayment of principal loans	42	1	5,063	5
Sale to another private equity house	18,023	6	259	2
Sale to financial institution	150	1	2,717	3
Sale to management (MBO)	27,198	9	500	1
Divestment by other means	0	0	354	2
Total divestment in year	**69,144**	**25**	**28,112**	**25**

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

8. The CEE buyout and growth market

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

Figure 14 - CEE buyout & growth investment by stage, 2007-2011 (amount in € million)

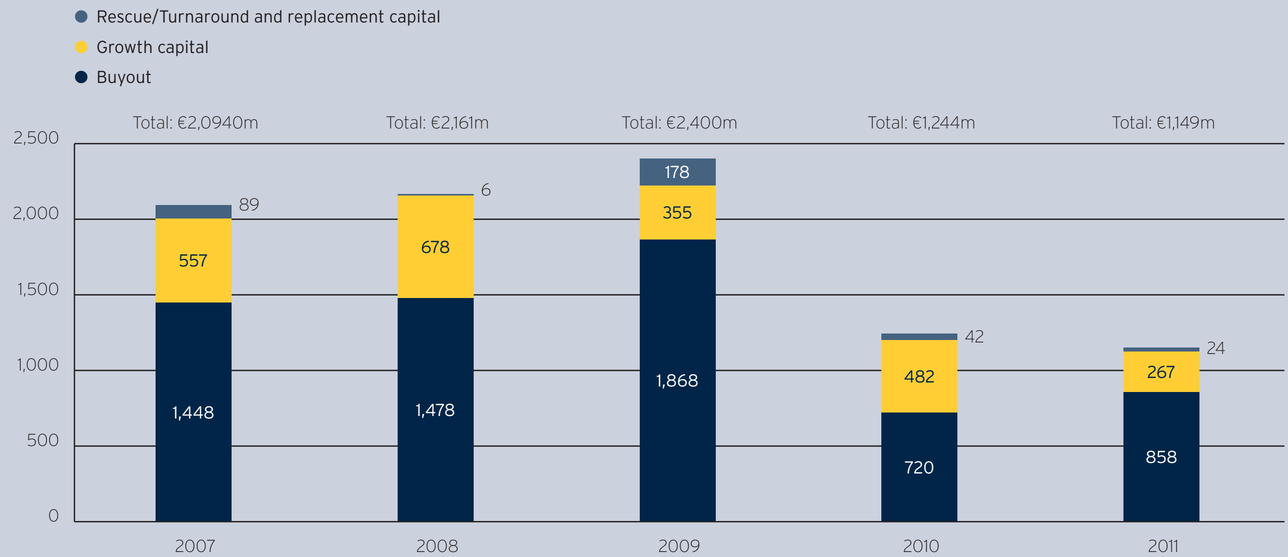
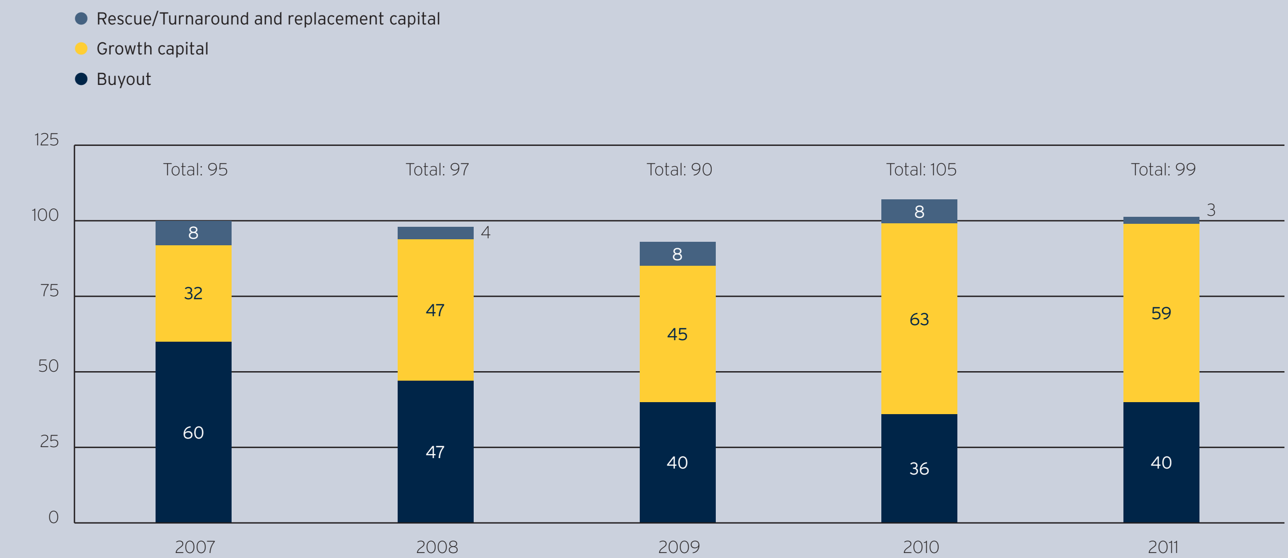


Figure 15 - CEE buyout & growth investment by stage, 2007-2011 (number of companies)



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

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In the CEE region in 2011, €1.1bn of buyout & growth capital was invested into 99 companies. Investment activity in CEE for buyout & growth was down by approximately 8% (in value) and 6% (by number of companies) compared to 2010. For comparison, buyout & growth investments in Europe overall increased 6.2% in value and decreased 7% by number of companies.

Similar to previous years, buyout & growth investment accounted for more than 90% of total investment value in the CEE region in 2011. However, in terms of the number of companies financed, the share of buyout & growth continued to drop from 72% in 2009, 63% in 2010 and 51% in 2011. This reflects the continued increase in the number of venture companies financed against a relatively constant number of growth capital and buyout deals.

Looking into the individual sub-segments of CEE buyout & growth, buyouts increased by almost 20% in 2011 compared to 2010 to account for 75% of the buyout & growth market segment. Conversely, growth capital investment was down by almost 50% and accounted for only 23% of the segment (compared to 39% in 2010). Buyouts recorded a slight increase in average investment size per company, to €21.5m compared to €20m in 2010. The average growth capital investment per company fell from €7.7m in 2010 to €4.5m in 2011. Only 3 companies received replacement capital and rescue/turnaround investments in 2011, which accounted for just 2% of the total investment amount in the buyout & growth segment in 2011.

CEE buyout & growth investment in 2011 accounted for almost 3% of total European buyout & growth investment value. By number of companies financed, the CEE region accounted for slightly more than 5% of the companies financed with buyout & growth capital in Europe as a whole in 2011.

As in 2010, investment in the CEE buyout & growth capital market in 2011 was concentrated in Poland, which accounted for €654m or 57% of the total value. Moreover, Poland recorded €489m of buyout transactions, or 57% of all buyout investment activity in 2011 (vs. €521m or 72% of the total buyout investment activity of the CEE region in 2010) and €163m of growth capital investments or 61% of all growth capital activity in 2011 (vs. €114m or 24% of the total in 2010).
A significant portion of the Polish buyout activity was driven by two just transactions that accounted for about 72% of total buyout investment in Poland in 2011. Hungary was the second largest buyout & growth market in the region in 2011 with 13% (€155m) of the total investment value (driven by two transactions accounting for 88% of this figure), followed by the Czech Republic (12%), Romania (5%)and Ukraine (5%). In terms of the number of companies financed in the buyout & growth segment, Poland came first as well, accounting for 30% of the total, followed by Romania (13%) and the Czech Republic (11%).

The total transaction value (i.e. including debt and other non-private equity financing) of CEE buyouts in 2011 was €1.76bn, representing a 53% increase from 2010. The 2011 breakdown of the buyout market (based on total transaction value) is similar to 2010. No large or mega buyouts took place in 2011 in the region. A considerable majority of the number of companies financed with buyouts (82.5%) were small buyouts, but most of the equity invested (70%) went into mid-market transactions.

The ratio of private equity contribution vs. total transaction value for small buyouts was 59%, and only 45% for mid-market deals.

Table 13 - Equity and transaction value by type of buyout in 2010-2011 (in € x 1,000)[3]

Amounts in € thousands	Amount (equity value)	%	Number of companies	%	Transaction value	%	Equity contribution of PE firms (in %)
2011							
Buyout investment size							
Small	254,852	29.7	33	82.5	430,645	24.4	59.2
Mid-market	603,542	70.3	7	17.5	1,332,324	75.6	45.3
Large and mega	0	0.0	0	0.0	0	0.0	0.0
Total buyout	**858,394**	**100.0**	**40**	**100.0**	**1,762,969**	**100.0**	**48.7**
2010							
Small	238,599	33.2	29	78.4	317,338	27.5	75.2
Mid-market	481,121	66.8	8	21.6	836,136	72.5	57.5
Large and mega	0	0.0	0	0.0	0	0.0	0.0
Total buyout	**719,720**	**100.0**	**36**	**100.0**	**1,153,474**	**100.0**	**62.4**

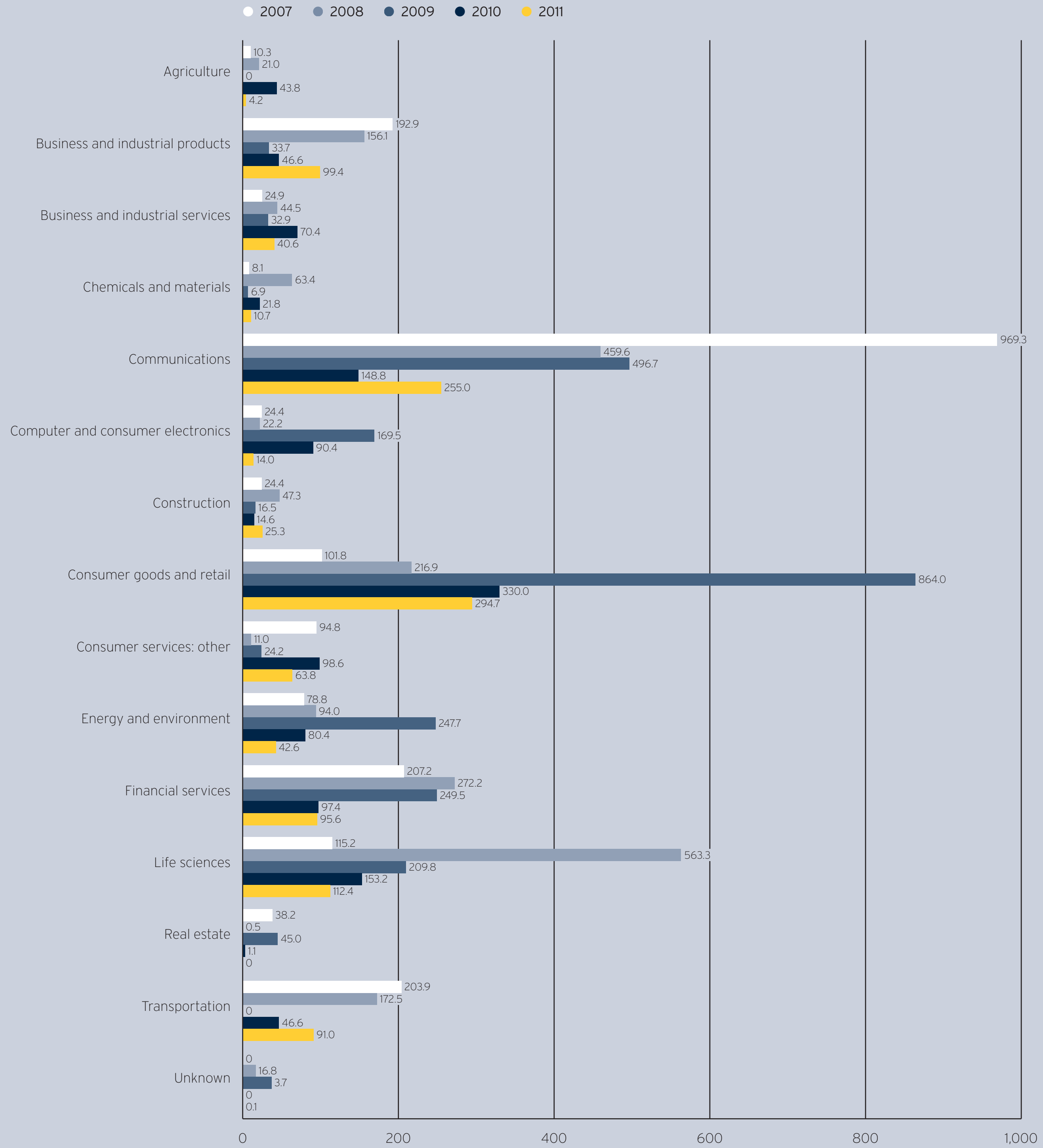
Source: EVCA/PEREP_Analytics
Note: The difference between the "equity value" and "transaction value" consists of the participation of syndicate members other than private equity firms (i.e. corporates, individuals, financial institutions) and leverage (debt provided by banks or others). Mezzanine investments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

The consumer goods & retail sector attracted 26% of CEE buyout & growth investment (€295m) in 2011, driven by a relatively high number of companies financed (15 or 15% of the total). Communications (€255m) was the second most invested sector, accounting for 22% of total investment value.

Life sciences, although seen as a popular target sector by fund managers in the region, recorded only €112m (below 10% of total buyout & growth activity in 2011).

3 This breakdown was calculated by using the Transaction Value ("X") to generate the following brackets: Small (X < €50m), Mid-market (€50m ≤ X < €500m), Large (€500m ≤ X < €1,000m) and Mega (X ≥ €1,000m).

Figure 16 - CEE buyout & growth investment by sector, 2007-2011 (amount in € million)



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

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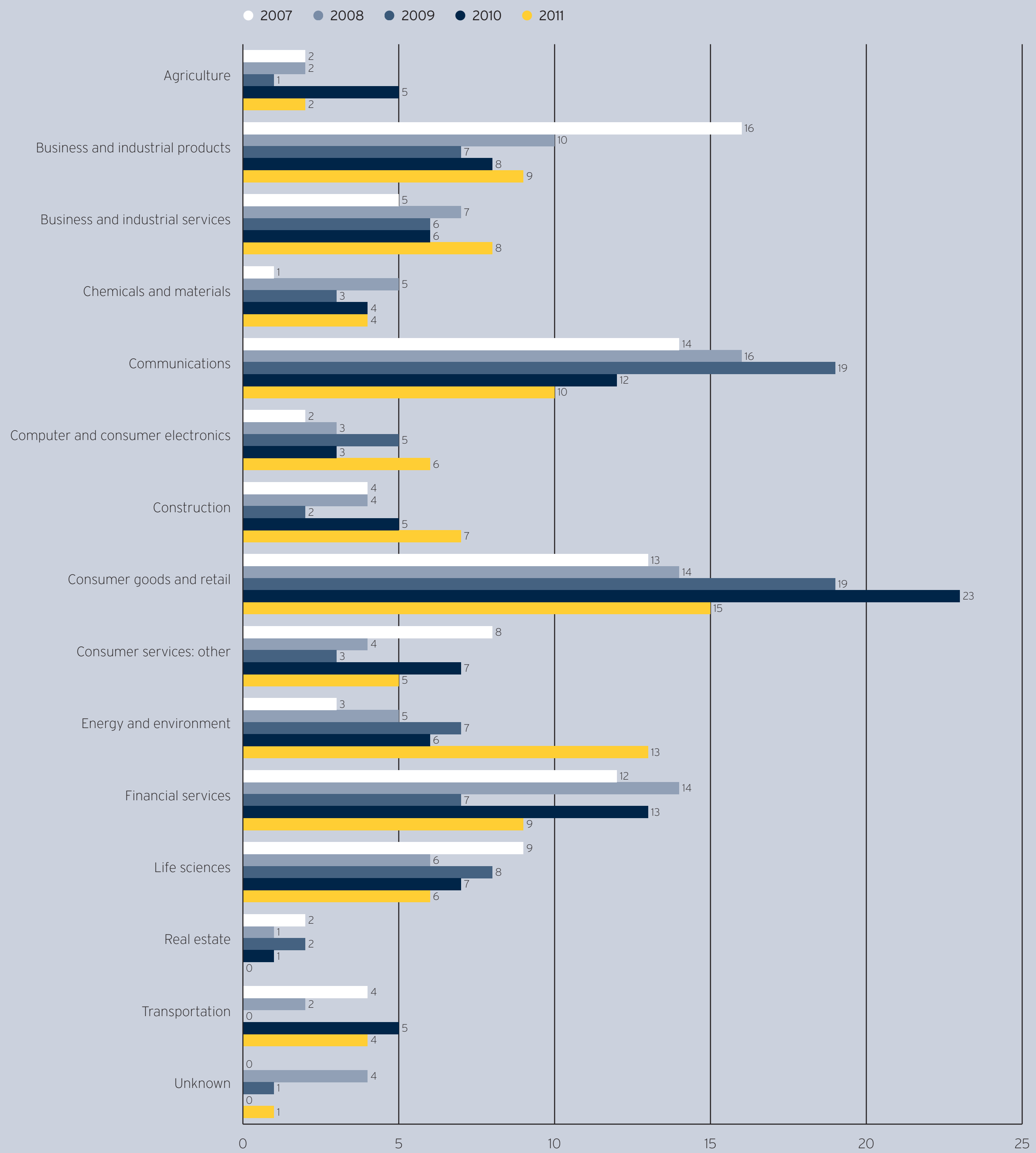
Figure 17 - CEE buyout & growth investment by sector, 2007-2011 (number of companies)



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

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In 2011, divestment at cost from companies in the CEE buyout & growth segment at over €1.3bn was almost 6 times greater than in 2010, while the number of buyout & growth companies exited went up by 50% (43 in 2011 vs. 28 in 2010). The extraordinary growth in divestment value in the buyout and growth segment was generated primarily by two sizeable transactions accounting for €1.0bn of divestment value at cost. Trade sale was the main exit method, representing 65% of the total amount with €882m divested at cost from 10 companies (although one company accounted for over 75% of the amount).

For comparison, in 2010, the total amount at cost for the 11 companies divested by trade sale was 9 times lower. The second main exit route was sale to a financial institution accounting for 27% of the total amount divested at cost. It is clear that, just as with the investment statistics, on exit amounts, the occurrence of one or more large exits measured at cost of investment can have a significant impact on reported CEE activity levels in a given year.

Table 14 - CEE Buyout & growth divestment by exit route, 2010-2011 (exit value at investment cost) (in € x 1,000)

	2010		2011	
Amounts in € thousands	**Amount**	**Number of companies**	**Amount**	**Number of companies**
Exit route				
Divestment by trade sale	96,489	11	882,135	10
Divestment by public offering	0	0	31,040	3
Divestment on flotation (IPO)	*0*	*0*	*12,000*	*1*
Sale of quoted equity	*0*	*0*	*19,040*	*2*
Divestment by write-off	78,582	4	25,000	1
Repayment of silent partnerships	0	0	297	1
Repayment of principal loans	1,541	2	9,170	12
Sale to another private equity house	46,986	6	29,556	3
Sale to financial institution	0	0	363,380	7
Sale to management (MBO)	1,798	5	4,068	3
Divestment by other means	2,923	1	9,778	3
Total divestment in year	**228,319**	**28**	**1,354,422**	**43**

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

9. Methodology

Fundraising

The vast majority of private equity funds raised for CEE were for the region as a whole rather than for any specific country. Therefore, 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

Geographical sources of funds

Capital raised from an LP located in the same country as the fund it commits to is usually considered to be domestically raised according to the EVCA classification. However, the CEE fundraising data includes private equity funds located outside of CEE but fully dedicated to the CEE region (e.g.: a UK-based fund focused on the CEE region). For the purposes of this report, domestic fundraising only includes capital raised from CEE-based LPs, regardless of the location of the private equity fund itself. We believe this gives the most accurate picture of actual commitments made by CEE-based LPs to CEE-focused funds.

Investments

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

Industry statistics are an aggregation of the figures according to the country in which the private equity firm making a particular investment is based, and not related to the country in which the investee company is based. At the European level, this relates to investments made by European private equity firms regardless of the location of the target company.

Market statistics are an aggregation of the figures according to the country in which the investee company is based, regardless of the location of the private equity fund. At the European level, this relates to investments in European companies regardless of the location of the private equity firm.

This report uses only market statistics. For industry statistics, please consult the most recent EVCA Yearbook and its data appendix.

Buyout split

Buyout investments are split into four categories: small, mid-market, large, and mega. This classification is based on the value of the transaction, as indicated below.

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

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. 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 in respect of number of companies in this report may not appear to add up to the same number of companies compared to the individual items in the tables. This is due to the issue of counting distinct entities. For a company receiving multiple distinct rounds of financing in a year – for 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 (000s)	Companies
Later-stage venture	1,000	1
Management buyout	20,000	1
Total investment	21,000	1

Since the same company can be recorded under several investment subcategories, the sum of all subcategories can exceed the total number of companies that receive investment. Therefore, 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 calculations of average per company 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.

The principles described above also apply to the number of divested companies.

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 points in 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 enter the investment into the database so that no portfolio company is reflected with negative capital flow in the database. Moreover, some information may be disclosed on the websites of private equity players at a later stage, after the cut-off for producing the EVCA Yearbook, and thus is processed subsequently in the database. For all the above reasons, historical figures may be updated each year to reflect the latest available statistics for previously released years, starting with 2007.

10. Definitions

- **Private equity:** Private equity is equity capital provided 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 making primarily equity capital investments into enterprises (i.e. direct private equity funds as opposed to primary or secondary private equity funds 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 to support the pre-launch, launch and early stage development phases of a business.

Types of investors (fundraising tables):

- **Corporate investor:** A corporation that produces products (manufacturing company) or delivers 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.

- **Foundation:** A non-profit organisation through which private wealth is contributed and distributed for public purposes (usually charitable). 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:** A financial institution (other than a 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 agency:** A country, regional, governmental or European agency or institution for innovation and development (including structures such as the EBRD or EIF).

- **Sovereign wealth fund:** A 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 focus (fundraising tables):

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

- **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 subsequent) rounds of venture investment.

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

- **Growth fund:** A fund 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 including a right to some of the equity upside.

- **Generalist fund:** A fund 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 a company for product development and initial marketing. The company may be in the process of being set up or may have been in business for a short time, but has not sold its product commercially. Please note that seed and start-up financing together are often referred to as "early stage" financing.
- **Other early-stage:** Financing to a company that has completed the product development stage and requires further funds to initiate commercial manufacturing and sales. It 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 subsequent) rounds of financing.
- **Growth:** A type of private equity investment – most often a minority investment but not necessarily – in relatively mature or developed companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition usually 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 that has experienced trading difficulties, with a view to re-establishing prosperity.
- **Replacement capital/secondary purchase:** The purchase of a minority stake of existing shares in a company from another private equity firm (a secondary purchase) or from another shareholder or shareholders (replacement capital).
- **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 into 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 form of buyout where both buyer and seller are private equity firms or financial sponsors (i.e. 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 main stages described in this publication leads to the following classifications:

- 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: replacement capital/secondary purchase, refinancing bank debt
- Buyout: management buyout, management buy-in, public-to-private, other PIPE, leveraged buyout, secondary buyout

Further mapping the above stages into the two main stages – venture and buyout & growth - leads to the following classifications:

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

Amounts definition:

- **Equity value:** 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

The above link shows the map between the old EVCA sectors, the 67 new 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 this publication, and their further grouping into the seven sectoral clusters used in the fundraising by fund sectoral focus in the EVCA Yearbook.

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.

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

- **Repayment of principal loans:** If a private equity firm provided loans or purchased 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 a company's shares to another private equity fund.

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

- **Divestment by trade sale:** The sale of a company's shares to an industrial investor.

- **Divestment by write-off:** The total or partial write-down of a portfolio company's value to zero or a symbolic amount (i.e. sale 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 zero.

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 35 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 private equity funds, banks, insurance companies, investors, real estate developers, public companies and state governments. 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:

- Private Equity
- M&A and Corporate
- Banking & Finance
- Capital Markets
- Energy, Natural Resources and Infrastructure
- Real Estate
- Dispute Resolution and Arbitration
- Restructuring and Insolvency
- Tax
- Intellectual Property
- Labour
- Competition

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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