Central and Eastern Europe Statistics 2008

An EVCA Special Paper - July 2009

Edited by the EVCA Central and Eastern European Task Force

PEREP ANALYTICS

EUROPEAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

GLN Gide Loyrette Nouel

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

EVCA

The European Private Equity & Venture Capital Association

EVCA is the voice of European private equity and venture capital. We promote and protect the interests of close to 1,300 members, thereby ensuring 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 and research reports, as well as holding professional training and networking events.

EVCA covers the whole range of private equity, from early-stage venture capital to the largest buyouts.
For more information, please visit www.evca.eu.

EVCA Central and Eastern European Task Force

EVCA created the Central and Eastern European Task Force in 2003 as a platform to launch initiatives specifically aimed at the development and promotion of private equity and venture capital in the Central and Eastern Europe (CEE) region. 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 and 2008. In 2008, the Task Force organised local investor conferences in four cities in the region. 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 fully functional, centralised, non-commercial pan-European private equity database. It is also a joint statistics platform for EVCA and 17 national and regional private equity and venture capital associations, of which six from the CEE region: CVCA (Croatia), CVCA (the Czech Republic), HVCA (Hungary), PPEA (Poland), SEEPEA (South Eastern Europe), and SLOVCA (Slovakia).

Disclaimer

Table of Contents

1. Introduction

This document provides the annual activity statistics for the private equity and venture capital markets of Central and Eastern Europe in 2008. Similar statistics for 2007, 2006 and 2005 were published respectively in EVCA's *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 CEE markets due to the predominance of regional funds and fund managers. All data provided is based on PEREP_Analytics. Given that PEREP_Analytics is continuously updated, data is subject to change. Therefore, the figures presented in this survey may differ from those presented in the *EVCA Yearbook 2009* and the *Central and Eastern Europe Statistics 2007* publication.

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.

It should be noted that, for the first time, *Central and Eastern Europe Statistics* includes Ukraine – but only for the year 2008. Ukraine's inclusion in *Central and Eastern Europe Statistics* is due to it becoming a country of focus in recent years for many private equity fund managers operating in the region. In some cases, we have excluded data from Ukraine to allow like-for-like comparison with 2007.

2. Executive Summary

Fundraising market in the region

- Fundraising for the CEE region in 2008 fell by more than 40% compared to the peak year of 2007, but was similar to the previous peak year of 2006.
- In 2008, CEE fundraising represented 3% of the total European funds raised during the year.
- Funds entirely dedicated to the CEE region of €1bn or larger, were raised in both 2007 and 2008.
- As in 2007, funds of funds were the largest source of capital, followed by pension funds.
- 56% of the funds raised for CEE in 2008 originated from Europe; the remaining 44% came from investors located primarily in the US.

Investment activity

- Total investment levels reached €2.5bn in CEE. Although below the peak of €3bn in 2007, this is still a significant amount and tops the investment levels recorded in 2006.
- CEE companies attracted close to 5% of total private equity investment across Europe.
- Investment activity was highly concentrated in the five biggest countries in the region, with Poland, Hungary, the Czech Republic, Ukraine and Romania comprising 86% of total investment activity.
- Growth capital investment increased more than fivefold in 2008, whereas buyout investment fell by a third. This reflected a shift in focus by CEE fund managers towards growth capital transactions.
- In 2008, the CEE private equity market was much more growth-capital-oriented than the total European market.
- The overall amount invested in venture capital decreased by more than one third – triggered by a sharp drop in later-stage venture investment. However, the number of venture companies financed increased, driven by the financing of more start-up businesses.
- Life sciences attracted more investment than any other sector. The communications sector was the most popular in terms of number of companies financed.
- The ratio of the private equity contribution to total transaction value was 54% for small buyouts and 50% for large and medium-sized buyouts. Both figures were lower than was witnessed in the rest of Europe.

Divestment activity

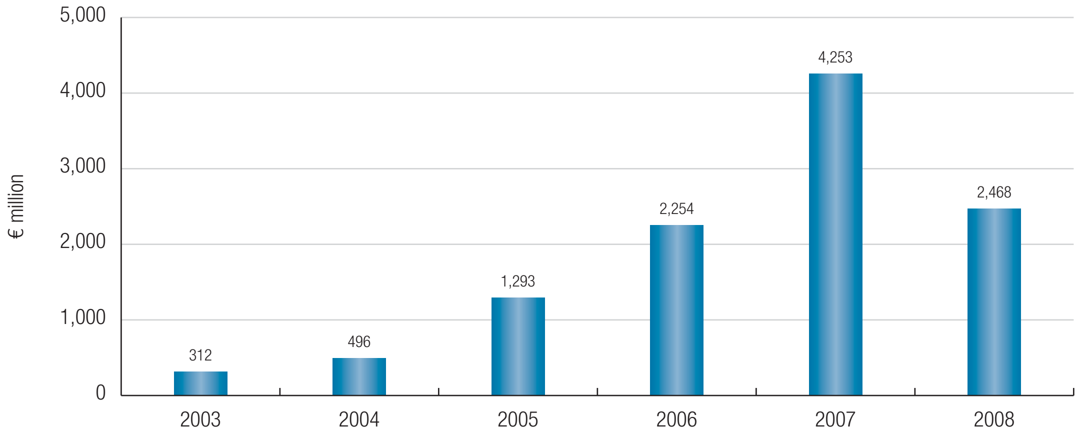
- Exit activity in the CEE region decreased by 50% in 2008 – similar to the trend seen across Europe as a whole.
- Trade sales remained the major exit method, both by amount divested at cost and by number of companies exited.

3. Fundraising

In 2008, fundraising for the CEE region (1) totalled €2.5bn, about 40% below the recent 2007 peak of €4.3bn. On a fully comparable sample (ie, excluding Ukraine), the fundraising amount was €2.2bn, slightly below the 2006 value. Nevertheless, this is the third-highest amount ever raised for the region. The raising of €1bn-plus funds entirely dedicated to the CEE region in both 2007 and 2008 indicates strong institutional investor interest in the area.

CEE fundraising represented 3% of the total funds raised in Europe in 2008, a little less than in 2007 (5%). All fundraising in 2008 was by independent funds, with none by captives.

Figure 1: Fundraising for CEE private equity, 2003-2008



Source: PEREP_Analytics for 2007 and 2008 data
EVCA/Thomson Reuters/PricewaterhouseCoopers for previous years' data
Disclaimer: Data is continuously updated and therefore subject to change.

Buyout funds raised 77% (€1.9bn) of the total capital committed to CEE in 2008 compared to 71% in 2007. Commitments to venture funds reached €217m – almost 70% up on 2007. About two-thirds of the capital committed to venture funds was targeted for later-stage venture. Growth capital funds raised €142m, a 73% drop on 2007. 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.

(1) Fundraising for CEE includes funds raised by advisory teams based in the region and funds raised from 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.

3. Fundraising

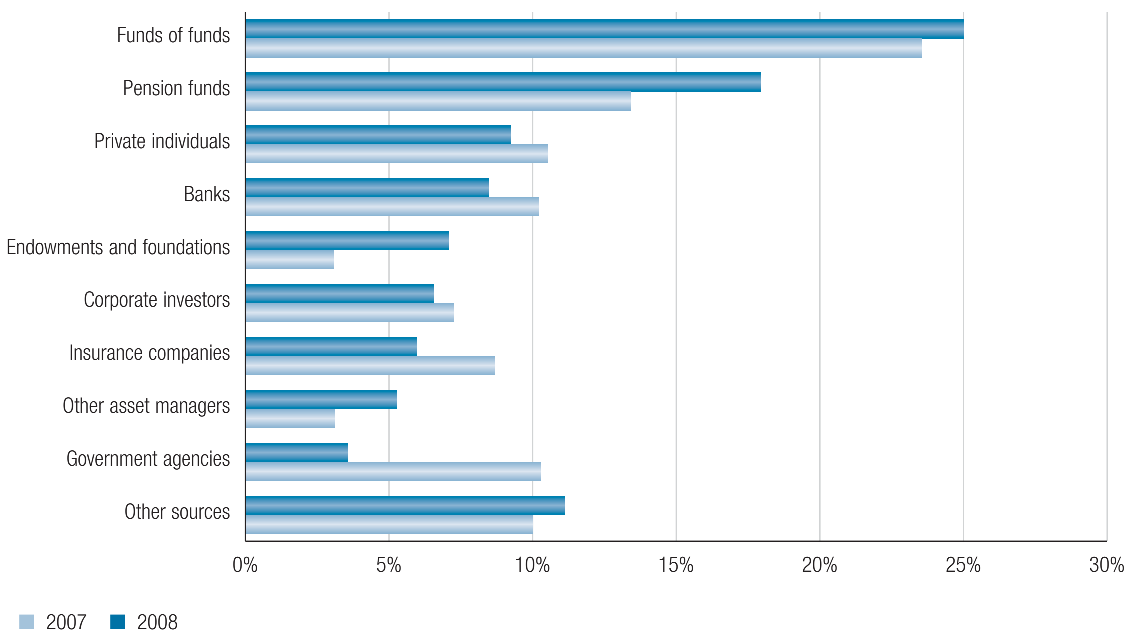
Table 1: Funds raised for CEE – incremental closings during the year (in € x 1,000)

	2007		2008	
	Amount	%	Amount	%
Funds raised by fund stage focus				
Early-stage venture	0	0.0	49,010	2.0
Later-stage venture	1,054	0.0	140,000	5.7
Balanced	127,600	3.0	28,200	1.1
Total venture	**128,654**	**3.0**	**217,210**	**8.8**
Growth	531,031	12.5	141,500	5.8
Buyout	3,036,592	71.4	1,910,250	77.4
Mezzanine	473,000	11.1	161,200	6.5
Generalist	84,000	2.0	37,610	1.5
Total funds raised	**4,253,277**	**100.0**	**2,467,770**	**100.0**

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

As in 2007, funds of funds were the largest source of capital, contributing 25% of the total amount raised for CEE. They were followed by pension funds with 18% of the total. Private individuals remained the third-largest contributor of funds for investments in the CEE region.

Figure 2: Sources of capital raised for CEE private equity, 2007-2008 (% of total)



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

In 2008, the share of European investors in the total fundraising for CEE fell by 10 percentage points to 56%, compared to 2007. About half of the funds committed by European Limited Partners (LPs) came from the UK and Switzerland. US-based investors accounted for 27% of all CEE fundraising, representing two-thirds of the funds committed by non-European LPs. The capital raised from LPs located in the CEE region remained small and relatively stable at €63m. As a share of total fundraising, this represented less than 3%, far below the levels of funds raised domestically in all other European markets.

As shown in Table 2 below, 11 funds reached final closing in 2008, three more than in 2007. However, the cumulative amount of capital raised by these funds was €2.2 billion, 40% less than in 2007. The lower overall amount raised was driven by fewer funds raised in the buyout space. However, the final closing of four venture funds partially made up for this.

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

	2007			2008		
	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size
Funds raised by fund stage focus						
Early-stage venture	0	0	0	20,000	1	20,000
Later-stage venture	0	0	0	140,000	2	70,000
Balanced	0	0	0	28,200	1	28,200
Total venture	**0**	**0**	**0**	**188,200**	**4**	**47,050**
Growth	500,000	1	500,000	149,000	3	49,667
Buyout	2,915,500	5	583,100	1,577,650	3	525,883
Mezzanine	0	0	0	261,200	1	261,200
Generalist	250,210	2	125,105	0	0	0
Independent funds raised	**3,665,710**	**8**	**458,214**	**2,176,050**	**11**	**197,823**

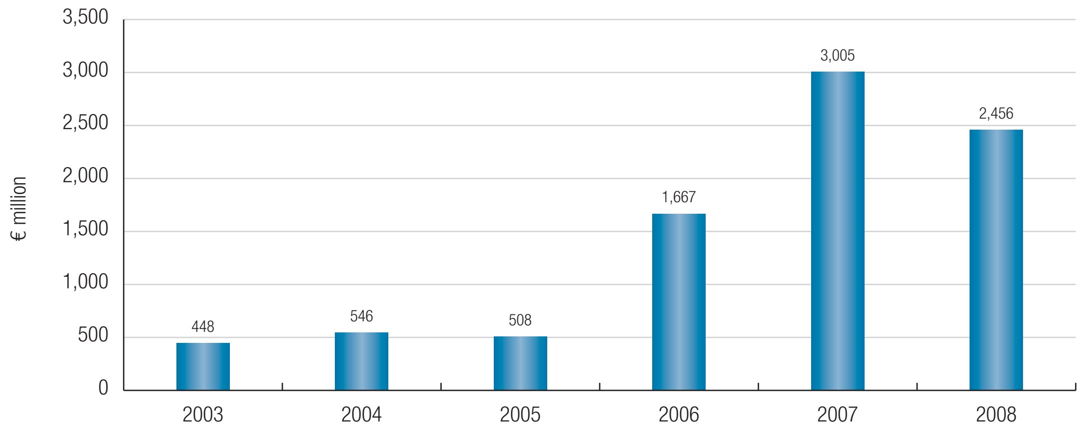
Source: PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

4. Investment Activity

In 2008, private equity investment in the CEE region totalled €2.5bn. This represented a decrease of 18% from the 2007 peak of €3bn but was almost 50% higher than the 2006 investment level. These dynamics compare favourably with Europe as a whole, where investment levels dropped by 28% in 2008. Excluding Ukraine (to enable comparison on a same-country basis), investment amounted to €2.2bn.

Altogether, investment activity in CEE represented 4.7% of total investment in Europe (or 4.1% when excluding Ukraine), compared to 4.2% in 2007.

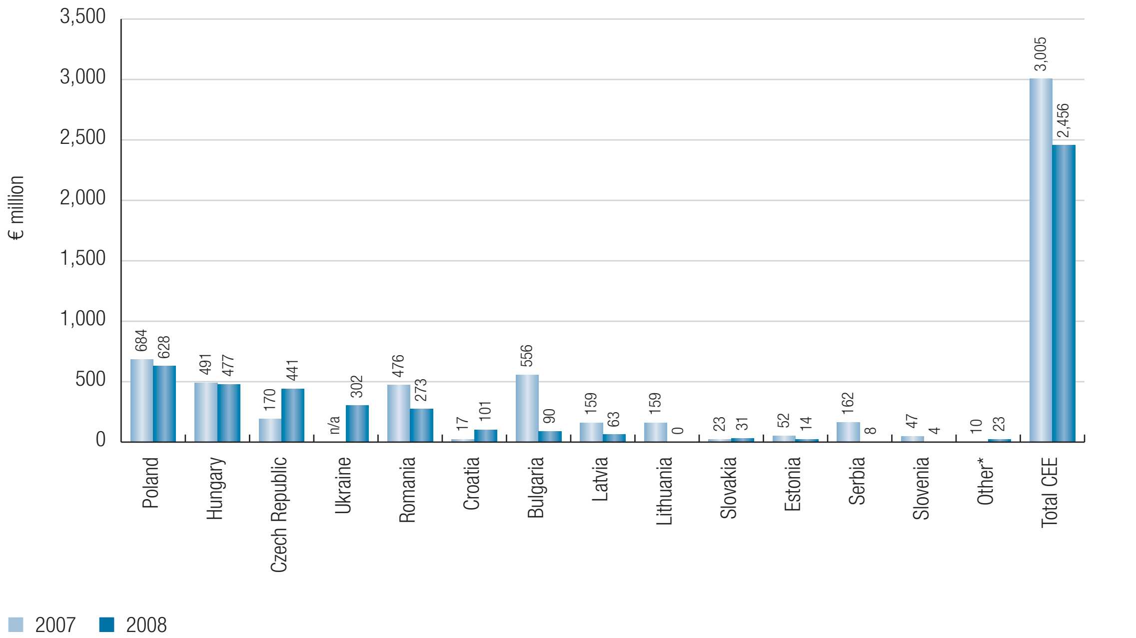
Figure 3: Annual investment value in the CEE region, 2003-2008



Source: PEREP_Analytics for 2007 and 2008 data
EVCA/Thomson Reuters/PricewaterhouseCoopers for previous years' data
Disclaimer: Data is continuously updated and therefore subject to change.

Investment activity in CEE was highly concentrated in the region's five biggest countries: Poland, Hungary, the Czech Republic, Ukraine and Romania. Together, they accounted for 86% of the total investment value in 2008 and 71% of the total number of companies financed. As in 2007, Poland saw the most investment activity, with €628m accounting for more than a quarter of the regional total. Hungary (€477m) and the Czech Republic (€441m) came second and third. The Czech Republic and Croatia experienced a significant increase in investment values. It should be noted that year-on-year changes in investment amounts in some countries are directly affected by a limited number of very large transactions.

Figure 4: Annual investment value in CEE, 2007-2008

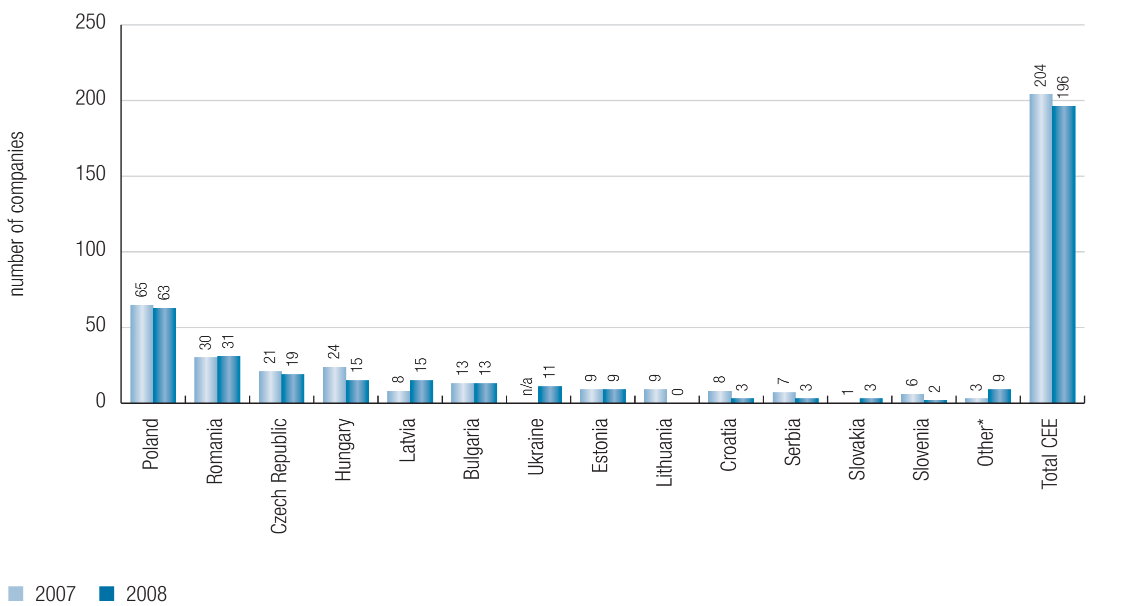


Source: PEREP_Analytics

Disclaimer: Data is continuously updated and therefore subject to change.

* Bosnia & Herzegovina, Macedonia, Montenegro

Figure 5: Annual investments in CEE, 2007-2008 (in number of companies)



Source: PEREP_Analytics

Disclaimer: Data is continuously updated and therefore subject to change.

* Bosnia & Herzegovina, Macedonia, Montenegro

4. Investment Activity

Nearly 200 companies from the CEE region received private equity financing in 2008 – a similar number to 2007 – with a third of those located in Poland. The average size of investment per company decreased to €12.5m in 2008, from €14.7m in 2007.

In terms of sector activity, the amount invested in life sciences doubled (€617m) in 2008, driven by one particularly large buyout transaction; the number of companies from this sector that received financing remained stable (19). Life sciences became the most financed sector by amount, accounting for a quarter of total investment. It was followed by communications (€496m), which, despite a 30% drop on 2007, still represented one fifth of total CEE investment value. By number of companies financed, there were no shifts in sector ranking: communications remained first with 51 companies financed, accounting for a quarter of the total. Business & industrial products, consumer goods & retail and life sciences followed, each accounting for about one tenth of the overall number.

Table 3: CEE investments by sector in 2008 (in € x 1,000)

	Amount	% of total	Number of companies	% of total
Agriculture	4,300	0.2	2	1.0
Business and industrial products	180,866	7.4	20	10.2
Business and industrial services	38,097	1.6	8	4.1
Chemicals and materials	53,041	2.2	5	2.6
Communications	495,803	20.1	51	26.0
Computer and consumer electronics	54,218	2.2	17	8.7
Construction	43,883	1.8	4	2.0
Consumer goods and retail	257,989	10.5	20	10.2
Consumer services	104,874	4.3	12	6.1
Energy and environment	91,106	3.7	12	6.1
Financial services	308,356	12.5	14	7.1
Life sciences	616,522	25.1	19	9.7
Real estate	5,068	0.2	1	0.5
Transportation	184,476	7.5	6	3.1
Unknown	17,011	0.7	5	2.6
Total investment in year	**2,455,610**	**100.0**	**196**	**100.0**

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

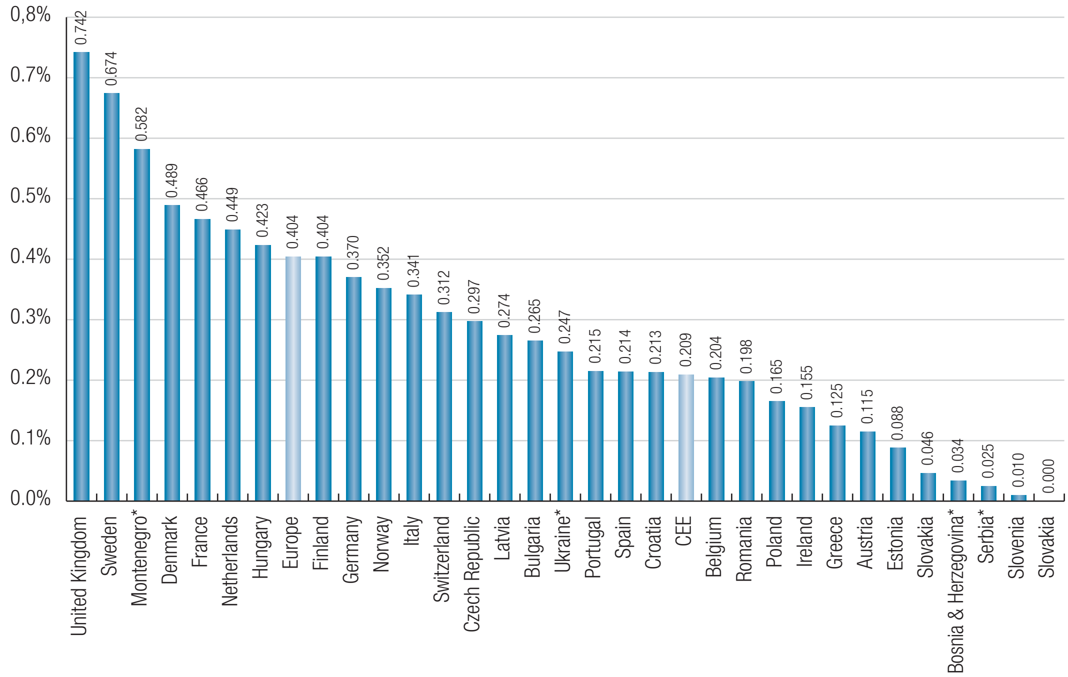
Comparison of private equity investment activity to gross domestic product (GDP) reveals that the CEE region is still far below the average of Europe as a whole. In 2008, the ratio of private equity investment to GDP in CEE was 0.209%, only half of the Europe-wide average of 0.404%. In 2007, the CEE region was 57% of the European average.

Table 4: Private equity investment by amount (in € x 1,000) and as a percentage of GDP in CEE, 2007-2008

	Total investment		Investment as % of GDP	
	2007	2008	2007	2008
Bosnia & Herzegovina	754	4,208	0.007%	0.034%
Bulgaria	555,653	90,477	1.923%	0.265%
Croatia	17,244	100,875	0.046%	0.213%
Czech Republic	170,250	441,435	0.133%	0.297%
Estonia	51,690	13,972	0.332%	0.088%
Hungary	491,367	476,604	0.487%	0.423%
Latvia	159,211	63,084	0.793%	0.274%
Lithuania	158,821	0	0.567%	-
Macedonia	9,058	0	0.177%	-
Montenegro	-	19,077	-	0.582%
Poland	683,518	627,957	0.222%	0.165%
Romania	475,861	273,089	0.392%	0.198%
Serbia	161,610	8,402	0.548%	0.025%
Slovakia	23,460	31,145	0.043%	0.046%
Slovenia	46,663	3,750	0.139%	0.010%
Ukraine	-	301,535	-	0.247%
Total CEE	**3,005,162**	**2,455,610**	**0.325%**	**0.209%**

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

Figure 6: Private equity investment as a percentage of GDP for Europe, CEE, and selected European countries, 2008



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

* GDP Source: IMF, World Economic Outlook Database, April 2009

5. Market Segments

In 2008, the total amount invested in buyouts in the CEE region fell by one third, to €1.6bn. Buyouts' share of overall CEE investment dropped from 77% in 2007 to 63% in 2008. At the same time, growth capital investment surged, from only 4% of total investment in 2007 to 29% in 2008. This reflected the shift in focus of CEE fund managers in a changing macroeconomic and deal-making environment.

Comparing the distribution of investment types to Europe as a whole, the CEE market was much more growth-capital-oriented than Europe, where less than 14% of total investment value was allocated to growth capital. However, venture capital investment remained at a much lower level in CEE, accounting for less than 8% of the total amount invested (compared to 13% in overall Europe). Half of the companies financed in the CEE region were venture-stage companies, compared to a Europe-wide figure of two thirds.

Table 5: Type of investment in CEE and Europe, 2008 (in € x 1,000)

	Total CEE	% of total	Total Europe	% of total
Seed	4,027	0.2	293,609	0.6
Start-up	58,959	2.4	2,409,490	4.6
Later-stage venture	123,245	5.0	4,126,630	7.9
Total venture	**186,231**	**7.6**	**6,829,728**	**13.1**
Growth	709,783	28.9	7,038,643	13.5
Rescue/Turnaround	568	0.0	282,696	0.5
Replacement capital	5,000	0.2	1,471,731	2.8
Buyout	1,554,028	63.3	36,651,817	70.1
Total 2008	**2,455,610**	**100.0**	**52,274,615**	**100.0**
Total 2007	**3,005,162**		**72,165,484**	

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

Table 6: Type of investment in CEE, 2007-2008 (in € x 1,000)

	2007		2008	
	Amount	Number of companies	Amount	Number of companies
Seed	3,673	8	4,027	12
Start-up	24,198	26	58,959	43
Later-stage venture	255,696	51	123,245	46
Total venture	**283,568**	**84**	**186,231**	**100**
Growth	132,494	21	709,783	53
Rescue/Turnaround	6,088	3	568	2
Replacement capital	263,933	8	5,000	2
Buyout	2,319,079	93	1,554,028	45
Total	**3,005,162**	**204**	**2,455,610**	**196**

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

Table 7: Type of investment by CEE country, 2008 (in € x 1,000)

	Baltic States	Bulgaria	Croatia	Czech Rep.	Hungary	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine	Other*
Seed	0	0	0	0	0	3,725	0	0	0	0	0	302
Start-up	4,093	3,771	0	281	2,017	14,900	33,145	0	0	500	0	252
Later-stage venture	6,012	3,397	4,000	45,690	22,063	35,687	0	1,300	0	3,250	1,187	658
Total venture	**10,105**	**7,168**	**4,000**	**45,971**	**24,080**	**54,312**	**33,145**	**1,300**	**0**	**3,750**	**1,187**	**1,212**
Growth	22,723	81,969	0	217,687	50,724	72,454	42,036	7,102	8,416	0	203,675	2,996
Rescue/Turnaround	0	500	0	0	0	68	0	0	0	0	0	0
Replacement capital	0	0	0	0	0	0	5,000	0	0	0	0	0
Buyout	44,228	840	96,875	177,776	401,800	501,122	192,908	0	22,729	0	96,673	19,077
Total 2008	**77,056**	**90,477**	**100,875**	**441,435**	**476,604**	**627,957**	**273,089**	**8,402**	**31,145**	**3,750**	**301,535**	**23,285**
Total 2007	**369,723**	**555,653**	**17,244**	**170,250**	**491,367**	**683,518**	**475,861**	**161,610**	**23,460**	**46,663**	**n/a**	**9,812**

Source: PEREP_Analytics

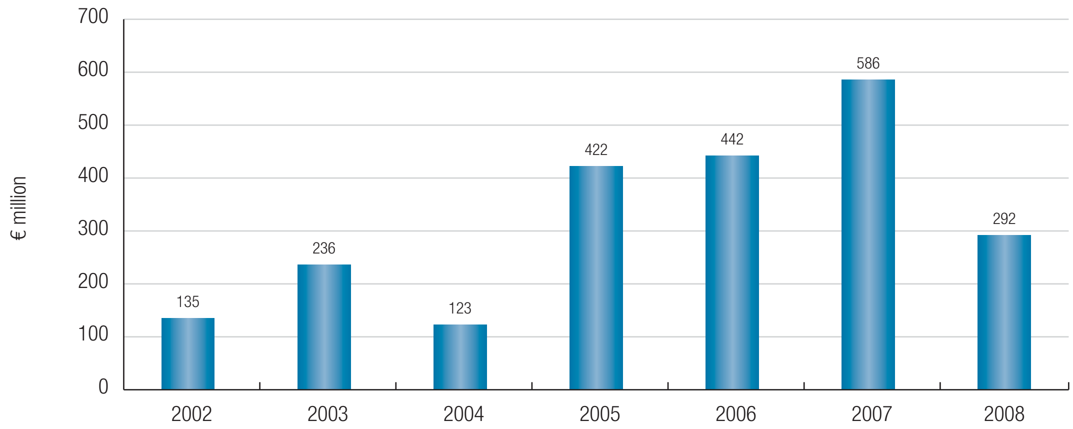
Disclaimer: Data is continuously updated and therefore subject to change.

* Bosnia & Herzegovina, Macedonia, Montenegro

6. Exits

Exit activity in the CEE region decreased by 50% in 2008, in line with the general European trend. Divestments at cost fell to €292m (€287m when Ukraine is excluded), down from €586m in 2007. Altogether, divestment at cost accounted for 2.2% of the total exit value in Europe.

Figure 7: Annual divestment value in the CEE region, 2003-2008 (exit value at investment cost)



Source: PEREP_Analytics for 2007 and 2008 data
EVCA/Thomson Reuters/PricewaterhouseCoopers for previous years' data
Disclaimer: Data is continuously updated and therefore subject to change.

The most active CEE market in terms of amount divested was Romania, with one third of the CEE total, followed by Hungary and Poland, with a quarter each. A total of 53 companies were exited in 2008, 29% less than in 2007. Almost a third of these were located in Poland, with 17% in Hungary and 15% in Romania. Slovakia, Macedonia and Montenegro showed no divestment activity in 2008, as in 2007.

Trade sales remained the most common exit method, both by amount divested at cost (43%) and by number of companies exited (40%). This was followed by sales to other private equity houses, which accounted for 37% of the total amount divested at cost and 15% of the total number of companies exited.

By amount, the most divested sectors in 2008 were life sciences (€51m), financial services (€45m), business & industrial products (€39m) and energy & environment (€38m). Together, they accounted for nearly 60% of the total amount divested at cost. The communications sector saw the greatest number of companies exited, with 19%.

Table 8: Divestments in CEE vs total Europe, 2008 (exit value at investment cost) (in € x 1,000)

	Total CEE	% of total	Total Europe	% of total
Divestment by trade sale	125,652	43.0	5,188,693	38.2
Divestment by public offering	200	0.1	727,104	5.4
Divestment on flotation (IPO)	200		55,753	
Sale of quoted equity	0		671,352	
Divestment by write-off	2,079	0.7	780,751	5.8
Repayment of silent partnerships	0	0.0	135,330	1.0
Repayment of principal loans	0	0.0	837,523	6.2
Sale to another private equity house	108,098	37.1	3,654,961	27.0
Sale to financial institution	16,450	5.6	707,094	5.2
Sale to management (MBO)	16,026	5.5	623,714	4.6
Divestment by other means	23,222	8.0	900,991	6.6
Total 2008	**291,727**	**100.0**	**13,556,163**	**100.0**
Total 2007	**586,008**		**26,562,033**	

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

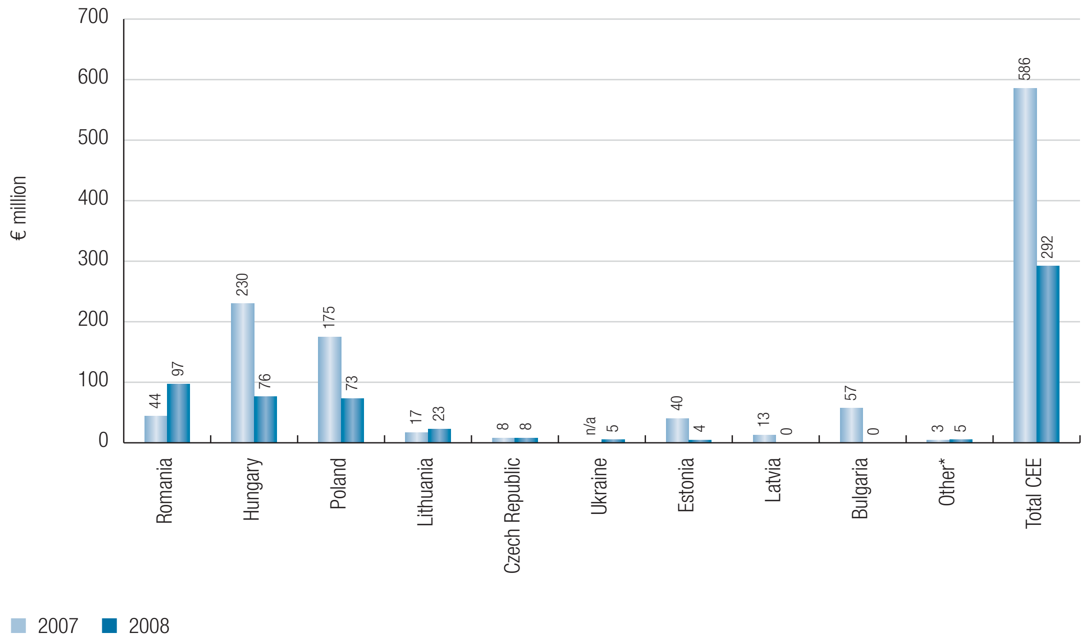
Table 9: CEE divestments by sector, 2008 (exit value at investment cost) (in € x 1,000)

	Amount at cost	% of total	Number of companies	% of total
Agriculture	608	0.2	1	1.9
Business and industrial products	38,986	13.4	4	7.5
Business and industrial services	4,716	1.6	3	5.7
Chemicals and materials	10,381	3.6	3	5.7
Communications	28,212	9.7	10	18.8
Computer and consumer electronics	18,930	6.5	7	13.2
Construction	423	0.1	1	1.9
Consumer goods and retail	31,915	10.9	6	11.3
Consumer services	1,700	0.6	1	1.9
Energy and environment	38,273	13.1	4	7.5
Financial services	45,138	15.5	4	7.5
Life sciences	50,812	17.4	3	5.7
Real estate	4,766	1.6	3	5.7
Transportation	14,446	5.0	1	1.9
Unknown	2,423	0.8	2	3.8
Total divestment in year	**291,727**	**100.0**	**53**	**100.0**

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

6. Exits

Figure 8: Divestment by CEE country, 2007-2008 (exit value at investment cost)



Source: PEREP_Analytics

Disclaimer: Data is continuously updated and therefore subject to change.

* Bosnia & Herzegovina, Croatia, Serbia, Slovenia

7. CEE Venture Capital Market

With €186m invested in 100 venture companies in 2008, the CEE venture market accounted for 2.7% of total European venture investment. Compared to 2007, venture activity decreased by more than one third in amount, triggered by a sharp drop in later-stage venture investment. However, the number of venture companies financed increased by 19%, driven by financing of more start-up businesses.

In 2008, the CEE venture market began to align itself more closely with the trends seen in Europe as a whole. So, while in 2007 the CEE venture market was much more later-stage oriented than Europe as a whole (with 90% of investment and 61% of the number of companies concentrated in later-stage venture, compared with 69% and 46% respectively in Europe) the gap decreased in 2008; later-stage venture accounted for two thirds of the value invested in CEE and less than half of the number of companies financed, compared with 60% and 42% respectively for Europe as a whole. However, only twelve early-stage companies received seed financing in CEE, ten of which were located in Poland.

Figure 9 & 10: Venture investment by stage, 2007-2008 (amount and number of companies)

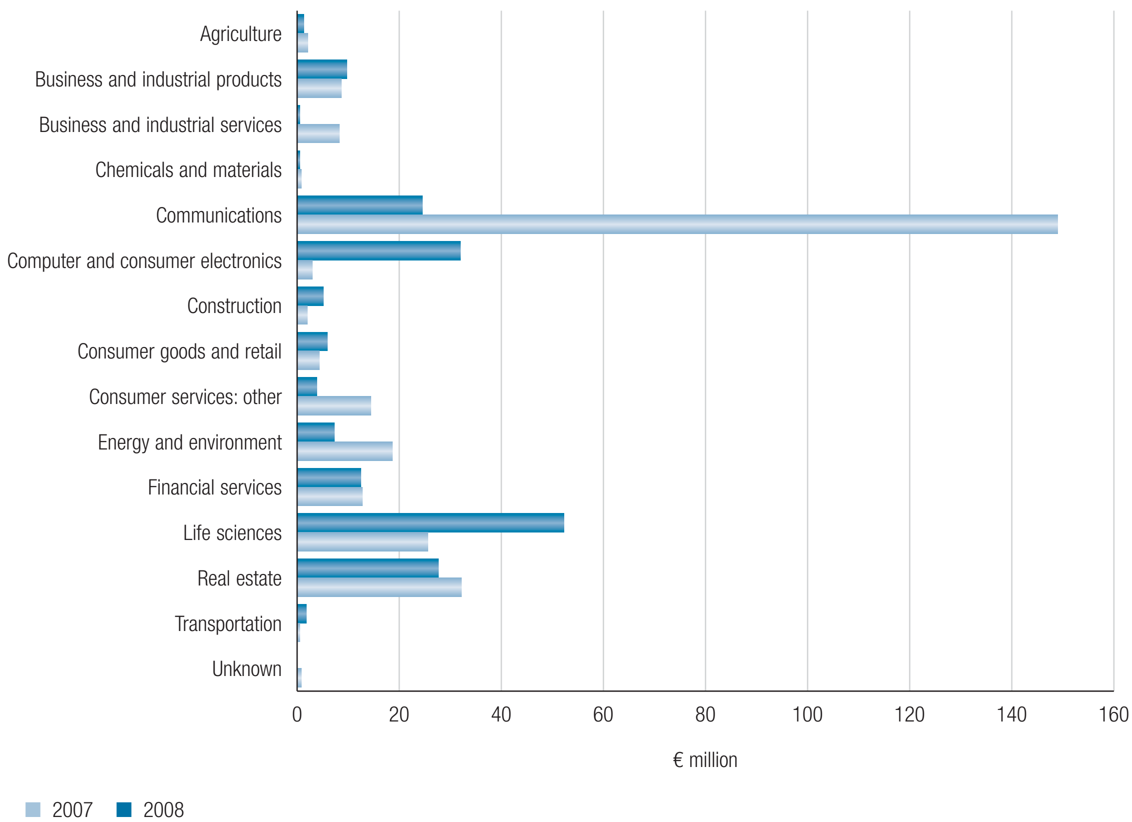
Source: PEREP_Analytics
Disclaimer: Data is continuously updated and therefore subject to change.

7. CEE Venture Capital Market

Poland, the Czech Republic, Hungary and Romania combined accounted for 85% of total venture investment in the region and 63% of the total number of venture companies financed.

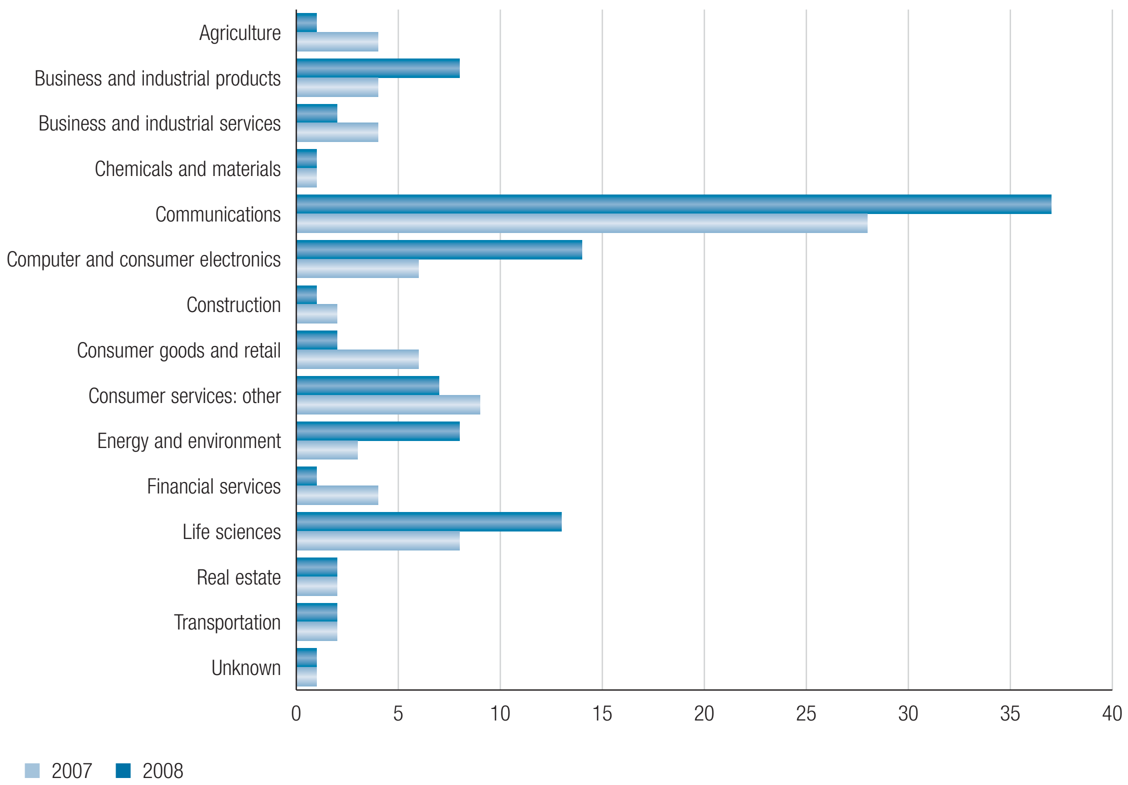
With €53m (invested into 13 companies), life sciences received the most funding in the venture segment in 2008, driven by one large venture life sciences transaction. Communications remained the most targeted sector in terms of companies invested, accounting for more than a third of investments.

Figure 11: Venture investment by sector, 2007-2008 (amount)



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

Figure 12: Venture investment by sector, 2007-2008 (number of companies)



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

7. CEE Venture Capital Market

Twenty-four venture-backed companies were exited in 2008 (accounting for 45% of all CEE companies exited), with a total amount at cost of €60m (one fifth of the total amount at cost of CEE company exits).

By amount divested at cost in 2008, more than half of the venture divestment activity was concentrated in sales to other private equity houses. Nearly 40% of exited CEE venture-backed companies were divested in 2008 via sale to management (MBO), 30% via trade sales and 17% through sales to other private equity houses.

Table 10: Venture divestments by stage, 2007-2008 (exit value at investment cost) (in € x 1,000)

	2007		2008	
	Amount	Number of companies	Amount	Number of companies
Divestment by trade sale	24,482	10	13,536	7
Divestment by public offering	2,532	5	200	1
Divestment on flotation (IPO)	2,172	4	200	1
Sale of quoted equity	360	1	0	0
Divestment by write-off	0	0	479	1
Repayment of silent partnerships	0	0	0	0
Repayment of principal loans	2,067	1	0	0
Sale to another private equity house	19,251	6	32,159	4
Sale to financial institution	10,316	7	236	1
Sale to management (MBO)	9,131	8	12,276	9
Divestment by other means	303	5	674	2
Total divestment in year	**68,081**	**36**	**59,559**	**24**

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

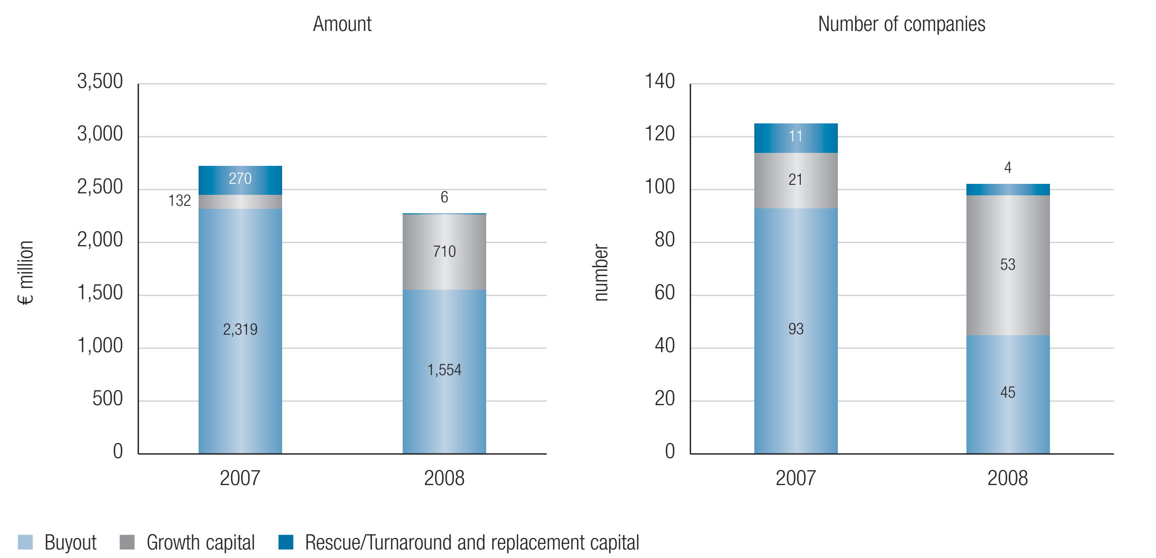
Half of the amount divested came from the exits of two life sciences companies, which remained the most divested venture sector by amount. As in 2007, the communications sector saw more exits than any other.

8. CEE Buyout and Growth Market

In buyout and growth capital transactions, almost €2.3bn was invested in over 100 companies in 2008. This represented about 18% less than in 2007, both by amount and by number of companies. However, similar to 2007, buyout and growth investment accounted for more than 90% of the total amount invested in the CEE region in 2008 and more than half of the companies financed. Compared to 2007, buyouts decreased by a third in amount and by half in terms of companies financed, while growth capital increased more than fivefold in amount, and more than doubled by number of companies.

The overall amount invested in the CEE buyout & growth segment represented 5% of total European buyout & growth investment value.

Figure 13 & 14: Buyout and growth investment by stage, 2007-2008 (amount and number of companies)



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

Like the venture market, the buyout and growth market activity in 2008 was concentrated in a few countries. Poland, Hungary, the Czech Republic, and Romania accounted for more than 70% of the total buyout & growth investment value in the region and two thirds of the total number of companies financed.

By amount, more than half of the buyout activity in the CEE region took place in Poland and Hungary. The Czech Republic and Ukraine accounted for nearly 60% of the value and one third of the number of companies financed in growth capital transactions.

The total transaction value of CEE buyouts in 2008 was €3.1bn. Mid-market buyouts accounted for about half of the total transaction value as well as half of the total equity invested. However, 80% of the companies financed were small buyouts. The ratio of private equity contribution to transaction value for small buyouts was 54%, while for mid- and large buyouts it was slightly lower, at approximately 50%. This compares with 48% and 40% respectively for overall Europe and reflects the lower level of financial leverage in CEE transactions.

8. CEE Buyout and Growth Market

Table 11: Equity and transaction value by type of buyout in 2008 (in € x 1,000)

	Amount (equity value)	%	Number of companies	%	Transaction value	%	Equity contribution of PE firms
Small	364,163	23.4	36	78.2	668,717	21.7	54.5
Mid-market	788,065	50.7	9	19.6	1,609,631	52.3	49.0
Large	401,800	25.9	1	2.2	800,000	26.0	50.2
Total buyout	**1,554,028**	**100.0**	**45**	**100.0**	**3,078,348**	**100.0**	**50.5**

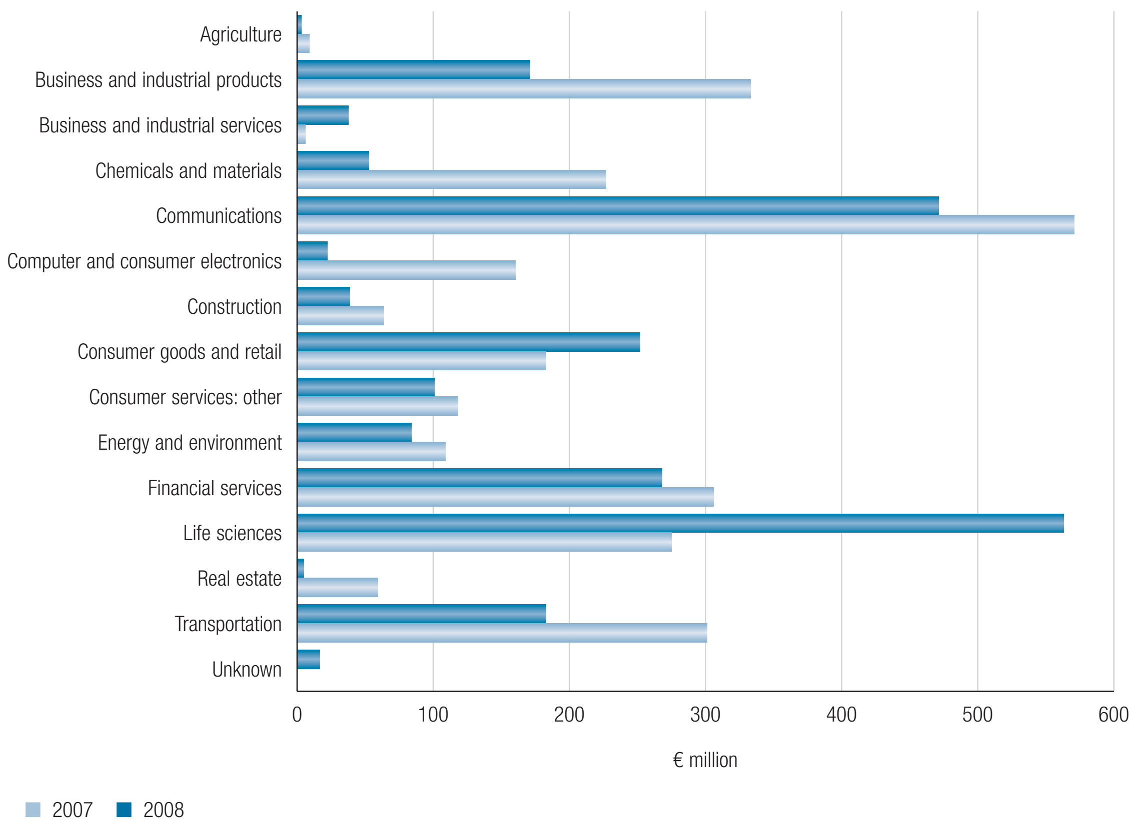
Source: PEREP_Analytics

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 sum of number of companies by buyout split is higher than the total, because two transactions of different sizes occured in the same company in 2008 (for more information, please see methodology page 26).

Across the buyout and growth segments in 2008, life sciences recorded the greatest amount of investment (€563m), which was driven by one large buyout deal. Communications followed, with one-fifth of total investment. The consumer goods & retail sector saw the greatest number of companies financed, followed closely by communications.

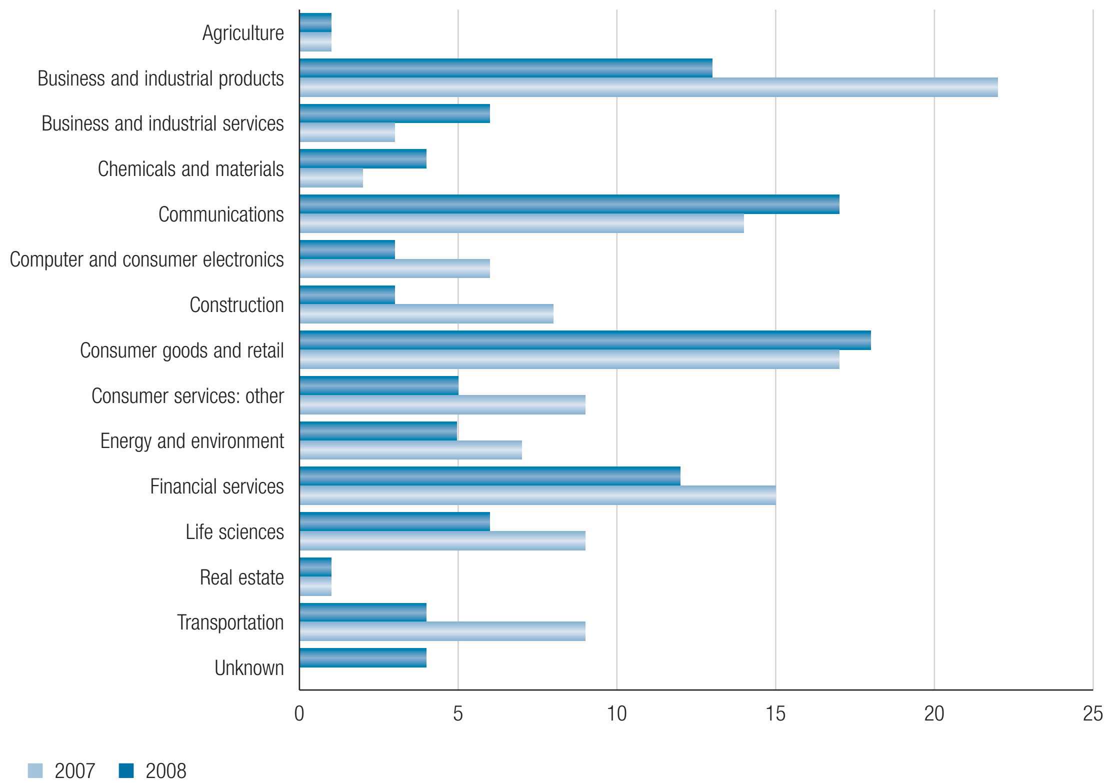
Figure 15: Buyout and growth investment by sector, 2007-2008 (amount)



Source: PEREP_Analytics

Disclaimer: Data is continuously updated and therefore subject to change.

Figure 16: Buyout and growth investment by sector, 2007-2008 (number of companies)



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

8. CEE Buyout and Growth Market

The total amount divested from companies in the buyout & growth segment in 2008 fell by more than a half compared to 2007, although the number of buyout & growth companies exited remained stable. As in 2007, trade sales were the most common exit route, representing nearly half the total divestment activity in the CEE buyout & growth segment in 2008. This was followed by sales to other private equity houses, which accounted for one third of divestments by amount and 17% by number. The public markets accounted for no exit activity in the buyout & growth segment in 2008.

Table 12: Buyout & growth divestment by exit route, 2007-2008 (exit value at investment cost) (in € x 1,000)

	2007		2008	
	Amount	Number of companies	Amount	Number of companies
Divestment by trade sale	262,740	16	112,116	14
Divestment by public offering	13,916	4	0	0
Divestment on flotation (IPO)	378	1	0	0
Sale of quoted equity	13,538	3	0	0
Divestment by write-off	0	0	1,600	1
Repayment of silent partnerships	0	0	0	0
Repayment of principal loans	20,350	1	0	0
Sale to another private equity house	115,873	5	75,939	5
Sale to financial institution	6,235	1	16,214	3
Sale to management (MBO)	3,476	2	3,750	3
Divestment by other means	67,509	8	22,549	4
Total divestment in year	**490,099**	**31**	**232,168**	**30**

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

With €45m divested at cost from four companies, financial services was the most divested sector by amount in 2008, although this was driven by one large exit. The greatest number of companies exited was recorded in the communications sector, which saw five companies divested.

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 CEE 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
- funds raised from outside CEE but with a stated aim to be 100% invested in CEE

The following funds are excluded from the statistics:

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

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 in charge of the deal 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.

Modifications in investments stages

Historically the venture segment included seed, start-up and expansion stages. In 2008, the expansion stage has been replaced by two new stages: later-stage venture and growth (for definitions, please go to page 28). This change in investments stages materialised as well in funds stage focus. All the funds that were classified as development/ expansion funds, are now classified as either later-stage venture funds or growth funds.

9. Methodology

Figures for 2007 have been restated to match the new stages using the following method:

First, we focused on reclassifying the funds by stage focus, to grasp growth funds. The expansion funds managed by venture firms became later-stage venture funds, while the expansion funds manged by buyout firms became growth funds. For the firms that manage only expansion funds or are generalists, the funds were reclassified based on the stage profiles of the investments made from that fund. If the funds invest in venture stages the funds were reclassified as later-stage venture, while if they invest in expansion, replacement capital and small buyout stages the funds were reclassified as growth funds.

Second, based on the reclassification of the funds, all the expansion deals were reclassified. Expansion deals made by later-stage venture funds, balanced funds or early-stage funds became later-stage venture investments. Expansion deals made by growth funds, buyout funds or mezzanine funds became growth investments. When the fund was generalist, we reclassified the deals as later-stage venture to remain conservative.

Of course, all the private equity firms that submit their data in PEREP_Analytics have the possibility to reclassify the funds stage focus or investment stage if they believe their funds/investments correspond to another category. Also, in 2008 the new classifications were available in the online survey so the player could make the right choice directly.

Buyout split

Buyout investments are split into four classes: small, mid-market, large, and mega. In market statistics, this classification is based on the transaction values of the buyout deals.

Buyout segment	Transaction value (€ millions)
Small	< 50
Mid-market	$50 \le X < 500$
Large	$500 \le X < 1,000$
Mega	$\ge 1,000$

Divestments

Divestments are measured by cost of investment, not proceeds.

Number of companies

The number of companies represents a distinct list of entities receiving investments throughout the reporting year. For example, if Company A receives two investments in a year, the number of companies will equal one, while 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.

For example, if a company received multiple distinct rounds of financing in a year – a seed investment of €1m by one investor in January, followed by a later-stage venture round of €2m in July with two investors – the tables would indicate the following:

Stage	Amount	Investments	Companies
Seed	1,000	1	1
Later stage venture	2,000	2	1
Total investment	**3,000**	**3**	**1**

The total number of companies corresponds to the number recorded under "Total investment". Any one company can be recorded under several subcategories. The sum of all subcategories can exceed the number stated under "Total investment". Therefore, it would appear to have incorrect totals in the number of companies (for both investments and divestments) as the table appears to add up to 2, but the total only shows a total of 1. This will only affect counts of companies, it does not affect the amounts. However it will make any average more accurate.

The sum of the number of companies invested in through or divested from venture and buyout & growth deals can also be higher than the total number of companies for all private equity, if companies have been financed initially by some players at the venture stage, while by others at the buyout stage and are counted only once in the total for all private equity.

Data updates

PEREP_Analytics offers to the players the potential to submit surveys and validate previously populated data captured from public information sources at a later stage. Moreover, if a player submits a divestment at a later stage, and the corresponding investment has never been 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 processed in the database at a later moment. 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. However, in this publication, 2007 figures do not differ from those presented in the previous CEE report.

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 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 for the launch, early development, or expansion of a business.

Type of investors (fundraising figure):

Corporate investor: Corporations that produce products (manufacturing companies) or deliver non-financial services (it 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 to one or several families, which include investment management and other services (accounting, tax and financial advice etc).

Foundation: A non-profit organisation through which private wealth is contributed and distributed for public purpose (most often charitable purposes). It can either donate funds and support other organisations, or provide the sole source of funding for their own charitable activities.

Fund of funds: Private equity fund that takes primarily equity positions in other 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. it may include direct private equity funds that occasionally do indirect investments, but excludes fund of funds that are a standalone option.

Public sector: Country, regional, governmental and European agencies or institutions (including structures such as EBRD or EIF).

Fund stage focuses (fundraising table):

Early-stage fund: Venture capital funds focused on investing in companies in the early stages of their lives.

Later-stage venture fund: Venture capital funds focused on investing in later stage companies in need of expansion capital, and they usually include C or D VC rounds.

Growth fund: Funds whose strategy is to invest in or acquire relatively mature companies that are looking for capital to expand or restructure operations, and they usually represent the first private equity investment in the company.

Balanced fund: Venture capital funds focused on both early stage and development with no particular concentration on either.

Buyout fund: Funds whose strategy is to acquire other businesses.

Mezzanine fund: Funds which provide (generally subordinated) debt to facilitate the financing of buyouts, frequently alongside a right to some of the equity upside.

Generalist fund: Funds with either a stated focus of investing in all stages of private equity investment, or funds 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. These are described as follows and were the stages included in the survey questionnaire:

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 have 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 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. Late stage venture tends to be financing into companies already backed by venture capitalists, therefore they would be C or D rounds of financing.

Growth: It is 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. As a round of financing, growth capital tends to be the first private equity backing of the company. Additionally, all investments made by buyout funds into venture type of stages should be defined as growth capital.

Bridge financing: Financing made available to a company in the period of transition from being privately owned to being publicly quoted.

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

10. Definitions

Secondary purchase/replacement capital: Minority stake purchase of existing shares in a company from another private equity investment organisation or from another shareholder or shareholders.

Refinancing bank debt: To reduce a company's level of gearing.

Management buyout: Financing provided to enable current operating management and investors to acquire existing product line or business.

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), by using significant amount of borrowed money to meet the cost of acquisition.

Mapping the above stages into the main 5 stages presented in this document 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, leverage buyout

Mapping the above stages into the main 2 stages – venture deals and buyout deals – leads to the following classification:

- Venture deals: Seed, start-up, later-stage venture
- Buyout deals: Growth, rescue/turnaround, replacement capital, buyouts

Amounts definition:

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

Transaction value: The sum of the "equity value" as described above, to which financing coming from the rest of the syndicate is added (LP co-investors, individuals, entrepreneurs, business angels, management, corporates, funds of funds, other asset managers and/or financial institutions), together with the leverage (debt provided by banks or other providers). In other words, stricto sensu transaction value is equal to enterprise value multiplied by percentage ownership by the acquiring syndicate in which at least one financial sponsor (i.e. private equity firm) is involved.

Sectoral definitions (investment tables):

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

Divestment methods (divestment table):

Divestment on flotation (IPO): An IPO (initial public offering, which 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) is one way in which a private equity firm can sell its shares and exit an investment.

Repayment of preference shares/loans: If the 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 preferentially to 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 well known and often used in Germany.

Sale of quoted equity post-flotation: It includes sale of quoted shares only if connected to a former private equity investment, e.g. sale of quoted shares after a lock-up period.

Sale to another private equity house: see sale to financial institution.

Sale to financial institution: The sale of company shares to banks, insurance companies, pension funds, endowments, foundations and other asset manager other than a private equity firm.

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

Divestment by write-off: The write-down of a portfolio company's value to zero or a symbolic amount (sales for a nominal amount). The value of the investment is eliminated and the return to investors is zero or negative.

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

11. 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 43 lawyers and tax advisors in Warsaw and is frequently called upon to offer legal support to its local and international clients. With 24 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 Dalkia (Veolia), Finmeccanica Group, L'Oréal, France Télécom, Telekomunikacja Polska, Accor, Neinver, Deutsche Bank PBC, Enterprise Investors, Bank Zachodni WBK, Société Générale, Pirelli Pekao Real Estate, PGNiG, DnB Nord Bank, KGHM Polska Miedź, Arcelor Mittal, Euris.

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

- M&A and corporate law
- Banking & finance
- 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.

11. About Gide Loyrette Nouel Warsaw Office

Gide Loyrette Nouel
Metropolitan, Pl. Piłsudskiego 1
00-078 Warsaw - Poland
Tel. + 48 22 344 00 00
Fax + 48 22 344 00 01
E-mail: gln.warsaw@gide.com
www.gide.com

Contact details

- **Paweł Grześkowiak**
  advocate, partner
  grzeskowiak@gide.com

- **Rafał Dziedzic**
  legal advisor, partner
  dziedzic@gide.com

- **Agnieszka Kowalska**
  legal advisor
  kowalska@gide.com

PEREP ANALYTICS

EUROPEAN
PRIVATE EQUITY &
VENTURE CAPITAL
ASSOCIATION

GLN
Gide Loyrette Nouel

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

The 'Central and Eastern Europe Statistics 2008' Special Paper is published by the European Private Equity & Venture Capital Association (EVCA).

Bastion Tower, Place du Champ de Mars 5, B-1050 Brussels, Belgium Tel: + 32 2 715 00 20 Fax: + 32 2 725 07 04 e-mail: info@evca.eu web: www.evca.eu