

Central and Eastern Europe Statistics 2006

An EVCA Special Paper

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Edited by the EVCA Central and Eastern Europe Task Force



European Private Equity &
Venture Capital
Association

About EVCA

The European Private Equity and Venture Capital Association (EVCA) was established in 1983 and is based in Brussels. EVCA represents the European private equity sector and promotes the asset class both within Europe and throughout the world.

With well over 1,200 members in Europe, EVCA's role includes representing the interests of the industry to the regulators and standard setters; developing professional standards; providing industry research; offering professional development; and organizing forums to facilitate interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics.

EVCA's activities cover the whole range of private equity: venture capital (from seed and start-up to development capital), buyouts and buyins.

The EVCA Central and Eastern European Task Force

EVCA created the Central and Eastern European Task Force in 2003 as a platform to launch initiatives for the benefit of EVCA members in Central and Eastern Europe. These initiatives are specifically aimed at the development and promotion of private equity and venture capital in the region. The Task Force published *Central and Eastern Europe Success Stories* in October 2004, *Central and Eastern Europe Statistics 2004* in October 2005, and *Central and Eastern Europe Statistics 2005* in November 2006. During the course of 2007, the Task Force organised conferences targeted at local CEE institutional investors to develop their interest in the private equity asset class. The Task Force also seeks to develop Central and Eastern European topics of interest in other EVCA publications and conferences.

Disclaimer

The information contained within this report has been produced with reference to the contributions of the EVCA Central and Eastern European Task Force, private interviews, and other sources of information. EVCA has taken suitable steps to ensure the reliability of the information presented; however, it cannot guarantee the ultimate accuracy of the information collected. Therefore, neither EVCA nor the individual members of the EVCA Central and Eastern European Task Force can accept responsibility for any decision made or action taken based on this report or the information provided herein.

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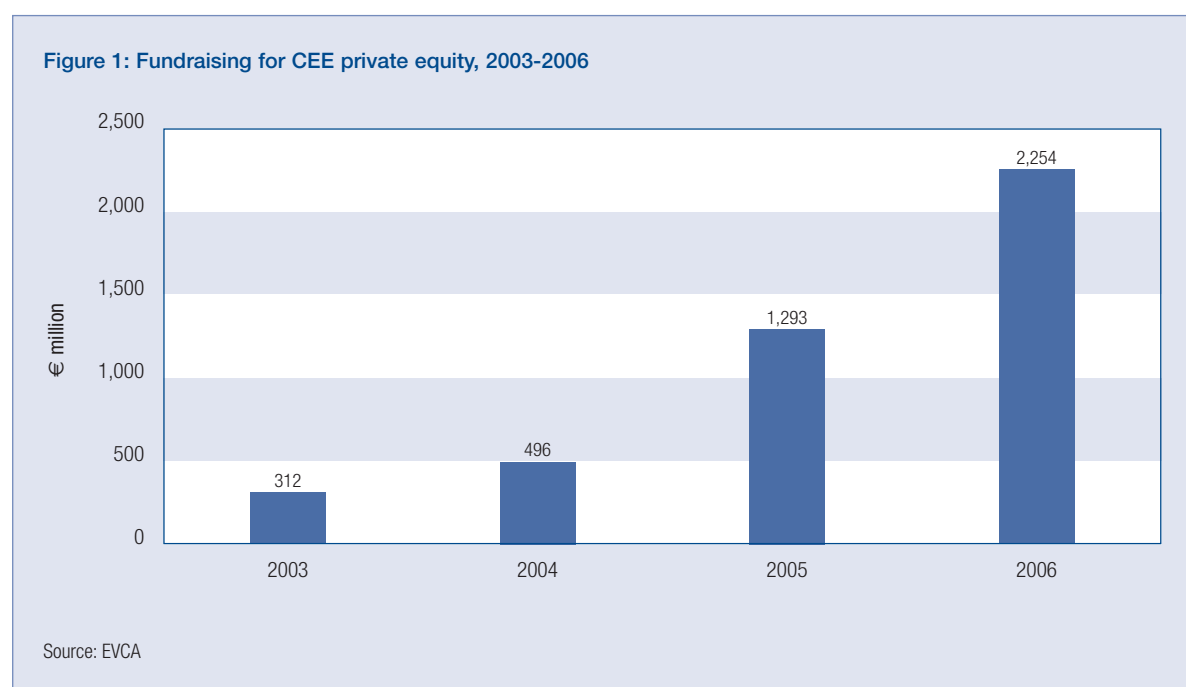
1. Introduction

This document provides an update of annual activity statistics for the private equity and venture capital markets of Central and Eastern Europe in 2006. Similar statistics for 2005 and 2004, respectively, were published in EVCA's *Central and Eastern Europe Statistics 2005* (November 2005) and *Central and Eastern Europe Statistics 2004* (October 2005). The statistics contained here are based on the "market" approach wherein EVCA compiles information to show activity in a particular country, rather than the "industry" approach that shows the activity of fund managers based in that country. EVCA believes this gives a more accurate picture of the overall investment trends and activities in the Central European markets due to the predominance of regional funds and fund managers. All data provided is based on replies to the EVCA annual private equity activity survey presented in the EVCA Yearbook 2007, with some additional updates and estimates.

For the purposes of this publication, Central and Eastern Europe (CEE) comprises the following countries: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia and Montenegro, the Slovak Republic and Slovenia.

2. Fundraising

Fundraising for CEE reached a new record level of €2.25 billion in 2006, an increase of 74% over the prior record level achieved in 2005. This achievement reflects the growing interest of institutional investors to participate in the CEE region. Funds raised were primarily directed toward private equity fund managers focused on buyouts. More than 80% of the capital raised was from sources outside the CEE region, primarily from Western Europe and North America. 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 as a total pool of capital raised for the region.

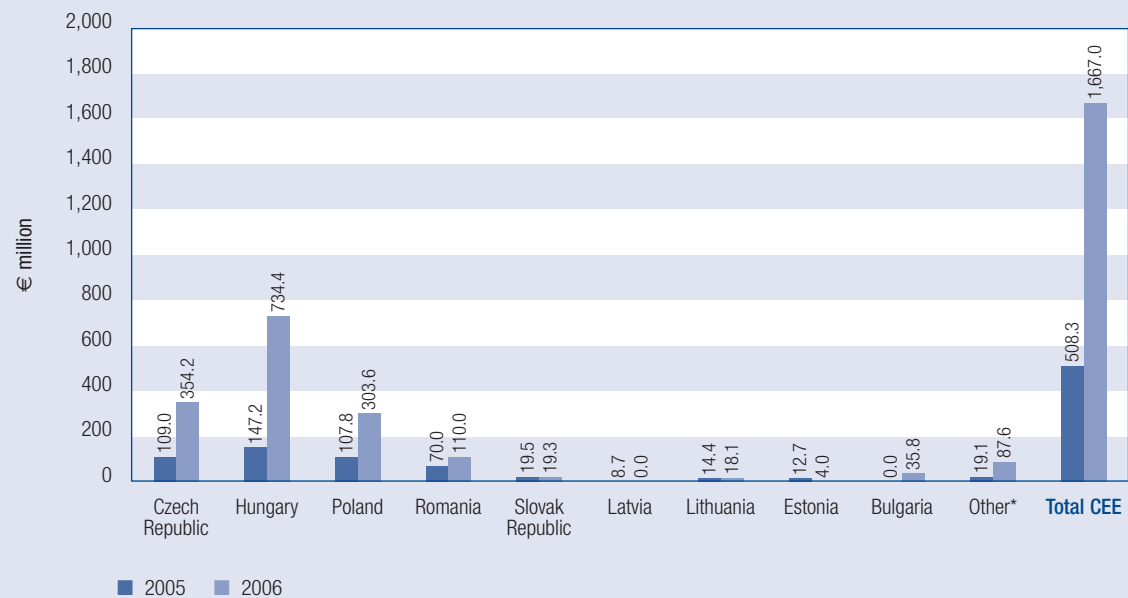


Please note that the data presented above is limited to capital raised by funds with CEE declared as their target region. The data does not include those funds that may allocate a portion of their capital to CEE but whose primary focus is elsewhere.

3. Investment Activity

Private equity investment activity in the CEE region increased dramatically in 2006, reaching €1.67 billion, a more than three-fold increase compared to 2005, and an all-time record. Investment levels showed significant growth in almost all countries in the region, in particular Hungary, the Czech Republic and Poland. The amounts registered in Hungary and the Czech Republic were driven to a large extent by single large transactions in each country. Some 90% of the region's investment activity in 2006 is concentrated in Hungary, the Czech Republic, Poland and Romania. When comparing investment activity to GDP, the CEE region still lags far behind Europe as a whole, although the gap is shrinking. In 2006, investment as a percentage of GDP in CEE reached 0.218%, or 39% of the Europe-wide average of 0.552%. In 2005, the CEE region represented 19% of the European average.

Figure 2: Annual investment value in CEE, 2005-2006



* Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro

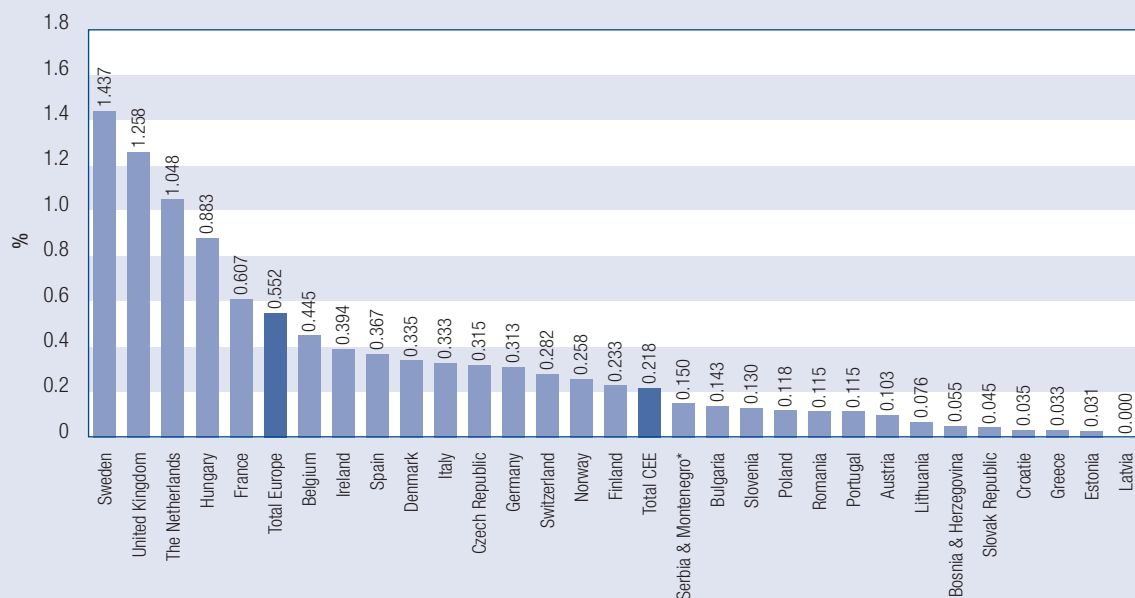
Source: EVCA

Table 1: Investments as a percentage of GDP in CEE, 2005-2006 (amounts in € th)

	Total investment		Investment as % of GDP	
	2005	2006	2005	2006
Bosnia and Herzegovina	9,974	5,328	0.123%	0.055%
Bulgaria	-	35,812	0.000%	0.143%
Croatia	756	12,033	0.002%	0.035%
Czech Republic	108,952	354,208	0.112%	0.315%
Estonia	12,652	4,031	0.120%	0.031%
Hungary	147,247	734,360	0.167%	0.883%
Latvia	8,719	-	0.068%	0.000%
Lithuania	14,359	18,103	0.070%	0.076%
Poland	107,818	303,621	0.045%	0.118%
Romania	70,000	109,956	0.088%	0.115%
Serbia and Montenegro	6,367	31,501	0.030%	0.150%*
Slovak Republic	19,467	19,348	0.052%	0.045%
Slovenia	2,009	38,712	0.007%	0.130%
Total	508,320	1,667,013	0.073%	0.218%

* Based on 2005 GDP

Source: EVCA, Thomson Financial Datastream (GDP)

Figure 3: Private equity investments as a percentage of GDP for Europe, CEE and selected European countries, 2006

* Based on 2005 GDP

Source: EVCA

4. Types of Investment

Buyouts represented 91% of the total transaction value reported in 2006 in the CEE region, the highest proportion ever seen. This surpasses significantly the proportion of buyouts in Europe as a whole, recorded at 69%. Buyout levels in CEE grew more than six times compared to 2005, indicating a clear focus and preference for this type of transaction among fund managers active in the region. Expansion capital transactions showed a decrease compared to 2005 and only represented 5.7% of the total CEE investment value in 2006. It should not be interpreted that CEE investment targets are lacking growth perspectives, as most of the buyout targets were indeed growth companies. Start-up investments in 2006 recorded significant growth of over five times compared to 2005, primarily due to activity in Romania. However, start-ups remained low overall as a proportion of total investments at only 2.7% compared to 10.0% in Europe as a whole.

Table 2: Type of investment in CEE vs. Europe, 2006 (amounts in € th)

	Total CEE	% of total	Total Europe	% of total
Seed	1,190	0.1%	236,084	0.3%
Start-up	45,064	2.7%	6,777,776	10.0%
Expansion	95,361	5.7%	10,417,704	15.4%
Replacement capital	8,220	0.5%	3,478,698	5.1%
Buyout	1,517,177	91.0%	46,897,279	69.2%
Total 2006	1,667,013	100.0%	67,807,541	100.0%
Total 2005	508,320		47,107,024	

Source: EVCA

Table 3: Type of investment by CEE country, 2006 (amounts in € th)

	Bulgaria	Czech Rep.	Hungary	Poland	Romania	Slovakia	Baltic States	Others*
Seed	-	-	890	-	-	-	300	-
Start-up	-	318	2,277	-	31,339	3,999	7,132	-
Expansion	7,000	780	28,673	7,000	38,150	221	2,517	11,020
Replacement capital	-	211	-	-	5,875	2,134	-	-
Buyout	28,812	352,899	702,520	296,621	34,592	12,994	12,185	76,554
Total 2006	35,812	354,208	734,360	303,621	109,956	19,348	22,134	87,574
Total 2005	-	108,953	147,247	107,818	70,000	19,467	35,730	19,105

* Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro

Source: EVCA

5. Exits

Exit activity (measured by cost of investment) in the CEE region increased slightly in 2006 compared to 2005, by some 5%. Trade sales remained the most important exit route, comprising 47% of the divestment activity. Public market exits increased significantly to comprise 18% of total divestments, still slightly ahead of the 16% recorded in Europe as a whole. Of notable increase was the proportion of sales to other private equity firms, popularly known as “secondaries”. In 2006, this route comprised nearly 13% of the exits, far above the 6% recorded in 2005 and increasingly close to European levels. Polish transactions remained the largest source of exit activity in CEE in 2006 at 31% of total reported activity.

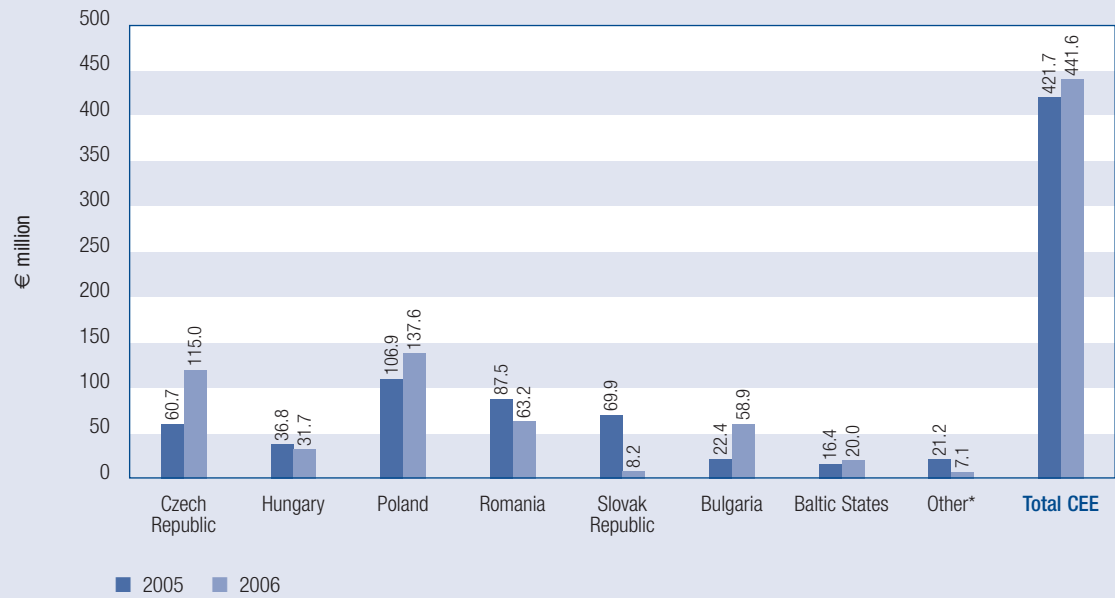
Table 4: Exits in CEE vs. total Europe, 2006 (exit value at investment cost) (amounts in € th)

	Total CEE	% of total	Total Europe	% of total
Divestment by trade sale	209,291	47.4%	7,652,225	23.0%
Divestment by public offering	80,028	18.1%	5,348,614	16.0%
Divestment by write-off	930	0.2%	1,255,760	3.8%
Repayment of principal loans	36,040	8.2%	5,664,889	17.0%
Sale to another private equity firm	56,098	12.7%	5,529,199	16.6%
Sale to financial institution	300	0.1%	1,783,683	5.4%
Sale to management (MBO)	36,276	8.2%	2,048,871	6.1%
Divestment by other means	22,679	5.1%	4,044,112	12.1%
Total 2006	441,641	100.0%	33,327,352	100.0%
Total 2005	421,693		19,562,478	

Source: EVCA

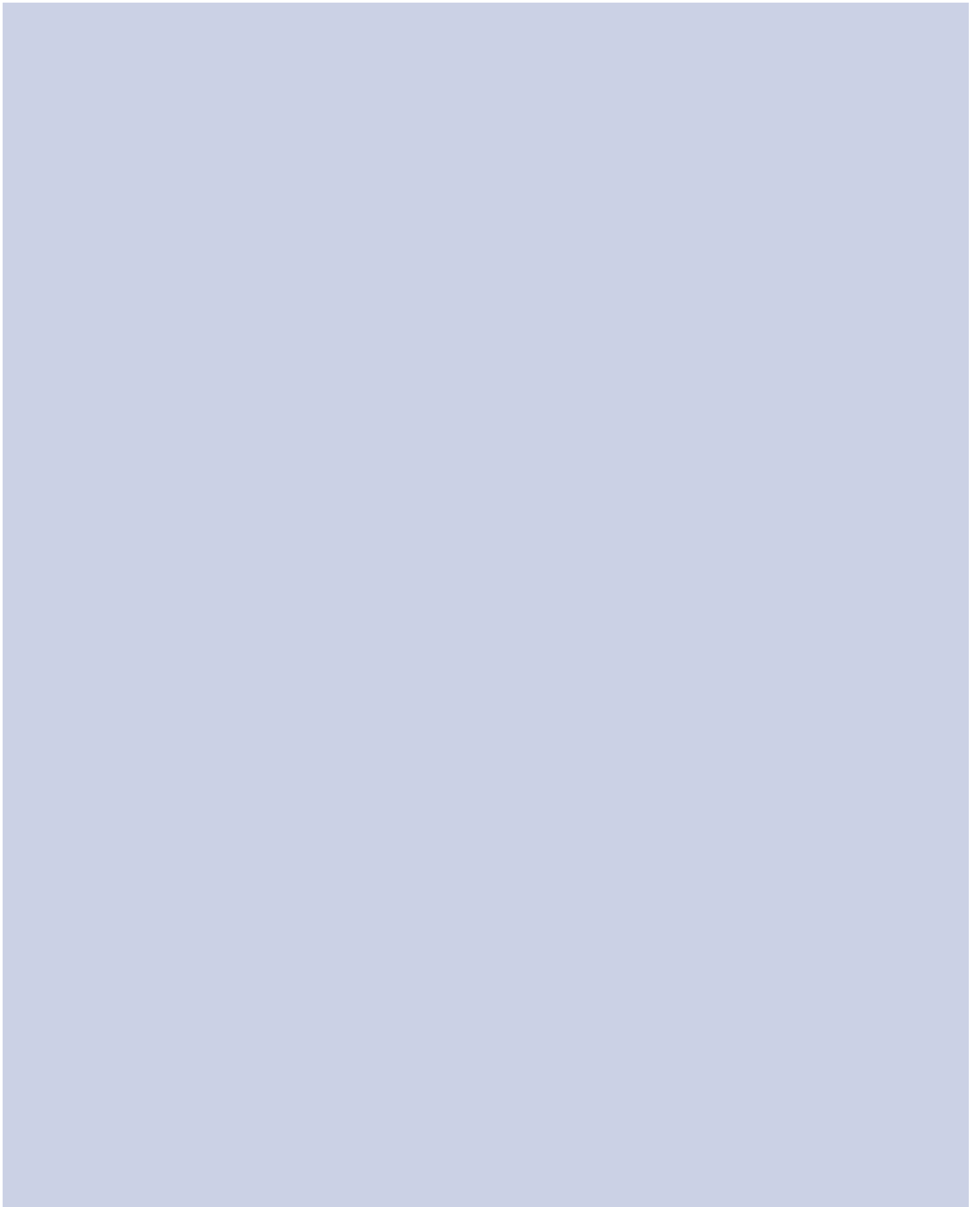
5. Exits

Figure 4: Divestments at cost by CEE country, 2005-2006



* Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro

Source: EVCA





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