

Central and Eastern Europe Statistics 2007

An EVCA Special Paper

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Edited by the EVCA Central and Eastern Europe Task Force

Kindly supported by Gide Loyrette Nouel Law Firm - Warsaw Office - (PSIK/EVCA member)



PEREP ANALYTICS



Gide Loyrette Nouel

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 over 1,300 members in 53 countries, EVCA's role includes representing the interests of the industry to regulators and standard setters; developing professional standards; providing industry research; professional development and forums, facilitating 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.

About EVCA Central and Eastern European Task Force

EVCA created the Central and Eastern Europe 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 region of Central and Eastern Europe. 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 and 2006. During the course of 2007, the Task Force organized conferences in four cities in the region, 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 Europe topics of interest in other EVCA publications and conferences. Information about the members of the Task Force may be found at www.evca.eu.

About PEREP_Analytics

PEREP_Analytics is a joint Pan-European statistics platform of 17 private equity associations. CVCA (the Czech Republic), HVCA (Hungary), PPEA (Poland, SEEPEA (South Eastern Europe) and SLOVCA (Slovakia) joined EVCA as endorsing associations of PEREP_Analytics in the CEE region. It is a fully functional, centralized non-commercial pan-European private equity database with its own staff, internal resources and webportal.

EVCA Disclaimer

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

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1. Introduction

This document provides the annual activity statistics for the private equity and venture capital markets of Central and Eastern Europe in 2007. Similar statistics for 2006 and 2005, respectively, were published in EVCA's *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 that 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 Central European 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, and the figures presented in this survey may differ from those presented in the *EVCA Yearbook 2008*.

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

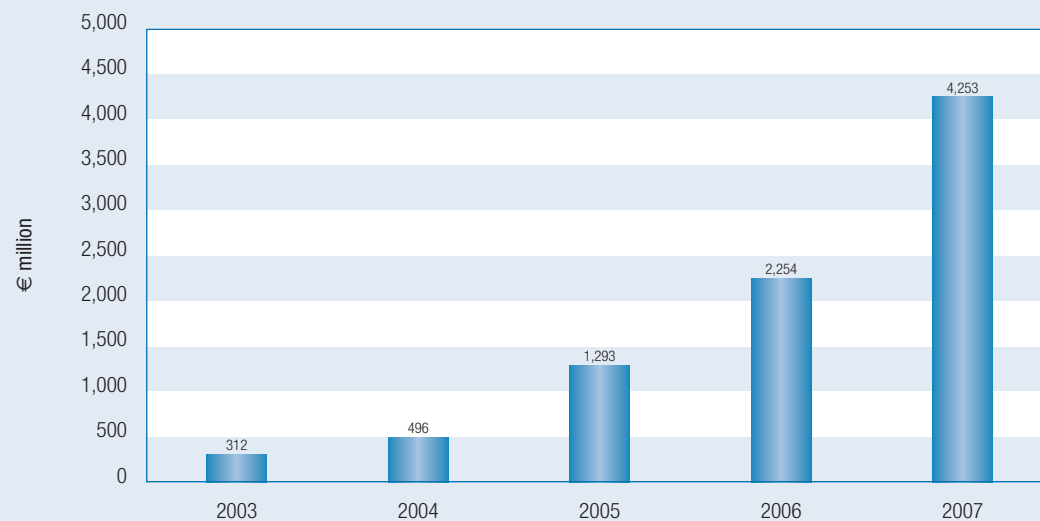
2. Fundraising

Fundraising for CEE once again reached a new record level in 2007 with €4.25 billion of new capital raised. This represents an 89% increase compared to the previous record level of funds raised in 2006. The CEE region clearly continues to be very attractive to institutional investors. In 2007, the largest ever fund dedicated to CEE was raised with a total €1.5 billion of capital commitments. Overall, CEE fundraising represented 5% of fundraising for all of Europe.

Sources of capital in 2007 were approximately 66% from within Europe and 34% non-European. Less than 2% of funds were sourced domestically from within the countries of the CEE region, far below the levels seen in all other European markets. Fund of funds were the largest single source of funds at 23.6% of the total amount raised, with pension funds next largest at 13.5%. Most (i.e. 62.7%) of the funds raised are expected to be utilized for buyout transactions. During the course of 2007, eight funds reached the stage of a final closing, having raised a cumulative €3.67 billion since inception.

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.

Figure 1: Fundraising for CEE private equity, 2003-2007



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

Table 1: Sources of capital raised for CEE private equity in 2007 (in € x 1,000)

	Amount	% of total
Fund of funds	1,002	23.5
Pension funds	573	13.4
Private individuals	445	10.4
Government agencies	436	10.3
Banks	432	10.2
Insurance companies	369	8.7
Corporate investors	309	7.3
Endowments & foundations	131	3.1
Other asset managers	131	3.1
Other sources	425	10.0
Total	4,253	100.0

Source: PEREP_Analytics.

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

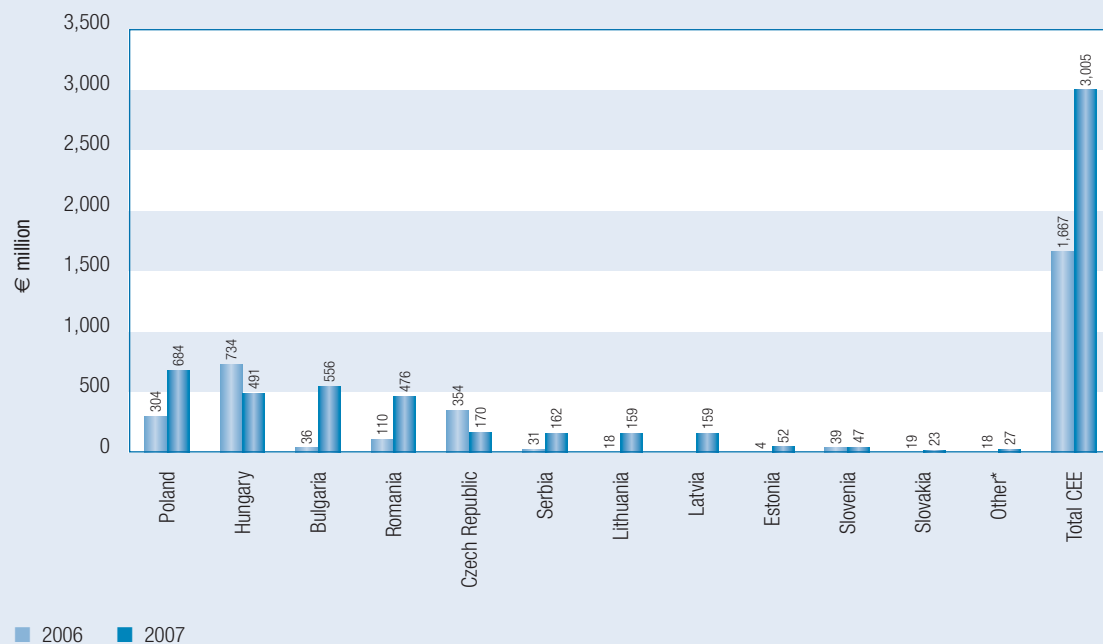
Please note that the data presented above is limited to capital raised by funds with CEE declared as their target region. The data does not include those funds that may allocate a portion of their capital to CEE but whose primary focus is elsewhere.

3. Investment Activity

Private equity investments in the CEE region showed dramatic growth again in 2007, reaching €3.01 billion. This represents an 80% increase compared to 2006. Poland showed the highest level of investment activity, reaching €684 million, nearly 23% of the regional total. Investment levels exhibited particularly strong growth in Bulgaria, Romania, Poland, the Baltic countries and Serbia. Although 2007 investment levels in the Czech Republic and Hungary showed decreases compared to 2006, the longer-term trend when comparing prior years is strongly upward. Please note that year to year changes in investment amounts in some countries are directly affected by a limited number of very large transactions. The total number of companies in the CEE region receiving private equity financing grew to 203 in 2007 compared to 147 in 2006. CEE investment activity represented 4.2% of total investments in Europe in 2007.

Comparing investment activity to GDP, the CEE region is still far below Europe as a whole, although the gap continues to shrink. In 2007, investment as a percentage of GDP in CEE was 0.325%, or 57% of the Europe-wide average of 0.571%. In 2006, the CEE region was 40% of the European average.

Figure 2: Annual investment value in CEE, 2006-2007 (no bank leverage included) (in € million)



* Bosnia & Herzegovina, Croatia, Macedonia, Montenegro.

Source: PEREP_Analytics for 2007 data, EVCA/Thomson Reuters/PricewaterhouseCoopers for data of the previous years.

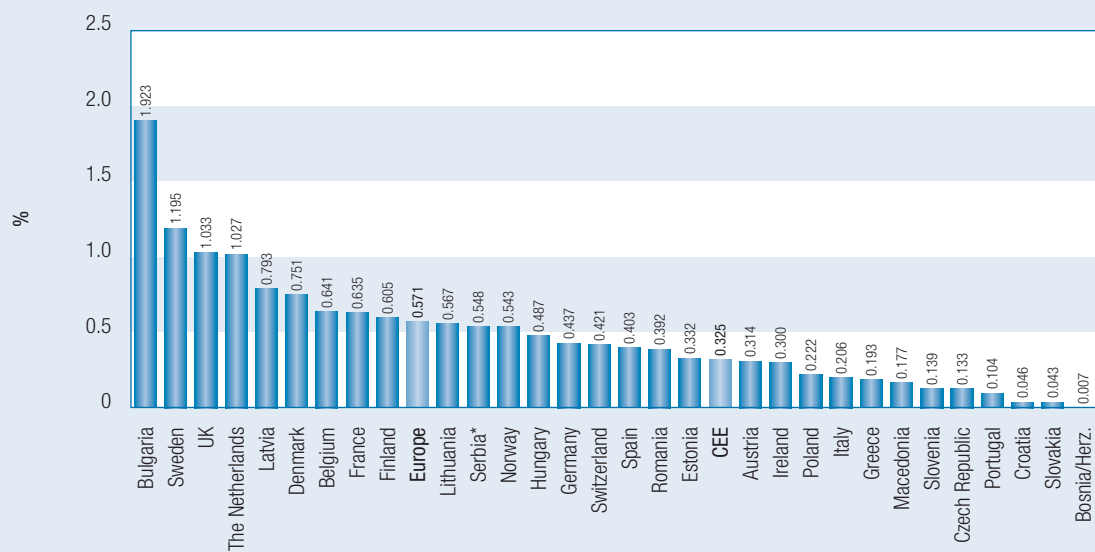
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Table 2: Investments as a percentage of GDP in CEE, 2006-2007 (in € x 1,000)

	Total investment		Investment as % of GDP	
	2006	2007	2006	2007
Bosnia & Herzegovina	5,328	754	0.055	0.007
Bulgaria	35,812	555,653	0.143	1.923
Croatia	12,033	17,244	0.035	0.046
Czech Republic	354,208	170,250	0.315	0.133
Estonia	4,031	51,690	0.031	0.332
Hungary	734,360	491,367	0.883	0.487
Latvia	-	159,211	-	0.793
Lithuania	18,103	158,821	0.076	0.567
Macedonia	-	9,058	-	0.177
Montenegro	374	0	0.018	-
Poland	303,621	683,518	0.118	0.222
Romania	109,956	475,861	0.115	0.392
Serbia	31,127	161,610	0.121	0.548
Slovakia	19,348	23,460	0.045	0.043
Slovenia	38,712	46,663	0.130	0.139
Total CEE	1,667,012	3,005,161	0.221	0.325

Source: PEREP_Analytics for 2007 data. EVCA/Thomson Reuters/PricewaterhouseCoopers for data of the previous year.
Disclaimer: Data is continuously updated and therefore subject to change.

Figure 3: Private equity investments as a percentage of GDP for Europe, CEE and selected European countries, 2007



* GDP figure from Serbian Statistical Office.

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

4. Market Segments

CEE buyouts reached €2.3 billion, comprising 77% of all CEE private equity investment activity in 2007, growing from €1.5 billion in 2006. The average size of buyout investment per target company in CEE was €25.5 million, compared to €43.2 million as the average size in all of Europe. Expansion capital transactions accounted for 13% of total CEE investment activity in 2007, reaching €388 million, approximately four times the amount achieved in 2006. Replacement capital investments also grew significantly to nearly 9% of total CEE investments in 2007, reaching €264 million from only €8 million in 2006. Seed and start-up investments remained low at a total of €28 million in 2007, down nearly 40% from the level in 2006.

Comparing the distribution of investment types to Europe as a whole, buyouts and expansion capital transactions are at very similar levels in CEE, while seed and start-up investments are at a much lower level.

Table 3: Type of investment in CEE vs. Europe, 2007 (no bank leverage included) (in € x 1,000)

	Total CEE	% of total	Total Europe	% of total
Seed	3,673	0.1	170,670	0.2
Start-up	24,198	0.8	2,287,142	3.2
Expansion	388,190	12.9	9,665,262	13.4
Rescue/Turnaround	6,088	0.2	150,049	0.2
Replacement Capital	263,933	8.8	3,048,462	4.2
Buyout	2,319,079	77.2	56,843,899	78.8
Total 2007	3,005,162	100.0	72,165,484	100.0
Total 2006	1,667,013		67,807,541	

Source: PEREP_Analytics.

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

Table 4: Type of investment in CEE, 2006-2007 (no bank leverage included) (in € x 1,000)

	2006		2007	
	Amount	Number of companies	Amount	Number of companies
Seed	1,190	5	3,673	8
Start-up	42,049	32	24,198	25
Expansion	102,269	54	388,190	69
Rescue/Turnaround*	-	-	6,088	3
Replacement Capital	7,655	4	263,933	7
Buyout	1,513,850	54	2,319,079	91
Total	1,667,013	147	3,005,162	203

* Part of Expansion in 2006.

Source: PEREP_Analytics for 2007 data. EVCA/Thomson Reuters/PricewaterhouseCoopers for data of the previous year.

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

Table 5: Type of investment by CEE Country, 2007 (no bank leverage included) (in € x 1,000)

	Baltic States	Bulgaria	Czech Rep.	Hungary	Poland	Romania	Serbia	Slovakia	Slovenia	Other*
Seed	0	0	0	0	2,482	0	0	0	0	1,191
Start-up	4,074	0	500	2,083	1,815	10,771	52	0	52	4,852
Expansion	6,868	12,485	89,916	13,427	131,286	124,033	7,392	0	433	2,350
Rescue/Turnaround	0	4,756	75	0	1,257	0	0	0	0	0
Replacement Capital	120,000	0	2,250	53,629	1,118	30,936	56,000	0	0	0
Buyout	238,781	538,412	77,510	422,228	545,560	310,121	98,166	23,460	46,178	18,663
Total 2007	369,723	555,653	170,251	491,367	683,518	475,861	161,610	23,460	46,663	27,056
Total 2006	22,134	35,812	354,208	734,360	303,621	109,956	31,127	19,348	38,712	17,735

* Bosnia & Herzegovina, Croatia, Macedonia and Montenegro.

Source: PEREP_Analytics.

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

5. Investments by Sector

CEE private equity investments in 2007 were more broadly distributed among sectors than in 2006. In 2007, the top five sectors attracted 66% of investments whereas in 2006 only two sectors comprised 70% of all investments. The main explanation for this shift in sectoral distribution is a concentration of a small number of comparatively large transactions in 2006 in the chemicals and communications industries. Communications remains the largest sector in 2007 with 24% of total investments (€720 million), compared to 12% of total European investments in this sector. The other most attractive sectors in CEE in 2007 were business and industrial products (11% of total – €342 million), financial services (11% of total – €319 million), transportation (10% of total – €302 million) and life sciences (10% of total – €301 million).

The ten most significant sectoral investment totals by country in 2007 are: Bulgaria (€274 million – communications; €160 million – business and industrial products), Hungary (€220 million – chemicals and materials), Poland (€138 million – business and industrial products; €133 million – financial services; €112 million – transportation; €103 million – life sciences), Latvia (€128 million – computer & consumer electronics), Lithuania (€121 million – communications), and Czech Republic (€102 million – communications).

Table 6: CEE private equity investments by sector, 2006-2007 (no bank leverage included) (in € x 1,000)

	2006	% of total	2007	% of total
Agriculture	31,637	1.9	11,251	0.4
Chemicals & materials	683,604	41.0	227,673	7.6
Life sciences	3,055	0.2	300,770	10.0
Computer & consumer electronics	49,934	3.0	163,297	5.4
Communications	487,765	29.2	719,842	24.0
Consumer goods & retail	66,322	4.0	187,193	6.2
Consumer services: other	0	0.0	132,678	4.4
Business & industrial products	141,925	8.5	341,886	11.4
Business & industrial services	10,128	0.6	14,309	0.5
Transportation	11,604	0.7	301,621	10.0
Construction	36,360	2.2	65,871	2.2
Energy & environment	9,516	0.6	127,495	4.2
Financial services	63,191	3.8	318,767	10.7
Real estate	0	0.0	91,634	3.0
Unknown	71,972	4.3	875	0.0
Total investment	1,667,013	100.0	3,005,162	100.0

Source: PEREP_Analytics for 2007 data, EVCA/Thomson Reuters/PricewaterhouseCoopers for data of the previous year.

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

Exit activity in the CEE region in value terms (measured by cost of investment, not by actual proceeds) increased by 33% in 2007 compared to 2006, reaching €586 million. Divestments by trade sale remained the most common exit route in 2007, and were proportionally much higher than in Europe as a whole (53% of total value in CEE compared to 28% in Europe). Exits in CEE via the public markets dropped significantly in 2007 to just under 3% of total exit value, compared to 18% in 2006 and further compared to 10% in 2007 in Europe as a whole. This result was clearly the outcome of worsening CEE stock market conditions in the second half of 2007. Sales to another private equity house ("secondaries") grew by some 2.5 times in value terms to approximately 24% of exit value in CEE in 2007, making it the second most utilized exit route in that year. This is still below the proportion seen in Europe as a whole in 2007, which registered 30% of total exit value, becoming for the first time ever the first European exit route. The number of exited companies in CEE in 2007 dropped to 78 from 91 the previous year, reflecting an increase in the average investment cost per exit to €7.5 million.

Hungary registered the largest exit activity in the CEE region in 2007 in value terms with €230 million (12 companies). It was followed by Poland with €175 million (33 companies), the three Baltic countries with an aggregated €69 million (14 companies), Bulgaria with €57 million (4 companies) and Romania with €44 million (7 companies). These countries comprised 98% of total exit value in the year.

Table 7: Exits in CEE vs total Europe, 2007 (exit value at investment cost) (in € x 1,000)

	Total CEE	% of total	Total Europe	% of total
Divestment by trade sale	311,774	53.2	7,508,143	28.3
Divestment by public offering	16,448	2.8	2,652,901	10.0
Divestment on flotation (IPO)	2,550		1,272,062	
Sale of quoted equity	13,898		1,380,839	
Divestment by write-off	0	0.0	420,621	1.6
Repayment of preference shares/loans	22,484	3.8	4,103,664	15.4
Sale to another private equity house	138,332	23.6	8,083,187	30.4
Sale to financial institution	16,551	2.8	859,809	3.2
Sale to management (buy-back)	12,607	2.2	936,947	3.5
Divestment by other means	67,811	11.6	1,996,762	7.5
Total 2007	586,007	100.0	26,562,034	100.0
Total 2006	441,641		33,327,352	

Source: PEREP_Analytics for 2007 data.

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

6. Exits

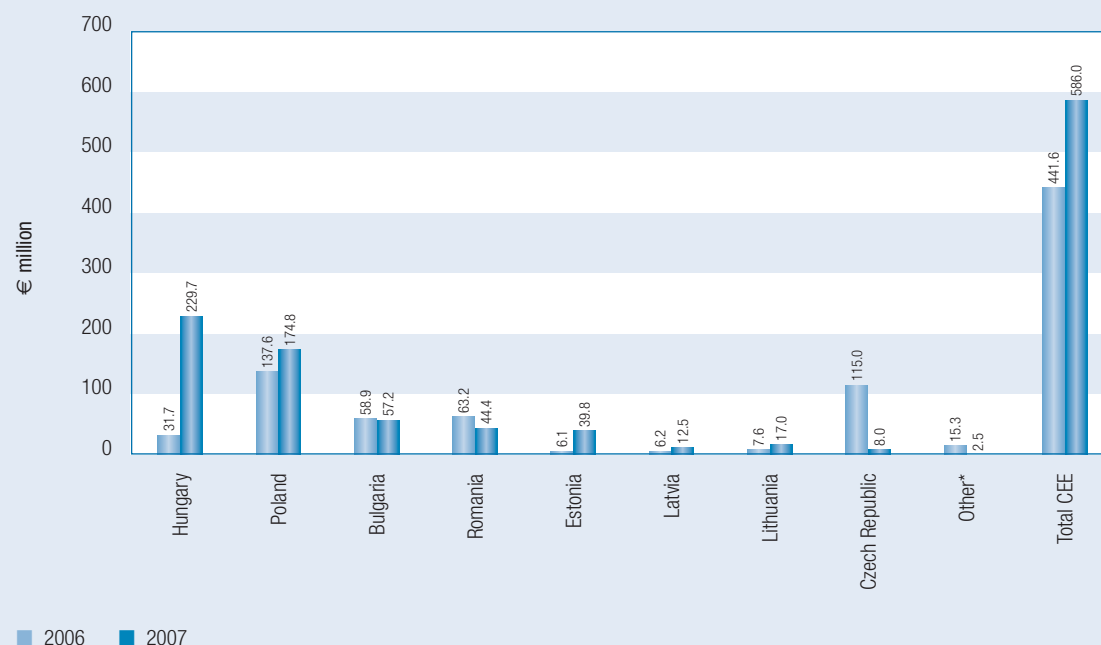
Table 8: Exits in CEE, 2006-2007 (exit value at investment cost) (in € x 1,000)

	2006		2007	
	Amount	Number of companies	Amount	Number of companies
Divestment by trade sale	209,291	36	311,774	29
Divestment by public offering	80,028	16	16,448	9
Divestment on flotation (IPO)	23,797	7	2,550	5
Sale of quoted equity	56,231	9	13,898	4
Divestment by write-off	930	1	0	0
Repayment of preference shares/loans	36,040	8	22,484	3
Sale to another private equity house	56,098	1	138,332	10
Sale to financial institution	300	1	16,551	7
Sale to management (buy-back)	36,276	24	12,607	10
Divestment by other means	22,679	4	67,811	10
Total	441,641	91	586,007	78

Source: PEREP_Analytics for 2007 data, EVCA/Thomson Reuters/PricewaterhouseCoopers for data of the previous year.

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

Figure 4: Divestments at cost by CEE country, 2006-2007 (exit value at investment cost)



* Bosnia & Herzegovina, Croatia, Serbia, Slovakia, Slovenia.

Source: PEREP_Analytics for 2007 data, EVCA/Thomson Reuters/PricewaterhouseCoopers for data of the previous years.

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- **Private Equity:** Private equity provides equity capital to enterprises not quoted on a stock market. Private equity refers mainly to management buyouts, management buyins, replacement capital and venture purchase of quoted shares.
- **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 table)

- **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).
- **Foundations:** 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).

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.

7. Definitions

- **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.
- **Expansion:** Financing provided for the growth and expansion of an operating company, which may or may not be breaking even or trading profitably. Capital may be used to finance increased production capacity, market or product development, and/or to provide additional working 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.
- **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 buy-out:** 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 the survey leads to the following classification:

Seed: Seed

Start-up: Start-up, Other early stage

Expansion: Expansion, Bridge financing

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 buy-out.

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 tables)

- **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.
- **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 methodology on this report, please contact research@evca.eu

8. About Gide Loyrette Nouel

Gide Loyrette Nouel Warsaw Office was founded in 1991. At present we employ over 60 lawyers and tax advisors who advise to the international companies as well as to the local firms. Our professionals are fluent at the following languages: Polish, English, French, German, Russian, Spanish, Italian and Romanian.

The GLN Warsaw Office provides wide range of legal services. Our key practices are as follows:

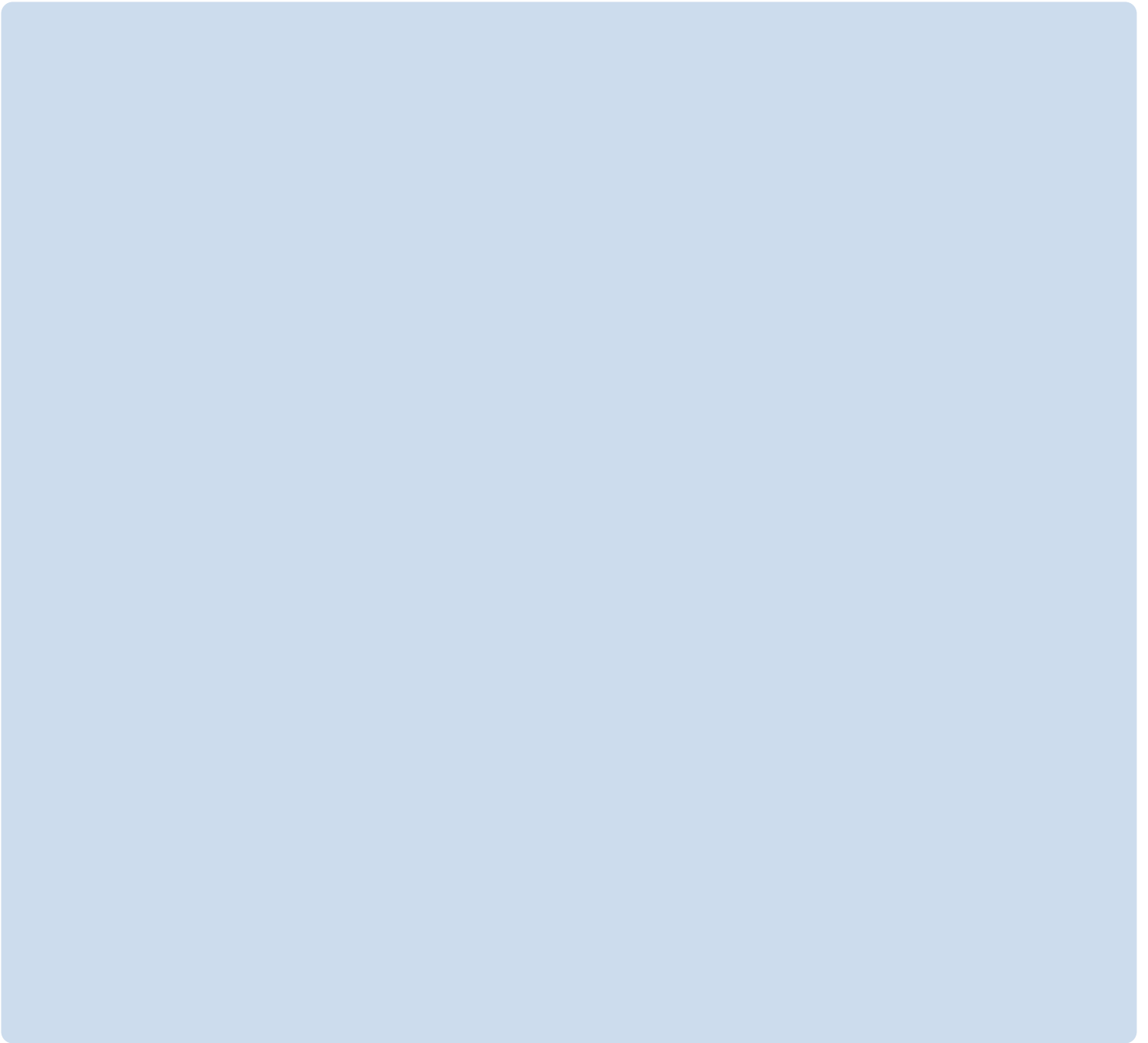
- corporate law
- mergers & acquisitions
- private equity
- privatisations
- real estate law
- banking & finance
- capital markets
- stock markets and securities
- energy law and infrastructure projects
- public and administration law
- environment law
- labour law
- competition law
- intellectual property and new technologies
- court disputes and arbitration
- tax advisory



Gide Loyrette Nouel

Gide Loyrette Nouel Law Firm

Metropolitan Building
1 Pilsudski Square
00-078 Warsaw, Poland
Tel: +48 22 344 00 00
Fax: +48 22 344 00 01
gln.warsaw@gide.com
www.gide.com





[visit: www.evca.eu]



EUROPEAN
PRIVATE EQUITY &
VENTURE CAPITAL
ASSOCIATION

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

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