Study on the Hungarian Venture Capital Landscape Capstone Summary

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1. Introduction

Project sponsor

The project sponsor is iLab (Innovations Lab), the startup incubator of Central European University and the flagship of CEU's university innovation ecosystem. It was founded in 2016 and was named Best Accelerator and Incubator Program in Hungary at the Central European Startup Awards 2017. Since the foundation of the incubation program, iLab teams raised more than EUR 8.5 million funds and created roughly 280 jobs.

Scope of the project

During the incubation program or at the end, the startups may decide to apply for external funding (venture capital investment) in which iLab supports the founders. ILab facilitates its teams' meeting opportunities with local and global venture capitals, angel investors, and other potential financial players, but they are eager to help more.

Problem

The critical problem with the Hungarian venture capital ecosystem is that even though there are many venture capital firms, it is hard to decide which one would be the best fit for the startup as an investor. Venture capital firms do not publish any quantitative information or data on their financial performance; thus, no one can decide which are the most successful venture capitals in the country.

Solution

The scope of the capstone project is to create venture capital profiles (one-pagers) to differentiate the investors from one another. The final delivery is information cards on 15 Hungarian venture capital firms. Based on this research, the incubation program could help the startup decide which venture capital firm would be the best fit as an investor. Throughout the report, I will quote two venture capitalists with whom I conducted interviews, József Török – Investment Director at Blue Planet Foundation, and dr. Levente Zsembery – Chief Executive Officer at X-Ventures, President at the Hungarian Venture Capital Association (HVCA).

2. Project Work

Selection of the Venture Capitals

I have selected 15 Hungarian venture capital firms based on data I downloaded from an online website called Rocket Shepherd. The website provides information on Hungarian venture capitals regarding the total invested amount of money, the number of investments, and deals. Additionally, to the data downloaded from Rocket Shepherd, I categorized the venture capitals based on their ownership (private, state-backed, hybrid). When selecting the 15 venture capitals, my primary purpose was to choose the most significant and influential investors in Hungary from all three categories mentioned above.

Selected properties

When I started working on this project with the client, our goal was to find quantitative key performance indicators, to distinguish venture capitals in Hungary. After preliminary desktop research and consultation with another researcher, we realized that performance indicators (ROI, ROE) are not available in Hungary, as venture capital firms do not publish them, so we had to develop new properties that would still be useful for iLab. Eventually, we selected twelve properties, which will be on the information cards: number and size of funds; foundation date, success stories; the number of exits; invested capital; the number of investments; smart money; investment type; ticket size; life state and industry scope.

Approach

My primary approach was to collect publicly available data from the internet. I used Forbes articles, HVCA publications and documents, Venture Capital firms' websites and articles, documents published by the Hungarian State (on state money usage), Rocket Shephard, Crunchbase, Pitchbook, and the S&P Capital IQ database.

First Step - Excel Database

My first task was to gather all the necessary information from the internet and arrange them logically and transparently. For this purpose, I created an excel file where every venture capital has its own excel sheet. Furthermore, I created an additional summary sheet, which outlines all the relevant information. As I mentioned, this excel database is simple to update and makes it easier for the founders to review the venture capitals.

Limitations

Unfortunately, the desktop research has limitations beyond the possibility of resolving presently. It is common for Hungarian venture capital firms that they do not like to publish any data on their performance or operation. This is the reason why at the beginning of the project planning, we narrowed down the selected properties. Moreover, some Hungarian venture capital firms do not publish the previously mentioned properties. It continuously varies; there are venture capital firms that operate more transparently and some that prefer secrecy.

Second Step - Design

After finishing the excel database with all the relevant information, I started to create the information cards on the venture capitals. The fundamental intention was to create transparent, straightforward one-pagers, which are at the same time colorful and creative. I decided to use an online platform called Canva to make the one-pagers. Canva is a top-rated free-to-use online graphic design tool that is highly user-friendly. It also has a feature that users can download the completed one-pagers in various formats and share them with others.

3. Findings

Data supports that the government or corporates back the most influential five investors, representing 84% of the total funds. Out of the fifteen venture capitals, only six profess to be generalist investors (including the five largest venture capitals), while the others prefer specific industries. Most investors select attractive sectors like FinTech, GreenTech, or MedTech. Hiventures is the only investor among the selected venture capitals that invests in all life stages, while the others begin to invest from seed or the startup life stage.

4. Conclusion

This capstone project is the first step toward tackling the reigning information asymmetry, which hinders the development of the Hungarian startup and venture capital landscape. As a result of the information asymmetry, founders cannot make a responsible decision regarding the selection of their investors, which leads to misalignment between startups and venture capitals. Therefore, smart money cannot fulfill its role. I believe it to be one of the primary problems with the Hungarian venture capital culture, which must be tackled to support the development of the startup environment. I aim to further work on this project, possibly with Andrea and iLab, to achieve fundamental changes. A subsequent goal could be to extend this database to other venture capitals and upload it to iLab's website to share this information with other startups to help them in their capital-raising process. This process could lead to venture capitals creating their own "investment" profile by providing accurate, proper data.