Supporting SMEs with venture capital on the example of the SZTA

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European Commission

European Investment Bank The EU bank

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SZTA programme has been a unique financial programme since 2011, targeting SMEs that:

- **work primarily in the traditional industries;**
- **need unsecured financing resources;**
- **have an innovation-oriented clear vision and business plan for the next 3-5 years;**
- **are visible on the market;**
- **and have skilled management.**

Problems (in HU, 2010)

- Commercial bank debt finance (loan, leasing) has been decreasing since the outbreak of the global economic crisis
- All projects/SMEs were earlier covered by loans – no chances to secure a new loan
- Lack of equity finance for SMEs – only start-ups
- Private investors focus only on high interest rates

Goals

1. to provide development capital – to manage the lack of collateral
2. to finance the 'traditional industries' – unsecured capital investment hadn't been provided before in Hungary (GAP)
3. to motivate private investors to make co-investment
4. to increase employment in Objective 1 regions

Solution >> an **equity fund** that

- has in each region 2 bn HUF (~6,86 mEUR)
- gives unsecured capital investments **in the traditional industries**
- focuses on **SMEs** in their **early and expansion phase**
  - growth figures are lower but over the sectorial benchmark
  - good innovation capacity
- makes profit-driven investment decisions
- motivates the private investors co-investing in SMEs
- is not a competitor for JEREMIE funds

Main Qs in the notification process of DG COMP

Q:Lack of private contribution
(crowding-out effects)

A:

- Min. 10% private overall (result: 37,72% - 2015.)
- Seed: public call

Q:Profit-driven decision process

A:

- Based on FinPlan
- Scoring system
- At least IRR 10%

Q:Business approach of the management

A:

- Remuneration
- Decision making process
- Employee track records

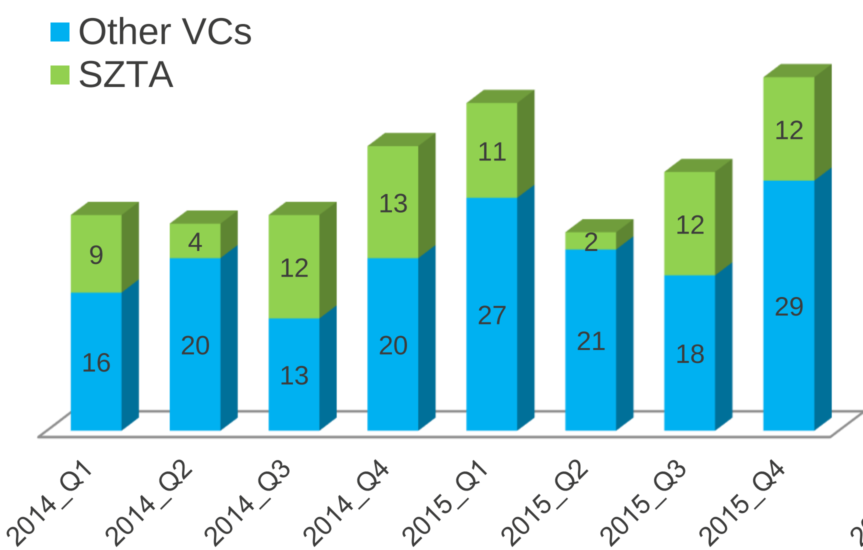
Profit-driven investment decision process

- Open call (on the SZTA and NDA/MNE website)
- Detailed analysis of the investment proposal – Fund Manager
- Investment Committee – with private market experts
  - Only in the case of positive evaluation continuing the process
- Independent due dilligence
  - Is a must, not optional
- Board of Directors
  - are liable with their entire private assets for the effective operation of the Fund Manager

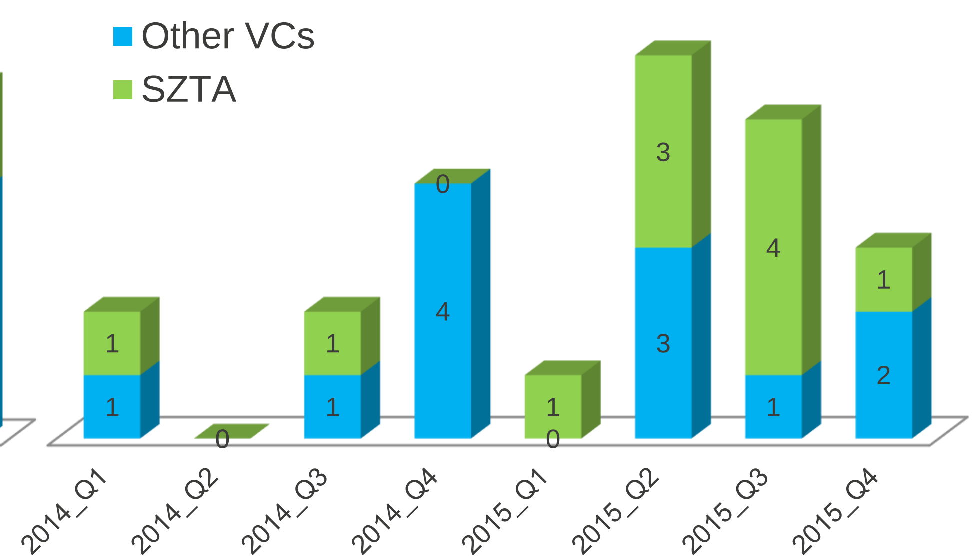
The SZTA model

- Always minority stakes
- Non-participating in the operation – only monitor and control during the Board of Supervision and obligatory audit
- Unsecured equity finance
- Equity and the possibility to give loan (market price)
- Exit policy prefers founders

Number of investments (HU)



Number of exits (HU)



Source of other VCs: HVCA/EVCA Yearbook

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Experiences of the last 5 years

Programme based

- Unsecured equity was a GAP
- DG REGIO ⟺ DG COMP
- Co-investing with private partners is an advantage
- EU Audit problems > equity in state aid

Enterprise based

- Before SZTA only loan and grants in HU
- Reluctance towards external investors – hard to invest in the traditional sector / family SMEs
- Management = Owner
- Lack of management skills

And we are very proud of our team because

- Starting in 2011 with a **new model – unsecured equity finance in traditional industries**
- Since 2013 SZTA has been the most active actor of Hungarian VC market (both **investments and exits**) – approx. ~30% market share
- SZTA has the biggest **portfolio over 80 SMEs**
- Most visible **educational activity** (blog, conferences, competitions, etc.)

If you have any further questions, please contact us:

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