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Comparative Analysis of Private Equity Market in Poland and Other Central and Eastern European Countries

Abstract

The main goal of this article is an analysis of the development stage attained by the private equity market in Poland and its comparison with similar markets in other countries of Central and Eastern Europe. The main emphasis has been laid on the very essence of this source of capital and its importance for development of small and medium-sized enterprises. The performed analysis has allowed to verity the hypothesis saying that private equity funds in Poland display a greater involvement in comparison with such funds in the remaining countries of this region, which is confirmed by the value of capital invested in Polish enterprises and the value of divestments in Poland. The empirical data used in this article come from statistical reports of the European Private Equity and Venture Capital Association.

1. Introduction

Acquiring capital for development of new business projects is one of the main problems faced by research centers and it is also and maybe primarily a problem faced by companies. Small and medium-sized enterprises (SMEs) possessing a big growth potential, which do not have a firm position in the market and do not record satisfactory financial effects, have a difficult access to

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external sources of capital for their expansion. This issue has become of a special importance at the time of economic crisis and significantly restricted access of enterprises to traditional sources of their capital. Private equity funds in the developed countries such as the United States or the United Kingdom have long traditions and they are an important factor influencing a given country's economic growth rate. Meanwhile, it is a relatively new element of the financial market in the Central and Eastern European countries, although it should be noted that it is its rapidly developing element.

The goal of this article is an analysis of private equity funds in Poland and a description of similarities and differences between private equity markets in Poland and the remaining Central and Eastern European countries.

To achieve this goal of the article there has been formulated the main research hypothesis saying that the activity of private equity funds in Poland is more dynamic than in the remaining Central and Eastern European countries. This hypothesis has been made more specific by means of two auxiliary hypotheses saying that:

1. Poland holds a dominant position in the region with regard to the amount of invested capital;
2. the sum of divestments (exits from investments) in Poland is bigger than in the remaining countries of this region.

The above hypotheses have been verified empirically on the basis of statistical data published by *The European Private Equity and Venture Capital Association* (EVCA).

The main time scope of the analysis are the years 2007–2008, but it will be widened to earlier years wherever it is possible. The choice of such research period is prompted by the necessity of preserving a uniform methodology of gathering and processing statistical data about the private equity sector, which should allow ultimately to compare them in time and space. The EVCA has been publishing statistical reports since 2007 in two approaches: one approach is *industry*, that is, according to the seat of a private equity fund, and the other is *market*, that is, in accordance with the place where a portfolio company operates. Such methodical changes have made it necessary to choose only a two-year period of analysis.

With regard to its spatial coverage, the analysis covers the following 16 countries of Central and Eastern Europe: Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine.

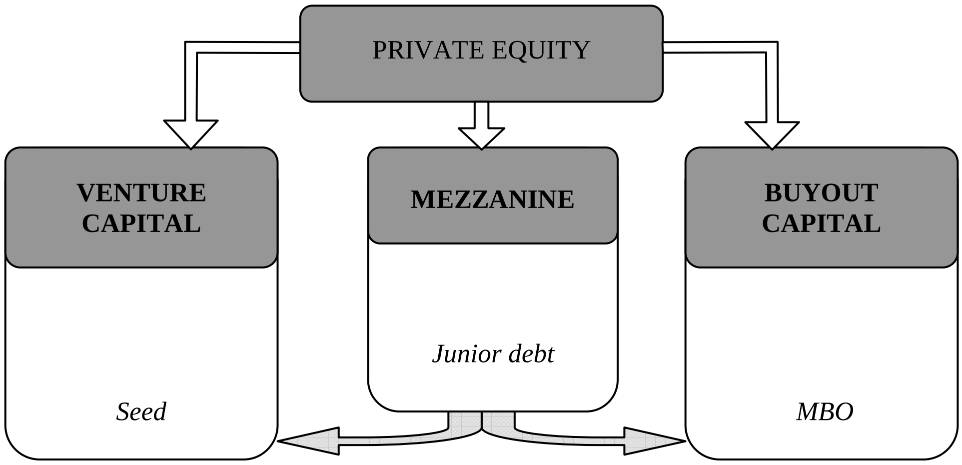
2. Role played by private equity funds in supporting SME development

Operations of private equity funds consist in investing financial resources gathered by them, first of all, in equity type securities of unlisted companies (companies not listed by the Stock Exchange) irrespective of their growth stage in order to gain an above average rate of return on the invested capital in the future through increasing the value of portfolio companies and divestments. Thus, the activity scope of private equity funds includes three segments of capital investments (Kornasiewicz 2004, p. 21):

- venture capital,
- buyout capital,
- mezzanine capital.

The EVCA deals with the activity of business units in the European higher risk capital market in a comprehensive way. It promotes the expansion of this market and collects data concerning decisions made by investment funds. Moreover, it has been the main source of information about private equity investments in Europe for many years. The term ‘private equity’ is understood by the EVCA as an activity consisting in equity investments in enterprises not listed by the Stock Exchange (*Central and Eastern Europe Stories*, 2004). This capital can be tapped for new product and technology development in order to increase the working capital, to take over other companies and to strengthen an enterprise’s balance sheet. It can also exert an influence on decisions concerning the ownership and management structure (*Ibid*.).

Figure 1. Structure of private equity

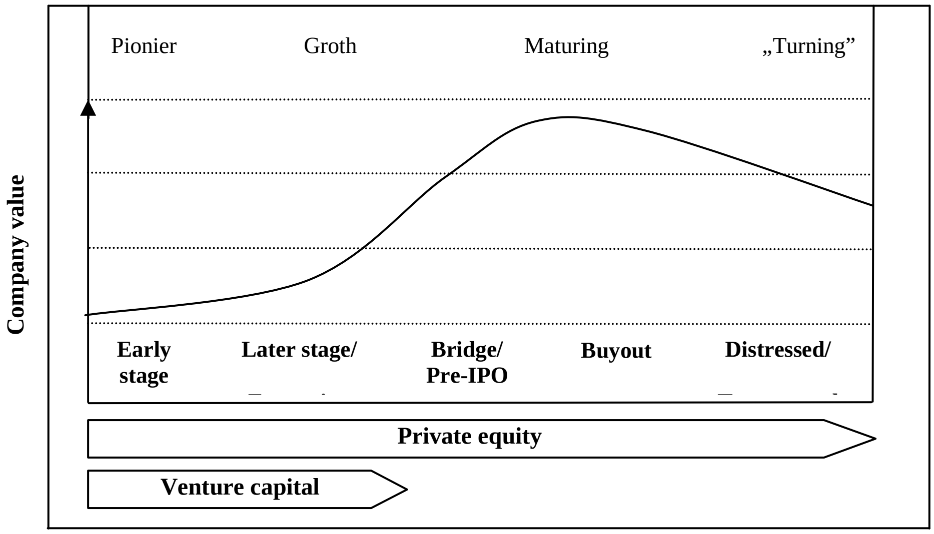


Source: the author's own presentation.

The main element of private equity is venture capital. Its characteristic feature is the fact that this capital is provided for enterprises during early stages of their development (Sobańska, Sieradzan 2004, p. 14). It should be noted that venture capital funds are earmarked for promoting innovative projects. They are invested in enterprises just starting their activity or wishing to expand their activity. Innovations as a means allowing to build an enterprise's strong position in the competitive market and as a source of competitive advantages are extremely important (Bielski 2007, p. 43). The scope of these innovations is the entire enterprise. They are an organization's response to dynamic changes in its environment, and the more innovations are launched by an enterprise the faster its growth is (Penc 2007, p. 110). Financial resources provided by venture capital are allocated for development of new products, which have not been verified by the market as yet or for winning new customers both from an enterprise's present market and from a new market (Koźmiński, Piotrowski, 2004, pp. 142–143). Capital provided by these funds is generally addressed to small and medium-sized enterprises having an innovative product or service (Grzywacz, Okońska 2005, p. 45).

Buyout capital differs significantly from venture capital discussed above. Transactions of this type consist in taking over by the fund an organized part or an entire firm already operating in co-operation with an enterprise's old or new management board. One of characteristics of the buyout transaction is a big share of debt in the whole structure of financing (Wrzesiński 2000, p. 2). An assumption about restructuring the operations of a taken over enterprise (Kornasiewicz 2004, p. 31) aimed at improving the effectiveness of its operations or also about deriving benefits from the synergy effect usually lies at the foundations of buyouts (Machała 2007, p. 68).

Figure 2. Private equity financing at different stages of an enterprise's growth



Source: Kraft 2001, p. 4.

Different elements of private equity can be used depending on the adopted strategy of company value increase, that is, internal or external expansion (Frąckowiak 2009, p. 19). Venture capital as capital used during early stages of a company's operation in the market is allocated primarily for financing its internal development finding its expression mainly in expanding its potential, creating new productive, processing, service and other capacities by means of material investments (*Ibid*.). Buyout capital, in turn, represents an alternative in relation to venture capital and it is used for financing a company's external expansion, which can be synonymous just with mergers and takeovers (Duraj 1996, p. 252). The strategy of a company's growth through its external expansion allows to achieve a desired effect within quite a short time unlike its internal expansion, which usually takes a longer time (*Ibid*., p. 253).

Mezzanine capital, on the other hand, has characteristics of financing by debts and selected elements of equity. It includes mainly junior debts, convertible securities and warranty securities (Panfil 2008). It is used by companies at later growth stages, which are getting ready to offer their securities to the public (Pietraszewski 2007, p. 46), and also as supporting funds when carrying out mergers and takeovers. It can be generally met when an expanding company, which is not fully mature yet, needs financing by debt, and banks are unwilling to provide capital (Kornasiewicz 2004, p. 22). It is some kind of a supplement of the two forms of financing a company by venture capital discussed above.

In the traditional approach financial needs of companies are met by a broad offer of financial services made by banking systems. Progressive globalization processes and development of capital-intensive technologies lead to a growing demand for capital, which induces entrepreneurs to look for its other sources (Ziółkowska 2008, p. 107). Such alternative, especially for small and medium-sized enterprises with a high innovation propensity and a big growth potential, can be private equity funds, which seem to be virtually predisposed to finance innovation-oriented projects stimulating economic growth (Lewandowska 2008, p. 136).

Unlike traditional financial institutions such as, for example, banks, private equity funds are inclined to accept a high investment risk and provide necessary capital in exchange for a possibility of obtaining a high rate of return on investment in the future (Pietraszewski 2007, p. 30). A smaller risk aversion in comparison with conventional capital providers makes possible the development of enterprises in their early growth stages when they cannot show their sufficient creditworthiness. In this respect an important role is played by one of the main advantages resulting from the financing of this type. During early stages in a company's growth characterized by an equity character of investments, capital obtained from a private equity fund is a capital, which does not generate costs connected with its servicing. A regular and timely repayment of capital installments together with the interest is not required as it is the case with bank loans. A practice followed in investments of a private equity type and, in particular, in the case of business start-ups is also a resignation from repayments from profit and/or dividend. It allows ultimately to reinvest generated profits and ensure a company's dynamic growth. It is in this way that a common goal of both a fund and earlier shareholders consisting in a joint building of a company's value is achieved.

It is also important that apart from financial resources private equity funds offer also support in the form of additional values (Świderska 2008, p. 108), which takes the form of the so-called management capital aimed at enhancing a company's competitiveness both in the local and above-regional market and a dynamic increase of its market value (Panfil 2005, p. 12). Managers of start-up companies do not often have an appropriate experience in the management of an expanding company. Hence, the presence of representatives of a private equity investor on the company's management bodies, for instance, on the management board or the supervisory board makes it possible to tap their earlier experience gained during involvement in earlier successful investments of an equity fund and to implement effective organizational solutions tested in other portfolio companies. An additional advantage connected with the presence in a company of an equity fund's experts is the fact that they have at their disposal a developed network of business contacts, which allows a company to win new customers or suppliers of necessary raw materials faster. Moreover, companies having a private equity fund as an investor can recruit the best qualified personnel easily. Namely, due to the opinion of these funds as a guarantee of a dynamic company growth, top managers and persons recognized as experts in their milieu accept co-operation with such partner willingly.

The key role played by private equity funds in company growth is confirmed by companies which have benefited from this form of financing. According to reports published by *Survey of the Economic and Social Impact of Venture Capital in Europe* (*Survey of the Economic…*, 2002), as many as 94.5% of surveyed companies admitted that without a support provided by venture capital funds they would have suspended their activity or developed much more slowly. Similarly, *Survey of the Economic and Social Impact of Management Buyouts & Buyins in Europe* (*Survey of the Economic…*, 2001) shows that a similar opinion is shared by 84% of companies, which have made buyouts assisted by private equity funds. These surveys have revealed also structural variations among companies benefiting from private equity financing.

Venture capital is used primarily by small companies. As many as 64.4% of companies, which obtained financing from such funds at early growth stages (i.e. seed and start-up) had fewer than six employees at the time of an investment. Meanwhile, 70% of companies, which received financing during their expansion stage, had fewer than 50 employees. A predominant part of the surveyed companies operated in modern technology sectors. They represented 74% of companies at seed and start-up stages, whereas 62% of companies at their expansion stage belonged to the high technology sector mainly in computer and communications branches.

Buyout capital is used both by small and medium-sized enterprises and by bigger ones mainly when they are not adapted to their parent company strategically, have to solve problems connected with inheritance, as well as in the situation when financial difficulties appear in an enterprise. From among all surveyed enterprises, in which buyouts with participation of private equity funds took place, only 16% had fewer than 50 employees. The employment median reached 170, and as many as 37% of the surveyed enterprises employed more than 250 staff. These enterprises, unlike investments made by venture capital, operated in sectors considered to be less innovation-oriented – primarily in manufacturing (22.6%) and in business and industrial products sectors (13.8%). Only, not quite 10% of enterprises operated in the high technology sector.

Entrepreneurs, who have benefited from co-operation with private equity funds, point not only to an important role played by their financial support but also to a significant role played by other factors connected with the presence of such investor in an enterprise.

Table 1. Impact of private equity on portfolio companies

		Seed/Start-up	Expansion	Buyouts
Value creation factors		Ensuring healthy cash flow New product development Gaining market acceptance		Improving business efficiency Improving customer services Improving cash flow/financial control
Non-financial involvment of venture capitalists		Strategic advice Networking opportunities	Providing credibility/status Focus and support	Financial advice and contacts Sounding board for management ideas
Frequency of contact	Monthly or weekly	93.8%	91.6%	68%
	Less then monthly	6.2%	8.4%	32%

Source: author's own presentation based on *Survey of the Economic…*, 2002 and *Survey of the Economic…*, 2001.

A typical private equity investor in Europe is characterized by an active involvement in the company's operational activity. The hands-on strategy is given preference. Frequency, with which a fund's representatives meet an entrepreneur tends to decrease along with the company's growth. Managers of a portfolio company acquire gradually new skills connected with management of the company's operational activity and they are also able to manage it more effectively. The degree of trust between an investor and an entrepreneur increases as well. Private equity financing allows to gain more than capital alone. It also permits to tap the intellectual capital of experts from a private equity fund, which is an important factor in winning competitive advantages in the market.

The presence of a private equity investor in the company promotes its dynamic growth. This observation is confirmed by data in Table 2.

Table 2. Chosen indices representing the impact of a private equity investor's presence

		Seed/Start-up	Expansion	Buyouts
EBIT as percentage of turnover	**Year 0***	more then –200%	1.2%	4.2%
	Year +3	about –10%	1.4%	7%
Change in employment	**Increase**	89.7%		61.4%
	Same	3.1%		13.1%
	Decrease	7.1%		25.5%
		average 46 new jobs per company		
Share of companies engaged in exporting	**Year 0***	37.2%	55%	72.6%
	Last year**	59.7%	72%	83.8%
Exports as percentage of sales	**Year 0***	17.2%	26.4%	24.7%
	Last year**	30.6%	36.4%	28,3%

* Year '0' is the year in which a venture capital investment was made and the year before a buyout occurred

** 'Last year' means either 1999 for buyouts, 2001 for venture capital investments if the venture capitalist's investments are still maintained in the portfolio company, or the last year before exit if the venture capital has exited.

Source: ibid.

There can be noticed an evident improvement in financial results scored by the surveyed companies. And although companies, which were at initial growth stages at the time an investment was made, still did not generate a profit after a three-year period of investment, it should be noted that a positive trend occurred. An evidence confirming a dynamic expansion of the surveyed companies is also an increase in employment and exports.

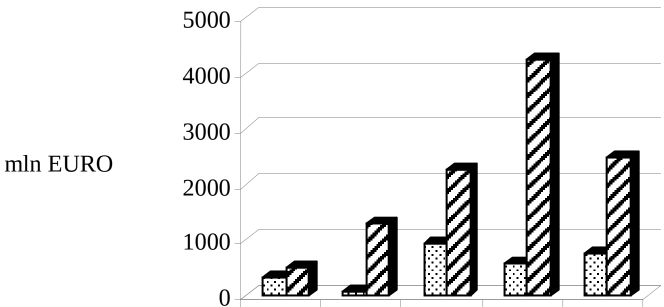
3. Characteristics of the private equity market in Poland and other countries of Central and Eastern Europe

Before private equity funds start investing their resources in chosen portfolio companies, they have to obtain necessary capital from external investors. Financial resources for private equity investments are acquired from many, quite diversified sources. Investors can be entities with a different profile of activity and ownership structure – both those within the financial system and those outside it (Pietraszewski 2007, p. 50). The main providers of capital are usually banks, pension funds, insurance companies, other companies and corporations, government agencies, public institutions, research institutes, individual persons and funds of funds (Sobańska, Sieradzan 2004, p. 33).

The funds operating in Central and Eastern Europe are an object of major interest shown by entities making available a new capital for investments. When analyzing the data presented below, it should be remembered that although a new capital is obtained by a fund operating in one country, it does not mean that it will be invested only in this country.

The Central-Eastern European Region is perceived very frequently, especially by investors from other countries, as a single investment region without any distinction made for its particular areas (*EVCA Yearbook 2008*, p. 211).

Figure 3. Inflow of the new capital to private equity funds in Central and Eastern Europe in the years 2004–2008 (in million EURO)



	2004	2005	2006	2007	2008
Poland	304	59	937	571	760
Central and Eastern Europe	496	1293	2254	4253	2468

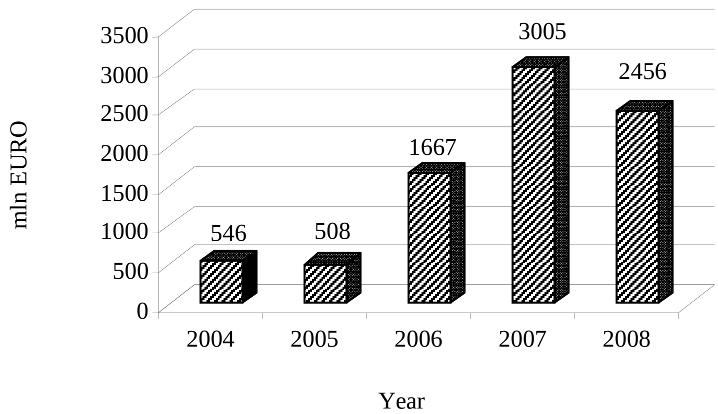
Source: author's own presentation based on EVCA Yearbook 2005–2009 (Poland) and Central and Eastern Europe Statistics 2008, p. 5.

A dynamic increase in supply of a new private equity capital could be observed over the year 2004–2007. The record amount of capital for new investments – over 4.2 billion EURO was obtained in 2007. However, already a year later private equity funds felt the impact of economic crisis, which exerted a marked influence on economic situation in the Central and Eastern European countries. A substantial drop in the new capital inflow was recorded in 2008. Namely, private equity funds operating in this region gathered almost 2.5 billion EURO, which reflects a drop of almost 42% in comparison with the previous year.

The funds with their seat in Poland obtained the biggest amount of new capital for investments in 2006 equal to 937 million EURO. However, a year later they already recorded a 39% drop in comparison with the previous year to the amount of 571 million EURO. In the crisis year of 2008 the trend of changes in supply of capital in Poland differed from that in entire Central and Eastern Europe. There was recorded an inflow of new capital for investments reaching 760 million EURO, which can mean that the economic situation in Poland differed from that in the remaining European countries.

The analysis of investment made by private equity funds in Central and Eastern Europe indicates that the total amount of capital invested by private equity funds in companies operating in Central and Eastern Europe exceeded 8 billion EURO in the years 2004–2008.

Figure 4. Value of capital invested by private equity funds in Central and Eastern Europe in the years 2004–2008 (in milion EURO)



Source: Central and Eastern Europe Statistics 2004–2008.

A dynamic growth of the value of invested capital was noticeable starting from 2005 till 2007. In 2007 the value of investments made in companies from the Central-Eastern Europe region reached the record level of 3 billion EURO.

In the following year the value of invested capital declined by over 18% to the amount of 2,456 million EURO as a result of negative changes in the world economy. Table 3 shows the value of private equity investments in particular countries during the period under study.

Table 3. Annual investments value and number of companies by country in 2007–2008

Country	2007			2008		
	Value [‘000 EURO]	**Share [%]**	**Number**	**Value [‘000 EURO]**	**Share [%]**	**Number**
Poland	683,518	22.74	65	627,957	25.57	63
Hungary	491,367	16.35	24	476,604	19.41	15
Czech Republic	170,250	5.67	21	441,435	17.98	19
Ukraine	n/a	–	n/a	301,535	12.28	11
Romania	475,861	15.83	30	273,089	11.12	31
Croatia	17,244	0.57	8	100,875	4.11	3
Bulgaria	555,653	18.49	13	90,477	3.68	13
Latvia	159,211	5.30	8	63,084	2.57	15
Lithuania	158,821	5.28	9	0	0.00	0
Slovakia	23,460	0.78	1	31,145	1.27	3
Estonia	51,690	1.72	9	13,972	0.57	9
Serbia	161,610	5.38	7	8,402	0.34	3
Slovenia	46,663	1.55	6	3,750	0.15	2
Other*	9,812	0.33	3	23,285	0.95	9
Total CEE	**3,005,160**	**100.00**	**204**	**2,455,610**	**100.00**	**196**

* Bosnia & Herzegovina, Macedonia, Montenegro

Source: author’s own presentation based on Central and Eastern Europe Statistics 2007–2008.

Over the years 2007–2008 private equity funds invested the biggest amount of their financial resources in companies operating in Poland. It reached 658.5 million EURO in 2007, which represented 22.7% of all financial investments made in Central and Eastern Europe in that year. In the following year Poland preserved its leading position in the region absorbing almost 628 million EURO of capital from private equity funds and increasing simultaneously its share to over 25% of all private equity investments in this region.

In 2007 a big part of invested capital was taken over by companies in Bulgaria (555.7 million EURO, 18.5%), Hungary (491.3 million EURO, 16.4%), and Romania (475.9 million EURO, 15.8%). The value of capital invested in the remaining countries of Central and Eastern Europe reached not quite 25% of the value of all investments. A year later apart from Polish companies, the investment capital from private equity funds went mainly to companies from Hungary (476.6 million EURO, 19.4%), the Czech Republic (441.4 million EURO, 18%), the Ukraine (301.5 million EURO, 12.3%) and Romania (237.1 million EURO, 11.1%).

During the analyzed period Poland held a leading position in the region not only with regard to the value of invested capital but also as regards the number of companies benefiting from the private equity financing. Namely, the total of 128 companies received a financial support, which made up 32% of all companies obtaining such support from private equity funds in Central and Eastern Europe.

Although Poland holds a leading position among countries benefiting from private equity investments in Central and Eastern Europe, the percentage share of the amount of invested private equity capital in GDP was below the average figure for the entire region and entire Europe.

Table 4. Share of private equity investment in GDP in particular countries of Central and Eastern Europe in the years 2007–2008 (in %)

Country	**2007**	**2008**	**Country**	**2007**	**2008**
Bulgaria	1.923	0.256	Romania	0.392	0.198
Croatia	0.046	0.213	Serbia	0.548	0.025
Czech Republic	0.133	0.297	Slovakia	0.043	0.046
Estonia	0.332	0.088	Slovenia	0.139	0.01
Hungary	0.487	0.423	Ukraine	n/a	0.247
Latvia	0.793	0.274	Bosnia & Herzegovina	0.007	0.034
Lithuania	0.567	–	Macedonia	0.177	–
Poland	0.222	0.165	Montenegro	–	0.582
Total Central and Eastern Europe				**0.325**	**0.209**
Total Europe				**0.571**	**0.404**

Source: Central and Eastern Europe Statistics 2008.

The average share of private equity investment in GDP reached 0.325% in Central and Eastern Europe in 2007 and it declined to 0.209% in 2008. It was a result lower by almost a half in comparison with the corresponding period for entire Europe. Only Hungary and Latvia recorded an above-average value in the analyzed period.

When analyzing the private equity investment market it is also necessary to look at its internal structure, as different parts of private equity can be used to achieve different investment objectives.

Table 5. Private equity investments in the years 2007–2008 according to investment type

Type of capital	Central and Eastern Europe				Poland			
	2007		2008		2007		2008	
	Value [‘000 EURO]	Share [%]	Value [‘000 EURO]	Share [%]	Value [‘000 EURO]	Share [%]	Value [‘000 EURO]	Share [%]
Seed	3,673	0.12	4,027	0.16	2,482	0.36	3,725	0.59
Start-up	24,198	0.81	58,959	2.40	1,815	0.27	14,900	2.37
Expansion*	388,190	12.92	833,028	33.92	131,286	19.21	108,141	17.22
Total venture capital	**41,6061**	**13.84**	**896,014**	**36.49**	**135,583**	**19.84**	**126,766**	**20.19**
Rescue/Turnaround	6,088	0.20	568	0.02	1,257	0.18	68	0.01
Replacement capital	263,933	8.78	5,000	0.20	1,118	0.16	0	0.00
Buyout	2,319,079	77.17	1,554,028	63.28	545,560	79.82	501,122	79.80
Total private equity	**3,005,162**	**100.00**	**2,455,610**	**100.00**	**683,518**	**100.00**	**627,957**	**100.00**

*Starting from 2008 investments at the company expansion stage were replaced in the EVCA statistical reports with two new investment stages: venture – a later stage and growth financing.

Source: author’s own presentation based on Central and Eastern Europe Statistics 2007–2008.

The biggest part of private equity investments is the capital invested for company buyouts. It amounted to over 2.3 billion EURO in Central and Eastern Europe in 2007, which represented 77.17% of all capital invested by these funds. In the following year the value of such investments dropped by almost one-third to the level of more than 1.5 billion EURO, but it still remained a dominant item in the structure of private equity investments. Buyouts in Poland still represented a bigger part of private equity investments than in the entire region – their share reached almost 80% both in 2007 and in 2008.

A low share of venture capital type investments should be treated as a weakness of the private equity market in this region. These investments accounted for only 13.84% of all investments on average in entire Central and Eastern Europe in 2007, whereas in 2008 their value rose over two-fold to the level of 896 million EURO, which represented 36.5% of all investments. By comparison, the share of venture capital reached about 20% of all investments in Poland in both years. Companies, which are at early stages of their growth, face the biggest difficulties with securing capital necessary for their development. The share of investments in seed and start-up companies did not surpass 3% of all capital invested by private equity funds in any analyzed year – both on average in the entire region and in Poland.

The analysis of the sector structure[1] of investments made by private equity funds in Poland and in the remaining countries of Central and Eastern Europe reveals major variations in companies benefiting from the risk capital (see: Table 6).

Table 6. Structure of private equity investment in Central and Eastern Europe by sector in the years 2007–2008 (in %)

Sector	Central and Eastern Europe		Poland	
	2007	2008	2007	2008
Business and industrial products	11.38	7.37	18.49	12.96
Communications	23.95	20.19	1.55	0.94
Consumer goods and retail	6.23	10.51	18.78	22.63
Energy and environment	4.24	3.71	8.31	8.94
Financial services	10.61	12.56	17.75	7.32
Life sciences	10.01	25.11	13.76	9.63
Transportation	10.04	7.51	14.96	27.61
Others	23.55	13.05	6.39	9.97
Total	**100.00**	**100.00**	**100.00**	**100.00**

Source: author's own presentation based on EVCA Yearbook 2009 and Central and Eastern Europe Statistics 2007–2008.

Most investments in the entire region of Central and Eastern Europe were made in companies belonging to the communications sector in 2007 (23.95%). A major share of all capital was invested also in the sectors of business and industrial products, financial services, transportation and life sciences (biotechnology). In turn, a year later priority was given to companies in biotechnology (25.11%) and media (20.19%) sectors. A great deal of capital was invested also in financial services, consumer goods and services.

The structure of investments by sector in Poland differs from that in the whole region of Central and Easter Europe. In 2007 private equity funds invested most of their capital in such sectors as: production and sale of goods – both consumer goods (18.78%) and business and industrial products (18.49%). Quite big capital was also invested in that year in companies dealing with financial services, biotechnology and transportation. In turn, the transportation

[1] For a full classification by sector see: http//:www.evca.eu//uploadedFiles/sectoral_classification.pdf

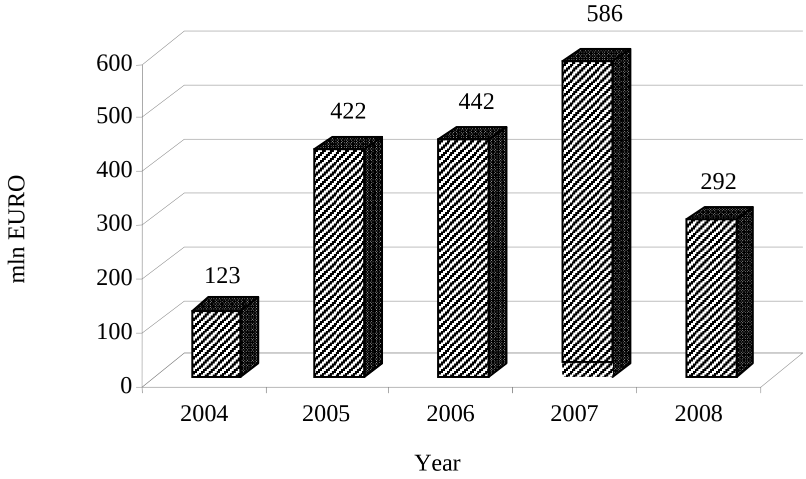
sector recorded the biggest share of private equity investments (27.61%). Just as in 2007, this sector was followed by the sectors of consumer goods and industrial products. It should be also noted that the share of companies in the energy and environment protection sector in the total value of investments in Poland was about twice bigger than the average figure for entire Central and Eastern Europe.

4. Exits from investments by the private equity investor

The main characteristic of venture capital/private equity funds is not holding their shares in a given company for an infinite time but provision of capital for its specific development plans. It is expected that their implementation will increase the company's value and next allow a fund to sell shares held by it (Grzywacz, Okońska 2005, p. 103). Such possibility appears only when it withdraws the invested capital.

A dynamic increase in the value of divestments made by private equity funds could be observed in Central and Eastern Europe in the years 2004–2007. In 2007 the value of such divestments reached a record level of 586 million EURO. A year later their value dropped by over 50%, which should be attributed to a worsening economic situation in the world.

Figure 5. Value of divestments in Central and Eastern Europe in the years 2004–2008 (in million EURO)



Source: Central and Eastern Europe Statistics 2008.

Major variations in the total value of divestments could be observed in particular Central and Eastern European countries (see: Table 7).

Table 7. Value of divestments in particular countries of Central and Eastern Europe in the years 2007–2008

Country	2007			2008		
	Value ['000] EURO]	**Share** [%]	**Number**	**Value** ['000 EURO]	**Share** [%]	**Number**
Poland	185,853	28.10	42	72,975	25.01	19
Hungary	233,380	35.28	14	76,135	26.10	10
Czech Republic	24,978	3.78	6	8,472	2.90	4
Ukraine	n/a	–	n/a	5,000	1.71	2
Romania	52,432	7.93	14	97,022	33.26	8
Bulgaria	92,242	13.94	7	0	0.00	0
Balitic states*	70,105	10.60	17	27,080	9.28	9
Other**	2,520	0.38	4	5,045	1.73	4
Total CEE***	**661,510**	**100.00**	**104**	**291,729**	**100.00**	**56**

*Latvia, Lithuania, Estonia.

**Croatia, Serbia, Slovenia, Slovakia, Montenegro, Macedonia, Bosnia & Hercegovina.

*** The data differ somewhat from those to be fund in the CEE Statistics, because EVCA Yearbook is published earlier. Additional few months allow the EVCA to include transactions, which have not been included for various reasons in the yearbook.

Source: the author's own presentation based on *EVCA Yearbook 2009.*

In 2007 divestments in Hungary totaled 233.4 million EURO, which represented 35.28% of all divestments carried out in entire Central and Eastern Europe. Poland ranked second with regard to the value of divestments. They reached 185.8 million EURO, which equaled almost 30% of all divestments in this region.

The situation looked different in 2008 when Romania took the lead. Divestments reached 97 million EURO here, which made up one-third of all divestments in the region. Major divestments were recorded again in Hungary (97 million EURO, 26.1%) and Poland (73 million EURO, 25.01%).

When analyzing activities of private equity funds, it is also worthwhile to point at methods most frequently followed in terminating co-operation between a fund and a portfolio company.

The most frequently followed divestment method in Central and Eastern Europe both in 2007 and 2009 was divestment by trade sale. In 2007 this method was used in over a half of all divestments. Its share declined a little to 43.1% in 2008. The other method often applied in the analyzed period was sale to another private equity fund. The remaining means of terminating a fund's co-operation with a company played a relatively insignificant role.

Table 8. Divestment methods in Central and Eastern Europe and in Poland in the years 2007–2008 (value: thousand EURO; share: %)

Divestment methods	**2007**				**2008**			
	Poland		**Central and Eastern Europe**		**Poland**		**Central and Eastern Europe**	
	Value	Share	Value	Share	Value	Share	Value	Share
Divestment by trade sale	30,306	16.84	311,774	54.74	20,463	28.12	125,652	43.10
Divestment by public offering	5,910	3.28	16,448	2.89	200	0.27	200	0.07
Divestment by write-off	0	0.00	0	0.00	2,079	2.86	2,079	0.71
Repayment of principal loans	22,417	12.46	22,484	3.95	0	0.00	0	0.00
Sale to another private equity house	98,934	54.98	138,332	24.29	26,995	37.09	108,098	37.08
Sale to financial institution	3,785	2.10	16,551	2.91	0	0.00	16,450	5.64
Sale to management (MBO)	3,423	1.90	12,607	2.21	3,624	4.98	16,026	5.50
Divestment by other means	21,078	11.71	67,811	11.91	19,614	26.95	23,222	7.97
Total	**179,943**	**100.00**	**569,559**	**100.00**	**72,775**	**100.00**	**291,527**	**100.00**

Source: the author's own presentation based on EVCA Yearbook 2009 and Central and Eastern Europe Statistics 2007–2008.

On the other hand, most divestments in Poland over the years 2007–2008 involved a sale to another private equity fund. Investments with an initial value of 98.9 million EURO were terminated by these means in 2007, which equaled 54.98% of all divestments in that year. In 2008 the value of such divestments dropped to almost 27 million EURO (37.9%). A major part of all divestments in both analyzed years involved a sale of the company to an investor in a given sector. The remaining methods were used to a much smaller degree.

5. Conclusion

Private equity funds can be a very important instrument in promoting the development of small and medium-sized enterprises. Among other sources of capital they distinguish themselves by their specific characteristics going beyond their financial aspect such as a support they can provide in the form of intellectual capital offered by a fund's managers or acceptance of a risk connected with novel projects, which have not been frequently verified by the market so far. Hence, they can fill in a capital gap between demand of companies for capital and an offer of traditional financial institutions.

The countries of Central and Eastern Europe belong to the so-called emerging markets. It could suggest that the private equity segment should be developing rapidly here and foreign funds should be investing willingly their capital here seeking numerous market niches allowing to earn high profits. The main research hypothesis presented in the introduction pointing to a dominant position held be the Polish private equity market in the region of Central and Eastern Europe seems to be true in the light of statistical data quoted in this article. Namely, from among all analyzed countries most private equity investments in the years 2007–2008 were made in Poland. Poland does not hold a dominant position with regard to the value of divestments in any analyzed year, but it continues to be one of the leaders in the regions (in 2007 – Poland ranked second, in 2008 – third).

Although local private equity markets in Central and Eastern Europe are relatively small in comparison with such markets in Western Europe, their further growth should be promoted. A dynamic development of financing by means of private equity allows to achieve both macroeconomic goals of particular companies and improve the economic situation of countries and the region through new job creation, promotion of innovations or improvement of a competitive position of an economy.

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Streszczenie

RYNEK PRIVATE EQUITY W POLSCE NA TLE POZOSTAŁYCH KRAJÓW EUROPY ŚRODKOWO-WSCHODNIEJ – ANALIZA PORÓWNAWCZA

Zasadniczym celem artykułu jest analiza stanu rozwoju rynku private equity w Polsce oraz porównanie go z tego typu rynkami w innych krajach Europy Środkowo-Wschodniej. Opisana została istota tego źródła finansowania oraz wskazano jej znaczenie dla rozwoju małych i średnich przedsiębiorstw. W pracy zweryfikowana została hipoteza stwierdzająca, iż fundusze private equity w Polsce wykazują większą aktywność niż w pozostałych krajach regionu, wyrazem czego jest wartość zainwestowanych kapitałów w polskie przedsiębiorstwa oraz wartość zrealizowanych wyjść z inwestycji w Polsce. Wykorzystane w pracy dane empiryczne pochodzą z opracowań statystycznych European Private Equity and Venture Capital Association.