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Private Equity and Venture Capital: an Empirical Analysis of Investment and Divestments Activity in the CEE Region in the Time of the Economic Crisis

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Abstract: The paper deals with the analysis of the private equity and venture capital investment and divestment trends and activities on the European market, particularly on the market of Central and Eastern Europe (CEE), in times of economic crises 2007–2009. The analysis is based on the data published by the European Private Equity and Venture Capital Association (EVCA), the Czech Private Equity and Venture Capital Association (CVCA) and the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften (BVK). The economic crisis in 2008–2009 caused a rapid cooling of the European market. Private equity and venture capital management companies located in Europe have decreased significantly both investment and divestment activity. The economic crisis on CEE market showed a delay and a lower intensity in comparison with Western Europe. CEE market is, however, underdeveloped. This argument is supported by the data indicating annual investment and divestment value, and number of companies received private equity financing.

Introduction

The European *Private Equity and Venture Capital Association* (EVCA) defines *Private Equity* as the providing equity capital by investors to non-quoted companies. According to the development stage of the financed company's life cycle, the following types of *Private Equity* can be distinguished, i.e. *Venture Capital*, *Growth Capital*, *Replacement Capital*, *Rescue/Turnaround Capital* and *Buyouts*.

Private Equity is provided by either private investors (referred to as *Business Angels*) or institutional investors (*Venture Capital Funds*). Their objective is to appreciate the capital invested taking into account the amount of the risk they bear. The reasons for which companies use *Private Equity* include e.g., development of new products and technologies, expansion of company activities (implementing expansion strategy) or strengthening the capital structure (e.g. Busse 2003, Geyer et al. 2006, Valach 2001).

A positive effect of a functioning *Private Equity* market on the development of business environment and economic growth is emphasized in the studies by, e.g., Engel (2003) and Rolling (2001).

The *Private Equity* market as an alternative form of providing capital to companies became an integral part of the financial market in Central and Eastern Europe (CEE) in the 1990s. According to the data published by the EVCA, European companies financed by *private equity* created over 1 million new jobs between 2000 and 2004, and thus their employment growth rate on average was 5.4% at the time when the EU25 total employment growth rate was 0.7%. Following the exceptionally successful period 2005–2007, the European *Private Equity* market was hit by a financial and economic crisis.

In this article, the authors will assess the impact of the 2007–2009 economic crisis on the levels of *Private Equity* and *Venture* capital investments and divestments in Europe, and specifically in the CEE region, based on relevant statistical data.

The data necessary to perform the analysis were gathered from statistical yearbooks and other documents published by the *European Private Equity and Venture Capital Association* (EVCA), *Bundesverband Deutscher Kapitalbeteiligungsgesellschaften* (BVK) and *Czech Private Equity and Venture Capital Association (*CVCA) between 2008 and 2010. The source of data in those documents is the PEREP *Analytics* statistics platform monitoring the development of *Private Equity* and *Venture* capital in 25 European countries. The PEREP *Analytics* statistics platform is a joint activity of EVCA and 18 national associations representing companies investing *Private Equity* and *Venture* capital. In principle, statistical data are evaluated from two perspectives: one of them is the location of the investing company *Private Equity* and *Venture* capital (*investments by country of management – industry statistics*), the other the location of the company being financed (*investments by country of portfolio management – market statistics*). If there were differences in the data between EVCA and BVK statistics yearbooks, then EVCA data are considered as relevant in this article.

Data were processed using selected methods of descriptive statistics.

Definitions of key terms used in this article were taken from EVCA statistics yearbooks. For the purpose of this article, countries of the *CEE* region include Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

Annual investment value in Europe

Table 1 shows that a year-on-year slump in *Private Equity* and *Venture* capital investments in Europe as a whole was 27% in 2008 and 57% in 2009. From the long-term perspective, 2009 investments were even lower than investments in 2001 when they reached 24.3 bn € (EVCA 2010).

The biggest European market with *Private Equity* and *Venture* capital investments is the UK, both from the point of view of the location of *General Partners* and from the investee's domicile.

In 2007–2009, UK-domiciled companies with PE/VC investments constituted on average 42% of European investments. While 34.2 bn € was invested in 2007, a year later it was 22.5 bn € and in 2009 only 8.9 bn € was invested. A significant slump in realized investments similar to that experienced by the British *General Partners* was also reported from other major actors on the European markets, i.e. investors located in France, Germany, Sweden, Italy, the Netherlands and Spain. In 2007–2009, PE/VC investment funds from the above seven countries were responsible for almost 90% of all investments in Europe. In 2009, however, almost all European countries reported a significant decrease in investment activities of *General Partners* domiciled there. The exceptions were Belgium, Denmark, Hungary, the Czech Republic, and ex-Yugoslavia together with Slovakia.

The biggest volume of investments in *CEE* countries were made by *General Partners* domiciled in Poland followed by general partners from Romania, Hungary and the Czech Republic.

The biggest investment destination in Europe between 2007 and 2009 were companies domiciled in the UK (table 2). It is, however, also necessary to emphasize the unfavourable development in the crisis years of 2008 and 2009: while investment value to British companies reached almost 21 bn € in 2007, it slumped in 2008 by 36% on a year-on-year basis, and by another 65% in 2009. Lagging far behind the United Kingdom figures were investments to companies domiciled in France, Germany, Sweden, the Netherlands, Spain and Italy. Companies headquartered in the above seven countries attracted 70% of all investments made in Europe. Almost 13.5 bl € was invested by European PE/VC companies outside Europe, notably to companies in the USA. Non-European general partners, on the other hand, invested over 7.5 bn € into European companies.

However, a conclusion may be drawn from the table 2 that in 2008, and particularly in 2009, European companies attracted markedly lower volumes of investments than in 2007. The unfavourable development affected almost all European economies (the exceptions in 2009 were Italy, Belgium, the Czech Republic, Ireland and Bulgaria).

The total investment value to undertakings in the CEE region over the monitored 2007–2009 period reached 7.28 bn €, which represents almost 5% of all investments in Europe. In 2009, when investment volume in Europe showed

Table 1. Private equity and venture capital annual investment value in Europe, 2007––2009 (industry statistics, in million €)

Country	2007	2008	2009	Change (in%)	
				2008/2007	2009/2008
United Kingdom	34 224	22 529	8 871	-34	-61
France	12 288	8 541	3 390	-30	-60
Germany	7 452	7 126	2 424	-4	-66
Sweden	4 170	3 268	1 215	-22	-63
Italy	1 459	3 161	993	117	-69
Netherlands	3 928	1 751	751	-55	-57
Spain	3 053	1 553	895	-49	-42
Switzerland	905	1 221	710	35	-42
Belgium	939	666	1 059	-29	59
Denmark	1 212	470	488	-61	4
Norway	964	754	608	-22	-19
Finland	996	480	389	-52	-19
Poland	571	725	485	27	-33
Portugal	158	396	299	151	-24
Austria	257	216	133	-16	-38
Greece	455	344	161	-24	-53
Ireland	287	76	65	-74	-14
Luxembourg	-	347	74	-	-79
Hungary	42	34	191	-19	462
Czech Republic	130	36	61	-72	69
Ukraine	-	142	13	-	-91
Ex-Yugoslavia and Slovakia	-	30	31	-	3
Baltics	-	41	7	-	-83
Bulgaria	-	14	6	-	-57
Romania	298	123	79	-59	-36
Total Europe	73 788	54 044	23 399	-27	-57
Total CEE	1 041	1 145	873	10	-24

Source: BVK (2008, p. 17), BVK (2009, p. 16), BVK (2010, p. 18).

a year-on-year decrease of 57%, the region's share in total investments realized in the monitored European countries was over 10%. Compared with the situation in Europe as a whole, the development of investment activities in CEE countries can thus be described as dynamic. Furthermore, from the table 2 it can be concluded that investments were concentrated in five countries of the region, namely the Czech Republic, Poland, Hungary, Bulgaria and Romania. In 2007–2009 the biggest market was in the Czech Republic, although we should hasten to add that the reported investment level was significantly affected by a small number of transactions involving large amounts of money, particularly in 2009. The development in Poland, Hungary and Romania was relatively stable in comparison. All the three countries, however, reported a market slump in realized investments in 2009. The EVCA study for the CEE region (2010, p.7) pointed out that when we evaluate the development in Central and Eastern European countries, we need to take into account the fact that year-on-year changes reported for individual countries could be directly affected by a limited number of big transactions.

Annual investments in Europe, in number of companies

In 2009, a total of 4,549 companies in Europe were recipient of funds from *Private Equity* and *Venture* capital investors, which represents a 16% decrease compared with the previous year. The largest number of recipient companies was in Germany, France and in the UK. Among small European economies, the Scandinavian and Benelux countries maintained an important position with respect to the number of companies financed. In the CEE region, 123 companies attracted investors in 2009, which represents a year-on-year drop of 41%, because in 2008 the number of companies financed exceeded two hundred. One third (in 2007 and 2008), or rather one fifth (in 2009) of capital investee companies from the region conducted business in Poland.

Table 2. Private equity and venture capital annual investment value in europe, 2007–2009 (market statistics, in million €)

Country	2007	2008	2009	Change (in%)	
				2008/2007	2009/2008
United Kingdom	20 897	13 474	4 707	-36	-65
France	11 856	9 084	3 141	-23	-65
Germany	10 595	5 413	2 738	-49	-49
Sweden	3 971	9 211	1 040	132	-89
Netherlands	5 748	2 667	789	-54	-70
Spain	4 226	2 342	1 062	-45	-55
Italy	3 173	1 034	1 576	-67	52
Denmark	1 710	1 141	481	-33	-58
Switzerland	1 301	2 244	555	72	-75
Belgium	2 121	703	1 145	-67	63
Norway	1 550	1 114	657	-28	-41
Finland	1 082	752	681	-31	-9
Czech Republic	182	435	1 396	139	221
Ireland	558	289	524	-48	81
Poland	441	633	268	-15	-58
Austria	856	326	182	-62	-44

continued table 2

Greece	440	303	269	-31	-11
Hungary	215	476	214	-3	-55
Portugal	170	357	303	110	-15
Luxembourg	-	-	385	-	-
Bulgaria	563	90	184	-84	104
Ukraine	254	306	38	20	-88
Ex-Yugoslavia and Slovakia	140	143	128	2	-10
Baltics	212	78	7	-63	-91
Romania	318	289	221	-39	-24
Total Europe	72 165	52 275	22 690	-28	-57
Total CEE	2 344	2 480	2 456	6	-1
Australia + Asia	1 837	621	152	-66	-76
USA + Canada	1 835	1 934	1 002	5	-48
Others	167	681	120	308	-82
Total World	78 263	56 564	23 964	-28	-58

Source: BVK (2008, p. 17), BVK (2009, p. 16), BVK (2010, p. 18), EVCA (2010, p. 7–8).

Table 3. Annual investments in europe, 2007– 2009 (market statistics, in number of companies)

Country	2007	2008	2009	Change (in%)	
				2008/2007	2009/2008
United Kingdom	-	963	604	-	-37
France	-	844	694	-	-18
Germany	-	1 314	1 208	-	-8
Sweden	-	332	313	-	-6
Netherlands	-	250	278	-	11
Spain	-	306	171	-	-44
Italy	-	155	116	-	-25
Denmark	-	117	88	-	-25
Switzerland	-	95	93	-	-2
Belgium	-	155	200	-	29
Norway	-	149	147	-	-1
Finland	-	281	233	-	-17
Czech Republic	20	19	21	5	11
Ireland	-	116	73		-37

continued table 3

Poland	55	71	26	-29	-63
Austria	-	89	105	-	18
Greece	-	10	6	-	-40
Hungary	19	14	11	26	-21
Portugal	-	131	84	-	-36
Luxembourg	-	-	13	-	-
Bulgaria	8	13	8	-63	-38
Ukraine	7	12	8	-71	-33
Baltics	24	25	16	-4	-36
Romania	22	33	24	-50	-27
Total Europe	5 207	5 435	4 549	-4	-16
Total CEE	177	207	123	-17	-41

Source: BVK (2009, p. 37–39), BVK (2010, p. 37–39), EVCA (2010, p. 8).

Stage of investment in Europe, 2007–2009

Dominant activities among European investments are buyout transactions which accounted for more than a half of the capital invested over the years monitored. In 2009, their share dropped to 53%, which in comparison to the years 2008 and 2007 represents respectively a decrease of 17 and 26 percentage points. The value of the capital invested also gradually decreased from 56.8 bn € in 2008 to 11.9 bn € in 2009.

Investments in companies financed by venture capital (*Seed*, *Start up*, *Later Stage Venture*) also showed a decrease in the same period from 7.9 bn € in 2007 to 3.8 bn € in 2009. Their share in the capital value invested in Europe in 2009 was 17%. From the number of investee companies' point of view, the position of the venture capital is dominant. In 2009, venture capital financing was used by 3,021 companies, while *buyout* transactions were used by 590 companies (i.e. 13%).

It also may be concluded from the table 4 that the importance of *buyout* transactions in the CEE region in 2009 increased year-on-year by full 20 per cent, and the investment volume into that stage of the life cycle exceeded 1.8 bl €. It also means that the *buyout* share in the overall volume of investments in the region was 75%, i.e. an increase of 14 percentage points over 2008. *Buyouts'* share in the overall volume of investments exceeded 65% also in 2007. Compared with Europe, venture capital investments in the region are of significantly lower importance, which can be documented by the fact that their share in invested capital value was less than 2% (2009). In 2009 thirty-four companies of the region successfully raised venture capital, which represents 28% of the total number of investee companies in the region (this type of transactions is dominant in Europe with respect to the number of companies involved).

Similarly to the situation in the whole of the CEE region, the situation in the Czech Republic is characterized by a low level of venture capital investments. In 2009 capital investments in this category were 28 million €, and their share in the capital invested in the period 2007–2009 was in the 2 to 3% range. It means that *buyout* transactions were dominating, whose share in 2007 and 2008 was 32.75% and 39.29%, respectively, and particularly *Growth* transactions, whose share was 63.87% and 57.62%, respectively. The year 2009 was exceptional: the volume of capital invested in the *buyout* category exceeded one billion €, and the category's share in total investment value exceeded 73%.

Table 4. Stage of investment in europe, 2007–2009 (market statistics, in million €)

	Total Europe			**Total *CEE***			**Czech Republic**		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**
Total	72165	52275	22690	2344	2480	2456	182	435	1396
Early-stage venture	2 458	2 703	1 992	26	31	12	1	0,3	0
Later-stage venture	9 655	4 127	1 829	69	94	31	4	13	28
Total venture	7 857	6 830	3 822	94	126	43	4	13	28
Growth	4 266	7 039	4 494	574	796	391	116	251	206
Buyout	56844	36652	11917	1530	1553	1844	60	171	1022
Rescue/Turn-around	150	283	683	1	1	7	0	0	0
Repla-cement capital	3 048	1 472	1 775	144	5	171	2	0	140

Source: BVK (2008, p. 22), BVK (2009, p. 26), BVK (2010, p. 6, 7, 34), EVCA (2010, p. 9, 13, 14).

Table 5. Stage of investment in Europe, 2007–2009 (market statistics, in number of companies)

	Total Europe			Total CEE			Czech Republic		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Total	5207	5435	4 549	177	207	123	20	19	21
Total venture	3724	3694	3 021	81	108	34	-	-	4
Buyout	1317	1078	590	64	45	38	-	-	9

Source: BVK (2008, p. 12), BVK (2009, p. 26), BVK (2010, p. 6, 7, 37), EVCA (2010, p. 9, 13, 14).

Annual divestment value in Europe

In the period monitored, divestments in the sense of sales of shares in companies with registered address in Europe reached their peak in 2007 (Table 6). In 2008 and 2009 divestment volumes dropped dramatically. Compared with 2007, their slump in 2008 was almost 50%, and the year-on-year drop in sale volumes in 2009 was 19%. The most important European market from the sale volume point of view is the UK, which corresponds with its investment activity. Within the 2007–2009 time horizon, sales in the United Kingdom amounted to 13 bn €, which compared to the volume of European divestments, represents a share at the 25% level. The UK was followed by Germany (18%), France (17%), Italy (7%), the Netherlands (6%) and Sweden (6%).

The CEE region's share in overall European divestments over the period monitored was 1.58%. Divestments were at their highest in 2007 (453 million €), but there was a signigicant decrease in their level in 2008 and 2009. The year-on-year slumps of 48% and 47% were recorded in 2009 and 2008 respectively. It follows from the table 6 that the country with the biggest share of sales in the period investigated was Hungary followed by Poland, Rumania and the CR. In 2009 38% of sales in the region were made in the CR, 25% of sales in Poland.

Annual divestment in Europe by exit method

The most important type of exit, i.e. of the sale of a share in a company by the *Private Equity* house, in Europe in the period of interest was *Trade Sale*, sale of shares to corporate (industrial) buyers. The proportion of this type of exit mechanism in total divestments increased markedly in connection with the financial and economic crisis. While in 2007 *Trade Sales* made up 28% of all sales, in

2008 it was 38%. In 2009 their share dropped to 30%, and write-offs (liquidation) with their share of 36% became the dominant exit strategy for investors. For comparison purposes: the proportion of investment write-offs in 2007 was 1.85%, but 6% in 2008. When it comes to the volume point, other important routes for the realization of investments are sale to another *Private Equity* investment fund, or sale through an initial public offering (IPO).

In some respects, the development in the *CEE* region is comparable to the development in Europe as a whole. The most important exit routes are sales to corporate buyers (*Trade Sale*), followed by sales to another *Private Equity* investment company, and sale of the ownership interest to a financial institution. The region, however, has a lower proportion of companies that performed exits via IPO than the European average. If proportion of exits via IPO in the years 2007–2009 in Europe as a whole was 12.9%, in the CEE region it was 3.43%. A positive thing was the lower proportion of investment write-offs in 2009 (1% in CEE region and 38% in Europe).

In the CR, sales to corporate buyers and to financial institutions predominate. With the exception of 2009, investors did not have to write-off their investments. Initial public offerings defined as a situation in which a company offers its securities, or in a narrower meaning of the word, its stock, to the public for the first time, and at the same time enters a public organized market in securities, plays only a marginal role in the Czech capital market situation. From the analysis of principal characteristics of IPOs on the Czech capital market it follows that a majority of them showed characteristics of combined IPOs in which both primary and secondary shares were offered to investors. Secondary share offers were mainly associated with a withdrawal of PE/VC funds from companies and the realization of their profits on investment by sale of their shares on the stock market.

Table 6. Annual divestment value in Europe, 2007–2009 (market statistics, exit value at investment cost in million €)

Country	2007	2008	2009	Change (in%)	
				2008/2007	2009/2008
United Kingdom	6 992	3 468	2 615	-50	-25
France	3 986	2 516	2 085	-37	-17
Germany	4 956	2 227	2 086	-55	-6
Italy	1 418	1 141	980	-20	-14
Netherlands	1 831	1 029	488	-44	-53
Sweden	1 744	587	724	-66	23
Spain	1 974	403	377	-80	-7
Belgium	981	298	222	-70	-25

continued table 6

Norway	721	184	124	-74	-33
Switzerland	358	395	118	10	-70
Finland	500	366	267	-27	-27
Denmark	218	263	367	21	40
Austria	167	145	69	-13	-52
Poland	148	69	31	-53	-54
Portugal	49	136	39	178	-71
Ireland	153	141	85	-8	-40
Hungary	199	76	6	-62	-93
Greece	19	3	136	-84	4 440
Romania	33	52	12	58	-78
Czech Republic	4	5	48	-79	494
Luxembourg	-	-	79	-	-
Baltics	29	27	1	-7	-96
Bulgaria	32	0	2	-100	-
Ukraine	7	5	9	-29	85
Ex-Yugoslavia and Slovakia	-	-	15	-	-
Total Europe	**27 059**	**13 556**	**10 985**	-50	-19
Total CEE	*453*	*239*	*124*	-47	-48

Source: BVK (2008, p. 23), BVK (2009, p. 9), BVK (2010, p. 8), EVCA (2010, p. 15, 16).

Table 7. Annual divestment value in Europe by exit method, 2007–2009 (market statistics, exit value at investment cost in million €)

Europe			
	2007	**2008**	**2009**
Divestment by trade sale	7 620	5 189	3 439
Divestment by public offering (IPO)	2 585	727	688
Divestment by write-off	500	781	3 937
Repayment of silent partnerships	83	135	90
Repayment of principal loans	4 239	838	366
Sale to another private equity house	8 217	3 655	1 028
Sale to financial institution	901	707	541
Sale to management (MBO)	940	624	581
Divestment by other means	1 975	901	316
Total	27 059	13 556	10 985

continued table 7

CEE			
	2007	**2008**	**2009**
Divestment by trade sale	276	76	12
Divestment by public offering (IPO)	10	0	18
Divestment by write-off	0	2	2
Repayment of silent partnerships	0	14	0
Repayment of principal loans	20	0	9
Sale to another private equity house	81	108	21
Sale to financial institution	11	14	53
Sale to management (MBO)	12	16	8
Divestment by other means	42	9	2
Total	**453**	**239**	**124**
Czech Republic			
	2007	**2008**	**2009**
Divestment by trade sale	28	5	0
Divestment by public offering (IPO)	5	0	0
Divestment by write-off	0	0	1
Repayment of silent partnerships	0	0	0
Repayment of principal loans	0	0	2
Sale to another private equity house	0	0	14
Sale to financial institution	4	4	30
Sale to management (MBO)	0	0	0
Divestment by other means	0	0	0
Total	**38**	**8**	**48**

Source: BVK (2008, p. 25, 36), BVK (2009, p. 35, 36), BVK (2010, p. 48), EVCA (2010, p. 17).

Conclusions

Between 2007 and 2009, *Private Equity* and *Venture* capital markets in Europe underwent significant changes, both from the point of view of the volume and the number of investments and the volume and the strategies adopted for divestment.

In the 2007–2009 period, European *General Partners* invested a total of 151,230 million €. The highest levels of investments by volume were achieved in 2007, the lowest were recorded in 2009 (when investments slumped by 68% compared with 2007). Most of the investments were made by British investment companies, followed by *General Partners* domiciled in France, Germany, Sweden, Italy, Netherlands and Spain. The economic crisis caused a significant year-on-year decrease in investment activity in a large majority of countries in 2008 and 2009.

In the CEE region, the waning of investment activity became apparent with some delay in 2009. Companies investing *Private Equity* and *Venture* capital domiciled in the CEE region were responsible for 2% of European investments in the 2007–2009 period (with investment companies from Poland, Romania, Hungary and the Czech Republic accounting for the largest share of it). This indicator's value is very low. For comparison's sake: a number of small Western European economies achieves significantly better results (e.g. Sweden 6%, Netherlands 4%) or comparable results (Switzerland 2%, Norway 2%, Belgium 2%).

European companies received a total of 148,909 million € from investment firms domiciled in Europe over the 2007–2009 period. The highest investments went to companies domiciled in the UK, France, Germany, Sweden, Spain and Italy. The investments reached their maximum level in 2007, while 2008 and 2009 were marked with heavy decline (by 28% and 57% respectively). The decline was not limited to the value dimension of investments, but also affected the number of investments (year-on-year drop by 16% in 2009). From the point of view of transaction volume, the predominant type on the European market were *buyouts*, in spite of a significant decrease in the capital invested in 2008 and 2009. From the number of investee companies point of view, the European market continues to be dominated by development capital (*Seed*, *Start up*, *Later Stage Venture*).

The situation in the CEE region is different in several aspects. Contrary to Western Europe, reduction in the volume of investments in companies did not become apparent before 2009, and it was much smaller (year-on-year decrease of 1% only). Investments in companies domiciled in the CEE region made up about 5% of the capital invested in Europe. The most important recipients of the capital are companies domiciled in the CR, Poland, Hungary, Bulgaria and Romania. If we compare the level of investments by companies investing *Private Equity* and *Venture* capital in Western European economies and that in one of CEE region economies with a comparable population, we cannot help noticing that Central and Eastern European countries badly lag behind. A comparison between the Czech Republic and Sweden, Belgium or Austria may serve as an example. While investments of *General Partners* domiciled in Sweden made up over 5% of the total volume of investment in Europe even in the crisis year 2009, in the CR they made only 0.26%. More satisfactory results were reported also from Belgium (4.53%) and Austria (0.57%).

An insufficient number of transactions remains a problem. While there are over a hundred of investee companies in the Benelux countries and Scandinavia in a year, there are only a few dozen such companies in CEE countries (except

Poland). Compared to Western Europe, the proportion of *buyout* transactions in the CEE region is higher. The average size of investment into one company in CEE countries in 2009 was almost 20 million €, while the European average was 5.3 milion €. The relatively high value of this indicator is undoubtedly affected by the small number of high-value transactions.

In the 2007–2009 period European investment companies made sales totalling 51,600 million € (calculated at investment cost level). Divestments reached their maximum in 2007 and its minimum in 2009 (only 41% of 2007 value). From the point of viewof the sales, the most important market in Europe is the UK, followed at a distance by France, Germany and Italy. Exits in the CEE region reached their peak in 2007. The years 2008 and 2009 were, on the contrary, characterized by their steep fall in the whole of Europe (48% year-on-year decrease was recorded in 2009). Divestments in Europe are mostly realized by sale to corporate (industrial) buyers. The year 2009 was exceptional because in that period the greatest part of divestments were write-offs (36% of the total number of divestments). Also in the CEE region sales to corporate (industrial) buyers dominated in the field of divestment activities. The low percentage (1%) of write-offs in 2009 compared with the rest of Europe can be considered as positive. Underdevelopment of capital markets compared with Europe as a whole is indicated by the low utilization of IPOs as exit strategy in investments. On the other hand, it follows from the analysis of principal characteristics of IPOs on the Czech capital market that a majority of them were combined IPOs in which investors were offered both primary and secondary shares. Secondary share offers were mainly associated with a withdrawal of PE/VC funds from companies and the realization of their profits on investment by a sale of their shares on the stock market.

Development in the CEE region including the CR copies in a rough outline the development in Europe as a whole. The market of course is insufficiently developed compared with Western Europe. This statement is corroborated by the data on levels of investments and divestments in the years monitored in individual countries of the region in comparison with selected comparable Western European economies.

There are reasons to assume that causes of the unfavourable situation and development in the CEE region are deeper. Leaving aside the transformation of individual national economies to market-based economic systems and therefore financial markets' discontinuous development in the post-war period, we should emphasize legislative aspects that create a framework for activities and taxation of investors (*Limited Partners*), companies investing *Private Equity* (*General Partners*) and companies in which an investment is held (*Investee Companies*). An analysis of some of these problems is presented in the 2008 EVCA study '*Benchmarking European and Legal Environments'*. Another cause of underdevelopment of the *Private Equity* market in the CEE region may be the low level of support by the state of starting companies in the area of financing and consulting (non-existence or insufficient activity of specialized state agencies). In the first place, however, we must emphasize that the development of *Private Equity* markets presupposes the existence of potentially effective business plans capable of generating investors' interest. The key aspect therefore is the interest of firms in this type of financing and cooperation with investors.

Each of the outlined causes of the underdeveloped *Private Equity* market in the CEE region will certainly deserve to become the subject matter of separate research in the future.

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