

Czech Republic

Background

Together with Poland and Slovakia, the Czech Republic is showing one of the highest GDP growth rates in Central Europe, at 6.5%. Its unemployment rate is at 6.0%, which is the lowest in the region, and inflation remains under control at 3.0%. Long term interest rates were at 4.3%, again the lowest level in the region.

Private equity in the Czech Republic still seems to be looking for its model, as fundraising and investments fluctuate significantly from one year to another.

Sources of capital

Over the course of the last five years, fundraising successively fluctuated from €93.7 million in 2003, to €4.8 million in 2004, €162.5 million in 2005, €3.4 million in 2006 and finally to €78.0 million in 2007.

All funds raised in 2007 were independent. They came from few sources contrary to 2006 when fund of funds were the sole source of financing. In 2007 private individuals and banks came into private equity financing, together participating for 32.0% in the total raised. Government agencies were the main source of capital, by providing the bulk of the €78.0 million (64.1%). These funds will be fully invested in early stage and development.

Investment patterns

Investments by local private equity firms jumped from €12.3 in 2006 to €130.0 million in 2007. The biggest deals took place in consumer goods and retail (€52.4 of the total amount invested) and transportation (€35.8 of the total amount invested), collectively amounting to 67.8% of the total amount invested. Investments in 2007 were primarily in buyout at €113.4 million while expansion deals amounted to €14.1 million. Seed and start-up were not a focus of investments in 2007 but should develop, given the amounts raised during the year and their expected allocation to early stage and expansion.

Business and industrial products gathered €18.7 million from five deals, while life sciences collected €12.8 million from two investments. Most of the amounts were invested on a standalone basis (95.0%), and initial investments represented 64.8%.

Czech investors allocated 51.7% of their investments to other European countries, hence shifting away from a long tradition of domestic focus. At the same time, Czech companies attracted €139.9 from foreign investors, one third of the amount collected in 2006 (€497.1).

The total amount of investments into local companies totalled €202.7, which was primarily invested in buyout (51.9%) and expansion (46.6%) with a small amount going for replacement capital. About 52.7% of the buyouts were mid-market deals while the rest were small.

Deals remained non-syndicated (90.1% of amounts), first-time investments (99.1%). Czech communications attracted most interest with €106.0 million worth of investments (52.3%). Transportation represented 18.9% and financial services 9.7%.

Exiting

Local private equity houses divested €37.9 million in 2007, up from €5.8 million in 2006. Trade sales were the main exit route (74.1%) with six companies sold. One company was listed by Czech investors for an amount of €5.3 million.

Exits on the Czech market amounted to €25.0 million and 97.7% of them were done by trade sales. Five companies were exited through this channel.