Supporting SMEs with venture capital on the example of the SZTA

József TÖRÖK
Director of business development & startup
Széchenyi Venture Capital Fund (SZTA)
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 diligence
  - 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
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

#ficompass
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:

www.szta.hu
blog.szta.hu
torok.jozsef@szta.hu
https://hu.linkedin.com/in/józsef-török-429a2340
