



HFDA Academy: New View

The creative industry and its relationship with venture capital

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How is the sector affected by the crisis?

The currently changed economic environment can be interpreted as the unfolding of an unpredictable crisis. The unexpected decline in consumer demand has resulted in unprecedented, difficult life circumstances. The difficulties encountered have negatively and unexpectedly affected all sectors, and all industry players, including those in the creative industry so far as many businesses as possible to remain viable and successfully integrate into the restarting economy, Hiventures has announced several rescue programmes and has also recently announced a new capital fund to offer support. The main goals of the programmes are to solve the financial difficulties businesses are now facing, to retain jobs, to encourage investment and development activities, and finally, to help keep companies in domestic hands.

The importance of the creative sector

The creative sector is considered as less of a major target for capital investors, however, several studies show that the sector is a stand-alone, independent industry in the strict sense of the word, and that the businesses involved face difficulties that capital market investments can solve. In the European Union, the creative and cultural industries have the third highest employment rates, coming in third right after the industries of construction and catering, and around 19% of workers are under the age of thirty. The creative and cultural industries are one of the most important players in the European economy, contributing 4.2 percent to the continent's GDP, with an annual turnover of 535.9 billion Euros (164 thousand billion forints). It is fair to say, that the sector is able to mobilize a significant amount of money, which also offers venture capital investors enormous opportunities in the form of a promising venture.

For venture capitalists, the most attractive branch of the wide-ranging cultural industry is that of the visual arts (fashion, design, fine arts, etc.). On the one hand, it generates the largest share of income in the creative sector, and on the other hand, employment is also one of the highest in this sector. However, it's not only Europe that is a favourable environment for the capital market - in Hungary, the creative sector contributes almost 3.7 percent to the country's GDP and provides 4.4 percent of the employed.



How has the crisis affected the creative industry?

The current situation due to the pandemic has rewritten the economy as a whole, including the creative industry. As a result of the crisis, the forced and drastic change in consumer behaviour has posed a serious problem for both technology and innovation-based startups and also for small and medium-sized enterprises. The unexpected and immediate drop in demand has resulted in a significant drop in revenue, and with both supply and supply chain disruptions, many companies are also experiencing difficulty in fulfilling orders. The most important factor is time - the sooner the forced shutdown of the economy ends, the more long-term damage can be reduced.

Various, previously well-performing companies are also facing extreme difficulties, and in the case of many companies, a lack of preparedness is the cause of having to close down activities. Resolving funding obstacles is a problem, and only few companies have a crisis plan. However, the primary goal is to minimize the effects of the crisis in all respects and to further maintain the running of current operations.

In order to help and support creative industries, a collaboration between Hiventures and the Hungarian Fashion & Design Agency was launched last year. The aim of the cooperation is to provide companies with the opportunity to finance their growth through themed investment programmes until other financing options are available - e.g. credit, other assets - at their disposal.

Hiventures crisis packages

The Hungarian Development Bank (Magyar Fejlesztési Bank - MFB) and its group of companies (MFB Group) have provided a total financing package of HUF 1,490 billion to Hungarian companies through its coordinated loan, capital and guarantee programmes. The programmes have been developed to offset the economic effects of the Coronavirus epidemic and to help restart the economy, with the aim of solving the liquidity problems of enterprises, to retain jobs, to encourage investment and development activities, and to keep companies in domestic hands.

Hiventures has played a significant role in the MFB Group's coordinated economic recovery programme, under which it launched two rescue programmes and a new capital fund. These new crisis packages will help start-ups, small and medium-sized enterprises and large companies that are facing difficulties due to the pandemic, but otherwise work well. Despite the special situation, Hiventures has not fundamentally changed its current investment principles, and is still offering solutions.

However, by transforming the investment policy of existing funds, Hiventures is providing two rescue programmes that are quickly available for startups and SMEs in trouble, modeled on the incubation investment programme. On the one hand, the fund management is providing assistance to startups that have suddenly halted - but have previously received venture capital investment - due to the crisis, in order to strengthen their domestic innovation potential, and on the other hand is providing unsecured capital investment for liquidity to SMEs that have been pushed out of credit markets.

In the framework of the HUF 30 billion startup rescue programme/crisis package, innovative enterprises can be financed in the form of capital and membership loans with a maximum of HUF 150 million per transaction, in exchange for a 1% shareholding/entry share. The repurchase option is given and is also recommended to the founders and target companies, with a yield of 5.1% per annum, as Hiventures aims to keep the companies in Hungarian hands.

In the case of the SME rescue programme, a budget of HUF 41 billion is available, for which the available financing is between HUF 50-250 million per transaction. The closed, 10-year plan will be released in the form of capital and membership loans too, in exchange for 1% shareholding/entry share, with the shareholding being redeemable with a yield of 5.1% per annum, as previously done, and a mandatory repurchase option will be open to owners from the 7th year.

In addition to the rescue programmes, Hiventures will launch a HUF 150 billion Crisis I. Capital Fund, which will help companies in distress, including capital-intensive strategic companies in domestic and foreign company and real estate acquisitions and developments. The new capital programme focuses on three main areas. The restructured focus is to help domestic SMEs and large companies in particularly burdensome situations, which had good products and adequate management, but as a result of the crisis are now in a difficult place, and can only come out of the situation with a loan, or are in a position where even a loan may not be enough.

Through the focus on transactions, the acquisition activities of companies have come to the fore both at home and abroad, for which there are several opportunities in the current situation. The aim of the fund management is to keep domestic companies in Hungarian interests, instead of foreign investors buying the companies in trouble. Finally, through a focus on economic development, the new capital programme could also further help seize the new opportunities offered by the crisis, as it will allow investments to be made that would not otherwise be possible due to longer returns or the more risk-averse behaviour of commercial banks.

A further additional benefit of the products offered by Hiventures is that they have been coordinated with all loan and guarantee products as part of the rescue programme offered by the MFB Group, therefore entrepreneurs can combine these programmes and packages to create an ideal financing structure.

All further information can be found on the valsagcsomagok.hiventures.hu webpage.