

A Hungarian from abroad

› I THINK THAT THERE WILL BE OPPORTUNITIES [FOR PRIVATE EQUITY INVESTMENT] IN HUNGARY AND IN THE REGION FOR THE NEXT DECADE



being stuck in a small market that does not have significant growth opportunities. Just to pick an example, if you are a retail chain selling clothes in Hungary or you are a retail chain selling clothes in China, the growth opportunities would be far greater in China. That simple example applies to many different markets. That's why it is important for us, if we do invest in a small country's company, to think internationally and take that company outside of the borders and help it grow there. In Hungary, those are the companies we are most interested in.

Q: What do you think of the role of private equity in Hungary?

A: My view is that the private equity world in Hungary is fairly well established. There are some private equity players that have been present on the market here for more than a decade now. I think that there will be opportunities in Hungary and in the region for the next decade, which is why we still have our office here and we intend to do business in the country. The Hungarian office is also responsible for finding deals in Romania, Bulgaria, Croatia and Slovenia.

Q: Do you visit Hungary often? Do you still have ties here?

A: I have a large number of family members in Hungary and in Transylvania. I go to Hungary typically once or twice a year for business or sometimes family reasons. Not as frequently as earlier, as at the beginning of the 1990s I probably went to Hungary six times a year for as long as two weeks at a time.

Q: What is your opinion on Hungary's current economic situation?

A: My opinion is that Hungary will get through the crisis in good shape. The Hungarian people have always paid their debts and have taken their obligations very seriously. I think that with a bit of austerity and hopefully the unleashing of the free enterprise system, which means minimizing taxation and regulation and maximizing individual initiative, Hungary will be able to do well in the next couple of years, better than most expect. I am an optimist, I am a bull. My optimism is based on the observation that Hungarians are very active and have a strong can-do attitude. Wherever you see them around the world, they are typically quite successful, especially in small business. **GL**

BACKGROUND

Global private equity firm Riverside is active in the smaller end of the middle market, targeting companies with enterprise value of less than €200 million, and developing them through acquisitions and organic growth. Current co-CEO **Béla Szigethy** started Riverside as a small company-focused buyout shop in New York "at the same time as the Berlin Wall was falling." Back then, he called up his cousin Ferenc Vidovszky in Budapest, and asked him what was going on over here, whether there were any business opportunities. He said yes, of course, and they started working together in Budapest. During most of the 1990s, they acted as advisors on small privatizations and became familiar with doing business in the region. In 1997, Riverside raised its first Central Europe-focused fund, opened offices in Prague and Warsaw and began investing capital in the region. The company exited its first CEE investment, Hungarian glass manufacturer Salgglas, in 2007.

Q: The Riverside Company likes it small, but isn't the Hungarian market too small?

A: Not at all. You could argue that the Riverside model works best in smaller countries. Our global model is to help relatively small companies with enterprise value of anywhere from €2 million to €200 million grow bigger and better over a five-year period and then realize the value, which hopefully we have created, for the company and for our investors. That way, companies in smaller countries such as Hungary that have aspirations to compete on a global level can benefit from Riverside's global reach, our offices around the world and our 190 employees in 19 offices, all of whom are local. Our model is also effective in working with companies that are simply looking to expand in local markets, but it does work best with companies looking to move outside their home markets.

Q: How many active investments do you have in Hungary?

A: In Hungary, we have one active investment, [in vitro diagnostics company] Diatron. It is a classic example of a relatively small Hungary-based company that has expanded outside the local market. Diatron has purchased an add-on acquisition [Metrolab] in Argentina, and is also investing in a company in Israel. And we are only halfway done, as we still have our next three or four years of work to continue Diatron's global reach. But when we end up selling Diatron, roughly six or seven years after we bought it, it will be a company that has a significant presence in South America, North America, Europe, the Middle East and even the Far East. This is exactly what our investors want us to do. This is how we create value for our investors by being the only global buyout shop focused on the smaller end of the middle market.

Q: Are you actively looking for other investments in Hungary?

A: Oh yes, all the time. In Hungary, we look at probably one or two potential deals every month and in the region we look at probably two or three new opportunities every week. We buy approximately 1% of the companies we look at, so we have to look at many, many companies before we invest in one. In Hungary, we saw a software company in the healthcare sector and another company in the IT industry last year, which were quite attractive. There is a potential target in the oil and gas industry that is still in the pipeline. I think that we will announce a Hungarian acquisition over the next 12 months, with a little luck.

Q: How are you able to work together with the management of Hungarian companies?

A: Working with managements is crucial to our success everywhere because excellent management is directly related to the quality of investment. In Hungary, the quality of management in general has vastly improved over the past 20 years and it continues to improve. It is probably the greatest challenge in any country, whether we are talking about Hungary, the US or Japan. Whereas 20 years ago it was very difficult to find experienced, talented management in Hungary, today it is the same level of challenge as in other countries.

Q: What are the main risks of investing in Hungary?

A: They are in most part the same as they would be when investing in other small countries. Obviously, there were some economic hiccups over the past 12 months, but it appears that those are largely behind us and we are not overly concerned about the Hungarian macroeconomic situation at this point. The main risk of investing in a small company in a small country is the risk of

CURRICULUM VITAE

Szigethy's parents were World War II refugees from Transylvania. His father, a Reformed Church minister, grew up in Odorheiu Secuiesc (Székelyudvarhely in Hungarian). They left Hungary during the war and ended up living in a German refugee camp. After about five years, they emigrated to the US. Szigethy, who was born in the US in 1955, grew up in New Jersey. His parents insisted on teaching him Hungarian and always spoke Hungarian with him. He considers Hungarian his first language, although he admits that he speaks English far better today. Szigethy has a master's in international affairs and international finance and a BA in psychology and French. Prior to Riverside, he was a vice president in the leveraged finance department of Citibank.