Situation assessments and expectation levels have improved noticeably

Positive sentiment around deal flow and prices signals favourable entry points

Rising interest level weighs on fundraising sentiment and valuation adjustments

**Sentiment turnaround is gaining momentum**
Sentiment in the German private equity market improved again in the first quarter of 2023. The business sentiment indicator rose by 17.7 points to -12.9 balance points. Situation assessments improved significantly and business expectations became much more optimistic. Thus, the indicator for the current business situation rose by 20.4 points to -16.7 balance points, while the indicator for business expectations gained 15.0 points to -9.1 balance points.

**Confidence is rising as uncertainty wanes**
The greatest economic anxieties are increasingly dissipating, and price pressures are easing steadily. Thus, economic uncertainty is decreasing more and more, making it possible to plan the further development of portfolio and potential target companies again. This appears to be opening more opportunities for exits and investments. The related exit and deal flow indicators are picking up strongly. In addition, assessments of entry valuations remain on a historically very good level. With the increased quantity and quality of deal flow, that should provide good entry opportunities overall. However, the investment climate is hovering around the long-term average, suggesting that the appetite for new investments remains subdued.

The moderate investment climate is likely the result of recent increases in key interest rates, which lifted the interest level in the capital markets and thus made debt capital and loan financing typically used for private equity transactions more expensive for portfolio companies as well. The sentiment indicators for the interest level and acquisition financing conditions thus marked new lows. The availability of acquisition finance, however, obviously improved somewhat, even though the indicator remains deep in negative territory. However, the rising interest level in the capital markets is still making alternative investments more unattractive and putting pressure on company valuations. That is weighing on sentiment regarding fundraising and valuation adjustments. Both sentiment indicators remain clearly in the red.
**Comments on the current trend**

Dr Fritzi Köhler-Geib, Chief Economist of KfW

‘The sentiment turnaround in the German private equity market is gaining momentum’, said Dr Fritzi Köhler-Geib, Chief Economist of KfW. ‘This has to do with waning uncertainty as the deepest economic worries are dissipating and price pressure is easing. The mix of higher and better-quality deal flows and lower valuations in new commitments should point to entry opportunities. Even if the availability of the required debt capital has improved, rising interest levels mean deteriorating conditions. This appears to be causing private equity investors to hesitate with new commitments. The risk here is that opportunities may be missed.’

Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK)

‘Overall economic uncertainties are easing and private equity market sentiment is improving for the second consecutive quarter now’, commented Ulrike Hinrichs. ‘The major indicators of deal flow, fundraising, economic conditions and exits have improved, if on a low level, raising hope for a sustained sentiment turnaround. The predictability of business development in portfolio companies and, in particular, potential target companies has returned. The confidence about new investments will follow sooner or later, as the valuation level remains favourable.’

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**Calculation of the German Private Equity Barometer**

The **German Private Equity Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Beteiligungskapital – BVK), the member investors of the Deutsche Börse Venture Network (since the 2nd quarter of 2021) and further private equity companies with registered offices in Germany. It reports on business sentiment in the German private equity market on the basis of assessments provided by private equity firms with a focus on mature small and medium-sized enterprises. All sentiment indicators represent the average of the balance of situation assessments (share of ‘good’ minus share of ‘bad’) and the balance of expectations identified at the same time for the coming six months, normalised to their respective historical mean balance values as baseline level. As a result, the maximum or minimum value of the indicator may exceed or fall below +100 or -100 as the actual maximum or minimum. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Private Equity and Venture Capital Association (BVK)** is the voice and the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private equity companies and investors as well as some 100 consulting firms and service providers of the industry.

The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe's largest network for growth finance and 'Capital Market Readiness'. It focuses on providing efficient access to capital and has an extensive range of networking and training services. The network of more than 200 fast-growth businesses and more than 450 investors has already enabled 13 IPOs and numerous trade sales.