

Private equity sentiment continues to climb, but many sub-indicators remain deep in the red

7 May 2024

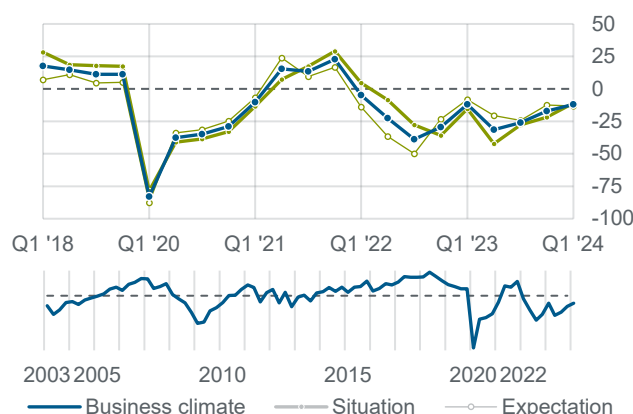
Author: Dr Georg Metzger, phone +49 69 7431-9717, georg.metzger@kfw.de
 Press contact: Christine Volk, +49 69 7431-3867, christine.volk@kfw.de

- Expectations suffered a dampener while situation assessments improved
- Most sentiment indicators are showing red
- Investors remain satisfied with entry valuations, exit environment is warming

Sentiment in German private equity market continues on a path to recovery. The business sentiment indicator gained 5.1 points in the first quarter of 2024, reaching -12.0 balance points. Thus, the indicator for investor sentiment is about to jump from red to amber. What is pleasing is that the positive development is attributable to assessments of the current situation, which have improved noticeably. Thus, the indicator for the current business situation rose by 10.9 points to -11.0 balance points, while the indicator for business expectations slipped by -0.7 points to remain nearly unchanged at -13.1 balance points.

The development of business sentiment indicates that the dark clouds are gradually dispersing. However, the sub-indicators show that chilly conditions remain. Thus, most sentiment dots are still red. At 27.3 balance points, assessments of entry valuations are the only green signal. Despite the high degree of satisfaction with entry prices, there is still no tangible improvement in investor appetite. The corresponding indicator is close to its long-term average (-0.7), with expectations sitting above average and situation assessments below average. Thus, the majority of investors are optimistic about investment activity in the course of the year, although they are rather dissatisfied with the current and expected deal pipeline. The demand indicator for the level of deal flow, however, has recovered again significantly since its slump a year ago and now stands at -11.3 balance points. The interest rate level and the associated assessments of the availability and terms of acquisition finance still represent significant stumbling blocks for any increase in investment activity. The corresponding indicators are still further below their respective long-term averages than all the other sub-indicators. By contrast, assessments of exit opportunities and valuation adjustments have jumped considerably higher. The dots for both these indicators are about to jump from red to amber. Within the exits, however, the individual exit channels are inconspicuous. The IPO climate has even deteriorated slightly and remains well in the red – despite two major IPOs from PE portfolios in the Frankfurt Prime Standard in Q1.

Development of private equity sentiment indicator



Source: KfW Research, BVK and DBVN.

Key data of private equity sentiment components

	Q1/24	Δ Q4/23	Low	High
Business climate	-12.0	+5.1	-83.1	+37.5
Business situation	-11.0	+10.9	-78.5	+46.5
Business expectations	-13.1	-0.7	-87.6	+28.5
Fundraising	-33.2	+11.7	-66.4	+48.1
Entry valuations	+27.3	-5.4	-35.8	+59.0
Exit opportunities	-25.7	+14.4	-85.4	+57.8
New investment	-0.7	-2.6	-76.9	+27.4
Dealflow quantity	-11.3	+1.9	-28.5	+22.4
Dealflow quality	-2.7	+6.1	-24.0	+23.7
Depreciations	-7.7	+26.0	-51.8	+34.2
Economy	-54.1	-4.3	-88.9	+78.1
Interest rates	-47.2	-0.5	-86.8	+39.7
Availability acqui. fin.	-36.1	-4.8	-70.8	+38.5
Conditions acqui. fin.	-48.3	-6.2	-87.4	+40.6

Colour scheme of sentiment indicator dots: values in the lowest tercile are marked 'red', in the medium tercile 'amber' and in the highest tercile 'green'. Indicator design may lead to deviations from previous publications.

Source: KfW Research, BVK and DBVN.

Comments on the current trend

Dr Fritzi Köhler-Geib,
Chief Economist of KfW

“Sentiment in the German private equity market continues on a path to recovery and after the gains of the past quarters the sentiment indicator is about to switch to amber”, said Dr Fritzi Köhler-Geib, Chief Economist of KfW. “Still, many sub-indicators are deep in the red, especially those on the financing side that are dependent on interest rates. What is pleasing are the positive expectations for investment appetite, which give hope that investment activity will pick up in the course of the year despite the rather subdued mood regarding financing and the deal pipeline.”

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

“Investors in the private equity market are increasingly more confident. In particular, the growing optimism with a view to exits and fundraising gives hope for the further course of the year”, said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). “For the overall economy, too, the continuously rising Ifo index is an increasingly clearer sign that things are improving. If the interest rate turnaround comes, it is likely to be the decisive signal for a broad recovery in the private equity market. Investors are ready and, despite record high stock prices, valuations are still attractive.”

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.



Bundesverband
Beteiligungskapital e.V.

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.

Deutsche Börse
Venture Network