

»» Sentiment in the German private equity market has fallen

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Author: Dr Georg Metzger, phone +49 (0)69 7431-9717, georg.metzger@kfw.de
 Press contact: Nina Luttmer, +49 (0)69 7431-41336, nina.luttmer@kfw.de

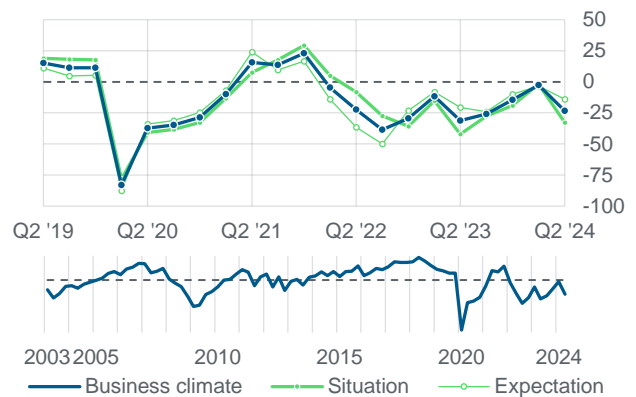
- Assessments of current business situation have worsened significantly
- Assessments of entry valuations and investment appetite are well in the green
- ‘Traffic light’ for exit climate has jumped from red to amber

Just before rising above its long-term average, sentiment in the German private equity market dropped again. In the second quarter of 2024, the sentiment index fell by 20.6 points to -23.4 balance points. A similar drop was already recorded a year ago, in the second quarter of 2023. Assessments of the current business situation in particular were much worse again, after improving noticeably just in the previous quarter. The indicator for the current business situation shed 30.8 points, dropping to -32.7 balance points, while the indicator for business expectations fell by 10.5 points to -14.0 balance points.

The downturn in confidence has come unexpected. Sentiment in the private equity market climbed steadily in the four preceding quarters, and the overall economic environment improved. This was also reflected in the individual sentiment indicators, which gradually moved higher from their very low previous levels. Most indicators also remained steady in the past quarter, and some even improved significantly. The downturn in sentiment does not fit in with this picture, as was already the case in the second quarter of 2023. Situation assessments in particular appear to have been readjusted in early summer. The perspectives on the remainder of the year were less affected by this, which explains the rather moderate drop in the expectations indicator compared with the situation indicator.

The fundraising environment has hardly changed and therefore remains in the red, so the situation remains difficult for fund initiators who wish to attract capital providers. Sentiment around entry valuations, on the other hand, improved moderately again and remains well in the green. Assessments of investment appetite also improved significantly. This is good news for companies in Germany who wish to attract private equity investments. The deal flow indicator shows that their demand appears to have risen slightly. Sentiment is also rising with a view to the end of the engagement cycle. Thus, the ‘traffic light’ for the exit environment has changed from red to amber.

Development of private equity sentiment indicator



Source: KfW Research, BVK and DBVN.

Private equity sentiment ‘traffic lights’

Values in balance points

	Q2/24	Δ Q1/24	Low	High
Business climate	-23.4	↓ -20.6	-82.9	+37.6
Business situation	-32.7	↓ -30.8	-78.3	+46.7
Business expectations	-14.0	↓ -10.5	-87.6	+28.5
Fundraising	-30.2	↔ -0.7	-66.0	+48.5
Entry valuations	+40.4	↔ +4.9	-36.4	+58.4
Exit opportunities	-14.9	↑ +6.3	-85.3	+58.0
New investment	+21.3	↑ +17.6	-77.6	+26.7
Dealflow quantity	+5.5	↑ +7.8	-28.7	+22.2
Dealflow quality	-1.2	↔ +3.7	-23.9	+23.7
Depreciations	-18.2	↓ -13.4	-51.7	+34.3
Economy	-40.8	↑ +14.0	-88.4	+78.6
Interest rates	-43.7	↔ +2.0	-86.3	+40.2
Availability acqui. fin.	-35.5	↔ -1.7	-69.7	+39.5
Conditions acqui. fin.	-54.0	↓ -6.3	-85.6	+42.4

Colour schemes of the ‘traffic lights’: The poorest tercile is marked ‘red’, the medium tercile ‘amber’ and the best tercile ‘green’. The values for Q4/23 and Q1/24 have changed slightly as a result of data corrections.

Source: KfW Research, BVK and DBVN.

Comments on the current trend

Dr Fritzi Köhler-Geib,
Chief Economist of KfW

"Business sentiment in the German private equity market has surprisingly deteriorated", said Dr Fritzi Köhler-Geib, Chief Economist of KfW. "The downturn in sentiment does not fit in with the picture outlined by the changes in the individual sentiment components. Important factors such as assessments of exits or investment appetite have improved, while others such as assessments of fundraising or entry valuations remained steady. It is unclear what triggered the decline, particularly of situation assessments, but what matters is that expectations were less affected and are clearly more optimistic. This gives hope that the upward trend will resume in the further course of the year. Given the sharp surge in investment appetite, the prospects for this are actually quite good."

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

"The improvement in sentiment among private equity companies still appears to be fragile. The current downturn is surprising, given that we are actually receiving more and more positive signals from the market", said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). "But since the sub-indicators are continuing to broadly improve, there is good reason to hope that business sentiment in the private equity market will move towards a recovery again in the second half of the year."

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.



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