

Private equity sentiment stabilised after setback

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- Situation assessments partly improved, outlook deteriorated again
- Deal flow has dried up, demand indicator declined sharply towards previous low
- Satisfaction with entry valuations rises to 13-year high

Situation assessments partly offset previous declines

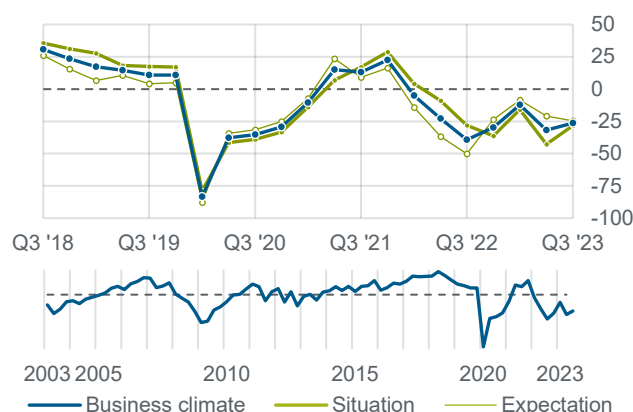
Sentiment in the German private equity market stabilised again after cooling down noticeably in the early summer. The business sentiment indicator rose slightly by 5.4 points to -26.4 balance points in the third quarter of 2023. This shows that the mood in the market remains lacklustre. Situation assessments partly offset previous declines, while expectations deteriorated again. Thus, the indicator for the current business situation rose by 14.4 points to -28.2 balance points, while the indicator for business expectations fell by 3.7 points to -24.5 balance points.

Abundance of red dots indicates poor overall sentiment

The very negative market sentiment is also reflected in the large number of indicators showing red dots. A number of indicators fell again on the previous quarter, thereby slipping deeper into negative territory. Others managed to rise noticeably but remain bright red despite rebounding. Thus, the fundraising, exit and investment environment indicators show moderate losses. At the same time, the demand indicator points to a very significant downturn signalling a sharp drop in deal flow volume. On only three previous occasions did this sentiment indicator fall so steeply: during the financial crisis, after the Brexit referendum and after the outbreak of the COVID-19 pandemic. Assessments of the quality of the deal flow accrued also deteriorated appreciably.

Despite renewed key interest rate increases, the sentiment of private equity investors around interest rates picked up again. The positive development likely has to do with the fact that a pause in interest rate increases is foreseeable and an end to the trajectory of rate hikes is in sight. This has removed uncertainty from the market and has caused dissatisfaction with the interest rate situation to decrease at least moderately. The sentiment indicators for the availability and conditions of acquisition finance have likewise improved – and perceptibly. They had reached new lows in the previous quarter from which they have now risen again. The only positive indicator is the one for satisfaction with entry valuations. It rose substantially to a 13-year high.

Development of private equity sentiment indicator



Source: KfW Research, BVK and DBVN

Key data of private equity sentiment components

Values in balance points

	Q3/23	Δ Q2/23	Low	High
Business climate	-26,4	↑+5,4	-83,4	+37,1
Business situation	-28,2	↑+14,4	-78,9	+46,1
Business expectations	-24,5	↓-3,7	-87,9	+28,2
Fundraising	-44,8	↓-9,0	-67,3	+47,2
Entry valuations	+42,7	↑+11,9	-35,0	+59,8
Exit opportunities	-35,0	⇔-1,7	-86,2	+57,1
New investment	-5,2	⇔-2,9	-76,9	+27,4
Dealflow quantity	-24,2	↓-20,4	-28,8	+22,1
Dealflow quality	-15,3	↓-9,5	-24,1	+23,5
Depreciations	-26,6	⇔+0,5	-52,3	+33,7
Economy	-59,6	↓-9,3	-90,1	+76,8
Interest rates	-66,8	↑+7,4	-87,9	+38,5
Availability acqui. fin.	-49,1	↑+23,9	-73,0	+36,2
Conditions acqui. fin.	-62,0	↑+28,4	-90,4	+37,6

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 remains very subdued’, said Dr Fritzi Köhler-Geib, Chief Economist of KfW. ‘Whether fundraising, exits or deal flow, all aspects reflect the difficult market environment. However, there are indications of an economic turnaround and, thus, prospects for improved confidence levels in Germany’s SME sector. As private equity sentiment correlates with sentiment among SMEs, it could be that the mood among investors will then brighten again as well. The conduct of central banks, which had flagged a pause in interest rate hikes, will surely play a role here as well. Should this change in any way, the sentiment upturn would also hang in the balance.’

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

‘The slight improvement in sentiment is a bright spot and cause for hope of further stabilisation by the end of the year. But the private equity market remains in the grip of interest rate policy, economic performance and associated uncertainties on the overall economic development. The critical values of key indicators such as deal flow, fundraising, business cycle and exits clearly illustrate the difficult environment in which private equity companies and their portfolio businesses must currently assert themselves. Deal flow does not appear to be reducing, which is why competition for the best companies will further intensify. However, entry valuations, which are estimated to be on historic lows, at least open up opportunities here. But it will take more than that for the market to experience a broad recovery.’

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.

Deutsche Börse
Venture Network