

# Private equity sentiment stabilised towards the end of the year

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- Situation assessments dropped again, expectations rose noticeably
- Entry valuations are becoming more favourable, appetite for new investment is growing again
- Economic optimism is returning

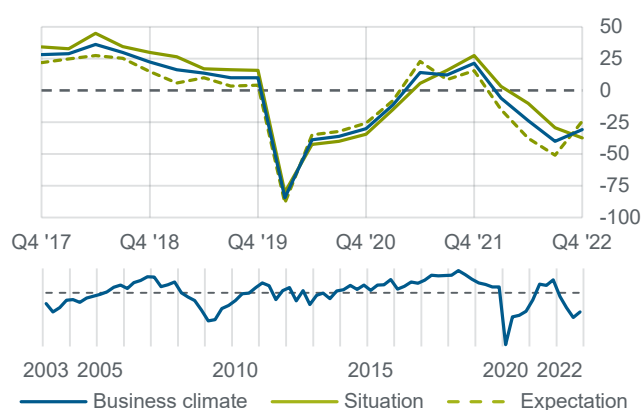
## Private equity sentiment has stopped falling for now

Sentiment in the German private equity market developed positively in the fourth quarter of last year. The business sentiment indicator rose by 9.2 points to -30.8 balance points. While situation assessments deteriorated again, the decline was more than offset by improvements in business expectations. The indicator for the current business situation dropped by 8.2 points to -37.4 balance points. The indicator for business expectations rose by 26.6 points to -24.2 balance points.

## Economic optimism is bolstering sentiment

Forecasts have improved after the most recent GDP data and it appears that Germany will just barely avoid the feared recession. The sentiment indicator for the economic climate has therefore increased, rising well above the low of the previous quarter. This is true both for the sentiment indicator regarding the interest level, which has risen from its low again despite new key interest rate increases aimed at combating the high inflation, and for the assessments of the conditions for acquisition finance, which are important for the market because of the significant role which debt capital typically plays in private equity transactions. Despite the positive development of these indicators, they continued deep in the red in the final quarter. Assessments of the fundraising climate and exit opportunities, on the other hand, hardly changed, remaining very negative as well. What all indicators have in common, however, is that the expectations component improved noticeably. A basic optimism appears to have returned. Without it the fundraising climate and exit climate would have deteriorated further and sentiment regarding valuation adjustments would not have improved either. That explains why assessments of entry valuations ended up rising again. In a historic comparison, they are now clearly on an above-average level, pointing to favourable entry opportunities as demand returns. That is presumably the main reason for the renewed strong growth in appetite for new investments.

## Development of private equity sentiment indicator



Source: KfW Research, BVK and DBVN.

## Key data of private equity sentiment components

Values in balance points

	Q4/22	Δ Q3/22	Low	High
Business climate	-30.8	+9.2	-84.3	+36.2
Business situation	-37.4	-8.2	-80.0	+45.0
Business expectations	-24.2	+26.6	-88.6	+27.5
Fundraising	-53.9	+1.3	-68.8	+45.7
Entry evaluations	+36.9	+16.7	-33.6	+61.2
Exit opportunities	-43.4	+5.0	-87.2	+56.0
New investment	+3.3	+14.5	-77.0	+27.3
Dealflow quantity	+1.6	+10.2	-29.0	+21.9
Dealflow quality	-5.2	+1.9	-24.2	+23.4
Write-downs	-21.8	+13.7	-53.3	+32.7
Economy	-61.3	+30.7	-92.0	+74.9
Interest rates	-67.0	+21.7	-88.6	+35.7
Availability M&A fin.	-65.8	-0.6	-76.1	+29.8
Conditions M&A fin.	-67.3	+14.0	-81.4	+29.3

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

'Without a doubt, the difficult economic situation in Germany is weighing on business sentiment in the German private equity market', said Dr Fritzi Köhler-Geib, Chief Economist of KfW. 'The steep interest rate rises, which are likely to continue, are a challenge not just for the typical private equity financing strategy but for target enterprises, which are additionally being plagued by strong increases in energy costs. For many businesses, the top priority for now is to get through winter as unscathed as possible. After that, a great deal of uncertainty will be removed. But labour shortages, supply bottlenecks and the energy crisis will force many businesses to reposition themselves. It is very likely that this will generate investment opportunities for private equity investors.'

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

'The private equity market cannot decouple itself from the overall economic environment. This applies even more to the later-stage segment than to the venture capital segment. By now, a recession is clearly being priced in, which also explains the historically low valuation of the economic environment,' said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). 'The competition for the most attractive businesses in the current environment is likely to intensify. At the same time, existing portfolio companies must be steered through the crisis. In the long term, the difficult exit environment and the fundraising situation will prove to be the greatest burden.'

### 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 Deutscher Kapitalbeteiligungsgesellschaften – 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, adjusted by their respective historical mean balance values. 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 Venture Capital Association** is the voice in 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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