

Private equity sentiment ticked up at the end of the year

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- Expectations slightly more positive than situation assessments
- Almost all sentiment components are deep in the red
- High degree of satisfaction with entry valuations is a bright spot

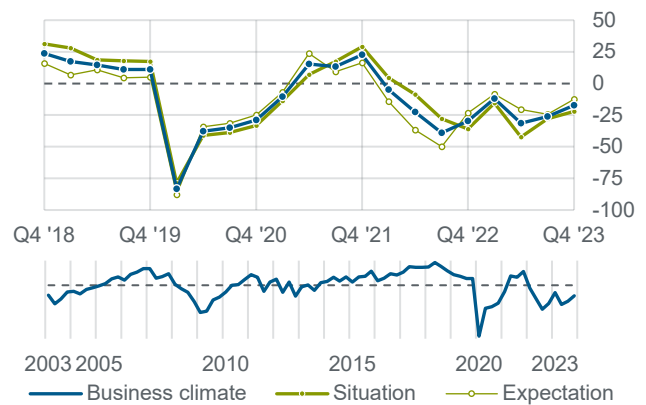
Subdued mood at year-end, similarly dim start to the new year expected

Business sentiment has risen again slightly in the German private equity market. The sentiment indicator gained 8.9 points to -17.3 balance points in the fourth quarter of 2023. Investor sentiment thus remained subdued at the end of the year. However, situation assessments and expectations both improved. Thus, the indicator for the current business situation rose by 6.0 points to -22.0 balance points, while the indicator for business expectations gained 11.9 points to -12.5 balance points. This shows that business expectations for the start to the new year were more positive than assessments of the current situation.

High degree of satisfaction with entry valuations in an otherwise bleak market

Sentiment in the German private equity market brightened slightly in the final quarter. Most sentiment indicators remain deep in negative territory but a broad upward trend is discernible. In particular, the demand indicator for the volume of deal flow and market environment indicators, such as those on the interest rate level or acquisition finance, improved. The only real silver lining in an otherwise downbeat market is the high level of satisfaction with entry valuations. Although the indicator was unable to maintain its 13-year-high from the previous quarter, it remains well in the green despite the slight drop. Investor sentiment around the interest rate level showed the strongest increase in the final quarter. This presumably has to do with the fact that the Fed and the ECB, as the most market-relevant central banks, have not raised key interest rates any further since late summer of 2023. The longer interest rates remain steady, the sooner concerns over further interest rate increases will subside, especially given the prospect of first interest rate reductions in the summer of 2024. This situation also has a positive effect on the views about acquisition finance availability and terms. If it continues to brighten and the deal flow indicators also continue to rise, the favourable entry valuations may kickstart investment activity which, in turn, could improve the overall business sentiment.

Development of private equity sentiment indicator



Source: KfW Research, BVK and DBVN.

Key data of private equity sentiment components

Values in balance points

	Q4/23	Δ Q3/23	Low	High
Business climate	● -17.3	▲ +8.9	-83.2	+37.3
Business situation	● -22.0	▲ +6.0	-78.7	+46.3
Business expectations	● -12.5	▲ +11.9	-87.7	+28.3
Fundraising	● -45.2	◻ -1.0	-66.8	+47.7
Entry valuations	● +33.0	▼ -9.3	-35.5	+59.3
Exit opportunities	● -40.4	▼ -5.9	-85.7	+57.5
New investment	○ +1.9	▲ +7.2	-76.9	+27.4
Dealflow quantity	● -13.3	▲ +10.8	-28.6	+22.2
Dealflow quality	● -8.8	▲ +6.4	-24.0	+23.6
Depreciations	● -33.8	▼ -7.6	-51.9	+34.1
Economy	● -50.4	▲ +8.5	-89.5	+77.4
Interest rates	● -47.3	▲ +19.0	-87.4	+39.1
Availability acqui. fin.	● -32.5	▲ +15.6	-71.9	+37.3
Conditions acqui. fin.	● -43.7	▲ +16.9	-89.0	+39.0

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 Fritz Köhler-Geib, Chief Economist of KfW

“The mood in the German private equity market improved moderately at the end of the year but that did precious little to improve sentiment”, said Dr Fritz Köhler-Geib, Chief Economist of KfW. “Market sentiment is generally subdued and the only bright spot is the high level of satisfaction with entry valuations. What is noteworthy is that attitudes about the interest rate level have improved considerably, probably in response to the pause in central banks’ interest rate hikes. That has also lifted the mood regarding acquisition finance opportunities. The obviously favourable entry valuations could give investment activity a fresh boost.”

Ulrike Hinrichs,

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

“The mood in the German private equity market has improved once again and the minor increase of nearly all market indicators gives hope for 2024”, said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). “Real impetus is still lacking. The market players are betting on the envisaged interest rate reductions. That is when the mood in the market should brighten significantly. Until then, market sentiment remains dominated by interest-rate policy, economic performance and overall economic uncertainties. Despite the challenging environment, we witnessed quite lively investment activity last year, which signals a robust German market with attractive investment opportunities.”

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 net working 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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