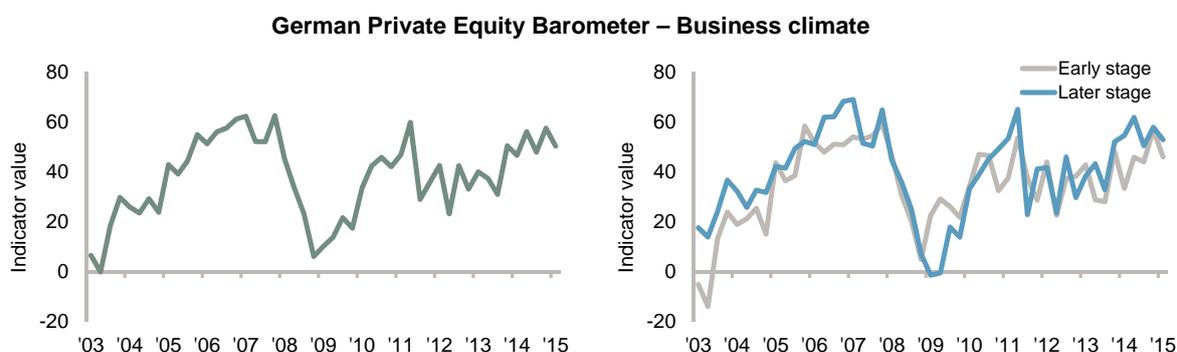


German Private Equity Barometer: 1st Quarter 2015

Tentative start to the year

- *Private equity market sentiment weakens but upward trend continues*
- *Fundraising climate and exit environment at all-time high*
- *Entry prices upsetting early-stage investors*



Source: KfW Research, BVK

Subdued sentiment at the start of another year

The German equity market got off to a quiet start in 2015, just as it had the previous year, although sentiment remained upbeat. The Business Climate Index for the German Private Equity Barometer fell 7.2 points in Q1, ending the quarter at 50.2 balance points. This weaker business climate was essentially the result of lower business expectations, which fell 16.4 points to 44.8 balance points according to the relevant indicator. In contrast, the current business situation improved slightly, with the indicator rising by 2.0 points to 55.6 balance points.

Early-stage investors feeling pessimistic about prospects

The highs on which early-stage investors ended last year dropped quickly, with business climate sentiment dipping significantly at the start of 2015. The business climate indicator recorded a fall of 10.8 points to 46.0 balance points for the first quarter. Although early-stage investors only made minor downward corrections to their current business situation, their business expectations worsened significantly. The current business situation indicator fell 2.1 points to 51.5 balance points while the business expectations indicator recorded a drop of 19.6 points to 40.4 balance points.

Business expectations dash hopes of later-stage investors

Sentiment within the later-stage segment of the private equity market also waned in the first quarter of 2015, with the business climate indicator recording a fall of 5.0 points to 52.8 balance points. As was the case in the early-investor segment, the gloomier business climate was caused by more pessimistic business expectations rather than other issues, as later-stage investors were actually in a stronger position. The current business situation indicator rose 4.6 points to 58.2 balance points while the business expectations indicator recorded a drop of 14.5 points to 47.5 balance points.

Fundraising and exit conditions keep market grounded

The German private equity market was undeniably affected by a gloomier business climate at the start of 2015. Despite this, the business climate actually remains quite healthy, continuing its medium-term upward trend. However, there are some confused signals regarding future growth prospects, with business confidence data showing a marked deterioration to significantly below the level that the current business situation suggests ought to be the case. The extent of this collapse creates concern that there could soon be an interruption to the medium-term upward trend. With interest rates remaining at such low levels, it is pleasing to note the continuing improvement in conditions for fund raising and exits. Both indicators reached new all-time highs in Q1. However, the downside of the current market environment is high business valuations. VC-investor entry price assessments in the early-investor segment fell to a new low. Sooner or later this could have a detrimental effect on the willingness of private equity investors to invest, not least because they remain dissatisfied with the quality of their deal flow. This dissatisfaction is certainly not the result of a lack of innovation on the part of business start-ups, with indicators in this area revealing another all-time high. Many start-ups interested in attracting venture capital seem to approach discussions with venture capitalists in too unfocused a manner, often failing to find out in advance what their investors' requirements might be or where their investment priorities might lie.

"Business expectations amongst private equity investors became surprisingly gloomy during the first quarter," said Dr Jörg Zeuner, Chief Economist at the KfW Group, "however, we see this as just a brief interlude. Given the good signals we are getting on fundraising and exits, we believe that venture capitalists will remain willing to invest." Nor does BVK Managing Director Ulrike Hinrichs see any cause for concern. "We had a similar situation last year, with an interim decline in sentiment following the previous year-end high. However, this does not change anything with regard to the state of the market, which remains fundamentally positive. It will be interesting to see what happens to interest rates and the economy, given the massive effect they have on business valuations and thus on the private equity market. However, we don't see any impediment to investment activity at present".

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Appendix: Equity market climate in figures**German Private Equity Barometer**

Climate indicators		Q1/2003 to Q1/2015		2013			2014				2015
		Max	Mean	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Business climate	Total	62.4	37.9	37.3	30.9	50.4	46.5	56.0	47.8	57.4	50.2
	ES	59.2	35.3	28.8	27.9	48.0	33.3	45.7	43.9	56.8	46.0
	LS	68.9	39.8	43.2	32.8	52.0	54.5	61.7	50.4	57.8	52.8
Market factors:											
Fundraising	Total	42.1	2.1	14.3	0.1	23.4	25.4	29.4	34.5	38.5	42.1
	ES	33.3	-13.9	-2.7	-28.2	-2.6	-0.7	-2.6	5.8	26.2	12.6
	LS	61.8	15.3	28.8	19.8	44.2	45.4	52.9	56.8	46.5	61.8
Acquisition prices	Total	62.7	10.0	7.6	4.9	-8.2	-2.0	-27.1	0.6	-11.9	-27.2
	ES	70.9	32.8	33.8	39.9	43.1	43.5	9.2	23.8	18.3	-10.4
	LS	54.5	-7.1	-10.2	-17.7	-43.1	-31.7	-48.9	-16.0	-30.7	-37.6
Exit opportunities	Total	51.2	2.1	9.6	6.0	15.0	33.6	41.2	39.5	38.8	51.2
	ES	46.0	-8.2	-12.8	-23.5	-16.2	12.4	21.1	17.6	32.3	24.2
	LS	66.4	9.6	25.5	22.3	36.3	46.9	52.3	54.2	42.9	66.4
Demand	Total	63.6	45.7	45.8	36.0	43.7	45.5	41.1	44.2	42.9	36.8
	ES	75.8	51.5	65.8	71.8	74.0	66.8	55.9	58.9	73.2	58.0
	LS	65.9	42.4	31.6	13.0	23.1	32.5	32.6	34.2	24.0	22.6
Demand quality	Total	41.4	26.1	37.4	29.2	28.2	41.4	23.2	24.9	14.9	16.8
	ES	63.8	33.7	57.6	53.2	63.8	50.8	30.7	25.0	29.7	28.9
	LS	43.2	20.5	22.9	14.0	4.3	35.5	19.0	24.8	5.4	8.7

Comments and Abbreviations:

Differences to previous publications are due to extrapolation.

E(arly)**S**(tage)**L**(ater)**S**(tage)

Source: KfW Research, BVK

Calculation of the German Private Equity Barometer: The German Private Equity Barometer is based on a quarterly survey of the 200+ members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK). The German Private Equity Barometer reports the business climate in the German private equity capital market. The business climate is calculated as the mean of the net balance of the weighted assessments of the current business situation (positive responses minus negative responses, expressed as a percentage) and the equivalent net business expectations for the coming six months. The responses provided by interviewees are weighted to reflect the volume of capital under management and the investment focus of all BVK members.