

# Coronavirus crisis pushes private equity sentiment to near rock bottom

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- Private equity investors fear the worst for the near future, as business expectations drop to -91.2 of -100 possible balance points
- The German private equity market has gone into shock mode, with some sentiment indicators experiencing a three-digit drop
- Most sentiment indicators are at all-time lows

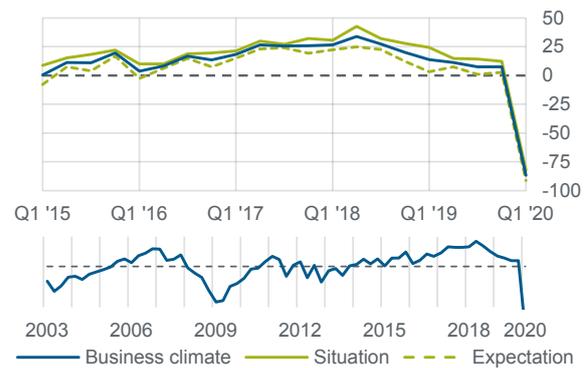
## Coronavirus pandemic has hit the private equity market hard

The German private equity market has experienced a massive loss of confidence. In the first quarter of 2020, the sentiment indicator of the later-stage segment plunged by 94.3 points to -86.7 balance points. Never before have later-stage investors been more pessimistic about both their current business situation and their expectations. The indicator for the current business situation dropped to -82.2 balance points (-94.5), while the indicator for business expectations fell to -91.2 balance points (-94.0). Both the actual balances and the rates of decline show a drastic deterioration in sentiment, given that the scale only allows for values between +100 and -100 points.

## Most sentiment indicators have plunged deep into negative territory

At the end of last year, later-stage investors were still seeing a good market environment. That changed abruptly when the coronavirus pandemic reached Germany. Many sentiment indicators show massive losses. The indicators for the fund-raising climate and exit opportunities have even suffered a triple-digit drop. Whereas the fund-raising climate in the previous quarter was still close to record-high levels, it has now fallen to just above the low of the global financial crisis. Exit opportunities show a similar picture. The indicator for write-down pressure is now even much worse than at the time. Pressure had built up here already in the final quarter of last year, only to rise yet again as a result of the sharp drops in global share markets and the looming recession. Bucking the general trend, assessments of entry valuations improved significantly. The situation of the economy and the share markets plays a crucial role here as well. It is a well-known crisis phenomenon, as later-stage investors' assessments of entry valuations reached their all-time high in the midst of the global financial crisis.

## Development of later stage business climate indicator



Source: KfW Research and BVK.

## Key data of later-stage sentiment indicators

Values in balance points

	Q1/20	Δ vs. Q4/19	High	Low
Business climate	-86.7	-94.3	+33.8	-86.7
Business situation	-82.2	-94.5	+42.8	-82.2
Business expectations	-91.2	-94.0	+24.9	-91.2
Fundraising climate	-64.9	-103.1	+44.3	-70.2
Entry evaluations	+28.9	+59.1	+60.4	-33.1
New investments	-77.7	-82.3	+16.5	-77.7
Exit opportunities	-79.6	-115.8	+54.8	-87.6
Dealflow quantity	-0.6	-8.4	+21.9	-26.1
Dealflow quality	-21.2	-43.9	+23.2	-22.3
Taxation framework	+25.3	+15.1	+25.3	-38.4
Innovation climate	-46.9	-58.5	+32.7	-46.9
Write-down pressure	-55.7	-28.5	+30.3	-55.7
Funding	+26.3	+6.3	+30.5	-29.2

The colour coding of the balances is based on the historical values of the respective indicator (1st tercile 'red', 2nd tercile 'amber' and 3rd tercile 'green'). Indicator design may lead to deviations from previous publications.

Source: KfW Research and BVK.

## KfW Research

### German Private Equity Barometer: 1st Quarter 2020

#### Comments on the current trend

'The private equity market appears to have gone into shock mode', said Dr Friederike Köhler-Geib, Chief Economist of KfW. 'The business climate can hardly get any worse. In the current situation, many institutional investors are strengthening their liquidity buffers. The fact that an indicator like the fund-raising climate can drop from a record high to an almost record-low level from one quarter to the next shows how alarmed private equity investors are about the current situation. To top it off, the coronavirus crisis is depleting the liquidity of many companies, which obviously also puts pressure on companies in private equity portfolios. If they include highly leveraged financings, that increases pressure additionally.'

'We are experiencing an unprecedented situation in the economy and the capital market. The private equity market cannot shield itself from it. The severity of the collapse in confidence underlines this', said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). 'Investors will now be focusing on steering existing investments through the crisis. All efforts will now go in this direction. New investments, fundraising and exits are likely to be largely put on hold for the time being.'

#### Calculation of the German Private Equity Barometer

The German Private Equity Barometer is based on a quarterly survey of the approx. 200 members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK) and further German private equity companies. The German Private Equity Barometer has been published as a separate sentiment indicator for the German later-stage private equity market since the second quarter of 2019. Previously, the German Private Equity Barometer also included assessments of venture capital companies, which are now presented separately in the German Venture Capital Barometer. It reports the business climate in the later-stage segment of 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 value.