

Private equity sentiment brightened at the start of the year

21 May 2021

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- Private equity sentiment now just barely in the red
- Economic optimism is beginning to appear. Assessments of deal flow quality and strength are positive again, write-down pressure is dropping
- Assessments of the appetite for new investments have clearly improved

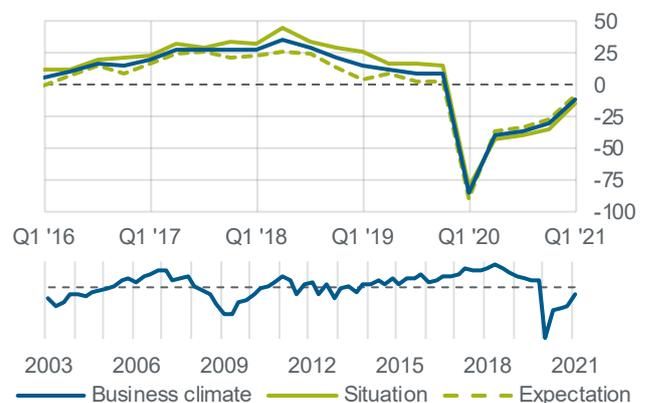
Sentiment in the private equity market is brightening

In the wake of the coronavirus slump the recovery of business sentiment in the German private equity market recently improved only very slowly but it has now gained momentum. The sentiment indicator of the later-stage segment gained 18.7 points in the first quarter of 2021, rising to -12.2 balance points, just barely in red territory. Assessments of both the current business situation and expectations improved. The indicator for the current business situation rose by 19.4 points to -15.4 balance points, while the indicator for business expectations increased by 17.9 points to -9.0 balance points.

The market environment is continuing to recover

Although the sentiment indicators for the German private equity market paint a mixed picture overall, most of them improved at the start of the year. Surging economic optimism appears to be leading to a generally improved assessment of the situation of SMEs – the typical target group of private equity investments – so that assessments of the quality and strength of deal flow are positive again, write-down pressure is falling and private equity investors are exhibiting significantly more appetite for new investments. At the same time, satisfaction with entry valuations – an almost inevitable downside of the market recovery – is falling. Assessments of exit opportunities are also back in the green, having improved significantly. Here, assessments of the IPO climate in particular are very positive. The booming stock markets and hence prospects of a possible strong IPO pipeline are likely to be the main drivers. Assessments of opportunities for trade sales have also improved steadily since the coronavirus slump but the corresponding sentiment indicator remains amber. So the exit route does not appear to be completely clear again.

Development of later stage business climate indicator



Sources: KfW Research and BVK.

Key data of later-stage sentiment indicators

Values in balance points

	Q1/21	Δ vs. Q4/20	High	Low
Business climate	-12.2	+18.7	+35.5	-85.0
Business situation	-15.4	+19.4	+44.6	-80.4
Business expectations	-9.0	+17.9	+26.4	-89.7
Fundraising	+11.6	+18.7	+45.2	-69.3
Entry evaluations	-14.0	-7.5	+61.8	-33.0
New investments	+17.4	+38.4	+19.9	-74.8
Exit opportunities	+25.8	+21.4	+55.9	-87.3
Dealflow quantity	+4.4	+13.9	+22.7	-28.2
Dealflow quality	+6.1	+9.8	+23.7	-23.9
Funding	+26.9	-6.2	+33.1	-30.8
Taxation framework	-9.7	-28.3	+24.8	-38.9
Innovation	+0.6	+8.6	+33.3	-46.3
Write-downs	-11.1	+21.6	+32.1	-53.9

The colour coding of the balances and the variations 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.

Sources: KfW Research and BVK.

KfW Research

German Private Equity Barometer 1st Quarter 2021

Comments on the current trend

‘After business sentiment stagnated for half a year, the German private equity market has now moved another step forward in overcoming the coronavirus shock at the start of 2021’, said Dr Fritz Köhler-Geib, Chief Economist of KfW. ‘The positive trend probably has to do with the increasingly better economic outlook for small and medium-sized enterprises, which are the focus of private equity investments, as investors are more content when SMEs are doing better.’

‘While optimism returned faster to the venture capital market, the restraint of private equity investors is understandable. The pandemic has hit SMEs hard and challenged many businesses in ways that threatened the very survival of some’, added Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘But the more upbeat assessments of fundraising, exits and deal flow as well as, in particular, the growing appetite for new investment demonstrate that investment companies are looking to the future again. What is striking, however, is the more critical assessment of the tax framework. This is probably due primarily to SME investors’ disappointment with the new Fund Location Act, as they were excluded from the envisaged improvements regarding the taxation of turnover of fund management services from the outset. This was a missed opportunity for legislators to strengthen German SME finance.’

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.