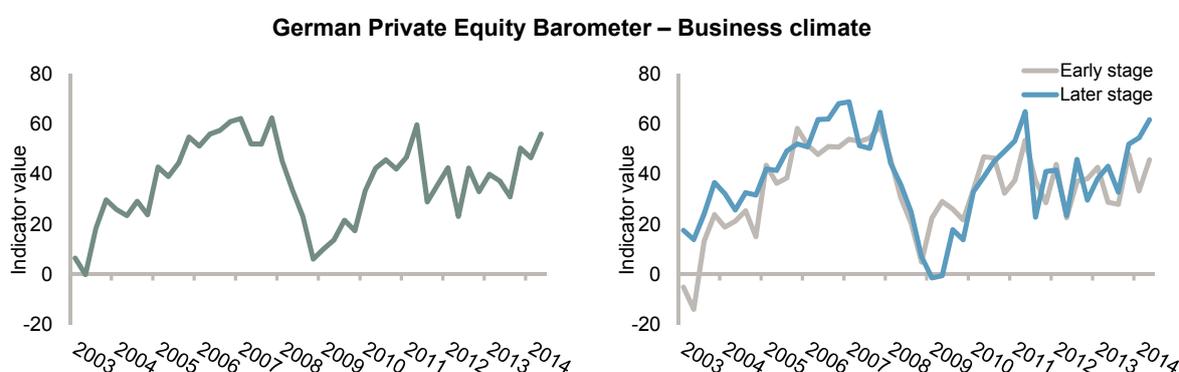


## German Private Equity Barometer: 2<sup>nd</sup> Quarter 2014

### New-found optimism after restrained start into year

- *Market sentiment picks up again*
- *Mood of later stage financiers soaring high – air getting thinner*
- *Early stage financiers still undecided*



Source: KfW Research, BVK

### Business climate brightens again for private equity investors

Following a subdued start into 2014, sentiment for private equity investors is picking up again. The business climate indicator of the German Private Equity Barometer climbed 9.4 points in the second quarter to 56.0 balance points. This means the indicator is just short of its post-crisis high from the second quarter of 2011. Private equity investors are equally positive about their current business situation and their business expectations: the current situation indicator rose 7.8 points to 56.6 balance points, while expectations increased by 9.7 points to 55.4 balance points.

### Early stage financiers have changing moods

The business climate in the early stage segment of the private equity market remains varied. After a dip in sentiment around the start of the year, the mood of early stage financiers improved again in the second quarter of 2014. The business climate indicator climbed sharply by 12.4 points to 45.7 balance points. The brighter sentiment is thanks both to the improved business situation and to the higher expectations: the current situation indicator increased by 15.5 points to 47.7 balance points, while the expectations indicator climbed 9.3 points to 43.8 balance points.

## **Business climate in later stage segment setting records**

The upturn in sentiment for later stage financiers continued in the second quarter of 2014. The business climate indicator rose by 7.2 points (for the fourth consecutive time now) to 61.7 balance points. Only in six previous quarters has the business climate indicator crossed the 60-point mark – but the last such quarter (Q2/2011) was followed by a sharp fall. This brighter sentiment is being fuelled both by the better current business situation and by the more optimistic expectations. The current situation indicator climbed 5.0 points, and sitting at 61.5 balance points it has never been as high since the end of 2007. The business expectations indicator rose 9.4 points to 61.9 balance points.

## **Bright and moody – the tale of two private equity markets**

Spirits among German private equity investors are high, even though the business climate is clearly better in the later-stage segment than in the early-stage segment and an upwards trend has developed. The mood among later stage financiers has been buoyant now for three consecutive quarters, and has pushed the business climate reaching over 60 points. History shows, however, that this is where the air gets thinner. It would no doubt be healthier for the market if the business climate were to stabilise at this level rather than continue rising. This is in contrast to the early-stage financiers, which have found themselves on an emotional rollercoaster for years. A sustained improvement in the business climate to figures above 50 would be promising here – in the last such phase this went hand in hand with a sharp increase in VC investment (on a year-on-year basis). Many of the key underlying conditions for the private equity market are still considered very good by the participants. For example, only in two quarters of 2006 was the fundraising situation ever considered by private equity investors to be better than it is now, while the current assessment of exit opportunities has only ever been surpassed in one quarter. There are two pieces of bad news, however. Assessments of deal flow quality and entry prices deteriorated sharply in the last quarter – possibly a harbinger of greater difficulty in the future for private equity investors to acquire promising deals. In turn, this could hamper their investment activity. Nonetheless, Dr Jörg Zeuner, Chief Economist at KfW Group, has high hopes that VC investments will pick up: "The conditions for amassing capital from private investors have improved gradually, and are more promising than they have been for a long time. This should lead to growing investments – but possibly only when we see more favourable entry prices again." BVK Managing Director Ulrike Hinrichs added: "Investment companies always face the challenge of finding good companies at reasonable valuations. Nevertheless, we have already seen strong investment activity, both in the venture capital sector and in buy-outs with some large transactions. We believe this also bodes well for the second half of the year, as the key underlying factors such as the stable economic situation and the sustained high demand for equity capital are still good."

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

Climate indicators		Q1/2003 to Q2/2014		2012		2013				2014	
		Max	Mean	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Business climate	Total	62,4	37,0	42,4	33,0	39,9	37,3	30,9	50,4	46,5	56,0
	ES	59,2	34,4	37,1	38,1	42,8	28,8	27,9	48,0	33,3	45,7
	LS	68,9	38,9	45,9	29,7	38,2	43,2	32,8	52,0	54,5	61,7
Market factors:											
Fundraising	Total	38,3	-0,2	-4,3	-11,5	5,9	14,3	0,1	23,4	25,4	29,4
	ES	33,3	-15,8	-21,7	-20,8	-13,1	-2,7	-28,2	-2,6	-0,7	-2,6
	LS	52,9	12,7	12,0	-3,8	21,5	28,8	19,8	44,2	45,4	52,9
Exit opportunities	Total	44,8	-0,6	1,2	-9,8	2,5	9,6	6,0	15,0	33,6	41,2
	ES	46,0	-10,4	-24,9	-3,1	-18,1	-12,8	-23,5	-16,2	12,4	21,1
	LS	52,3	6,7	21,8	-13,8	13,9	25,5	22,3	36,3	46,9	52,3
Demand	Total	63,6	46,0	42,6	41,8	52,2	45,8	36,0	43,7	45,5	41,1
	ES	75,8	50,7	62,1	58,6	71,2	65,8	71,8	74,0	66,8	55,9
	LS	65,9	43,4	29,8	30,5	40,4	31,6	13,0	23,1	32,5	32,6
Demand quality	Total	41,4	26,6	35,5	27,4	34,4	37,4	29,2	28,2	41,4	23,2
	ES	63,8	34,1	60,9	47,4	48,9	57,6	53,2	63,8	50,8	30,7
	LS	43,2	21,0	19,1	13,7	25,8	22,9	14,0	4,3	35,5	19,0
Public Funding	Total	19,1	1,5	15,5	10,4	6,6	13,3	13,1	11,2	13,3	18,7
	ES	43,3	6,7	40,0	24,4	13,8	27,4	43,3	21,3	24,0	24,1
	LS	29,7	-2,6	-5,5	-2,9	0,7	1,8	-8,9	2,9	3,5	14,4

Comments and Abbreviations:

Differences to previous publications are due to extrapolation.

E(arly)S(tage)

L(ater)S(tage)

Source: KfW Economic 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.