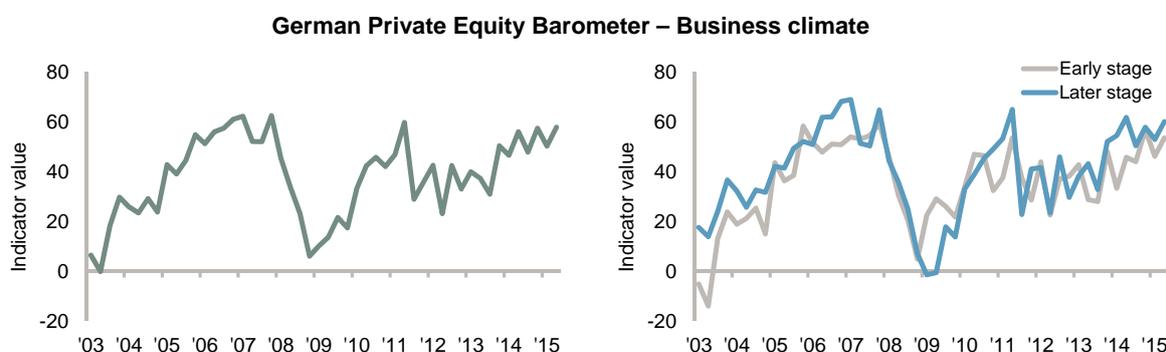


German Private Equity Barometer: 2nd Quarter 2015

Upward trend stabilised in the early summer months

- *Equity investor sentiment improved in the early summer months*
- *Climate for innovation better than ever*
- *Demand in the early stage segment currently restrained*



Source: KfW Research, BVK

Sentiment picked up again in the spring

Following a downturn in sentiment at the beginning of the year, the upward trend of the business climate on the German private equity market is stabilising again. The business climate index of the German Private Equity Barometer increased by 7.6 points to 57.8 balance points in the second quarter. The business climate showed almost the same improvement in the early and late-stage segment. The current business situation of equity investors is approaching its all-time high and business expectations have also become far more optimistic. The indicator for the current business situation increased by 4.6 points to 61.1 balance points, while the indicator for business expectations climbed by 10.5 points to 54.5 balance points.

Early-stage financiers remain sceptical

The early-summer business climate in the early stage segment recovered slightly from the weak start to the year, with the sentiment indicator rising by 7.4 points to 53.5 balance points in the second quarter. While early-stage financiers' current business situation is almost unchanged, the scepticism that emerged at the beginning of the year has given way to much more optimistic business expectations. The indicator for the current business situation increased by 2.8 points to 56.2 balance points, while the indicator for business expectations climbed by 12 points to 50.8 balance points.

Late-stage financiers are again optimistic about the financial year

The spring recovery in the late-stage segment made up for the restrained start to the new year. The indicator for the business climate increased by 7.2 points to 60.1 balance points in the second quarter of 2015. The late-stage financiers again reported an improved current business situation and are also more optimistic about the remaining financial year. The indicator for the current business situation rose by 5.2 points to 63.7 balance points, and the indicator for business expectations climbed by 9.2 points to 56.4 balance points.

VC fund-raising climate is cooling off – a short-term correction, or a trend reversal?

In line with expectations, after a weak start to the year the business climate on the German private equity market improved in the early summer months. The medium-term upward trend of the business climate on the German private equity market has thus stabilised again. The majority of private equity investors have again confirmed the positive market conditions that have already prevailed for some quarters. Their assessments of the exit environment and innovation activity in particular remain excellent and their estimation of the fund-raising climate overall is very good. However, assessments of the fund-raising climate have been diverging since the beginning of the year. While the late-stage segment achieved two consecutive all-time highs, early-stage financiers have considerably lowered their evaluations in both quarters. “The German private equity capital market is optimistic, the trend is unbroken”, confirmed Dr Jörg Zeuner, Chief Economist of KfW Group. “The fund-raising climate in the early-stage segment is deteriorating despite new offers. The glance at the legislator is currently causing uncertainty. This obstructs the view of a venture capital market on the upswing that has been generating positive news flow for months.” Moreover, equity investors are still willing to invest in the current environment - in both the early and late-stage segment. Young, innovative companies are therefore able to raise venture capital. “Young growth entrepreneurs should be more confident in approaching VC investors again, but they will have to convince them particularly of their quality and ability to assert themselves. From an investor perspective, this is still what’s frequently lacking.” Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK) adds: “Equity companies are currently eager to invest. But fundraising continues to be the Achilles heel, especially in the early stage segment. The investors’ assessment reflects great uncertainty in this respect. KfW’s recent return to financing venture capital funds is a first important step in the right direction to improve the fund raising situation. Nevertheless, the industry continues to wait impatiently for the German Federal Government’s major legal initiative to implement the venture capital legislation announced in the coalition agreement in order to create overall conditions that are competitive on the international markets.”

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

Climate indicators		Q1/2003 to Q2/2015		2013		2014				2015	
		Max	Mean	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Business climate	Total	62.4	37.9	62.4	38.3	30.9	50.4	46.5	56.0	47.8	57.4
	ES	59.2	35.3	59.2	35.7	27.9	48.0	33.3	45.7	43.9	56.8
	LS	68.9	39.8	68.9	40.2	32.8	52.0	54.5	61.7	50.4	57.8
Market factors:											
Fundraising	Total	42.1	2.1	41.8	2.8	0.1	23.4	25.4	29.4	34.5	38.5
	ES	33.3	-13.9	33.3	-14.0	-28.2	-2.6	-0.7	-2.6	5.8	26.2
	LS	61.8	15.3	70.2	16.4	19.8	44.2	45.4	52.9	56.8	46.5
Acquisition prices	Total	62.7	10.0	62.7	9.2	4.9	-8.2	-2.0	-27.1	0.6	-11.9
	ES	70.9	32.8	70.9	32.3	39.9	43.1	43.5	9.2	23.8	18.3
	LS	54.5	-7.1	54.5	-8.1	-17.7	-43.1	-31.7	-48.9	-16.0	-30.7
Exit opportunities	Total	51.2	2.1	57.2	3.2	6.0	15.0	33.6	41.2	39.5	38.8
	ES	46.0	-8.2	46.0	-7.4	-23.5	-16.2	12.4	21.1	17.6	32.3
	LS	66.4	9.6	68.4	10.8	22.3	36.3	46.9	52.3	54.2	42.9
Demand	Total	63.6	45.7	63.6	45.5	36.0	43.7	45.5	41.1	44.2	42.9
	ES	75.8	51.5	75.8	51.3	71.8	74.0	66.8	55.9	58.9	73.2
	LS	65.9	42.4	65.9	42.1	13.0	23.1	32.5	32.6	34.2	24.0
Demand quality	Total	41.4	26.1	41.4	26.1	29.2	28.2	41.4	23.2	24.9	14.9
	ES	63.8	33.7	63.8	33.6	53.2	63.8	50.8	30.7	25.0	29.7
	LS	43.2	20.5	43.2	20.6	14.0	4.3	35.5	19.0	24.8	5.4

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.