

»» Sentiment in private equity market reaches new heights

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- Business climate hits new peak — later-stage segment crosses 80-point mark for first time
- Second consecutive drop in fundraising climate – a turnaround?
- VC demand reaches new heights as quality of deal flow improves

Private equity market: heading for another record high

The German private equity market has carried the momentum from the first quarter into early summer, with sentiment reaching a new record high. In the second quarter of 2018, the business climate index of the German Private Equity Barometer rose by 10.4 points to 77.1 balance points. Both the business situation and business expectations reached new peaks. The indicator for the current business situation climbed to 79.6 balance points (+8.4), while the indicator for business expectations rose to 74.5 balance points (+12.4).

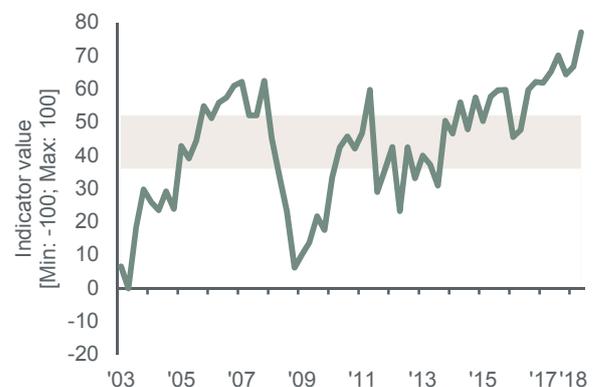
The growth in demand for private equity boosted the business climate. The quantity and quality of equity investors' deal flow rose sharply and the indicator for the level of demand surpassed its previous peak from summer 2011, while the quality indicator remained just below its previous record high. The fundraising climate and exit environment, however, are showing signs of a reversal. Both indicators are still on the decline and have already slipped from last year's record levels.

Business climate in the VC segment scales new heights

After VC investors took a breather for two consecutive quarters, they took off again in the second quarter of 2018, taking the business climate in the venture capital market to a new record high. The business climate indicator of the early-stage segment rose by 9.6 points to 72.5 balance points. The current business situation topped its all-time high from the previous quarter and business expectations were also much more optimistic again. The indicator for the current business situation rose to 73.3 balance points (+5.6), while the indicator for business expectations improved by 13.5 points to 71.8 balance points.

The most prominent improvement in the VC market environment can be seen in the quality of demand, which is now being rated 'good' again. Demand for VC continues to be steady at a high level, as does the fundraising climate. However, the assessment of the exit environment has deteriorated substantially, with the exception of 'secondaries'.

Business climate indicator – overall market



Note: The grey shaded area shows the normal range defined on the basis of historic indicator values.

Sources: KfW Research, BVK

Business climate indicator – early-stage market



Note: The grey shaded area shows the normal range defined on the basis of historic indicator values.

Sources: KfW Research, BVK.

Later-stage climate breaks record: Index breaks through 80-point mark for the first time

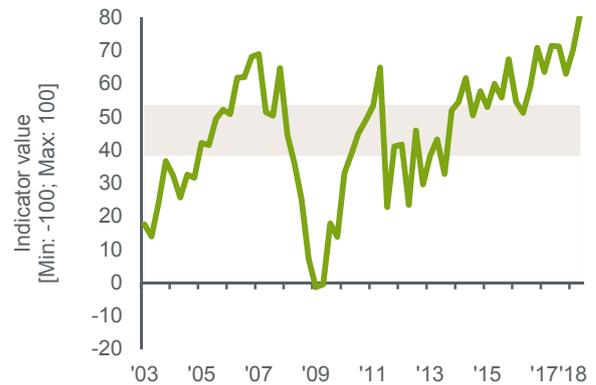
The business climate in the later-stage segment of the German private equity market has marked a new high. In the second quarter of 2018, the business climate index rose by 10.7 points to 80.8 balance points. Business situation assessments as well as expectations improved noticeably. The indicator for the current business situation rose by 10.3 points to 84.8 balance points, while the indicator for business expectations increased by 11.2 points to 76.8 balance points.

Worth noting is the current situation concerning demand for private equity in the market environment of the later-stage segment. The assessments of quantity and quality of demand have improved significantly. For the first time in seven years, both are rated 'good' again at the same time. What is also positive is that the assessment of entry prices has improved again at least slightly from its lows, meaning that later-stage investors are no longer quite as dissatisfied as they have been.

Business climate marks a new high – market environment shows first signs of a reversal

In the past quarter, sentiment in the German private equity market was better than ever before – both in the early stage and in the later stage. The quarter was characterised by a positive development of deal flow assessments, particularly by later-stage investors. On the demand side, the summer has therefore brought a number of good investment opportunities. The situation also remains very good with respect to fundraising and exits across both segments (despite the slight cooling). However, a sentiment reversal appears to be imminent. This is associated with the unease in the financial markets that was triggered by the threat of an international 'trade war'. 'The incipient escalation of spiralling protectionism between the USA on one side and the EU and China on the other is not leaving the German private equity market unscathed,' said Dr Jörg Zeuner, Chief Economist of KfW. 'We are therefore hoping that the conflict will soon be resolved, not just for the sake of the export industry.'

Business climate indicator – later-stage market



Note: The grey shaded area shows the normal range defined on the basis of historic indicator values.

Sources: KfW Research, BVK.

The German VC market, which is still in its infancy, has already had to endure plenty of growing pains. For its further development it would be preferable to have an extended period with no major distortions so that investors can build up trust on a sustained basis.'

'We are currently experiencing the longest and most stable upswing in the history of the German private equity market,' added Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). 'The market is growing and maturing, which will help it to steel itself against possible setbacks in future. There is no downturn on the horizon at the moment. Deal flow estimates indicate that start-ups and medium-sized companies continue to bet on growth and that venture capital plays a decisive role here. Increasing levels of investor interest make fundraising easier in a friendly exit environment. And hopefully, there will be some sensible solutions to the trade conflict, too.' ■

Annex: Sentiment in the German private equity market in figures**German Private Equity Barometer**

Differences to previous publications are due to extrapolation.

Sentiment indicators		Q1/2003 to Q2/2018		2016		2017				2018	
		Max	Avg.	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Business climate	Total	77.1	42.8	59.7	62.2	61.9	65.2	70.2	64.3	66.7	77.1
	Early	72.5	39.8	61.1	48.4	59.7	56.1	68.9	66.3	63.0	72.5
	Later	80.8	45.0	58.9	70.8	63.5	71.4	71.2	62.9	70.0	80.8
Market climate											
Fundraising	Total	79.0	13.4	57.7	60.0	61.7	56.2	60.8	79.0	67.0	60.5
	Early	74.8	-3.3	40.3	37.8	44.3	58.4	48.6	74.8	61.3	54.2
	Later	82.3	26.7	68.5	77.0	80.4	54.5	73.9	82.3	73.3	66.2
Entry prices	Total	62.7	-0.5	-33.4	-38.5	-29.3	-45.6	-43.7	-49.4	-43.2	-41.4
	Early	70.9	23.0	0.7	-14.1	7.5	-27.5	-15.6	-27.9	-19.4	-26.3
	Later	54.5	-17.8	-53.0	-54.0	-57.6	-58.2	-67.3	-64.9	-66.4	-53.8
Exit opportunities	Total	72.0	12.9	44.8	53.9	49.5	51.7	72.0	60.3	59.4	49.3
	Early	59.9	0.6	28.1	27.1	35.6	33.9	59.9	51.5	56.7	34.7
	Later	80.8	21.4	57.6	70.2	59.7	63.7	80.8	67.0	62.0	61.1
Level of demand	Total	64.6	46.0	45.7	35.7	46.5	44.4	51.0	56.9	57.1	64.6
	Early	84.8	55.0	77.9	73.3	84.8	61.2	63.5	72.3	78.5	78.7
	Later	65.9	40.2	27.1	11.9	17.6	32.9	40.5	45.5	37.5	53.4
Quality of demand	Total	41.4	26.4	9.8	32.9	25.3	30.2	32.0	29.3	28.5	40.0
	Early	63.8	32.9	29.7	41.3	43.3	17.0	24.3	19.8	27.8	39.8
	Later	43.2	21.6	-2.0	27.5	12.0	39.2	38.1	36.2	29.1	40.2

Sources: KfW Research, BVK.

Calculation of the German Private Equity Barometer

The German Private Equity Barometer is based on a quarterly survey which the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK) conducts among its roughly 250 members and further German private equity companies. 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 the market.