

»»» Sentiment in the German private equity market continues to decline

16 September 2019

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- Later-stage fundraising climate on a very high level but down slightly
- Demand for private equity reaches new high
- Easing of entry prices is short-lived – no sign of a lasting recovery in pricing climate

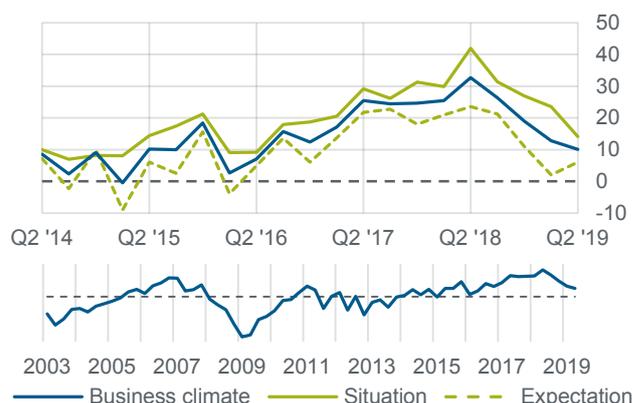
The German Private Equity Barometer is published as a separate sentiment indicator for the German later-stage private equity market from the second quarter of 2019. Previously, the German Private Equity Barometer also included assessments of venture capital companies, which will now be presented separately in the German Venture Capital Barometer.

Later-stage business sentiment continues to decline but remains in the green – market environment is robust

Sentiment in the later stage of the German private equity market has fallen for the fourth consecutive quarter. The business climate indicator of the later-stage segment dipped slightly by another 2.7 points to 10.1 balance points in the second quarter of 2019. Equity investors are more downbeat about their current business situation than before but again hold more optimistic business expectations. The indicator for the current business situation fell to 14.1 balance points (-9.5), while the indicator for business expectations climbed to 6.1 balance points (+4.1).

Despite the cooling business climate, most assessments of the later-stage market environment remain in the green. The fundraising climate is tougher but remains on a very high level. Private equity investors continue to be satisfied with exit opportunities, the quality of deal flow, the taxation framework and innovation activity. Both the exit climate and the innovation climate have improved noticeably and recovered from their low levels at the start of the year. Assessments of the strength of later-stage deal flow are back in the green as well, which was the case in only six quarters in the past ten years. Since the end of 2007, private equity investors have generally been dissatisfied with the number of investment opportunities. In the past years, however, demand appears to have trended upward. Assessments of write-down pressure remain in the amber zone, that is, on a normal level. It is only with entry prices for new operations that private equity investors are really dissatisfied. The easing that emerged here at the start of the year was hence only short-lived.

Development of later-stage business climate indicator



Source: KfW Research and BVK.

Key data of later-stage sentiment indicators

Values in balance points

	Q2/19	Δ vs. Q1/19	High	Low
Business climate	● +23.2	↑ +13.2	🚩 +34.5	🚩 -50.4
Fundraising climate	● +58.0	↓ -14.6	🚩 +72.6	🚩 -65.2
Entry prices	● -32.6	↓ -8.0	🚩 +48.1	🚩 -52.1
Exit opportunities	● +33.5	↑ +23.1	🚩 +51.4	🚩 -75.6
Dealflow strength	● +6.1	↓ -7.1	🚩 +29.4	🚩 -42.4
Dealflow quality	● -4.4	↓ -12.6	🚩 +26.8	🚩 -22.5
Taxation framework	● +14.8	↓ -2.9	🚩 +39.3	🚩 -25.2
Innovation climate	● +10.7	↓ -6.6	🚩 +39.0	🚩 -44.3
Write-down pressure	● +10.7	↑ +13.1	🚩 +28.0	🚩 -38.3

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.

Commentary on the current development

'The later-stage business climate in the German private equity market has cooled significantly since its record high exactly a year ago but manages to just barely to stay in the green', said Dr Georg Metzger of KfW Research. 'The market environment, for its part, does not show any major signs of deterioration. The weaker business climate can therefore not be explained with a market weakness. This may be nothing more than just an extended breather after the previous record-breaking year.'

'Positive assessments of deal flow give reason to be optimistic about the future', added Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). 'Indeed, they show that private equity capital is becoming more and more accepted by SMEs as a funding instrument. Along with the other market factors, this makes for a generally attractive environment, not just for investors but particularly for fundraising and exits. However, it remains to be seen how the market sentiment will respond to the increasingly clearer signs of recession.' ■

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. 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.