

Confidence returns to private equity market, reversing half of coronavirus slump

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- Sentiment in the private equity market has recovered after coronavirus shock as indicator reverses more than half the drop-off
- Sentiment indicators have improved again but remain mostly negative
- Good prospects for investment activity as appetite for new investment rebounds, while entry valuations are viewed positively

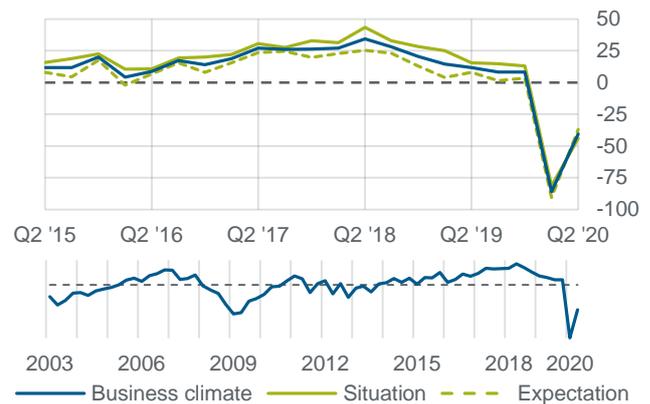
Confidence in the private equity market rises from its low

Confidence has returned to the German private equity market after the massive coronavirus slump. In the second quarter of 2020 the sentiment indicator of the later-stage segment reversed more than half of the first-quarter losses, rising by 45.6 to -40.6 balance points. Later-stage investors are again taking a more positive view of the current business situation and have higher expectations as well. The indicator for the current business situation rose to -44.0 balance points (+37.6 points), while the indicator for business expectations climbed by an even stronger +53.6 to -37.1 balance points.

Sentiment indicators remain mostly negative

Although sentiment in the private equity market has risen from its low, most indicators remain negative despite the rebound. Private equity investors are still disgruntled by the fundraising climate, exit opportunities and write-down pressure. Despite the improvement, the rates remain on a level comparable to that seen in the financial crisis of 2009/2010. As far as appetite for new investment is concerned, however, private equity investors have overcome their shock-induced paralysis. The corresponding indicator has risen noticeably. Combined with the continuing positive assessment of entry valuations, that signifies an optimistic outlook for investment activity. What has also improved is the assessment of state support measures, the indicator of which even returned to its all-time high. This is likely due to the extensive coronavirus support programmes that were implemented relatively fast. They do not benefit private equity investors directly but rather their portfolio companies.

Development of later stage business climate indicator



Sources: KfW Research and BVK.

Key data of later-stage sentiment indicators

Values in balance points

	Q2/20	Δ vs. Q1/20	High	Low
Business climate	-40.6	+45.6	+34.4	-86.1
Business situation	-44.0	+37.6	+43.4	-81.6
Business expectations	-37.1	+53.6	+25.4	-90.6
Fundraising climate	-36.8	+27.5	+44.9	-69.6
Entry evaluations	+23.6	-4.9	+60.0	-33.4
New investments	-24.0	+52.7	+17.4	-76.7
Exit opportunities	-55.8	+23.0	+55.6	-86.8
Dealflow quantity	-16.5	-16.1	+22.1	-25.9
Dealflow quality	-9.8	+11.3	+23.3	-22.1
Funding	+34.1	+8.3	+34.1	-29.7
Taxation framework	+13.8	-11.3	+25.1	-38.6
Innovation climate	-26.1	+20.4	+33.1	-46.5
Write-down pressure	-39.0	+16.1	+30.9	-55.2

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.

Sources: KfW Research and BVK.

KfW Research

German Private Equity Barometer: 2nd Quarter 2020

Comments on the current trend

‘Investors have reawakened from the state of shock in which the German private equity market found itself after the outbreak of the coronavirus crisis’, said Dr Friederike Köhler-Geib, Chief Economist of KfW. ‘With business sentiment near its absolute low after the first quarter, private equity investors are now relieved that their worst fears have not come to pass. It is true that the economic impact of the crisis is severe but not all sectors are equally affected. The rapid implementation of the coronavirus support measures has helped prevent the very worst, including for private equity investors’ portfolios.’

‘Confidence has returned but much will depend on whether and how quickly the economy will recover overall. In many businesses the full impact of the crisis will appear only in the second half of the year. Equity capital can then act as a stabilisation anchor’, added Swantje von Massenbach, deputy Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘Investment activity did not stop in the past months. The reduced valuation level is also opening up opportunities and is likely one of the reasons companies are looking to the future with more optimism again’.

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.