

Private equity sentiment positive again for first time since coronavirus shock

17 August 2021

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- Private equity sentiment back in positive territory
- Business expectations rise 1.5 times higher than situation assessments
- All sub-indicator signals are either ‘amber’ or ‘green’ – assessments of appetite for new investment reach new high

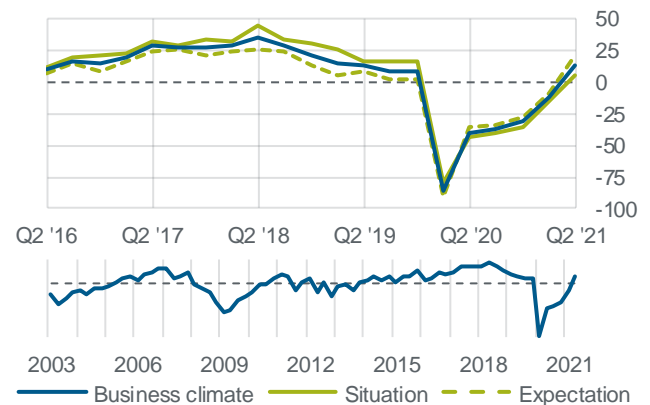
Private equity sentiment is back above average

Business sentiment in the German private equity market continued to grow positively in the second quarter of 2021 and is back above the long-term average for the first time since the coronavirus shock. The sentiment indicator of the late-stage segment rose by 25.7 points to 13.4 balance points. Business expectation assessments rose one and a half times as strongly as assessments of the current business situation. The indicator for the current business situation rose by 20.7 points to 5.3 balance points, while the indicator for business expectations increased by 30.7 points to 21.5 balance points.

Sentiment components largely positive

The overview of the sentiment components of the German private equity market paints a rare picture: There is not a single ‘red’ dot to be seen. Valuation sentiment is the only indicator to exhibit negative values but (dis)satisfaction with entry prices is still within normal range. Two-digit improvements can be seen in five components: fundraising, investment appetite, strength of deal flow, taxation framework and value adjustments. The indicator for investment appetite marked a new high. It topped its previous record high of early 2014 by a significant margin with regard to both the situation and expectations over a six-month horizon. The improved fundraising climate and the positive values for quality and strength of deal flow are likely to have contributed to this increase. The coronavirus uncertainty experienced by small and medium-sized enterprises appears to have diminished to such an extent that their appetite for private equity is increasing, resulting in interesting investment opportunities. The improvement in SMEs’ economic situation is also reflected in the noticeable drop in write-down pressure within the portfolios. The exit climate remains good and is largely unchanged overall. A look at the detailed exit opportunities, however, shows that the IPO climate has clearly risen and has reached the second highest level thus far. In fact, the stock market’s calendar shows a very active first IPO half-year and a well-stocked IPO pipeline.

Development of later-stage business climate indicator



Source: KfW Research, BVK and DBVN.

Key data of later-stage sentiment components

Values in balance points

	Q2/21	Δ vs. Q1/21	High	Low
Business climate	+13,4	+25,7	+35,3	-85,2
Business situation	+5,3	+20,7	+44,6	-80,4
Business expectations	+21,5	+30,7	+26,1	-90,0
Fundraising	+31,3	+20,1	+44,8	-69,7
Entry evaluations	-14,6	-0,8	+62,0	-32,8
New investments	+28,5	+12,1	+28,5	-75,8
Exit opportunities	+24,2	-1,2	+55,5	-87,7
Dealflow quantity	+14,2	+10,0	+22,5	-28,4
Dealflow quality	+10,6	+4,6	+23,6	-24,1
Funding	+29,4	+2,9	+32,7	-31,2
Taxation framework	+10,8	+20,6	+24,7	-39,0
Innovation	+9,0	+8,5	+33,1	-46,5
Write-downs	+8,7	+19,9	+32,0	-54,0

The colour coding of the balances is based on the historical values of the respective indicator. The poorest tercile is marked ‘red’, the medium tercile ‘amber’ and the best tercile ‘green’. Indicator design may lead to deviations from previous publications.

Source: KfW Research, BVK and DBVN.

KfW Research German Private Equity Barometer 2nd Quarter 2021

Comments on the current trend

'The sentiment in the German private equity market has jumped above its long-term average and, after being stuck in the COVID doldrums across four quarters, is back in positive territory', said Dr Fritzi Köhler-Geib, Chief Economist of KfW. 'The improving SME business climate, where all signs are pointing to an upswing, probably plays a major role. With uncertainty diminishing, SMEs are also seeing a stronger basis for investment.'

'The fog of coronavirus uncertainty is gradually lifting. SMEs and their private equity investors are more confident about the future again, which is evidenced by the strong rise in business expectations', said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). 'After private equity served as an anchor of stability since the beginning of the crisis, it is now again becoming an engine of growth and a driver of innovation for enterprises. SMEs are focusing more strongly on private equity for their growth and succession while opening up new attractive investment opportunities. That explains the positive assessments of SME investors with respect to deal flow quantity and investment appetite.'

Calculation of the German Private Equity Barometer

The **German Private Equity Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK), the member investors of the Deutsche Börse Venture Network (since the 2nd quarter of 2021) and further private equity companies with registered offices in Germany. It reports on business sentiment in 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 balance values. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Venture Capital Association** is the voice in the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private equity companies and investors as well as some 100 consulting firms and service providers of the industry.



Bundesverband Deutscher
Kapitalbeteiligungsgesellschaften e.V.

The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe's largest network for growth finance and 'Capital Market Readiness'. It focuses on providing efficient access to capital and has an extensive range of networking and training services. The network of more than 200 fast-growth businesses and more than 460 investors has already enabled ten IPOs and numerous trade sales.

Deutsche Börse
Venture Network