

German Private Equity Barometer: 3rd Quarter 2013

German Private Equity Barometer:

– produced in collaboration between BVK and KfW Bankengruppe –

Sentiment in the later-stage segment of the GPEB was down in the third quarter of 2013 for the second time in a row. The German private equity barometer that is produced in collaboration between BVK and KfW Bankengruppe thus continues to be suspended at around the halfway point between its historical highs and lows.

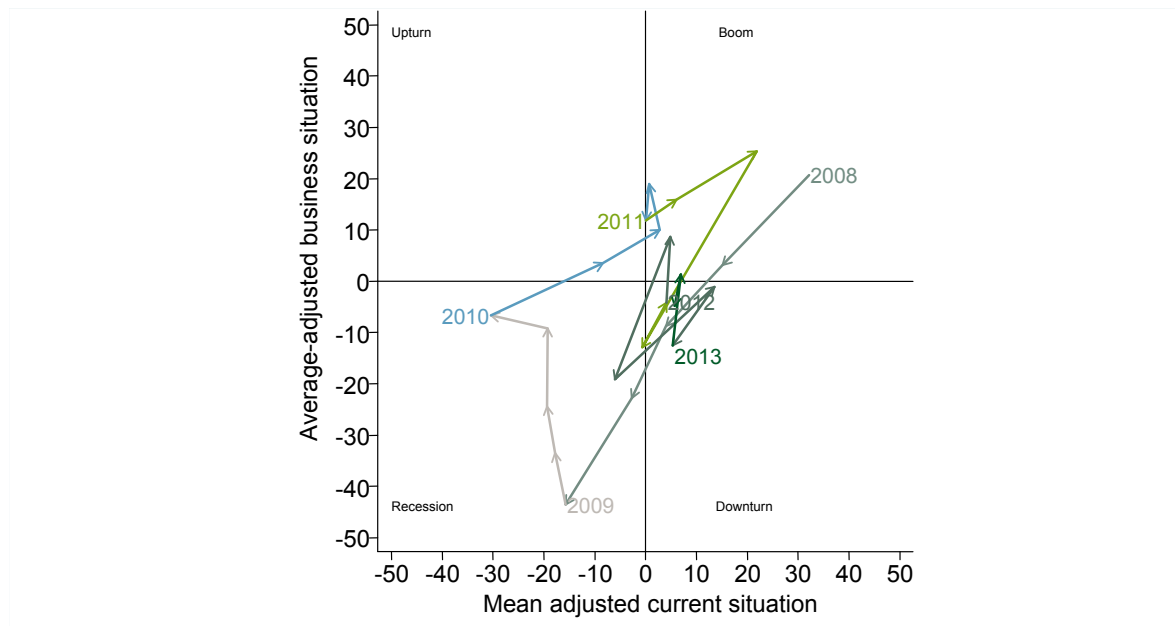


Source: KfW/BVK survey.

Figure 1: German Private Equity Barometer:

The German Private Equity Barometer provides an overall indicator of the climate in the German equity investment market. It also includes two component indicators, namely the current business situation and business expectations for the next six months. Indicators for the business situation and business expectations are calculated as net balances of the percentages of “good” and “bad” responses received from the investment companies taking part in the survey. The overall business climate indicator is derived as an average of these figures. The German Private Equity Barometer has been published on a quarterly basis, exclusively in the Handelsblatt newspaper, since November 2003.

The German Private Equity Barometer (GPEB) fell again in the third quarter (-5.0 points). The business climate index is now at 31.5 points. The minus is above all attributable to a clear dip in sentiment in relation to later-stage financing. The sub-index for the later-stage segment fell by 9.6 points – while the index for the early-stage segment marked time (+1.1 points).



Source: KfW/BVK survey.

Figure 2: German Private Equity Barometer – Economic Trend Monitor

The Economic Trend Monitor shows the mean-adjusted values for the German Private Equity Barometer indicators for the current business situation and for business expectations, and allocates them into one of four base scenarios: upturn, boom, downturn and recession. In an ideal economic situation, these scenarios would progress in the sequence listed.

Sentiment has been depressed by the 'tapering of quantitative easing' debate in the USA and the associated fear among equity capital financiers of increasing borrowing costs. A second key factor weighing on sentiment in the German equity market is a fundraising environment that is again perceived as very unfavourable.

In relation to business expectations for the next six months, both early-stage investors of venture capital and later-stage financiers are fairly pessimistic. The corresponding sub-indexes are at 4.4 and 4.5 points respectively. This indicates that sentiment on the German private equity market is fairly unlikely to brighten.

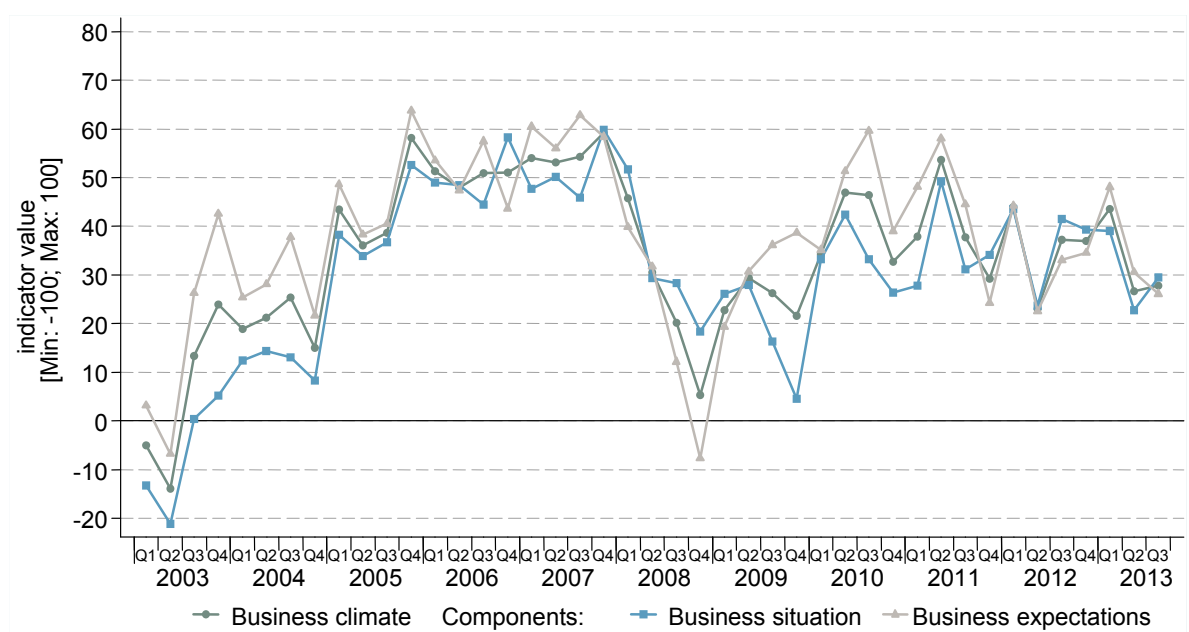
Dr Jörg Zeuner, chief economist at KfW Bankengruppe, believes that the German private equity market is still in a transition phase: "For the last two years, we have observed repeated ups and downs in the business climate at a subdued level. In spite of a positive business environment, low interest rates and sustained high demand for equity capital, there is no sign yet of things taking off. I hope that private equity financiers find a way to gain confidence in the market due to positive exits in the remaining course of the year.

BVK chief executive Ulrike Hinrichs comments: "In the short-term, developments in fundraising will be decisive for sentiment on the market and its condition both in the early and later-stage. We are confident that we will see some new funds this year and at the start of the coming year. Combined with an improvement in business activity, this should brighten mar-

ket sentiment. Moreover, the extent to which the new federal government will announce measures that could stimulate the German private equity market remains to be seen."

Early-stage

In the third quarter of 2013, the sentiment index gained 1.1 points in the early phase and climbed to 27.8 points. This in fact represents a sideways movement at a low level. The relatively modest change of the early-stage index concealed two opposite movements. The venture capital financiers regard the current business situation as rather more positive than in the previous quarter (+6.7 points). At the same time, their expectations for the next six months were lower (-4.4 points).



Source: KfW/BVK survey.

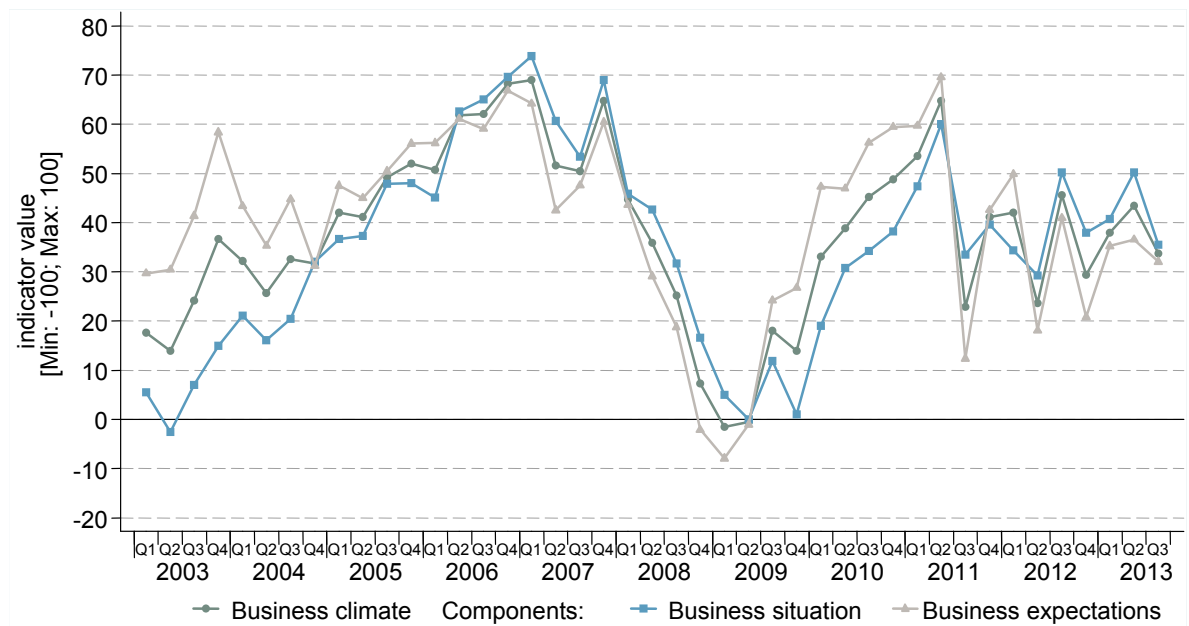
Figure 3: German Private Equity Barometer – early-stage

The absence of a noticeable recovery in the early-stage segment after the clear retreat in the second quarter is primarily due to a fundraising situation that had deteriorated further still. Many early-stage financiers have started to attract new funding in the course of 2013. Many plan to start fundraising soon. It seems that these efforts have not been as successful as hoped.

Since 2008, fundraising in the early-stage has proved to be extremely difficult. Many early-stage funds are now fully invested and the expectations placed by providers of venture capital in their fundraising activities ultimately proved to be overoptimistic. Obviously the acquisition of new funding is more difficult than expected, which is a key factor in the restrained assessments of general sentiment, although otherwise predominantly good index values were reached, i. e. in relation to the framework conditions and to the demand for private equity.

Later-stage

In comparison to the previous quarter, sentiment in the later-stage segment has clouded over. The relevant business climate index fell clearly in the third quarter of 2013 by 9.6 points to 33.8 points and is thus under its long-term average of 37.8 points. The increasing pessimistic sentiment is above all bearing down on the current assessment of the business situation of private equity funders; this sub-index fell back by 14.7 points. The retreat in the sub-index for expectations at -4.5 points was not quite as pronounced.



Source: KfW/BVK survey.

Figure 4: German Private Equity Barometer – later-stage

In addition to a fundraising situation that is also perceived in the later-stage segment as negative, the debate about tapering off quantitative easing in the USA and the associated fears of venture capital providers about increasing borrowing costs are also driving the downward trend in later-stage sentiment.

In the third quarter unfavourable expectations for interest rates combine with a negative assessment of the entry prices. This has an especially strong effect on sentiment in the later-stage, where borrowed capital is frequently used. This would mean that the earnings expectations of later-stage financiers could be squeezed from two sides. On the one hand, higher entry prices worsen the prospective returns for all investment vehicles. On the other hand, high borrowing costs mean that the transactions will have to pay even if the interest charges are less favourable.

New calculation method for indicators used in the German Private Equity Barometer

From the first quarter of 2011, some improvements were made to detailed aspects of the indicator calculation method used in the German Private Equity Barometer. At the same time the factor used in the indicator calculation to weight replies from the investment companies who responded to the survey was also modified. The previous weighting, which had a near-linear relationship to the volume managed by a particular investment company, was replaced by a logarithmic weighting. The higher weighting which is now implicitly attributed to smaller investment companies allows for a more appropriate depiction of the mood across the full spectrum of the German investment capital market. This change has led to a marked reduction in the spread of individual GPEB indicators. This new calculation method has also been applied retrospectively to all the periods available. In consequence, values shown in earlier publications are no longer comparable with information published since the first quarter of 2011.

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