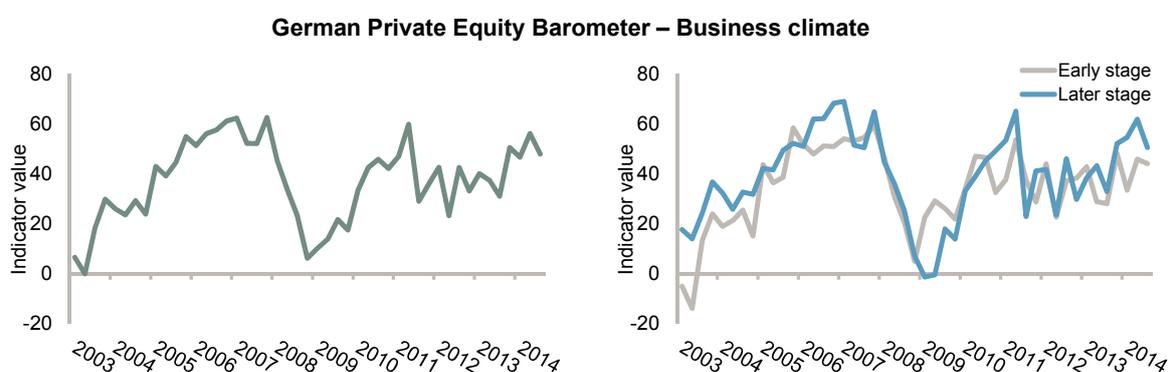


## German Private Equity Barometer: 3rd Quarter 2014

### Business climate still strong despite slowdown

- *Early-stage climate almost just as favourable as before*
- *Later-stage climate more subdued, but still strong*
- *Fund-raising climate in later-stage segment at record level*
- *High-profile IPOs fuel exit perspectives*



Source: KfW Research, BVK

### Business climate still favourable

The German Private Equity Barometer recorded an 8.2-point decline in the business climate for the third quarter of 2014. Despite this slide, the business climate remains favourable at 47.8 points, which is above its historical average. Equity investors downgraded their improved assessments from the preceding quarter for both current business conditions and business expectations again. The indicator for the current business environment fell 8.5 points to 48.1, while the indicator for business expectations fell 7.9 points to 47.5.

### Early-stage climate stable

The business climate in the early-stage segment of the private equity market saw only a slight decline in the third quarter of 2014. The business climate indicator fell 1.8 points to 43.9. This means that while there has been no further improvement in sentiment, the business climate is still almost exactly as favourable as before. Early-stage financiers revised their assessment of current business conditions downwards, but their expectations for the future are more optimistic. The indicator for the current business environment fell 7.1 points to 40.6, while the indicator for business expectations rose 3.5 points to 47.2.

### **Later-stage financiers: brief lull or turning point?**

Sentiment in the later-stage segment of the private equity market tailed off in the third quarter of 2014. After improving for three quarters in a row, the business climate indicator fell 11.3 points. It is not clear whether this decline marks a brief lull (the value of more than 60 seen in the second quarter does not leave much room for improvement) or a turning point. The business climate remains good at 50.4 points. However, the negative adjustment of how late-stage financiers rate their business expectations was more pronounced than for their current business conditions. The indicator for business expectations fell 14.2 points to 47.7, while the indicator for the current business environment fell 8.5 points to 53.1.

### **Low interest rates could boost VC investment**

The business climate in the German private equity market has deteriorated on the whole but remains favourable. While the early-stage climate has only tailed off slightly in comparison to the downturn in the later-stage climate, hopes of a sustained improvement and the greater likelihood of rising VC investment this entails were dashed for the time being. VC investment in Germany, which is low in comparison to other countries, has faced two main obstacles in the past: a difficult environment for fundraising on the one hand and a lack of exit opportunities on the other. Both of these factors benefit from the general conditions on the capital market, and are more favourable than they have been for a long time. In the early-stage sector, the indicator for the fundraising climate is currently positive for the first time in more than six years. The indicator for exit opportunities is now also positive for the first time in three quarters, presumably boosted by the high-profile IPOs of recent weeks. "This is a good time to dare making a new start," concluded Dr Jörg Zeuner, Chief Economist of the KfW Group. "VC investors can streamline their portfolios in order to provide the necessary support to young, innovative firms with renewed vigour and fresh capital." He therefore believes there is still a chance that VC investment could pick up before the year is out. Zeuner sees a particular need for action with respect to follow-up financing in the early stages of growth. "Capital is needed here. The excellent climate for fundraising should be used to acquire this kind of growth capital." Ulrike Hinrichs, Managing Director CEO of the German Private Equity and Venture Capital Association (BVK), supports this view: "Venture capital firms in particular should take advantage of the tailwind provided by the recent IPOs as well as international attention on the German start-up and venture capital scene, and lay the foundation for successful fundraising with further successful exits. Successful sales are the best argument in fundraising, and we need more new funds for fast-growing start-ups. The low prevailing interest rates should benefit our industry because institutional investors can only deliver the yields they have promised by making use of alternative investments."

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**Appendix: Equity market climate in figures****German Private Equity Barometer**

Climate indicators		Q1/2003 to Q3/2014		2012 Q4	2013				2014		
		Max	Mean		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Business climate	Total	62,4	37,2	33,0	39,9	37,3	30,9	50,4	46,5	56,0	47,8
	ES	59,2	34,6	38,1	42,8	28,8	27,9	48,0	33,3	45,7	43,9
	LS	68,9	39,2	29,7	38,2	43,2	32,8	52,0	54,5	61,7	50,4
Market factors:											
Fundraising	Total	38,3	0,5	-11,5	5,9	14,3	0,1	23,4	25,4	29,4	34,5
	ES	33,3	-15,3	-20,8	-13,1	-2,7	-28,2	-2,6	-0,7	-2,6	5,8
	LS	56,8	13,7	-3,8	21,5	28,8	19,8	44,2	45,4	52,9	56,8
Exit opportunities	Total	44,8	0,3	-9,8	2,5	9,6	6,0	15,0	33,6	41,2	39,5
	ES	46,0	-9,8	-3,1	-18,1	-12,8	-23,5	-16,2	12,4	21,1	17,6
	LS	54,2	7,7	-13,8	13,9	25,5	22,3	36,3	46,9	52,3	54,2
Demand	Total	63,6	46,0	41,8	52,2	45,8	36,0	43,7	45,5	41,1	44,2
	ES	75,8	50,9	58,6	71,2	65,8	71,8	74,0	66,8	55,9	58,9
	LS	65,9	43,2	30,5	40,4	31,6	13,0	23,1	32,5	32,6	34,2
Demand quality	Total	41,4	26,6	27,4	34,4	37,4	29,2	28,2	41,4	23,2	24,9
	ES	63,8	33,9	47,4	48,9	57,6	53,2	63,8	50,8	30,7	25,0
	LS	43,2	21,1	13,7	25,8	22,9	14,0	4,3	35,5	19,0	24,8
Public Funding	Total	19,1	1,8	10,4	6,6	13,3	13,1	11,2	13,3	18,7	12,4
	ES	43,3	7,0	24,4	13,8	27,4	43,3	21,3	24,0	24,1	22,0
	LS	29,7	-2,5	-2,9	0,7	1,8	-8,9	2,9	3,5	14,4	3,3

Comments and Abbreviations:

Differences to previous publications are due to extrapolation.

**E**(arly)**S**(tage)**L**(ater)**S**(tage)

Source: KfW Economic Research, BVK

**Calculation of the German Private Equity Barometer:** The German Private Equity Barometer is based on a quarterly survey of the 200+ members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK). 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 all BVK members.