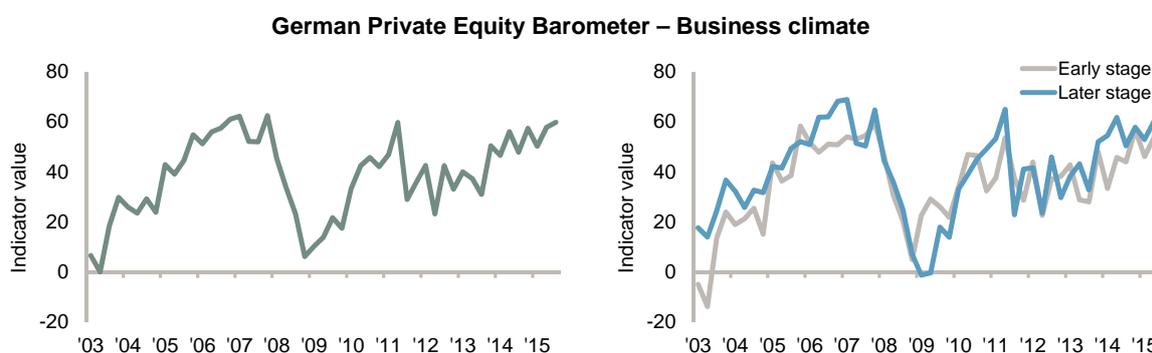


German Private Equity Barometer: 3rd Quarter 2015

Business climate on VC market soars to new heights

- *Business climate on the private equity market continues to improve*
- *Early-stage financiers are buoyant as business expectations rise*
- *Fundraising climate reaches new high*



Source: KfW Research, BVK

Equity investor sentiment continues to improve

The business climate on the German private equity market continued to stabilise in late summer. The business climate index of the German Private Equity Barometer increased by 2.0 points to 59.8 balance points in the third quarter of 2015. The business climate improved noticeably in the early-stage segment and stabilised on a high level in the late-stage segment. Private equity capital providers reported further improvement to the business situation overall as well as increased business expectations. The indicator for the current business situation climbed a further 2.6 points to 63.7 balance points, nearing its all-time high, while the indicator for business expectations rose 1.4 points to 55.8 balance points.

Optimism breaks through among early-stage financiers

The business climate in the early-stage segment improved noticeably in late summer. The sentiment indicator jumped 13.5 points to an all-time high of 67.0 balance points in the third quarter. Early-stage financiers reported further improvements to their current business situation and displayed new, pronounced optimism regarding their business expectations. The indicator for the current business situation rose 7.8 points to 64.0 balance points, while the indicator for business expectations climbed 19.2 points to 70.0 balance points. Both sub-indicators thus reached new record levels. This trend was accompanied by a recovery in the fundraising climate and demand environment, which had both cooled off in the first half of the year.

Late-stage financiers hang fire

In the late-stage segment the business climate cooled off slightly on a high level in late summer. The indicator for the business climate dropped 4.2 points to 55.9 balance points in the third quarter of 2015. Late-stage financiers reported a virtually unchanged but still positive current business situation but their business expectations are again more cautious. The indicator for the current business situation remained steady at 63.6 balance points (-0.2 points), while the indicator for business expectations dropped 8.2 points to 48.2 balance points. Historically low pressure on write-downs, an exit climate that has reached a new high and a stable record-level fundraising climate contributed significantly to the business climate in the late-stage segment in the third quarter.

Major uncertainty has been lifted from the market

The business climate on the German private equity market stabilised in late summer. This was primarily due to the record level of sentiment among early-stage financiers, as late-stage financiers were again more cautious. The positive sentiment in the early stage segment resulted from a sharp increase in business expectations. The debate over taxation on free-float shares had caused great uncertainty to build up on the market. However, the German Federal Government recently affirmed in a key issues paper that no new burdens are to be created for the financing of young innovative companies. The move brought optimism back, which was reflected in business expectations taking a big leap. Outside the debate over the legal environment, the other important market conditions improved once again, or improved further. The climate indicators pertaining to fundraising, exits and write-downs reached record levels. "Despite the uncertainty that weighed on the year, 2015 may become the best VC year in a long time", said Dr Jörg Zeuner, Chief Economist of KfW Group. "The overall environment is better than ever and there is demand for VC. There is a fair chance that the good business climate will stay with us for the foreseeable future. It would be positive for the entire start-up ecosystem." Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK), echoed this, adding: "We can feel this optimism too because the positive mood also has a measurable effect on investments. The first half of 2015 saw the highest investment volume since 2008. The market and the ecosystem would receive further impetus if there was at last a positive signal from the legislator. Further delays or even backpedalling by the government on the announced venture capital act, however, would cause lasting damage to the recovery."

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

Climate indicators		Q1/2003 to Q3/2015		2013 Q4	2014				2015		
		Max	Mean		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Business climate	Total	62.4	38.7	50.4	46.5	56.0	47.8	57.4	50.2	57.8	59.8
	ES	67.0	36.3	48.0	33.3	45.7	43.9	56.8	46.1	53.5	67.0
	LS	68.9	40.5	52.0	54.5	61.7	50.4	57.8	52.8	60.1	55.9
Market factors:											
Fundraising	Total	48.2	3.7	23.4	25.4	29.4	34.5	38.5	41.8	38.4	48.2
	ES	33.3	-13.4	-2.6	-0.7	-2.6	5.8	26.2	11.9	-16.7	13.7
	LS	70.2	17.5	44.2	45.4	52.9	56.8	46.5	62.1	70.2	70.0
Acquisition prices	Total	62.7	8.1	-8.2	-2.0	-27.1	0.6	-11.9	-27.0	-30.3	-42.6
	ES	70.9	31.2	43.1	43.5	9.2	23.8	18.3	-9.6	8.9	-19.8
	LS	54.5	-9.1	-43.1	-31.7	-48.9	-16.0	-30.7	-38.0	-52.5	-55.0
Exit opportunities	Total	58.5	4.3	15.0	33.6	41.2	39.5	38.8	50.6	57.2	58.5
	ES	46.0	-6.7	-16.2	12.4	21.1	17.6	32.3	22.9	35.0	27.9
	LS	74.6	12.0	36.3	46.9	52.3	54.2	42.9	66.6	68.4	74.6
Demand	Total	63.6	45.6	43.7	45.5	41.1	44.2	42.9	34.6	36.1	49.8
	ES	75.8	51.4	74.0	66.8	55.9	58.9	73.2	51.5	48.8	58.7
	LS	65.9	42.2	23.1	32.5	32.6	34.2	24.0	23.2	29.2	44.6
Demand quality	Total	41.4	26.1	28.2	41.4	23.2	24.9	14.9	17.3	23.6	26.3
	ES	63.8	33.4	63.8	50.8	30.7	25.0	29.7	29.9	27.0	25.7
	LS	43.2	20.7	4.3	35.5	19.0	24.8	5.4	8.8	21.6	26.7

Comments and Abbreviations:

Differences to previous publications are due to extrapolation.

E(arly)S(tage)

L(ater)S(tage)

Source: KfW 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.