

Private equity market sentiment continues to fall

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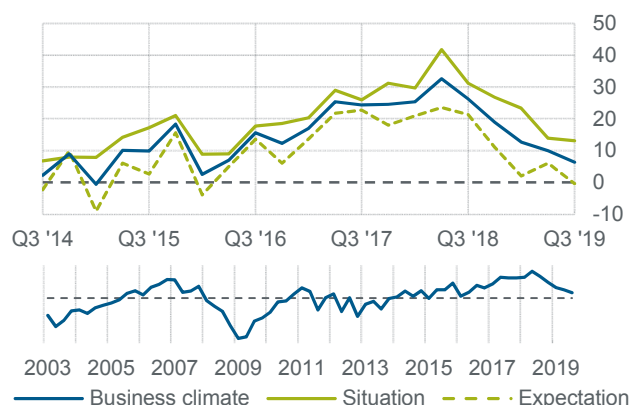
- Situation assessments of private equity investors remain positive and virtually unchanged but expectations are now just neutral
- Later-stage fundraising climate has improved again to just below the record level
- Pricing climate makes renewed attempt to rise from the trough as private equity investors' dissatisfaction with entry prices improves again

Business sentiment in the private equity market has cooled again – positive and negative business expectations are now even

Sentiment in the later-stage segment of the German private equity market continues to deteriorate. The business climate indicator of the later-stage segment fell by 3.3 points to 6.4 balance points in the third quarter of 2019. Private equity investors are nearly as upbeat about their current business situation but have more pessimistic business expectations, so positive and negative assessments are now balanced. The indicator for the current business situation remains hardly unchanged, at 13.1 balance points (-0.7), while the indicator for business expectations fell to -0.3 balance points (-6.4).

Even if the market environment still appears to be very robust, the green dots on the sentiment indicator in the later stage are increasingly disappearing. Assessments of exit opportunities only just slipped from green to amber. Moreover, write-down pressure has increased, as its assessment glows red again for the first time since the end of 2012. But there are also positive developments. The fundraising climate is eyeing the record mark again but remains just below it. The deal flow climate also shows improvement. Assessments of deal flow quality improved significantly and are solid green, along with deal flow levels. Thus, the number of investment opportunities available was rated clearly positively for the second consecutive quarter. The last time a similar assessment was made was more than twelve years ago. This consolidates the impression that demand for private equity is trending upward. A clear surge can be seen in the assessment of entry prices for new operations. The pricing climate eased at the beginning of the year already but deteriorated again in the second quarter. The renewed easing suggests that the trend in sentiment may have reversed.

Development of later-stage business climate indicator



Source: KfW Research and BVK.

Key data of later-stage sentiment indicators

Values in balance points

	Q3/19	Δ vs. Q2/19	High	Low
Business climate	6.4	-3.6	+32.6	-49.0
Business situation	+13.1	-0.7	+41.7	-47.7
Business expectations	-0.3	-6.4	+23.6	-52.6
Fundraising climate	+41.2	+11.3	+43.9	-70.6
Entry prices	-9.5	+11.4	+60.4	-33.1
Exit opportunities	+15.7	-19.1	+54.1	-88.2
Dealflow quantity	+9.0	-3.5	+22.0	-26.0
Dealflow quality	+15.7	+6.0	+23.2	-22.2
Taxation framework	+17.4	+0.5	+22.7	-37.9
Innovation climate	+15.6	-6.8	+32.1	-43.4
Write-down pressure	-6.6	-9.7	+29.1	-47.8

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.

Source: KfW Research and BVK.

Commentary on the current development

KfW Research German Private Equity Barometer: 3rd quarter 2019

'The business climate in the German private equity market continues to deteriorate as a result of more pessimistic business expectations', said Dr Georg Metzger of KfW Research. 'But the market environment remains in good condition. The fundraising climate is excellent, investment opportunities are available in sufficient quantity and quality and levels of dissatisfaction with entry valuations are gradually falling. These are conditions that are rather more indicative of an imminent improvement of the business

climate than a sustained downturn.' Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK) added: 'What is pleasing is that the current sentiment downturn has not weighed on investment activity. Investments in 2019 should be at least on the level of the previous years. Besides, strong demand for private equity and persistently good fundraising assessments mean we have a solid basis on which to reverse the sentiment downturn of the previous quarters.'

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 is published as a separate sentiment indicator for the German later-stage private equity market from the second quarter of 2019. Previously, the German Private Equity Barometer also included assessments of venture capital companies, which from now on will be 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.