

## Private equity market sentiment stabilised in late summer

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- Rebound of sentiment in private equity market has stagnated
- Despite some gains, most sentiment indicators remain in the red
- Exit climate has improved substantially; assessments of IPO climate have even turned positive

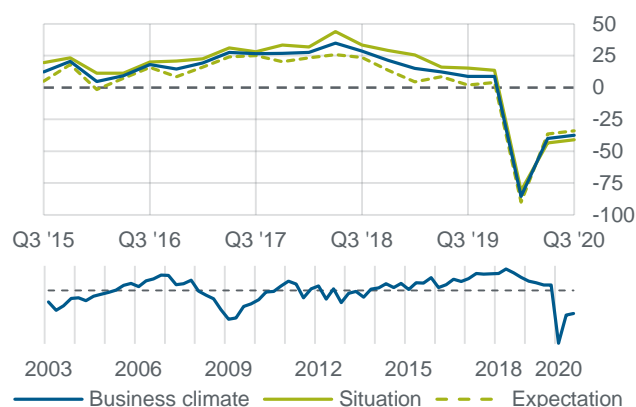
### Business sentiment in the private equity market remains nearly unchanged

The recovery in sentiment in the German private equity market from the coronavirus shock has stalled. The sentiment indicator of the later-stage segment stagnated at -37.5 balance points (+2.6) in the third quarter of 2020. Both current business situation assessments and business expectations remained nearly unchanged. The indicator for the current business situation stood at -41.0 balance points (+2.4 points), while the indicator for business expectations was -33.9 balance points (+2.7).

### Almost all sentiment indicator dots are red

The German private equity market environment has ceased to improve since the rebound in the second quarter. On the contrary, many sentiment indicators dropped again in the third quarter. Only the indicators for the fund-raising climate, exit opportunities and innovation activity continued to rise, even if the gains were insufficient to leave the red zone. There was only one exception in the exit opportunities: The climate for IPOs improved above average, so this indicator is at least exhibiting positive values again. Apart from the assessments of the promotional environment and tax framework, which are in the upper green band, most of the remaining indicators are deep in the red. Private equity investors are dissatisfied especially with regard to potential participations. Their assessments of demand for private equity and the quality of potential deals is lower than ever. This is likely associated with the negative economic impact of the coronavirus crisis and the associated uncertainty that is currently affecting most businesses. These developments no longer appear to have been priced into the entry valuations viewed. The indicator dropped significantly after satisfaction with entry valuations in the two previous quarters was the highest it has been in the past ten years. Accordingly, private equity investors are again more reluctant to enter into new investments.

### Development of later stage business climate indicator



Sources: KfW Research and BVK.

### Key data of later-stage sentiment indicators

Values in balance points

	Q3/20	Δ vs. Q2/20	High	Low
Business climate	● -37,5	➡ +2,6	▶ +34,9	▶ -85,6
Business situation	● -41,0	➡ +2,4	▶ +44,0	▶ -81,0
Business expectations	● -33,9	➡ +2,7	▶ +25,9	▶ -90,2
Fundraising	● -26,2	⬆ +10,2	▶ +45,2	▶ -69,3
Entry evaluations	● -7,2	⬇ -30,9	▶ +60,1	▶ -33,3
New investments	● -39,9	⬇ -17,5	▶ +19,0	▶ -75,2
Exit opportunities	● -35,0	⬆ +20,2	▶ +56,1	▶ -86,3
Dealflow quantity	● -28,3	⬇ -12,2	▶ +22,5	▶ -28,3
Dealflow quality	● -22,0	⬇ -12,5	▶ +23,6	▶ -22,0
Funding	● +23,0	⬇ -10,8	▶ +33,8	▶ -30,0
Taxation framework	● +16,0	➡ +2,4	▶ +24,8	▶ -38,8
Innovation	● -12,7	⬆ +13,2	▶ +33,3	▶ -46,3
Write-downs	● -44,5	⬇ -6,1	▶ +31,5	▶ -54,5

The colour coding of the balances and the variations 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.

Sources: KfW Research and BVK.

## KfW Research German Private Equity Barometer 3rd quarter 2020

### Comments on the current trend

‘The recovery of the German private equity market from the outbreak of the coronavirus crisis is stagnating’, said Dr Friederike Köhler-Geib, Chief Economist of KfW. ‘Business confidence has flatlined. Although positive developments exist in the fundraising and exit climate but the situation is much worse with respect to potential participations. After all, the crisis has led to deep cuts in many businesses and created greater uncertainty. For one thing, the willingness to take on private equity has fallen and for another, the uncertain situation is making it extremely difficult for investors to assess risks. But we expect the emerging economic recovery to reduce the uncertainty among market participants.’

‘The first shock has been overcome but the mood remains subdued. Even if we were able to identify some major transactions in the past months, the private equity market is characterised by uncertainty and a wait-and-see attitude’, added Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘It is true that the valuation level has dropped. But the biggest obstacles are now the often diverging valuation ideas between buyers and sellers. As long as the economic impact of the pandemic on companies remains unforeseeable and makes company valuations difficult, this situation is not likely to change much. This is weighing on sentiment because private equity investors are sitting on well-stocked funds’.

### 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 has been published as a separate sentiment indicator for the German later-stage private equity market since the second quarter of 2019. Previously, the German Private Equity Barometer also included assessments of venture capital companies, which are now 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.