

Private equity sentiment remains positive, almost unchanged

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- Satisfaction with entry valuations has improved and is almost in line with long-term average
- Assessments of strength of deal flows improved, record high within reach
- Willingness for new investments remains high

Private equity market sentiment has stagnated

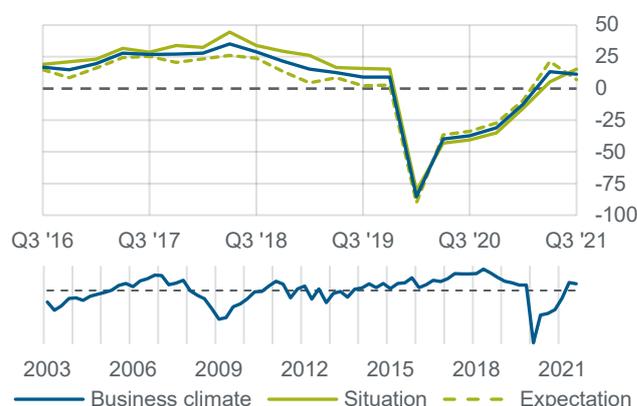
After business sentiment in the German private equity market climbed back into the 'green' in the previous quarter, it maintained that level in the third quarter of 2021. The business climate indicator for the later-stage segment remains nearly unchanged at 11.1 balance points (-2.1 points). Assessments of the current business situation improved, while expectations were somewhat more pessimistic again. The indicator for the current business situation rose by 10.2 points to 15.2 balance points, while the indicator for business expectations shed 14.4 points to close at 7.0 balance points.

Positive overall picture of sentiment components

The sentiment components of the German private equity market exhibited hardly any colour change compared with the previous quarter. As before, there is not a single 'red' dot to be seen. Satisfaction with entry valuations – which was closest to the lowest tercile – improved remarkably clearly and is now almost in line with the long-term average. Assessments of the tax framework also saw a double-digit improvement. This can be attributed to the entry into effect of the Fund Jurisdiction Act (Fondsstandortgesetz) in August. The fundraising climate and assessments of deal flow strength were near record highs. These conditions are good for investment propensity, the indicator of which fell just under the record high of the previous quarter.

The overall assessment of sentiment indicators creates the impression that the German private equity market is currently in a wait-and-see mode and watching what signals the SME sector is sending out. SMEs are the typical target group for private equity investments. The development of private equity market sentiment therefore shows close similarities to the development of the SME business climate. Their sentiment darkened again in the last three months owing to numerous bottlenecks in the supply of materials and inputs, although demand remains high. When this situation will improve is uncertain.

Development of later-stage business climate indicator



Source: KfW Research, BVK and DBVN.

Key data of later-stage sentiment components

Values in balance points

	Q3/21	Δ vs. Q2/21	High	Low
Business climate	● +11.1	➡ -2.1	▶ +35.2	▶ -85.4
Business situation	● +15.2	⬆ +10.2	▶ +44.4	▶ -80.6
Business expectations	● +7.0	⬇ -14.4	▶ +26.0	▶ -90.1
Fundraising	● +37.3	⬆ +6.5	▶ +44.3	▶ -70.2
Entry evaluations	● -3.8	⬆ +10.7	▶ +62.1	▶ -32.7
New investments	● +25.6	➡ -2.1	▶ +27.7	▶ -76.6
Exit opportunities	● +27.6	➡ +3.7	▶ +55.2	▶ -88.0
Dealflow quantity	● +19.4	⬆ +5.4	▶ +22.2	▶ -28.7
Dealflow quality	● +11.8	➡ +1.4	▶ +23.4	▶ -24.2
Funding	● +8.7	⬇ -20.6	▶ +32.6	▶ -31.3
Taxation framework	● +22.8	⬆ +12.4	▶ +24.4	▶ -39.3
Write-downs	● +11.4	➡ +2.8	▶ +31.9	▶ -54.2

Colour scheme of sentiment indicator dots: values in the lowest tercile are marked 'red', in the medium tercile 'amber' and in the highest tercile 'green'. Indicator design may lead to deviations from previous publications.

Source: KfW Research, BVK and DBVN.

KfW Research

German Private Equity Barometer 3rd Quarter 2021

Comments on the current trend

“Unlike in the early stage, where VC market sentiment was chasing records, business sentiment in the German private equity market is stagnating after leaving the coronavirus doldrums behind in the previous quarter”, said Dr Fritz Köhler-Geib, Chief Economist of KfW. ‘One reason is SME business sentiment, where the previous upturn was followed by one dampener after another in the past three months. Nonetheless, the funds, demand for capital and investment appetite are available and, thus, the basis for improvement exists.”

“After the rapid recovery in confidence and the return to a positive mood, business sentiment has now stabilised”, said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘The market is presenting itself in a robust state, especially since the mood in the economy and, specifically, in the SME sector had recently darkened again. But demand for equity capital in the SME sector remains unabated. Current investment activity underscores this. At the same time, the positive fundraising climate ensures that investment firms have sufficient capital to meet future demand for financing.”

Calculation of the German Private Equity Barometer

The **German Private Equity Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften –BVK), the member investors of the Deutsche Börse Venture Network (since the 2nd quarter of 2021) and further private equity companies with registered offices in Germany. It reports on business sentiment in 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 balance values. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Venture Capital Association** is the voice in the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private equity companies and investors as well as some 100 consulting firms and service providers of the industry.



The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe’s largest network for growth finance and capital market readiness. Focusing on efficient access to capital for high-growth companies with an extensive range of networking and training services. The network of 200+ companies and 450+ investors has already enabled 13 IPOs and numerous trade sales.

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Venture Network