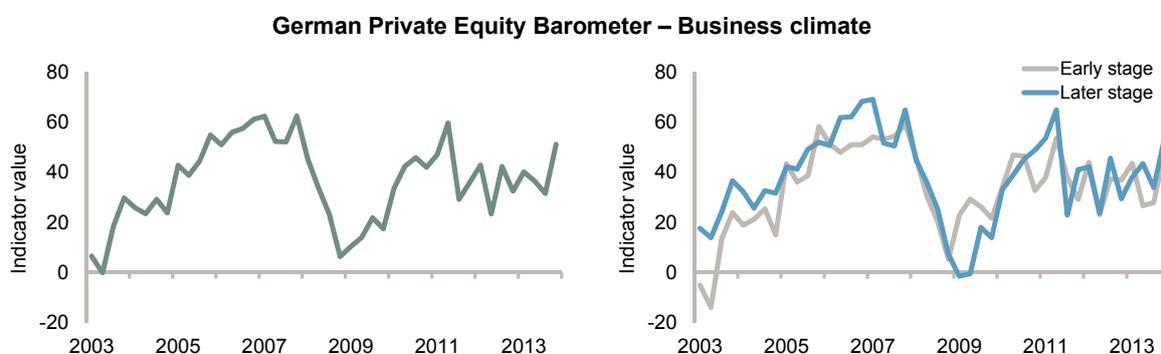


## German Private Equity Barometer: 4<sup>th</sup> quarter 2013

### Year-end rally

- **Business climate rises to two-year high**
- **Current business situation of early stage capital providers exceeds pre-crisis levels for the first time**
- **Groundwork laid for lasting upturn in sentiment**



Source: KfW Economic Research, BVK

### Private equity providers gain confidence

Sentiment among private equity providers improved significantly in the fourth quarter of 2013. After hitting an annual low in the third quarter, the German Private Equity Barometer business climate indicator closed the year up 19.7 points at a two-year high of 51.1 points. Despite the increase, the indicator still has no clear direction: business climate has been very changeable since dropping to historic lows in the third quarter of 2011. However, the sharp rise could indicate a sustainable improvement in sentiment. Both climate components contributed to the more positive mood at the end of the year. The current business situation indicator rose 16.6 points to 49.8 points. The business expectations indicator gained 22.7 points to close at 52.5 points.

### Early stage investors have not rated the current situation so positively since 2007

The business climate in the early stage segment of the private equity market improved for the second time in succession. The climate indicator gained 20.2 points to 48 points – the most pronounced rise since the end of 2005. The current business situation indicator for the early stage segment jumped 24.6 points to 54.1 points, which constitutes the best assessment of the current business situation within the segment since early 2008. The business expectations indicator added 15.9 points to close at 42 points.

### **Business climate upswing in later stage segment**

Sentiment fell significantly in the third quarter of 2013, but at the end of the year the mood was more positive among later stage investors, too. The business climate indicator advanced 19.4 points to 53.3 points in the fourth quarter of 2013, mainly due to a marked improvement in business expectations. The business climate trend in the later stage segment has remained positive overall since the historic slump in the third quarter of 2011, despite occasional pronounced falls. Both climate components improved in the fourth quarter. The current business situation indicator rose 11.3 points to 46.9 points, putting later stage segment assessments of the current situation more or less back on track after the sharp drop in the third quarter (down 14.7 points). The business expectations indicator gained 27.5 points to close at 59.6 points.

### **Private equity market ready for long-term improvement in sentiment**

The movements of the business climate indicator in recent quarters do not point to any clear direction. However, the pronounced rise at the year-end seems to suggest that the sentiment fluctuations may be coming to an end, with the rally marking the start of a stable positive climate. Equity capital providers currently have an exceptionally upbeat view of key factors: fundraising situation, exit opportunities, goodwill write-downs and deal flow quality. Consequently, the groundwork has been laid for a lasting improvement in sentiment.

“The key indicators in the private equity market are showing green for go,” according to Dr Jörg Zeuner, Chief Economist at KfW Group, “particularly in the early stage segment. Demand for venture capital is close to all-time record levels, deal flow quality is favourable and public funding is available. So the conditions are right for investment activity to pick up. It is now up to investors to make use of that potential.”

BVK Managing Director Ulrike Hinrichs adds: “Hopefully the current sentiment upswing will mark the start of a lasting improvement in market climate. The underlying economic conditions are right, and we are optimistic that investment will pick up in both the venture capital market and the later stage segment.”

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

Climate indicators		Q1/2003 to Q4/2013		2012				2013			
		Max	Mean	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Business climate	Total	62.4	36.4	42.8	23.4	42.3	32.5	40.1	36.5	31.5	51.1
	EP	59.1	34.2	43.9	23.0	37.3	36.9	43.5	26.6	27.8	48.0
	LP	69.0	38.1	42.1	23.7	45.6	29.4	38.0	43.4	33.8	53.3
Market factors:											
Fundraising	Total	38.2	-1.5	1.1	-21.4	-4.9	-11.8	6.1	14.4	2.7	23.7
	EP	33.1	-16.2	-16.6	-44.5	-20.1	-20.6	-11.6	-2.3	-28.1	-2.9
	LP	45.5	11.0	13.9	-3.9	9.9	-4.2	20.8	28.7	24.7	45.5
Exit opportunities	Total	44.7	-2.4	4.5	-8.1	1.5	-8.9	2.9	9.8	4.0	14.2
	EP	45.9	-11.3	-30.3	-21.3	-23.9	-1.8	-15.9	-11.5	-23.2	-16.6
	LP	44.1	4.6	28.6	1.7	22.2	-13.3	13.5	25.0	19.2	36.0
Demand	Total	63.8	46.2	45.4	42.3	42.5	41.5	53.1	45.2	36.7	44.5
	EP	75.8	50.0	69.8	64.8	61.7	57.5	72.2	63.0	72.6	75.2
	LP	65.9	44.0	28.6	28.3	29.5	30.2	40.9	32.5	13.0	23.0
Demand quality	Total	38.8	26.3	32.0	27.8	35.1	26.7	34.3	36.8	28.8	28.6
	EP	63.0	33.6	56.8	52.7	59.1	45.6	49.3	55.9	53.4	63.0
	LP	43.5	20.7	16.3	12.1	19.1	13.3	25.3	23.1	12.8	4.9
Public Funding	Total	19.1	1.1	-0.2	12.2	15.5	11.1	7.5	13.4	13.6	11.7
	EP	43.4	6.1	13.6	26.9	39.2	25.8	15.1	26.1	43.4	21.2
	LP	29.4	-3.0	-11.9	1.5	-5.3	-3.3	1.1	2.9	-8.6	4.0

Abbreviations:  
**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.