

»»» Sentiment in the private equity market ends the year on average level

18 March 2020

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- Business situation remained in the green, expectations were balanced
- Later-stage fundraising climate continued to be very good
- Dissatisfaction with entry prices and pressure on write-downs increased considerably

Sentiment in the private equity market continues to be relatively balanced

The business climate in the German private equity market hardly changed on the preceding quarter. The business climate index for the later stage segment remained unchanged at 6.3 balance points in the fourth quarter of 2019. Later stage investors rated their current business situation and expectations nearly unchanged. The indicator for the current business situation was 11.1 balance points (-1.9), while the indicator for business expectations was 1.5 balance points (+1.9). On average for the year 2019, the business climate in the private equity market was on the upper edge of the normal range and thus remained well behind the two very good previous years.

Later stage investors were generally much more satisfied with the market environment than the merely average business climate would suggest. The fundraising climate has remained almost consistently at a very high level since the year 2015. In addition, the level and quality of deal flow has been given above-average ratings across the year. Moreover, assessments of exit opportunities improved again in the final quarter and were thus safely in the green on average for the year. Entry prices and pressure on write-downs are causing concerns for later stage investors. Assessments of entry prices for new commitments eased in the course of the year, leading to a significantly better average score for the year than in the two previous years. Nevertheless, dissatisfaction with entry prices increased again sharply in the final quarter, driving the price climate down to the vicinity of the previous low. Great pressure appears to have built up on write-downs since the final quarter after a creeping development: The indicator dropped substantially with the fifth consecutive decline. Economic worries and the development of operations in some cyclical industries appear to have left their mark here.

Development of later stage business climate indicator



Source: KfW Research and BVK.

Key data of later-stage sentiment indicators

Values in balance points

	Q4/19	Δ vs. Q3/19	High	Low
Business climate	● +6.3	➡ +0.0	🚩 +32.6	🚩 -49.1
Business situation	● +11.1	➡ -1.9	🚩 +41.6	🚩 -47.9
Business expectations	● +1.5	➡ +1.9	🚩 +23.5	🚩 -52.6
Fundraising climate	● +37.3	⬇️ -3.3	🚩 +43.4	🚩 -71.1
Entry prices	● -29.8	⬇️ -20.8	🚩 +60.8	🚩 -32.6
Exit opportunities	● +35.0	⬆️ +19.9	🚩 +53.6	🚩 -88.8
Dealflow quantity	● +7.7	➡ -1.1	🚩 +21.9	🚩 -26.2
Dealflow quality	● +22.4	⬆️ +7.1	🚩 +22.9	🚩 -22.6
Taxation framework	● +10.5	⬇️ -6.7	🚩 +22.5	🚩 -38.0
Innovation climate	● +10.8	⬇️ -4.6	🚩 +31.9	🚩 -43.5
Write-down pressure	● -28.0	⬇️ -21.9	🚩 +29.5	🚩 -47.4

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

‘Sentiment in the private equity market fell moderately but steadily in the course of the year’, said Dr Fritzi Köhler-Geib, Chief Economist of KfW. ‘The peak level of early summer of 2018 has thus gradually faded into the distance. This development is difficult to comprehend, since not just the fundraising climate but also the deal flow and exit climate were all good and remain good. The business sentiment of later stage investors may well be reflecting the mood of their portfolio companies. With their focus on larger, internationalised SMEs, private equity portfolios are relatively more dependent on the development of the global economy, which is giving cause for concern because of the trade disputes and Brexit.’

‘The investment figures provide no clues on the downturn in sentiment. Private equity experienced record investment in 2019’, said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘This is the case even if negative factors such as high entry prices stay with us for some time to come. We are generally positive about the environment for buyouts and SME finance and we therefore look to 2020 with optimism. Private equity remains a key option for strategists, families and entrepreneurs looking to finance or sell a business. This should also translate into brighter sentiment again.’

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.