

## Private equity sentiment is improving

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- Assessments of the current business situation improved for the seventh consecutive quarter but half-year expectations were slightly more pessimistic
- Growing dissatisfaction with level of deal flow and entry prices dampened appetite for new investments
- Fundraising and exit environment remain unchanged in positive territory

### Private equity sentiment improved at the end of the year

After stagnating in the previous quarter, sentiment in the German private equity market resumed its upward trend at the end of the year. The sentiment indicator of the late-stage segment rose by 9.4 points to 20.2 balance points. Assessments of the current business situation improved for the seventh consecutive quarter and expectations were also slightly more optimistic. The indicator for the current business situation rose by 11.7 points to 26.6 balance points, while the indicator for business expectations increased by 7.1 points to 13.9 balance points.

### Most sentiment components near their pre-coronavirus levels

On balance, the German private equity market closed the year on a positive note. In the course of the year it succeeded in completely overcoming the coronavirus-induced sentiment downturn of 2020. Besides overall business sentiment, the various sentiment components are now also near their pre-coronavirus levels. The indicators on the level of deal flow and willingness to invest were above average across the year but also in the final quarter. Assessments of deal flow quality were also in positive territory in the past quarters, if only by a small margin. Although assessments of entry valuations deteriorated again after the coronavirus-induced price reduction, investors on average were more satisfied with entry valuations over the year than before the outbreak of the pandemic. Besides the indicator for entry valuations, only one other sentiment component is currently in the red: assessments of the interest level. It was driven downward in the final quarter by the expectation component, presumably as a result of the interest turnaround in the US. Rising interest rates are a risk that could put the brakes on market development this year. The persistent material shortages and supply bottlenecks are further economic downside risks for Germany's SMEs and, thus, also for the private equity market.

### Development of private equity sentiment indicator



Source: KfW Research, BVK and DBVN.

### Key data of private equity sentiment components

Values in balance points

	Q4/21	Δ vs. Q3/21	High	Low
Business climate	+20.2	+9.4	+34.9	-85.6
Business situation	+26.6	+11.7	+44.0	-81.0
Business expectations	+13.9	+7.1	+25.8	-90.3
Fundraising	+33.6	-3.2	+43.8	-70.7
Entry evaluations	-14.4	-10.8	+62.3	-32.5
New investments	+16.7	-8.3	+27.1	-77.1
Exit opportunities	+24.5	-2.7	+54.8	-88.4
Dealflow quantity	+9.2	-10.1	+22.1	-28.8
Dealflow quality	+7.8	-4.0	+23.3	-24.3
Funding	+27.3	+19.0	+32.3	-31.7
Taxation framework	+22.4	-0.2	+24.1	-39.6
Write-downs	+22.8	+11.8	+31.6	-54.5
Interest level	-6.9	-4.5	+32.2	-80.9

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.

### Comments on the current trend

‘Sentiment in the German private equity market resumed its upward trend in the final quarter of 2021’, said Dr Fritz Köhler-Geib, Chief Economist of KfW. ‘This development and the positive overall picture of the sentiment components are a good starting position going into the new year. But we must not forget the downside risks. The interest turnaround in the US and the continuing material shortage and supply bottlenecks have the potential to completely ruin the positive underlying sentiment.’

‘The private equity market took longer than the venture capital market to regain the confidence level from before the pandemic. The positive upward trend of the index, however, is an important signal to SMEs that private equity companies stand ready as reliable financing partners for the post-coronavirus era and further growth’, said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘Thanks to the consistently positive assessments of fundraising and exit opportunities, we also see a strong basis for a further strong private equity year in the German market. How much rising interest rates will weigh on sentiment remains to be seen. After all, they will likely also impact on company valuations and ease the situation here.’

### 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’. It focuses on providing efficient access to capital and has an extensive range of networking and training services. The network of more than 200 fast-growth businesses and more than 450 investors has already enabled 13 IPOs and numerous trade sales.



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