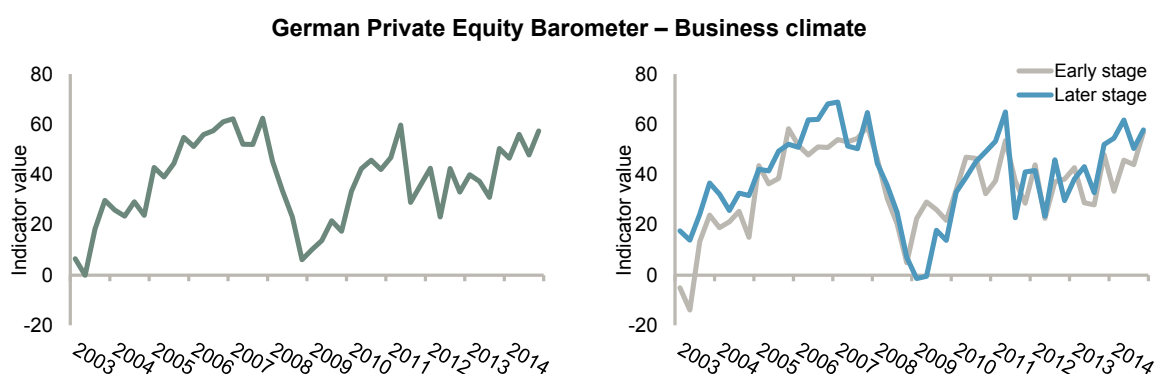


German Private Equity Barometer: 4th Quarter 2014

Business climate increases as the year draws to a close

- *Business climate on the equity capital market climbs to a three-year high*
- *Fundraising climate has never been better*
- *Dissatisfaction with entry prices and deal flow quality*



Source: KfW Research, BVK

Business climate at a three-year high

The German Private Equity Barometer's business climate index increased by 9.6 points in the fourth quarter of 2014, ending the year on a three-year high of 57.4 points. Following the lull in the preceding quarter, both the current business situation and business expectations improved. The indicator for the current business situation increased by 5.6 points to 53.6 balance points, while the indicator for business expectations increased by 13.7 points to 61.2 balance points.

Early stage climate on track to achieve record results

In the early stage segment of the equity capital market, the business climate improved significantly at the end of 2014. The business climate indicator rose in the fourth quarter by 12.9 points to 56.8 balance points. The upturn in sentiment peaked during the course of year, reaching its second-highest value since the indicator was introduced. Early stage financiers improved the assessments of both their current business situation and their business expectations. Indeed, the indicator for the current business situation increased by 13.0 points to 53.6 balance points, while the indicator for business expectations rose by 12.8 points to 60.0 balance points.

Late stage financiers showing renewed optimism

Sentiment in the late stage segment of the equity capital market rose again during the fourth quarter. The business climate indicator increased by 14.3 points to 57.8 balance points, meaning the year closed on a far more positive note in the late stage segment following the dip in sentiment during the third quarter. But the improvement in the late stage financiers' business climate is driven by expectations. While they have barely changed their current assessment of the business situation, they appeared to be far more optimistic with respect to their business expectations. The indicator for the current business situation was up slightly, by 0.5 points to 53.6 balance points, while the indicator for business expectations rose by 14.3 points to 61.9 balance points.

VC investments: turnaround in the second half of the year

Sentiment among German equity investors had climbed to a three-year high by the end of the year. The early stage financiers' business climate is better than it has been since the end of 2007. The improvement in business climate was driven by a record level in the fundraising climate and what is still a very good environment for exits. In the early stage segment, sustained high demand for venture capital also had a bolstering effect. In contrast, in the late stage segment, the assessment of demand for private equity deteriorated considerably over the last four years. Equity investors are clearly dissatisfied with the entry prices for new investments and with the quality of the deal flow. While late stage financiers have been calling for better deal flow quality for a few years now, dissatisfaction in the early stage segment only increased during the last few quarters. Increased awareness of venture capital and the prominent IPOs of the last few years may also have driven less promising companies to seek venture capital. This would explain the level of dissatisfaction amongst venture capital investors, since it would cost them more to inspect the deal flow.

"Equity investors' mood improved as the year progressed; early stage financiers in particular appear to be happier," summarized Dr Jörg Zeuner, Chief Economist of KfW Group. He is also confident that venture capital will continue to be available to young companies due to the improved sentiment. "Venture capital is vital for the survival of young, innovative technology companies, since the only way to absorb high initial losses or forced growth is by using equity capital. This makes the provision of venture capital a key factor for Germany as a technology location." Ulrike Hinrichs, Executive Director of the German Private Equity and Venture Capital Association (BVK), adds: "The widespread year-end rise in sentiment across the segments demonstrated the stability of the equity market. This is also underlined by our market statistics, which show that there has been far more investment activity compared with the previous year. Given the optimistic expectations among our survey participants, we are confident that this positive development will also continue into 2015."

The German Private Equity Barometer, calculated by KfW and the BVK, showed a rise in sentiment at the end of the year, with the business climate indicator for the German equity capital market increasing in the fourth quarter of 2014 by 9.6 points to 57.4 balance points. The business climate improved particularly in the early stage segment, with sentiment once again on par with the late stage segment. Equity investors' assessment of the fundraising

climate is better than ever. They do, however, appear to be dissatisfied with the current entry prices and deal flow quality.

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Appendix: Equity market climate in figures

German Private Equity Barometer

Climate indicators		Q1/2003 to Q4/2014		2013				2014			
		Max	Mean	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Business climate	Total	62,4	37,6	39,9	37,3	30,9	50,4	46,5	56,0	47,8	57,4
	ES	59,2	35,1	42,8	28,8	27,9	48,0	33,3	45,7	43,9	56,8
	LS	68,9	39,6	38,2	43,2	32,8	52,0	54,5	61,7	50,4	57,8
Market factors:											
Fundraising	Total	38,5	1,3	5,9	14,3	0,1	23,4	25,4	29,4	34,5	38,5
	ES	33,3	-14,5	-13,1	-2,7	-28,2	-2,6	-0,7	-2,6	5,8	26,2
	LS	56,8	14,4	21,5	28,8	19,8	44,2	45,4	52,9	56,8	46,5
Acquisition prices	Total	62,7	10,9	10,2	7,6	4,9	-8,2	-2,0	-27,1	0,6	-11,9
	ES	70,9	33,7	31,5	33,8	39,9	43,1	43,5	9,2	23,8	18,3
	LS	54,5	-6,4	-4,2	-10,2	-17,7	-43,1	-31,7	-48,9	-16,0	-30,7
Exit opportunities	Total	44,8	1,1	2,5	9,6	6,0	15,0	33,6	41,2	39,5	38,8
	ES	46,0	-8,9	-18,1	-12,8	-23,5	-16,2	12,4	21,1	17,6	32,3
	LS	54,2	8,4	13,9	25,5	22,3	36,3	46,9	52,3	54,2	42,9
Demand	Total	63,6	45,9	52,2	45,8	36,0	43,7	45,5	41,1	44,2	42,9
	ES	75,8	51,3	71,2	65,8	71,8	74,0	66,8	55,9	58,9	73,2
	LS	65,9	42,8	40,4	31,6	13,0	23,1	32,5	32,6	34,2	24,0
Demand quality	Total	41,4	26,3	34,4	37,4	29,2	28,2	41,4	23,2	24,9	14,9
	ES	63,8	33,8	48,9	57,6	53,2	63,8	50,8	30,7	25,0	29,7
	LS	43,2	20,8	25,8	22,9	14,0	4,3	35,5	19,0	24,8	5,4

Comments and Abbreviations:

Differences to previous publications are due to extrapolation.

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.