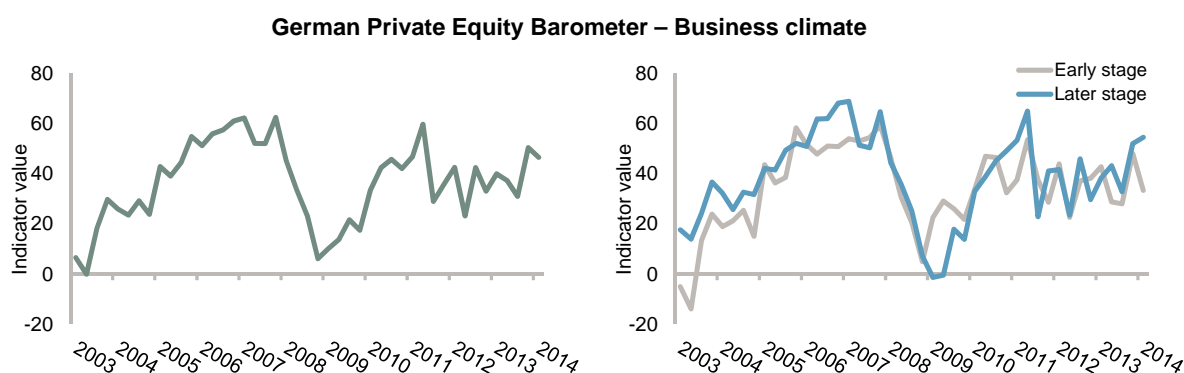


## German Private Equity Barometer: 1<sup>st</sup> quarter 2014

### Subdued start to the new year

- *Business climate cools slightly*
- *End to early phase financiers' euphoria*
- *Improved exit opportunities fuel hope of market upswing*



Source: KfW Economic Research, BVK

### Private equity providers start somewhat more restrained into 2014

After peaking towards the end of 2013, the sentiment among private equity providers cooled down slightly in the first quarter of 2014. The business climate indicator of the German Private Equity Barometer dropped at the start of the year by 3.9 points to 46.5 points. In spite of the slight deterioration in sentiment, the business climate remains positive though and is significantly higher than its long-term average. Private equity providers rate their current business situation only slightly lower at 47.4 points, a fall of 1.4 points, while the adjustment in their business expectations is much more significant after dropping 6.3 points to 45.7 points.

### High spirits among early stage investors just euphoria

This development is principally attributable to the buoyant mood at the end of 2013 among early phase financiers proving to be ephemeral. The business climate in the early stage segment markedly worsened throughout the first quarter of 2014. The climate indicator ceded a sizable part of its gains from the end of the previous year and dropped by 14.6 points to 33.3 points. The assessment of the current business situation was instrumental in the decline: the current business situation indicator plunged by 21.4 points in the first quarter of 2014 to 32.2 points. The business expectations indicator shed 7.9 points and fell to 34.5 points.

## **Business climate in later stage segment continues to improve**

Later stage investors managed to maintain their positive mood and even improved it further at the start of the year. The business climate indicator climbed 2.5 points in the first quarter of 2014 to 54.5 points. This signals a continuation in the positive trend in the business climate of the later stage segment. In this context, later stage investors significantly improved their assessment of the current business situation again, but corrected their business expectations in the other direction. The current business situation indicator rose 11 points to 56.6 points and moved closer to the post-crisis peak of 60.2 points from the second quarter of 2011. The business expectations indicator dropped by 6.3 points to 52.4 points.

## **Hopes of a sustained pick-up in sentiment still alive**

German private equity providers made an altogether positive start to 2014 after the pleasing improvement in sentiment around the end of 2013. While the already good mood among later stage investors continued to improve, the upbeat sentiment among early stage investors was clearly just euphoria. But there are still hopes of a consistently good business climate because the climate indicators in both segments of the market are still above or in the region of their long-term averages. Furthermore, many of the general conditions that are crucial for the private equity market have improved, especially the quality of the deal flow and the exit opportunities, which were lacking in the German private equity market in recent years. Not since early 2007 have holding companies viewed exit opportunities as positively as at the start of 2014 – and this also applies for the most lucrative exit channel: the IPO. "In view of the poor exit opportunities, companies have increasingly held their investments for longer" explained Dr. Jörg Zeuner, Chief Economist at the KfW Group. "The improved exit conditions should enable holding companies to clean their portfolios and concentrate on new investments again. As soon as fund investors get their targeted proceeds back, we could also see an improvement in the fundraising outlook for new funds. "Both should contribute to the necessary upturn in venture capital investments in the medium term." BVK Managing Director Ulrike Hinrichs added. "There are numerous attractive companies in Germany, which is why the deal flow still does not constitute a bottleneck for holding companies. Improvements in the exits and fundraising had the most positive and also the most lasting effect on the sector sentiment. We are optimistic that we will see more successful private equity sales this year. It would be extremely important for the sector and would also aid companies enormously in their fundraising activities."

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

Climate indicators		Q2/2003 to Q1/2014		2012			2013				2014
		Max	Mean	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Business climate	Total	62,4	36,5	23,1	42,4	33,0	39,9	37,3	30,9	50,4	46,5
	ES	59,2	34,2	22,6	37,1	38,1	42,8	28,8	27,9	48,0	33,3
	LS	68,9	38,4	23,5	45,9	29,7	38,2	43,2	32,8	52,0	54,5
Market factors:											
Fundraising	Total	38,3	-0,9	-21,8	-4,3	-11,5	5,9	14,3	0,1	23,4	25,4
	ES	33,3	-16,1	-46,8	-21,7	-20,8	-13,1	-2,7	-28,2	-2,6	-0,7
	LS	45,5	11,9	-3,4	12,0	-3,8	21,5	28,8	19,8	44,2	45,4
Exit opportunities	Total	44,8	-1,5	-8,6	1,2	-9,8	2,5	9,6	6,0	15,0	33,6
	ES	46,0	-11,1	-23,4	-24,9	-3,1	-18,1	-12,8	-23,5	-16,2	12,4
	LS	46,9	5,7	2,0	21,8	-13,8	13,9	25,5	22,3	36,3	46,9
Demand	Total	63,6	46,1	41,8	42,6	41,8	52,2	45,8	36,0	43,7	45,5
	ES	75,8	50,6	65,6	62,1	58,6	71,2	65,8	71,8	74,0	66,8
	LS	65,9	43,6	27,4	29,8	30,5	40,4	31,6	13,0	23,1	32,5
Demand quality	Total	41,4	26,7	28,0	35,5	27,4	34,4	37,4	29,2	28,2	41,4
	ES	63,8	34,1	53,6	60,9	47,4	48,9	57,6	53,2	63,8	50,8
	LS	43,2	21,1	12,4	19,1	13,7	25,8	22,9	14,0	4,3	35,5
Public Funding	Total	19,1	1,2	12,0	15,5	10,4	6,6	13,3	13,1	11,2	13,3
	ES	43,3	6,3	27,4	40,0	24,4	13,8	27,4	43,3	21,3	24,0
	LS	29,7	-3,0	1,2	-5,5	-2,9	0,7	1,8	-8,9	2,9	3,5

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.