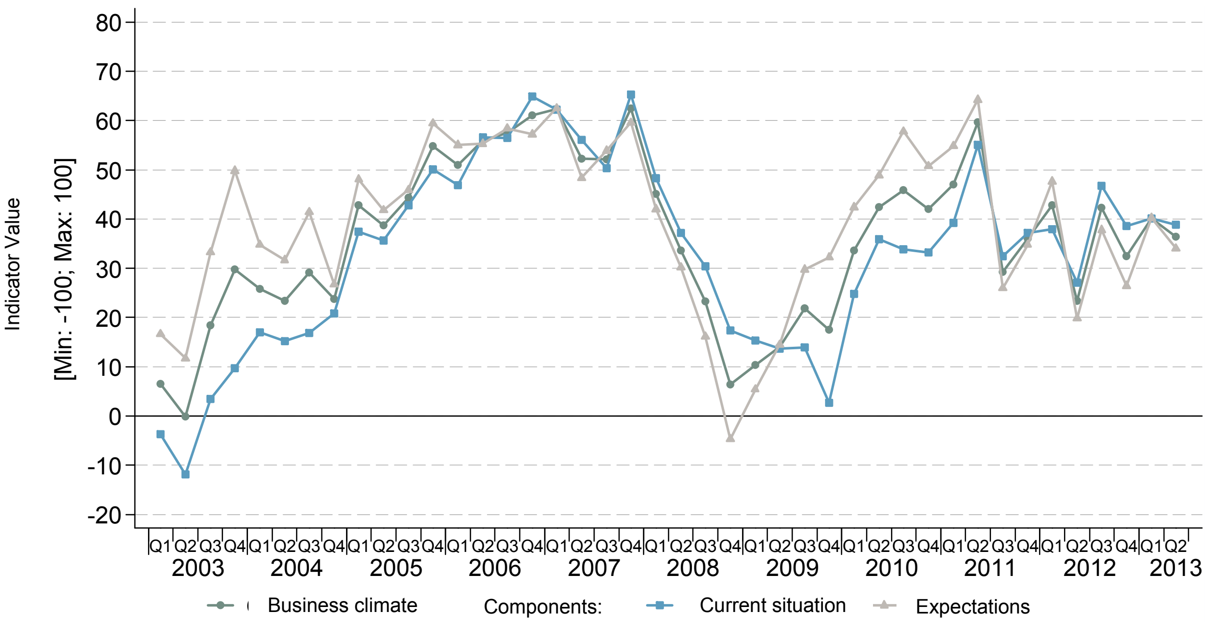
Frankfurt, 13th August 2013

German Private Equity Barometer: 2nd Quarter 2013

German Private Equity Barometer

– produced in collaboration between BVK and KfW Bankengruppe –

The German Private Equity Barometer (GPEB) fell by 3.7 points in the second quarter of 2013 and is now at 36.5 points. A dip in sentiment among companies in the early-stage segment was responsible for the moderate fall in the business climate indicator for the German private equity market – while later-stage investors are signalling more optimism, once again.



Source: KfW/BVK survey.

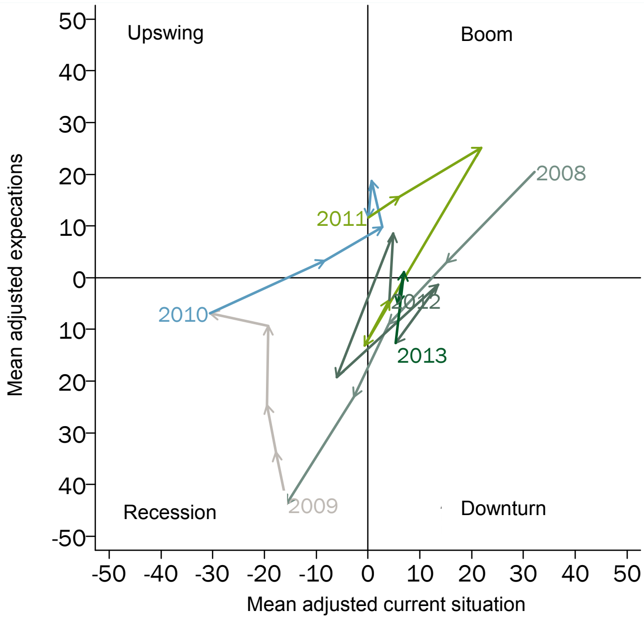
Figure 1: German Private Equity Barometer

The German Private Equity Barometer provides an overall indicator of the climate in the German equity investment market. It also includes two component indicators, namely the current business situation and business expectations for the next six months. Indicators for the business situation and business expectations are calculated as net balances of the percentages of "good" and "bad" responses received from the investment companies taking part in the survey. The overall business climate indicator is derived as an average of these figures. The German Private Equity Barometer has been published on a quarterly basis, exclusively in the Handelsblatt newspaper, since November 2003.

Sentiment in the private equity capital market weakened in the second quarter compared to the previous quarter, though the business situation has been stable for three quarters in a row. The German Private Equity Barometer fell by 3.7 points to 36.5 points in the second quarter of 2013 – and is thus more or less exactly at its long-term average of 36.1 points (Figure 1).

Important factors influencing the business climate are fundraising conditions, exit opportunities and start-up and innovation activities of companies. While the current fundraising situation and exit opportunities are perceived by the survey participants as being significantly better, the weak start-up and innovation activity in recent months is negatively affecting the sentiment on the private equity market.

Early-stage private equity investors consider the fall-off in the propensity to innovate and initiate start-ups to be particularly critical. As a consequence, they are making a noticeable downward correction to their so far very positive expectations with respect to future market growth. The expectations component of the GPEB fell by a total of 6.1 points in the last quarter, caused primarily by the early-stage segment.



Quelle: KfW/BVK survey.

Figure 2: German Private Equity Barometer – Economic Trend Monitor

The Economic Trend Monitor shows the mean-adjusted values for the German Private Equity Barometer indicators for the current business situation and for business expectations, and allocates them into one of four base scenarios: upturn, boom, downturn and recession. In an ideal economic situation, these scenarios would progress in the sequence listed.

BVK chief executive Ulrike Hinrichs commented on the divided mood on the private equity market: "The upturn in sentiment in the later-stage segment is encouraging and is closely linked to the robust economic situation in Germany. The positive outlook augurs well for a successful second half with brisk investment activity. The critical mood in the early-stage segment should not hide the still critical importance of venture capital for the financing of innovation. We are convinced that optimism will return to the German venture capital market. Policy-making can also contribute to this to the extent that the regulatory environment can finally be shaped in such a way that venture capital in this country can fulfil its role as a stimulating factor in order to exploit the potential of new and innovative companies for the prosperity of our country."

The chief economist of KfW Banking Group, Dr Jörg Zeuner, sees a divide in the development of the private equity market: "We view the current market situation with mixed feelings. The upturn in the later-stage segment is without doubt encouraging, but the comparatively severe collapse of the early-stage segment is a sign that both the willingness to invest and propensity to innovate among companies is suffering from the uncertain business environment at the moment. Things are becoming increasingly difficult for venture capital investors."

Early-stage

Sentiment in the early-stage segment has become noticeably less optimistic. The corresponding business climate index fell by 16.9 points to 26.6 points in the second quarter of 2013 – and is thus well short of its long-term average of 37.7 points.

Source: KfW/BVK survey.

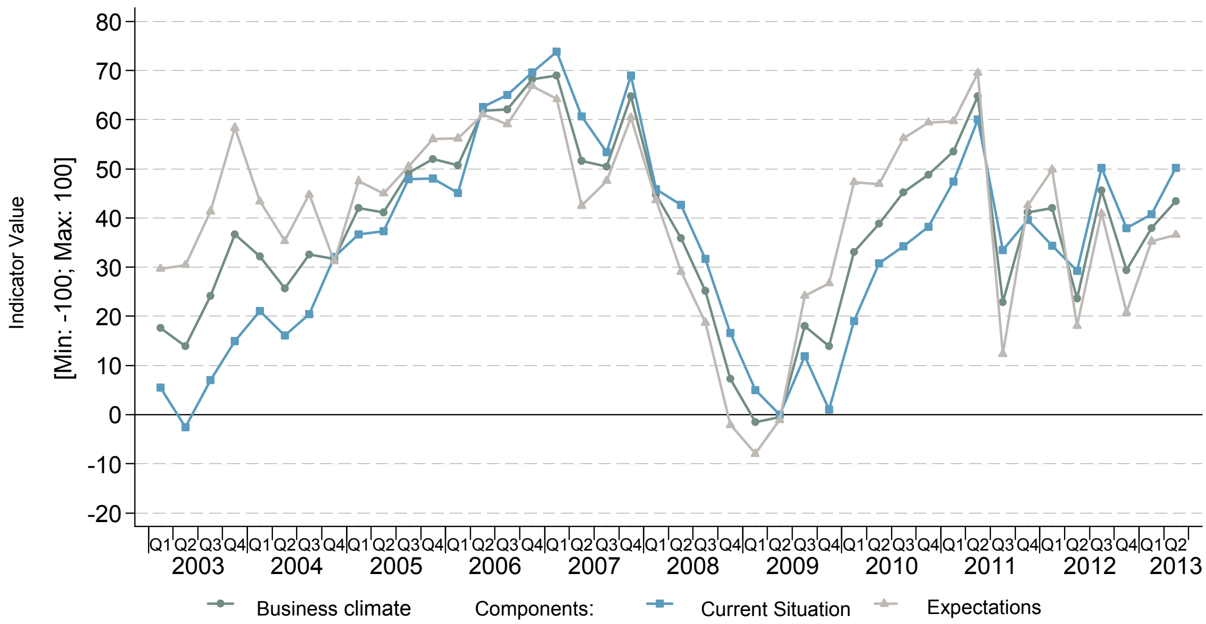
Figure 3: German Private Equity Barometer – early-stage

As in the market as a whole, the stable overall economic environment in the second quarter had a positive effect on the business climate in the early-stage segment. In addition to this the improved exit conditions are assessed positively. In particular, the confidence indicator for exit opportunities through trade sales received a boost in the second quarter. Furthermore, in the early-stage segment, the GPEB saw the most pronounced improvement in fundraising sentiment in over a year.

A particularly important factor in the deterioration in early-stage sentiment is the concern of investors about falling demand for venture capital: in this context, the early-stage investors view the low rate of start-up activity and falling level of innovation of companies with an increasingly critical eye. Besides this, fear among early-stage investors of rising entry prices for investments is growing as a result of falling demand.

Later-stage

The business climate indicator for the later-stage segment rose by 5.4 points compared to the previous quarter and reached 43.3 points. The current situation on the private equity market and, in particular, expectations regarding its development over the coming half are both judged to be more positive than in the previous quarter.



Source: KfW/BVK survey.

Figure 4: German Private Equity Barometer – late-stage

In this segment, too, the very good sentiment is supported by the stable economic situation in Germany in the second quarter (even if later-stage investors made a slight downward correction to their appraisal in this respect). Attractive sales opportunities in the trade sales segment also had a very positive effect. Later-stage investors are benefiting here in particular from the continuing upturn in mergers and acquisitions.

Also, the fears of many investors that important providers of capital could withdraw from the market as a result of regulatory changes receded noticeably last quarter.

In the later-stage segment – as with the early-stage investors – the appraisal of start-up and innovation activity was rather unfavourable. However, this is having a smaller impact on the later-stage sentiment, which is driven by the situation for buyout funds. Poor availability of professionals (fund managers) is also dampening sentiment, as is to the availability of debt capital: private-equity investors – despite a very positive fundamental assessment of the situation – still see room for improvement there.

New calculation method for indicators used in the German Private Equity Barometer

From the first quarter of 2011, some improvements were made to detailed aspects of the indicator calculation method used in the German Private Equity Barometer. At the same time the factor used in the indicator calculation to weight replies from the investment companies who responded to the survey was also modified. The previous weighting, which had a near-linear relationship to the volume managed by a particular investment company, was replaced by a logarithmic weighting. The higher weighting which is now implicitly attributed to smaller investment companies allows for a more appropriate depiction of the mood across the full spectrum of the German investment capital market. This change has led to a marked reduction in the spread of individual GPEB indicators. This new calculation method has also been applied retrospectively to all the periods available. In consequence, values shown in earlier publications are no longer comparable with information published since the first quarter of 2011.

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