

»» Sentiment on the German Private Equity Market revived

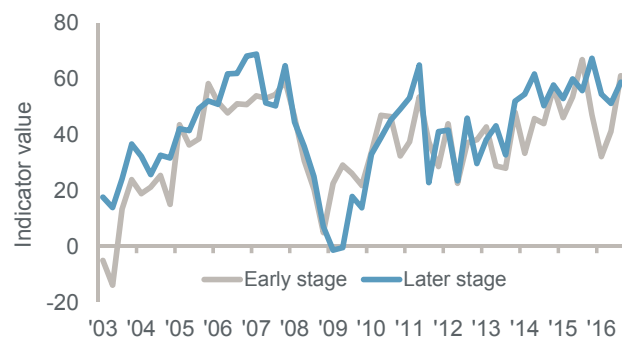
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- VC market sentiment surges on the back of economic-policy decisions
- Fundraising climate remains excellent
- VC deal flow still at a peak; investment offers in the later-stage segment only slightly higher

German Private Equity Barometer – business climate



Source: KfW Research, BVK

Investor sentiment has improved again

The mood on the German private equity market has brightened significantly. In the third quarter, the business climate index of the German Private Equity Barometer increased by 12.0 points to 59.6 balance points. The indicator for the current business situation rose by 10.9 points to 60.2 balance points, while the indicator for business expectations climbed by 13.0 points to 58.9 balance points. Sentiment among VC investors, in particular, rose strongly and is nearly as good as a year ago when the business climate reached a record high.

Euphoria has returned to early-stage financiers

The mood in the venture capital segment has reached a level of euphoria similar to that of late summer of last year. In the third quarter of 2016 the business climate indicator in the early-stage segment jumped by 19.7 points to 61.1 balance points. It has thus recovered from the sharp downturn it experienced in the interim and is now only slightly below the record level of the same quarter last year. VC investors are now much more satisfied with their current business situation, but even more optimistic about its further development.

The indicator for the current business situation rose by 15.3 points to 58.0 balance points, while the indicator for

business expectations climbed by 24.2 points to 64.1 balance points. The sudden surge in the business climate goes hand-in-hand with an equally steep increase in the fundraising climate, which is also very close to its record level. The exit climate has also improved again significantly, while the VC demand indicator remains near its peak value. VC investors are also noticeably more satisfied with the public support and fiscal framework. Both indicators climbed to levels that can be regarded as good.

Later-stage financiers are more upbeat again

The improvement in the business climate in the later-stage segment of the equity market was comparatively moderate. The business climate indicator gained 7.5 points in the third quarter of 2016, reaching 58.7 balance points. This put an end, for now, to the decline in sentiment during the first half-year. The indicator for the current business situation climbed 8.5 points to 61.4 balance points, while the indicator for business expectations improved by 6.6 points to 56.0 balance points. Improvements in the fundraising climate and the demand for capital probably brightened the mood here slightly, although the later-stage investors have never been more dissatisfied with the quality of their deal flow.

Investors are breathing a sigh of relief

The development of the business climate on the German private equity market has turned the corner. Sentiment is relaxed again, particularly among VC investors. This is probably due primarily to several decisions the German federal government made in the third quarter. One of them was to further refine the current provisions on the offsetting

of tax losses. Its purpose is to make loss carry forwards incurred by a company tax-deductible even after a new investor has acquired a stake. This is a key concern of the industry. Another decision was to make the INVEST grant for venture capital tax-free and expand it to investments in VC funds. These announcements brightened the mood in the market. The debate over further improving the capital supply in the VC market was also received positively. "The federal government's decisions are giving the VC market positive impetus. The plans will probably make it easier to give follow-up funding to innovative growth enterprises – a segment that needs support", said Dr Jörg Zeuner, Chief Economist of KfW Group. "On the basis of economic power,

the VC market in the US is seven times as big as in Germany, so the German VC market can use some positive impetus."

Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK), emphasised: "Venture capital in Germany is on a good path. The federal government's latest decisions were correct and important. They are a signal to the venture capital industry that it wants to eliminate competitive disadvantages for start-ups and their investors in comparison with other countries. Thus, together with the ongoing support of the Federal Ministry of Economics, KfW's return to financing venture capital funds and the launch of the co-investment fund coparion, the public sector has now provided decisive impetus for the venture capital market." ■

KfW Research

German Private Equity Barometer: 3rd quarter 2016

Annex: Sentiment on the German private equity market in figures

German Private Equity Barometer

Sentiment indicators		Q1/2003 to Q3/2016		2014	2015				2016		
		Max	Avg.	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Business climate	All	62.4	39.7	57.4	50.3	57.8	59.7	59.7	45.5	47.6	59.6
	ESF	66.8	37.0	56.8	46.1	53.5	66.8	47.1	32.1	41.3	61.1
	LSF	68.9	41.8	57.8	52.9	60.0	55.8	67.4	54.5	51.2	58.7
Market factors											
Fundraising	All	58.3	7.0	38.5	41.8	38.3	48.1	58.3	39.1	40.3	55.4
	ESF	42.4	-10.6	26.2	11.8	-17.0	13.7	42.4	10.3	10.2	39.7
	LSF	70.0	20.8	46.5	61.9	70.0	69.8	69.4	57.7	59.2	65.6
Entry prices	All	62.7	5.1	-11.9	-27.1	-30.2	-42.7	-27.6	-23.8	-32.8	-32.9
	ESF	70.9	28.6	18.3	-9.6	9.0	-19.8	-4.5	-3.9	0.1	1.4
	LSF	54.5	-12.0	-30.7	-38.0	-52.3	-55.1	-41.9	-37.7	-52.1	-53.3
Exit opportunities	All	58.6	7.3	38.8	50.7	57.2	58.6	52.5	38.5	50.0	43.4
	ESF	46.0	-4.7	32.3	23.0	35.1	28.1	26.0	13.1	14.4	27.4
	LSF	74.5	15.7	42.9	66.5	68.2	74.5	68.1	55.6	69.2	55.8
Level of demand	All	63.6	45.3	42.9	34.3	35.9	49.8	45.8	38.7	39.0	45.1
	ESF	78.2	52.7	73.2	51.4	48.6	58.8	66.2	56.2	78.2	77.5
	LSF	65.9	40.9	24.0	22.8	29.0	44.6	33.2	26.6	15.9	25.6
Quality of demand	All	41.4	25.8	14.9	17.2	23.7	26.5	23.4	30.9	22.4	10.4
	ESF	63.8	33.2	29.7	29.8	27.1	25.8	37.9	36.0	19.2	30.1
	LSF	43.2	20.4	5.4	8.8	21.7	26.9	14.5	27.6	24.2	-1.7

Explanations and abbreviations:

Differences to previous publications are due to extrapolation.

E(arly) S(tage) F(inanciers)

L(ater) S(tage) F(inanciers)

Source: KfW 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.