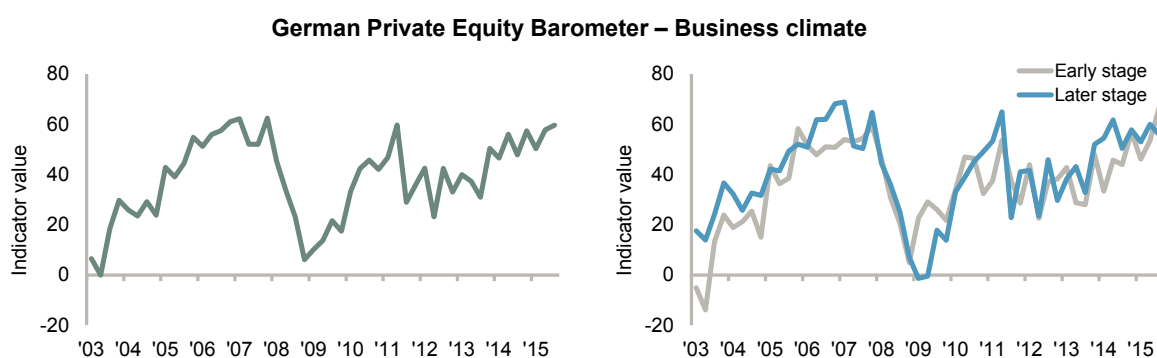


## German Private Equity Barometer: 4th Quarter 2015

### Business climate remains very positive

- *Business climate on the private equity market generally unchanged*
- *Sentiment among early-stage financiers fell at the end of the year*
- *Fundraising climate reached an all-time high*



Source: KfW Research, BVK

### Equity investor sentiment remains positive

At the end of 2015 the business climate on the German private equity market was stable on a high level. The overall business climate index of the German Private Equity Barometer remained unchanged in the final quarter, closing at 59.8 balance points. In the early-stage segment the business climate dropped sharply but in the later-stage segment it recovered noticeably. Overall, equity capital investors corrected their assessment of the current business situation slightly downward but were more optimistic about business expectations. The indicator for the current business situation dropped by another 1.5 points to 62.1 balance points, while the indicator for business expectations increased by 1.6 points to 57.3 balance points.

### Early-stage financiers' positive sentiment has vanished

As the year came to a close, early-stage financiers were disenchanted after the record climate in the third quarter. The business climate indicator in the early-stage segment dropped sharply by 19.8 points to close at 47.1 balance points. Yet despite the massive correction, the business climate can still be rated good and remains above the level of the first quarter of 2015. The correction applied to both the current business situation and to business expectations. The indicator for the current business situation dropped by 13.6 points to 50.3 balance points, while the indicator for business expectations fell 25.9 points to 43.9 balance points. Nevertheless, the drop in sentiment does not reflect the assessment of

the overall business environment. The corresponding climate indicators remained stable or improved and the fundraising climate even reached an all-time high.

### **Later-stage financiers' sentiment rose at year-end**

The business climate in the later-stage segment improved at the end of the year. The indicator for the business climate gained 11.6 points and stood at 67.4 balance points in the final quarter of 2015, approaching its all-time high. Later-stage financiers rated their current business situation more positively and had significantly more positive business expectations. The indicator for the current business situation increased by 5.7 points to 69.3 balance points, while the indicator for business expectations climbed by 17.4 points to 65.5 balance points. This indicator was supported by continuing very good or improved assessments of overall conditions in the later-stage segment.

### **The setback in the VC market was extreme**

The business climate on the German private equity market remained unchanged, hovering near its all-time high. The early and later-stage segments, however, trended in opposite directions. While the early-stage financiers were disillusioned after the record sentiment of the previous quarter, the later-stage financiers were again optimistic. Equity investors in both segments rated the market conditions about as positively as or better than in the previous quarter. The drop in sentiment in the early-stage segment cannot, therefore, be explained by a deterioration of fundamentals. 'The Federal Government's refusal to raise taxes again to finance young innovative enterprises lifted the VC business climate in the third quarter to a record level, so a setback at the end of the year was to be expected', said Dr Jörg Zeuner, Chief Economist of KfW Group. 'Nevertheless, the magnitude of the decline was surprising. This development does not alter the fact that the VC investors have started the year with a good business climate, outstanding market conditions and high willingness to invest – in other words, good financing prospects for innovative start-ups. Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK), agreed: 'The slump in the early stage after the record high in the previous quarter should not be overrated. What is more important are the positive assessments of venture capital fundraising prospects and the remaining market conditions, which allow us to look to the New Year with hope. Along with the continuing optimism in the later stage, this is good news for another successful year on the German equity market.'

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

Climate indicators		Q1/2003 to Q4/2015		2014				2015			
		Max	Mean	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Business climate	Total	62.4	39.1	46.5	56.0	47.8	57.4	50.3	57.8	59.7	59.7
	ES	66.8	36.5	33.3	45.7	43.9	56.8	46.1	53.5	66.8	47.1
	LS	68.9	41.1	54.5	61.7	50.4	57.8	52.9	60.0	55.8	67.4
Market factors:											
Fundraising	Total	58.3	4.8	25.4	29.4	34.5	38.5	41.8	38.3	48.1	58.3
	ES	42.4	-12.4	-0.7	-2.6	5.8	26.2	11.8	-17.0	13.7	42.4
	LS	70.0	18.5	45.4	52.9	56.8	46.5	61.9	70.0	69.8	69.4
Acquisition prices	Total	62.7	7.3	-2.0	-27.1	0.6	-11.9	-27.1	-30.2	-42.7	-27.6
	ES	70.9	30.4	43.5	9.2	23.8	18.3	-9.6	9.0	-19.8	-4.5
	LS	54.5	-9.8	-31.7	-48.9	-16.0	-30.7	-38.0	-52.3	-55.1	-41.9
Exit opportunities	Total	58.6	5.2	33.6	41.2	39.5	38.8	50.7	57.2	58.6	52.5
	ES	46.0	-6.1	12.4	21.1	17.6	32.3	23.0	35.1	28.1	26.0
	LS	74.5	13.1	46.9	52.3	54.2	42.9	66.5	68.2	74.5	68.1
Demand	Total	63.6	45.6	45.5	41.1	44.2	42.9	34.3	35.9	49.8	45.8
	ES	75.8	51.7	66.8	55.9	58.9	73.2	51.4	48.6	58.8	66.2
	LS	65.9	42.0	32.5	32.6	34.2	24.0	22.8	29.0	44.6	33.2
Demand quality	Total	41.4	26.0	41.4	23.2	24.9	14.9	17.2	23.7	26.5	23.4
	ES	63.8	33.5	50.8	30.7	25.0	29.7	29.8	27.1	25.8	37.9
	LS	43.2	20.6	35.5	19.0	24.8	5.4	8.8	21.7	26.9	14.5

Comments and Abbreviations:

Differences to previous publications are due to extrapolation.

E(arly)S(tage)

L(ater)S(tage)

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.