

»» Sentiment in the German private equity market continues to fall

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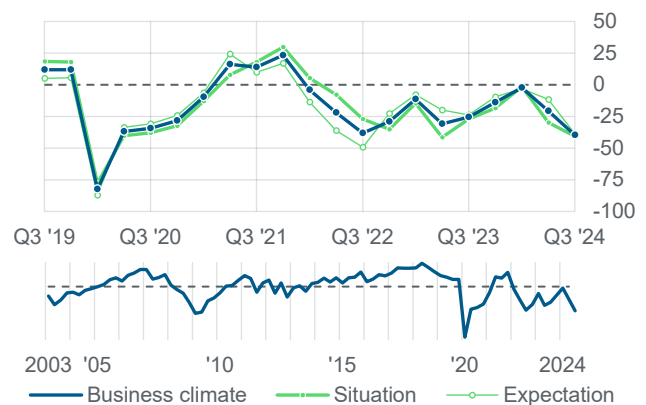
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- Both business situation assessments and expectations are now much worse
- Financing environment has brightened, positive expectations hinge on further interest rate cuts
- Weaknesses in deal flow and exits

Sentiment in the German private equity market has deteriorated very significantly for the second straight quarter. In the third quarter of 2024, the sentiment indicator plunged by 19.0 points to -39.6 balance points, a new four-year low. The only time sentiment was worse in recent years was during the COVID-19 shock. After current business situation assessments had already fallen in the previous quarter but the outlook had not yet worsened quite as much, expectations have now dropped as well. The indicator for the current business situation shed 10.9 points, decreasing to -40.6 balance points, while the indicator for business expectations fell by 27.0 points to -38.6 balance points.

The further drop in confidence can also be seen in many sentiment components. The fundraising environment in particular plunged by 21.9 points to -49.9 balance points. This contrasts with recent central bank (Fed and ECB) decisions, which have started another a cycle of interest rate cuts. Falling interest rates normally facilitate fundraising and the expected response would have been a surge in fundraising confidence. The key interest rate reductions significantly improved the interest rate environment by 16.7 points to -27.3 balance points. High hopes were obviously pinned on the beginning of the new interest rate cycle. Expectations around the interest rate level jumped by 19.4 points to -4.6 balance points. Thus, interest expectations have almost returned to the long-term average. The funding environment has also improved with the interest rate environment. Thus, assessments of the availability of acquisition finance rose by 5.6 points to -27.5 balance points, as did assessments of acquisition finance conditions, which surged by 16.2 points to -34.5 balance points. Despite improvements in the financing environment and continuing very high levels of satisfaction with entry valuations for new investments (+43.8 balance points), assessments of the willingness to invest fell slightly, albeit to what is still a good level of +12.9 balance points. One explanation for this could be the current weaknesses in deal flow and exits.

Development of private equity sentiment indicator



Source: KfW Research, BVK and DBVN.

Private equity sentiment 'traffic lights'

Values in balance points

	Q3 '24	Δ Q2 '24	Low	High
Business climate	-39.6	↓-19.0	-82.5	+38.0
Business situation	-40.6	↓-10.9	-77.9	+47.1
Business expectations	-38.6	↓-27.0	-87.1	+28.9
Fundraising	-49.9	↓-21.9	-65.5	+49.0
Entry valuations	+43.8	↔+3.4	-37.0	+57.8
Exit opportunities	-22.3	↓-7.5	-85.0	+58.2
New investment	+12.9	↓-8.6	-77.9	+26.4
Dealflow quantity	-9.0	↓-14.8	-28.6	+22.3
Dealflow quality	-17.7	↓-16.1	-23.7	+23.9
Depreciations	-16.6	↔-0.5	-51.5	+34.5
Economy	-65.4	↓-25.0	-87.6	+79.4
Interest rates	-27.3	↑+16.7	-86.0	+40.5
Availability acqui. fin.	-27.5	↑+5.6	-68.9	+40.3
Conditions acqui. fin.	-34.5	↑+16.2	-84.6	+43.4

Colour schemes of the 'traffic lights': The poorest tercile is marked 'red', the medium tercile 'amber' and the best tercile 'green'. The values for Q4/23 and Q1/24 have changed slightly as a result of data corrections.

Source: KfW Research, BVK and DBVN.

Comments on the current trend

Dr Georg Metzger,
Senior Economist at KfW Research

'Sentiment in the German Private Equity market has dropped again considerably and is now as bad as it was during the low following the interest rate turnaround', said Dr Georg Metzger of KfW Research. 'What is surprising is that the renewed drop in sentiment coincides with the first key interest rate reductions, as the mood typically improves when interest rates are cut. The improvement in the financing environment appears to have been insufficient to make up for the current weaknesses in deal flow and exits.'

Ulrike Hinrichs,
Managing Director of the German Private Equity and Venture Capital Association (BVK)

'In the last quarter we saw even steeper drops in the business climate, situation assessments and expectations than in the first half of the year', said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). 'It is to be hoped that, in the end, the key interest rate reductions will have a lasting and positive influence on investment activity after all. Despite the positive signals we occasionally get from the market, unfortunately we are not seeing the recovery of the private equity business environment that was hoped for in the previous quarter.'

Calculation of the German Private Equity Barometer

The **German Private Equity Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Beteiligungskapital – BVK), the member investors of the Deutsche Börse Venture Network (since the 2nd quarter of 2021) and further private equity companies with registered offices in Germany. It reports on business sentiment in the German private equity market on the basis of assessments provided by private equity firms with a focus on mature small and medium-sized enterprises. All sentiment indicators represent the average of the balance of situation assessments (share of 'good' minus share of 'bad') and the balance of expectations identified at the same time for the coming six months, normalised to their respective historical mean balance values as baseline level. As a result, the maximum or minimum value of the indicator may exceed or fall below +100 or -100 as the actual maximum or minimum. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Private Equity and Venture Capital Association (BVK)** is the voice and the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private equity companies and investors as well as some 100 consulting firms and service providers of the industry.



Bundesverband
Beteiligungskapital e.V.

The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe's largest network for growth finance and 'Capital Market Readiness'. It focuses on providing efficient access to capital and has an extensive range of networking and training services. The network of more than 200 fast-growth businesses and more than 450 investors has already enabled 13 IPOs and numerous trade sales.

Deutsche Börse
Venture Network