

Private equity sentiment is in the doldrums

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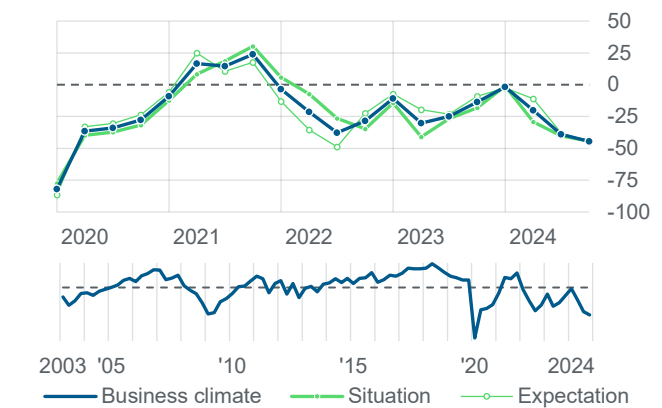
- Sentiment was lower only during the COVID-19 shock
- Key interest rate cuts failed to have a visible impact on sentiment
- Appetite for new investments has dropped to long-term average again

The German private equity market was in the doldrums at the end of last year. The sentiment indicator fell by 5.5 points to -44.6 balance points in the fourth quarter. Without the steep but brief slump during the COVID-19 shock in the first quarter of 2020, the indicator would have hit a new all-time low in the final quarter. Current business situation assessments and business expectations both deteriorated. The indicator for the current business situation shed 4.1 points, falling to -44.2 balance points, while the indicator for business expectations dipped by 6.9 points to -45.0 balance points.

The ECB's key interest rate reductions in October and December 2024 did very little to lift the mood in the private equity market. To be sure, they did have an impact on how investors viewed the interest rate level and the conditions for acquisition finance (with a moderate rise in the situation component for both) but expectations deteriorated. The interest rate sentiment indicator even dropped to -33.4 balance points. Assessments of acquisition finance availability and terms remained nearly unchanged at -25.8 and -31.2 balance points. In addition, the improved fundraising climate (+8.5 points) and the greater dissatisfaction with entry valuations (-23.6 points) could have to do with the interest rate cuts but this failed to have any major impact on the overall classification of the indicators. The traffic light for the fundraising climate remained deep red at -40.9 balance points, while the assessment of entry valuations remained green at +19.9 balance points.

After a temporary high in the second and third quarters, the environment for new investments deteriorated again sharply. At -0.4 balance points, assessments of investor appetite returned to the long-term average range. Situation assessments and business expectations were on a similar level, signalling stagnating investment activity for the next six months. The persistent weaknesses in deal flow and exits likely played a role here. The weak performance of the economy is putting great pressure on SMEs in Germany, also resulting in an obvious lack of qualified investment goals and buyers for exits.

Development of private equity sentiment indicator



Source: KfW Research, BVK and DBVN.

Private equity sentiment 'traffic lights'

Values in balance points

	Q4 '24	Δ Q3 '24	Low	High
Business climate	-44.6	-5.5	-82.0	+38.5
Business situation	-44.2	-4.1	-77.3	+47.7
Business expectations	-45.0	-6.9	-86.6	+29.4
Fundraising	-40.9	+8.5	-65.0	+49.5
Entry valuations	+19.9	-23.6	-37.2	+57.6
Exit opportunities	-28.7	-6.8	-84.7	+58.6
New investment	-0.4	-13.3	-77.9	+26.4
Dealflow quantity	-2.6	+6.4	-28.6	+22.3
Dealflow quality	-13.1	+4.4	-23.5	+24.1
Depreciations	-25.7	-9.4	-51.2	+34.8
Economy	-76.5	-12.0	-86.7	+80.2
Interest rates	-33.4	-6.5	-85.6	+40.9
Availability acqui. fin.	-25.8	+0.9	-68.2	+41.1
Conditions acqui. fin.	-31.2	+2.3	-83.7	+44.3

Colour schemes of the 'traffic lights': The poorest tercile is marked 'red', the medium tercile 'amber' and the best tercile 'green'.

Sources: KfW Research, BVK and DBVN.

Comments on the current trend

Georg Metzger,
economist at KfW Research

“Sentiment in the German private equity market declined sharply again in the fourth quarter of 2024. The only time the mood was worse was after the COVID-19 shock in early 2020. The economic worries of small and medium-sized enterprises in Germany are obviously weighing so heavily on business activity in the private equity market that the recent key interest rate reductions failed to halt the further decline in sentiment.”

Ulrike Hinrichs,
BVK Board Spokeswoman

“The recovery in sentiment is not yet in view. The overall economic environment and uncertainties over future interest rate developments appear to be the decisive stress factors. And the challenges in the current environment remain varied this year as well. Attractive investment opportunities are hard to find. Fundraising is sluggish and there are no buyers on the exits side.”

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.



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