



Bundesverband Deutscher
Kapitalbeteiligungsgesellschaften

Press Releases

BVK half-year statistics 2005 - German private equity market temporarily loses strength

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- Fund raising and early stage investment increase
- Total losses continue to decline

The German private equity market has lost some of its strength in the second quarter 2005. New investments sank to 353.7 million Euro (previous quarter: 407.2 million Euro) while fund raising and early stage investments increased. Total losses continued to decline which is a clear indicator for a normalisation in the exit segment. These are some of the key facts of the 2nd quarter and half-yearly statistics of Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – German Private Equity and Venture Capital Association e.V. (BVK).

“In the second quarter the private equity market was put a little damper on”, says Thomas U.W. Pütter, chairman of the BVK board. Missing large buy outs are the main reason for low investment. “But we are sure that this is a momentary tendency and the market will soon get back to its strength.”

More funds raised

In the second quarter, private equity firms raised 4,759.8 million Euro of new funds. Seven firms successfully raised independent funds totalling 4,458.4 million Euro. Although the lion share of 4,310.0 million Euro was raised by a pan-European fund, the remaining amount has almost doubled compared to the previous quarter (234.9 million Euro). The rest were captives and evergreen funds, gains and returns for re-investments.

“The recovery of fund raising is a clear indicator for the positive mood prevailing the German private equity market”, BVK Managing Director Dr. Holger Frommann explains. Neglecting the new pan-European fund, funds raised in the first half of the year 2005 were slightly higher than in the same period 2004.

Early stage stands out positively

Investment in the first half totalled 760.9 million Euro, 46 per cent less than in the 2004 period (1,410.0 million Euro). A comparison of the second quarters 2004 and 2005 shows a decline in investment activities: Investments in the second quarter 2004 totalled 896.0 million Euro, double as much as in this year's corresponding period (353.7 million Euro). In spite of sinking investment the number of financed companies in all investment stages considerably climbed up to 279 in the second quarter 2005 (1st quarter 2005: 227; 2nd quarter 2004: 259). In the second quarter, funds to be invested have risen to 20.3 billion Euro invested into 5,588 companies.

Stages of investment reflect a very positive development of the early stage sector comprising the financing of young technology companies and start ups. Some bigger investments let early stage investments rise to 79.8 million Euro compared to 54.6 million Euro spent in this year's 1st quarter, while the number of financed companies increased from 88 to 113. According to Frommann this sector is a delicate seedling but increasing investment could be seen as an indicator for investors tending to more



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risky early stage investment. Better environmental conditions for fund raising and business plans of private equity seeking companies may be considered to decisively influence this stage.

Later stage venture capital investments and buy outs declined and clearly lacked behind the figures of previous quarters. Their amounts were much less than those in previous quarters. "The second quarter continues the tendency of the first quarter when no large buy outs were registered.", says Pütter. "Instead, we see more small and medium-size buy outs in the second quarter, as many as never before." Increasing valuations make large buy outs more and more unattractive. In the first half, buy out investments totalled 394.5 million Euro (51.8 per cent of all funds invested) which is less than half of the previous half year amount (927.0 million Euro). Moreover, venture capital investments dropped as well by about 25 per cent to 366.4 million Euro compared to the previous period (483.0 million Euro).

Divestments at their lowest level since 3rd quarter 2003

More than half of the divestment totalling 197.3 million Euro were trade sales. 24 companies were divested this way marking the highest figure since the second quarter 2002. In the past three months, total losses were on a decline reaching their lowest quarterly amount (41.4 million Euro) ever (21 per cent of the exit amount). Sales to other private equity firms, in previous quarters the main exit channel, did not happen at all in the 2nd quarter 2005 but they dominated the first half 2005 with 29.9 per cent followed by trade sales at 22.8 per cent and total losses at 14.1 per cent. Frommann's comment: "The exit situation is apparently normalising, total losses decline for the benefit of trade sales. We expect this trend to continue in the coming months."

Outlook

"Investment reached their lowest level for years. Without investments of international buy out companies the market will remain at its present level", Pütter says. It has to be seen how the successful raising of funds will influence future investment activity. Anyhow, the increased number of private equity backed companies and exits as well as the higher amount of funds raised gives reason to optimism.

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