Frank Dornseifer
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Dear Ladies and Gentlemen,
Dear Members,

SuperReturn has come to an end, and the World Cup has begun. And how is one of these events not only related to the other, but also to this newsletter? That's a question you're perfectly entitled to ask. The answer to the second part is, of course, obvious, since the main focus of this newsletter is private equity, making a look back at the recent SuperReturn (whose motto, by the way, was "We are Super"!?) more than a good starting point. The answer to the first part of the question is also almost obvious, as there seem to be no limits to the ongoing commercialization of both events. Berlin.table recently compiled a few key figures about the World Cup and FIFA in CEO.Factcheck that are sure to catch your attention, e.g., approximately $8.9 billion in revenue during the 2023–2026 World Cup cycle, a $50 million bonus for the world champion, and ticket prices that typically range from $60 to nearly $9,000—but on the secondary market can reach six figures, with some individual cases reportedly even hitting seven figures. All clear!? So there might still be room for price increases at next year's SuperReturn!? Perhaps next year, GPs will pay admission fees at the SuperReturn based on the number of meetings they have with LPs. In any case, the sky's the limit when it comes to imagination.

But no, I'm not referring to the aspect of commercialization at all, and – just to avoid any misunderstandings – I certainly don't see any parallels between FIFA and the organizer of SuperReturn. That would be a bit presumptuous. The connection I see is the faint aftertaste that can't be dismissed at either event – even despite the German national team's opening victories and this year's SuperReturn motto, "We are Super." But I don't want to venture any further onto the green turf – or into the world of soccer – and will leave it up to you to decide what you think of Mr. Infantino & Co.

In keeping with the focus of this issue, however, I'd like to take a look at the PE&VC industry, because in light of the slogan and many—sometimes questionable —posts from participants, it's worth critically questioning whether everything in the industry is truly "super" and whether, after a five-year "dry spell" – as Jakob Blume and Hannah Krolle of the Handelsblatt politely put it – PE is finally on the verge of a "comeback"?

After all, the challenges and upheavals of recent years are far from over: when it comes to transactions, valuations, credit and default risks, interest rate trends, geopolitics, exits, fundraising, and returns, the traffic light is often dark yellow or sometimes even red – and not necessarily green. And then there's the Medallia bankruptcy, dubbed by Manager Magazin as the "second-biggest flop in PE history" – and indeed a fiasco for Thoma Bravo, which, however, describes the process somewhat more euphemistically as a "handover of the keys to the creditors." In any case, a massive challenge awaits the consortium led by Blackstone, Apollo, and KKR, and now the private debt industry can – and must – show what it's capable of.

Against this backdrop, it's not surprising that the debate – and indeed the complexity of the issues – has shifted. It's no longer just about growth, returns, and diversification. Rather, it is decidedly about competitiveness, market consolidation, innovation, and sustainability. And anyone who thinks the so-called "democratization of private markets" is the solution, is welcome to continue flooding the LinkedIn community with photos from SuperReturn under the slogan "We are Super" and celebrating themselves.

True, there are certainly positive figures when it comes to fundraising, but a closer look reveals that this is only the case for top-tier funds. A large part of the industry continues to struggle with fundraising. And by now, many investors are even wondering which "bad" or overpriced assets are languishing in their portfolios. And given that even the European Commission recently took steps to create a secondary market for unlisted corporate investments to help the PE industry address its exit challenges, it's high time to think about how to position ourselves now. Incidentally, these are precisely the questions we're asking in this year's investor and member survey to gauge sentiment and portfolio strategies within the industry and among investors. We're hoping for active participation once again, because this barometer of sentiment is particularly important – not just for us, but for you as well!

In short: I have my doubts that we're already on the verge of a significant comeback for the PE industry; the geopolitical and economic indicators don't really point in that direction, even though Trump has an Iran deal – one that's probably only a deal at first glance and, on closer inspection, is more of a disaster – and there are also various – albeit rather minor – success stories in the economy that could provide positive momentum for the PE industry.

Particularly in the venture capital and growth segments, a structural weakness in the German and European capital markets continues to be evident. While efforts in recent years have succeeded in strengthening early-stage financing, follow-on financing – especially during the growth phase – continues to fall short of expectations. The result is well known: successful companies seek capital abroad or are sold at an early stage. Value creation potential remains untapped or is lost.

Recent initiatives such as the Deutschlandfonds or the founding of the German Venture & Growth Forum are taking the right approach. They address a key shortcoming, namely the insufficient participation of institutional investors in the VC and growth segments. The fact that this debate is now being conducted with renewed momentum and broad support from various stakeholders is welcome; however, it comes far too late, and we are now paying the price for the fact that this issue has been criminally neglected in Germany for decades. As a symbolic example, one need only refer to the so-called "Private Equity Decree" issued by the Federal Ministry of Finance. Since its issuance in 2003, there has been fierce criticism, unacceptable legal uncertainty, and a lack of willingness to reform on the part of successive federal governments – a situation that persists to this day.

This weighs not only on the industry but, of course, on investors as well. While institutional investors in the U.S. and parts of Asia have been making significant allocations to PE/VC for years— – the industry has successfully established itself there – German investors remain at a very low level, and the industry is more often looked down upon than valued. Although many investors now have a respectable PE allocation, VC allocations are either nonexistent or in the per mille range. This stands in stark contrast both to the economic significance of this asset class and to its long-term return potential.

The reasons for this are manifold, and they were – or are – to a significant extent of a regulatory nature. Legal uncertainty, particularly regarding taxation and investability, capital adequacy requirements, valuation uncertainties, liquidity considerations, and, not least, internal governance structures have led many institutional investors to perceive private equity (PE) and, above all, venture capital (VC) as difficult to access or disproportionately risky. Even if this perception, which now only partially reflects, or perhaps no longer reflects at all, the actual circumstances.

The policy initiatives of recent months, including those at the European level, are fundamentally heading in the right direction. The discussions, for example, within the framework of the European Savings and Investments Union or in the coalition agreement and the resulting Location Promotion Act and Fund Risk Limitation Act, demonstrate that mobilizing private capital has been recognized as a key challenge. However, the decisive factor will be whether these approaches are consistently developed further. In addition to regulatory measures, a cultural shift is also still necessary. Venture capital must no longer be viewed as an exotic niche investment but must be understood as an integral part of a modern, broadly diversified investment portfolio.

Last but not least, the industry itself must also demonstrate that it not only delivers added value but also enables investors to participate even more fully in that added value. If industry representatives are just patting themselves on the back at SuperReturn while investors wait for exits amid falling returns, there's a problem. In particular, there will be no comeback in the current economic environment and with rising interest rates. There are still many managers who are doing a good job and have their portfolios under control. In those cases, exits will also work out.

About the articles in this newsletter

As always, I would like to take this opportunity to extend my heartfelt thanks to the many authors and sponsors who have contributed to this newsletter and once again provided highly readable expert articles on the topics of private equity and venture capital. I hope you find this issue both informative and entertaining. And, of course, I wish you a wonderful summer and vacation season.

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