

BENEATH THE HEADLINES

German private equity

JUNE 2026



Introduction

Germany is Europe's largest economy, but its private equity market has long underperformed its potential. Macro headwinds, sector concentration, and a historically higher loss ratio have left German private equity trailing returns elsewhere in Europe.

The case for revisiting the market rests on three structural changes:

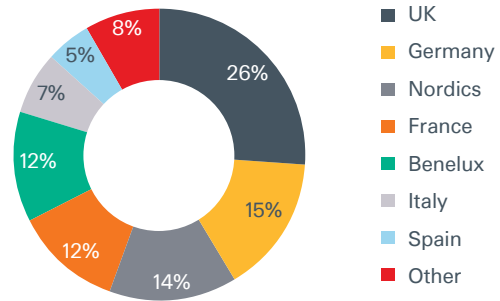
1. Germany's new coalition has committed €500 billion to infrastructure, defense, and industrial modernization, the largest fiscal package in the country's post-war history. The later waves of spending could reach Capex areas that matter for private equity.
2. European NATO members have pledged to raise defense spending toward 5% of GDP by 2035, creating a multi-year tailwind for German prime contractors and their supply chains.
3. LPs are increasingly looking to rebalance their portfolios and grow their European exposure. As Europe's second largest private equity market, Germany stands to benefit.

That said, the opportunity in Germany private equity sits in specific pockets rather than in headline numbers. In this paper, we show why Germany rewards selectivity.

A decade of relative underperformance

Germany ranks second only to the UK in European private equity deployment. Between 2015 and 2023, roughly 15% of European buyout capital was invested in German-headquartered companies (**Figure 1**). For LPs, the scale of that deployment is intuitive: Germany is Europe's largest economy, with a deep industrial base and the Mittelstand of family- and founder-owned businesses that has long offered opportunities for primary sourcing and buy-and-build.

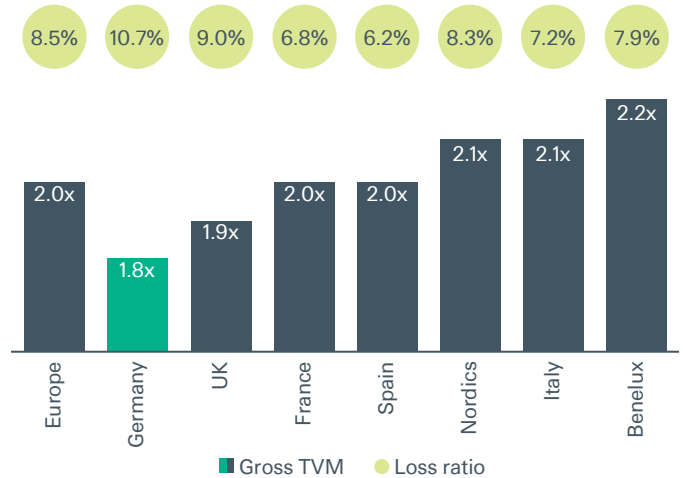
FIGURE 1: CAPITAL DEPLOYED IN EUROPE BY REGION (2015–2023)



Source: SPI by StepStone, as of March 2026.

Yet strong deployment has not translated into comparable performance. As shown in **Figure 2**, German private equity has modestly trailed regional peers on gross TVM. The gap is modest in isolation but meaningful on a risk-adjusted basis, given German deals' higher loss ratio compared with most regional peers.

FIGURE 2: GROSS TVM BY REGION (2015–2023)



Source: SPI by StepStone, as of March 2026.

Note: This covers the full UK buyout market (including large-cap) and so differs from the UK SMID returns cited in our recent paper [UK private equity: How scarcity, succession and specialism drive outperformance](#). UK SMID remains an attractive segment, but the weight of large-cap deals in the broader UK market brings the aggregate UK number in this chart below the SMID figure.

Several factors explain weaker returns. Exposure to cyclical industrial end-markets left portfolios particularly vulnerable to energy shocks, supply-chain disruption, and the slower-than-expected EV transition in the German automotive sector. A more regulated healthcare market, relative to the Nordics or the UK, has also introduced binary legislative risk. Meanwhile, German consumers have proved structurally more cautious than their peers, with high savings rates and muted real wage growth compressing consumer private equity outcomes.

Sector dispersion

Looking beyond the headline performance figures, sector dispersion within the German market has been wider than the aggregate number suggests. Financials and information technology ("IT") have generated the highest gross IRRs of any GICS sector. By contrast, consumer and healthcare have underperformed (Figure 3).

FIGURE 3: GERMAN PRIVATE EQUITY PERFORMANCE BY GICS SECTOR (2015–2023)

Sector	Count	Invested	Total value	TVM	IRR	Loss ratio
Industrials	183	24,746	48,159	2.0x	20%	13%
IT	227	22,249	47,433	2.1x	28%	3%
Consumer	114	18,135	25,978	1.4x	11%	19%
Healthcare	95	16,819	26,438	1.6x	12%	8%
Financials	38	6,994	14,260	2.0x	31%	12%
Real estate & other	19	1,679	3,431	2.0x	23%	4%

Source: SPI by StepStone, as of March 2026. Invested and total value in US\$M. IRR shown as gross IRR.

The sub-sector data makes the pattern clear. Germany's outperforming sub-sectors are not a random collection; rather, they cluster around three structural tailwinds (Figure 4):

1. Digitization;¹
2. Defense & industrial supply chain services;² and
3. Resilient services that scale with demographics and demand for risk transfer.³

FIGURE 4: TOP AND BOTTOM PERFORMING SUB-SECTORS (2015–2023)

Sector	GIC sector	Count	Invested	Total value	TVM	IRR	Loss ratio
IT services, distribution, hardware & infrastructure	IT	74	6,660	14,495	2.2x	31%	4%
Application & systems software	IT	114	12,469	27,830	2.2x	28%	3%
Aerospace & defense	Industrials	5	430	1,379	3.2x	35%	-
Infrastructure & transport	Industrials	18	1,492	3,286	2.2x	25%	19%
Insurance	Financials	14	1,758	6,202	3.5x	43%	-
Education services	Consumer	6	637	2,148	3.4x	41%	1%
Automotive	Consumer	14	3,230	4,982	1.5x	11%	19%
Healthcare providers & distribution	Healthcare	52	7,171	10,116	1.4x	9%	13%
Electronics & leisure	Consumer	22	1,998	2,542	1.3x	6%	29%
Home	Consumer	9	1,000	1,162	1.2x	5%	25%
Specialty retail & distribution	Consumer	24	6,016	5,763	1.0x	(2%)	20%

Source: SPI by StepStone, as of March 2026. Invested and total value in US\$M. Infrastructure & transport loss ratio driven by a small number of outsized losses.

¹ Items highlighted lime in Figure 4 correspond to this collection.

² Items highlighted orange in Figure 4 correspond to this collection.

³ Items highlighted green in Figure 4 correspond to this collection.

Digitization

Germany continues to lag other advanced European economies on enterprise software penetration, with thousands of sub-scale vendors generating sticky recurring revenue but lacking the capital to scale. Enterprise digitalization, regulatory complexity, and rising cybersecurity demands are creating tailwinds for IT services, reinforced by accelerating cloud adoption.

Defense & industrial supply chain services

This is where fiscal support is most visible. Germany's €500 billion package targets transport, energy, and defense and industrial supply chain services, while EU defense spending is on a path to reach 5% of GDP by 2035. Deployment to date has been slow: Less than 5% of the German package has flowed to its targets, with much of the balance redirected to plug gaps in the federal budget. That said, we expect disbursement to accelerate over time as legislative and procurement bottlenecks ease, extending the order pipeline for the service and software businesses best positioned to capture it.

Together, these trends create a multi-year order pipeline for German prime contractors and their supply chains. The most consistent risk-adjusted returns have come through a "picks-and-shovels" approach, including specialist IT, software, dual-use technologies, and supply-chain adjacencies, rather than hardware exposure. The digitization of defense has further broadened the investable universe beyond traditional platforms. Performance has been strong, though dispersion in infrastructure and transport continues to reward careful selection.

Resilient structural growth services

These are demand-led rather than fiscally driven stories, and they illustrate a broader pattern: the German sub-sectors that have historically delivered the strongest outcomes are often those where the structural growth tailwinds remain firmly in place. The examples above are illustrative rather than exhaustive, but the underlying logic is consistent: durable demand backed by demographics, regulation, or rising risk complexity. We believe these are the types of businesses that can compound through cycles.

Germany's commercial insurance brokerage market, ~46,000 brokers, ~90% owner-operated, is a textbook consolidation opportunity. Healthy premium growth and rising demand for complex risk coverage continue to favor scaled, well-capitalized platforms. Education services, meanwhile, benefit from enduring skills shortages and re-skilling demand, reinforced by demographic pressure and AI-driven workforce change. The key caveat in education is execution risk: Advances in AI may compress the economics of labor-intensive delivery models.

By contrast, we remain cautious on automotive and consumer exposure, where headwinds appear more structural than cyclical. In automotive, Germany continues to lag in the EV transition while facing intensifying competition from Chinese manufacturers. In consumer, the absence of a meaningful real wage re-rating and accelerating e-commerce displacement continue to impact traditional demand pools. Importantly, the fiscal tailwinds discussed above offer limited direct relief to either sector.

Accessing the market

Local presence

Manager selection has mattered more in Germany than other European markets, and the data is clear on where outperformance has originated. GPs with a dedicated German office have materially outperformed those without a local presence (Figure 5). The advantage stems from stronger local sourcing, closer founder access, and deeper local market insight.

FIGURE 5: GERMAN DEAL PERFORMANCE BY GP LOCAL PRESENCE (2015–2023)



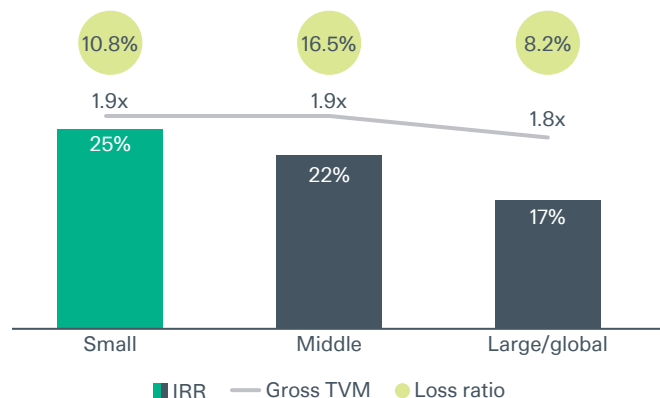
Source: SPI by StepStone, as of March 2026.

This is consistent with what we have observed across Europe's small and middle market more broadly: Local networks, language skills, and relationships with entrepreneurs and their advisors matter materially when sourcing proprietary primary opportunities and executing bolt-on acquisitions at pace. Germany is particularly unforgiving of the "fly-in" model, given that the Mittelstand seller universe rewards continuity, cultural fit, and longstanding relationships.

Fund size

Fund size represents an equally critical dimension of performance. Within the German market, small-market funds have delivered the strongest combination of returns and downside protection (Figure 6). While small and mid-market funds have generated comparable headline TVMs, the small-market cohort stands out on two fronts: a higher gross IRR and a meaningfully lower loss ratio. Large and global funds, by contrast, have produced more modest returns though they carry the lowest loss ratio of all, reflecting their orientation toward larger, more mature, lower-growth platforms.

FIGURE 6: GERMAN DEAL PERFORMANCE BY GP SIZE (2015–2023)



Source: SPI by StepStone, as of March 2026.

This pattern is consistent with what we observe across the European small-to-middle buyout market more broadly. Germany's structural appeal for small-market private equity is particularly pronounced. A deep Mittelstand of founder-owned businesses, a highly fragmented sub-sector landscape across software, IT services, insurance brokerage and education, and solid primary deal flow give specialist managers a genuine sourcing edge. For LPs building German exposure, however, the more rewarding path has not been broad-based allocation to the small-market segment, but rather a deliberate focus on managers with differentiated strategies calibrated to specific pockets of opportunity, rather than defaulting to brand-name pan-European platforms.

Within that frame, we place particular weight on two sources of edge. The first is sector specialism: Given the wide return dispersion described above, generalist managers without a deliberate sector tilt have struggled to outperform in Germany. The second is demonstrable value creation capability, and most notably, proven buy-and-build playbooks. This is an area where Germany has historically lagged other European markets, partly due to regulatory restrictions, and where specialist execution remains a meaningful differentiator.

The bottom line

Aggregate performance data understates the appeal of German private equity. Beneath a headline TVM that has trailed European peers, Germany offers compelling pockets of opportunity. The €500 billion fiscal stimulus, rising defense budgets and accelerating LP allocations back to Europe, set against a deep Mittelstand of founder-owned businesses, strengthen the case for a more targeted allocation.

The German market rewards precision along three dimensions: sectors, market segment, and managers with genuine local presence. Returns have concentrated in the picks-and-shovels of German infrastructure and services rather than in cyclical incumbents. Small-market funds have delivered the strongest risk-adjusted returns in the country, with low loss rates relative to the returns generated. And GPs with a dedicated German office have performed better than others. Put simply, the Mittelstand prizes continuity, language and long-dated relationships.

For LPs without dedicated in-house resources, navigating the German small-market GP universe may be challenging. The cohort is fragmented, locally networked and resource-intensive, and many LPs default to large, brand-name pan-European managers. This often dilutes exposure to precisely the segments and the size of the market where investments in Germany have outperformed. Targeted access to small-market managers with genuine local roots is the difference between a compelling German allocation and a disappointing one.

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