

Deutsche Beteiligungs

Private equity investor and fund manager

Deutsche Beteiligungs (DBAG) is an experienced private equity investor focused on mid-sized German companies. It is distinguished from private equity peers by generating significant fee income from managing c €1.4bn in third-party funds. After an exceptional FY17, DBAG has delivered steady underlying NAV growth so far in FY18, but its shares have significantly de-rated. Portfolio company valuations were affected by the market decline in early 2018, and a change in accounting for carried interest provisions has had a smaller negative effect on FY18 performance. However, the majority of portfolio companies saw earnings expectations improve over the first nine months of FY18, and a brisk rate of new investment activity during the year is encouraging for DBAG's medium-term prospects.

Higher pace of investment activity continued in FY18

Investment activity was brisk in FY18 (year to end-September 2018), with the first half of the year characterised by a high level of transaction activity at the portfolio company level. Over the year, DBAG agreed five new MBO investments alongside DBAG ECF, and two new MBO investments alongside DBAG Fund VII, exceeding the six new MBO investments agreed in FY17. However, only one divestment was agreed in FY18, compared with seven in the prior year. DBAG ECF started its second new investment period (DBAG ECF II), scheduled to run to December 2020, and DBAG Fund VII has now committed over 50% of its investment capital.

FY18 earnings outlook affected by several factors

While improved portfolio company earnings expectations propelled NAV higher, the stock market decline in early 2018 led to lower earnings multiples being used to value DBAG's portfolio companies at end-H118 (31 March). As a result, DBAG lowered its FY18 earnings guidance. Subsequently, following a regulatory review, DBAG brought forward the recognition of carried interest provisions, in compliance with IFRS accounting standards. This led to management lowering FY18 guidance again, now expecting full-year net income of €29-34m, compared with the €43m average of the last five years. Medium-term guidance was unaffected.

Valuation: Premium to NAV has substantially declined

After an exceptionally strong FY17, DBAG's more modest NAV progress in FY18 appears to have materially affected market sentiment. This is reflected by its share price premium to NAV declining from over 70% to below 20%, providing scope for DBAG's shares to re-rate as successful realisations lead to improved returns.

12 months ending	Total share price return (%)	Total NAV* return (%)	LPX Europe (%)	LPX Europe NAV (%)	SDAX (%)
31/07/14	28.2	17.5	12.0	16.3	17.8
31/07/15	40.6	10.2	32.5	15.6	27.3
30/06/16**	(6.5)	8.5	(8.3)	(1.8)	(2.0)
30/06/17	51.3	27.1	29.9	17.0	23.5
30/06/18	(9.0)	10.2	9.3	10.8	10.2

Source: Thomson Datastream, Bloomberg. Note: *Reflects restated quarterly NAV figures from 31 Dec 2016 to 31 March 2018. **11-month period due to change in financial year end. Discrete rolling 12-month total return performance in euros up to last reported NAV.

Investment companies

Price €36.40

Market cap €548m

NAV* €444m

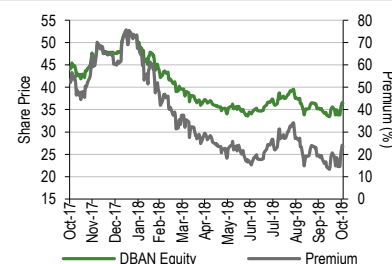
NAV per share* €29.50

Premium to NAV 23.4%

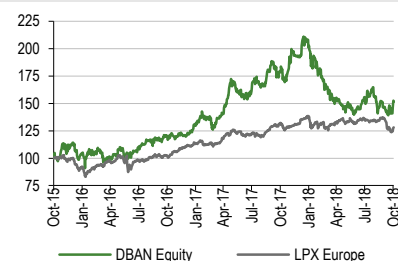
FY17 dividend yield 3.8%

*As at 30 June 2018.

Share price/premium performance



Three-year performance vs index



Share details

Code	DBAN
Listing	Frankfurt
Shares in issue	15.0m

Business description

DBAG is a Germany-based and listed private equity investment and fund management company that invests in mid-sized companies in Germany and neighbouring German-speaking countries via MBO transactions and growth capital financings. There is a focus on growth-driven profitable businesses valued between €50m and €250m. DBAG's core objective is to sustainably increase net asset value.

Analysts

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