EDISON

Deutsche Beteiligungs

Q2 results

Positive momentum continues in Q215

Investment companies

Deutsche Beteiligungs (DBAG) saw strong valuation gains in Q215, helped by a positive market performance. Even after absorbing a €20m profit-sharing provision triggered by the strong performance of DBAG Fund V, NAV increased by 7.9% in H115, ahead of the 12.3% pa 10-year NAV growth rate. New investments totalling €51m in the half year add potential for value creation in the medium term and DBAG retains sufficient funds to maintain its target €50m pa investment rate over the next 12 months.

12 months ending	Total share price return (%)	Total NAV return (%)	LPX Europe (%)	DAX 30 index (%)
30/04/12	(10.8)	(2.1)	(14.5)	(10.0)
30/04/13	16.2	11.6	27.6	17.0
30/04/14	11.8	10.2	18.8	21.3
30/04/15	60.8	16.2	24.6	19.3

Source: Thomson Datastream, Morningstar. Note: 12-month rolling discrete total return performance in euros as at last published NAV.

Q215 sees strong valuation gains

DBAG reported a €28.7m (+19%) valuation gain for the carried portfolio in Q215 to give a €41.7m (+30%) gain for H115, driven by both earnings improvement and increased valuation multiples. Combined with €50.8m in new investment, this took the portfolio value to €244.6m. The strong valuation gains were partly offset by a €20.4m provision for performance-linked profit sharing and Q215 net income of €8.3m was lower than Q115, although H115 net income of €21.6m was ahead of €18.2m in H114. Excluding the €2.00 dividend payment, NAV per share increased 2.8% in Q215 to €21.76 to give a 7.9% increase for H115, which is ahead of the 12.3% pa return over the last 10 years.

Favourable near- and medium-term outlook

Management has confirmed its previous guidance for FY15 of exceeding FY14 comparable net income of €23.1m by up to 10%. This is an effective uplift to guidance as no adjustment has been made to reflect the shorter financial year to 30 September 2015. Given that H115 net income was €21.6m, the guidance could be interpreted as suggesting a weaker performance is anticipated in H215. However, management confirms that its caution relates to the market outlook, which affects the valuation multiples applied, rather than the earnings outlook for portfolio companies. The addition of five new companies to the portfolio is encouraging for the medium term and these investments could help near-term performance as they move to earnings-based valuations from transaction prices over the next year.

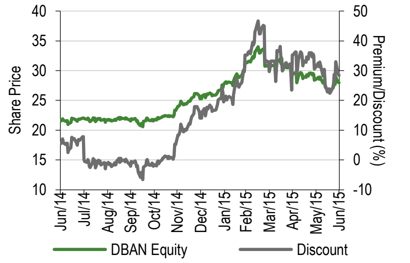
Valuation: Premium has narrowed

DBAG shares have moved from a premium to NAV of more than 40% in March 2015 to currently below 30%. Over this period, the LPX Europe index has seen its discount widen from 7% to 12%. In our view, DBAG's premium rating is explained by the predictable income stream from its fund services business, which has an implied pre-tax earnings multiple of 11x, considerably lower than that of 3i in the UK, its most direct peer.

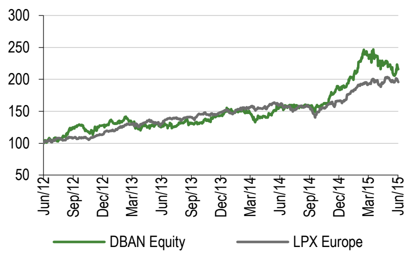
7 July 2015

Price	**€27.67**
Market cap	**€378m**
NAV*	**€298m**
NAV per share*	€21.76
Premium to NAV	27.2%
*As at 30 April 2015	
FY14 total dividend yield	7.2%
Shares in issue	13.7m
Free float	75%
Code	DBAN
Primary exchange	Frankfurt

Share price/discount performance



Three-year cumulative perf. chart



52-week high/low	€34.00	€20.56
NAV high/low	€23.17	€21.76

Gearing

Gross*	N/A
Net cash*	21.1%
*As at 30 April 2015	

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Edison profile page

Deutsche Beteiligungs is a research client of Edison Investment Research Limited

Exhibit 1: DBAG at a glance

Investment objective and fund background

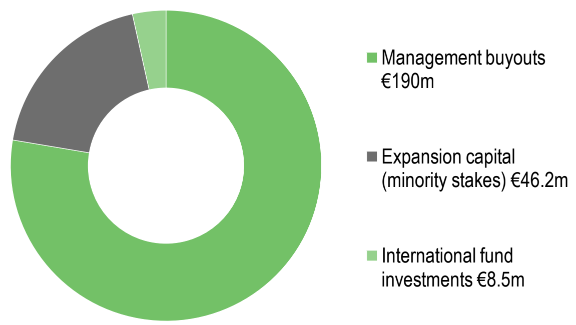
DBAG acquires subsidiaries of corporate groups and mid-sized enterprises in Germany and neighbouring German-speaking countries. It focuses on growth-driven profitable businesses valued at between €50m and €250m.

Recent news

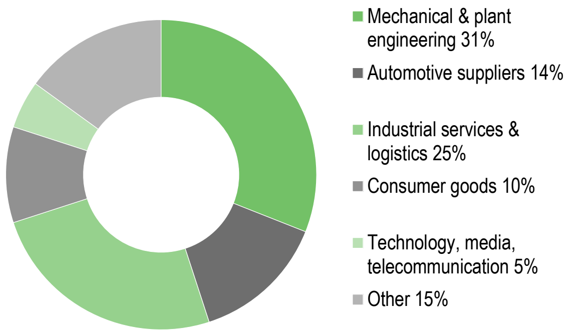
- 15 June 2015 – Q2 results to 30 April 2015.
- 23 March 2015 – MBO investment in industrial services firm Cleanpart Group.
- 16 March 2015 – Q1 results to 31 January 2015.

Forthcoming		Capital structure		Fund details	
AGM	25 February 2016	FY14 net expense ratio*	0.7% (2.2% unadjusted)	Group	Deutsche Beteiligungs
Third quarter results	14 September 2015	Net cash	21.1%	Manager	Team managed
Year end	30 September	Annual management fee	N/A (Self-managed)	Address	Boersenstrasse 1 60313 Frankfurt am Main, Germany
Dividend paid	March	Performance fee	N/A (Self-managed)		
Launch date	December 1985	Company life	Unlimited	Phone	+49 69 95787-01
Continuation vote	N/A	Loan facilities	None	Website	www.deutsche-beteiligung.de

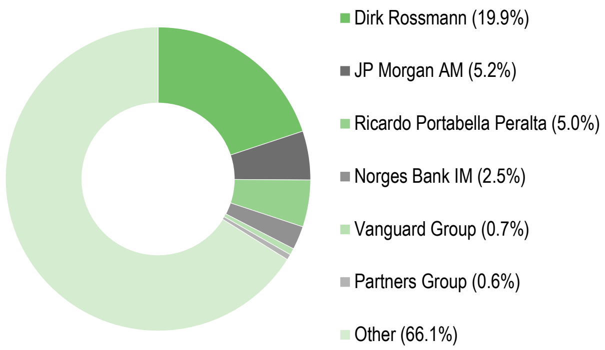
Portfolio split (as at 30 April 2015)**



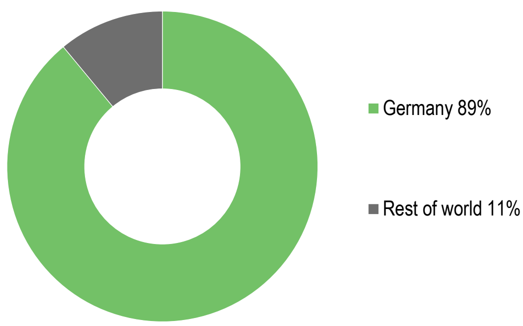
Sector breakdown (as at 30 April 2015)**



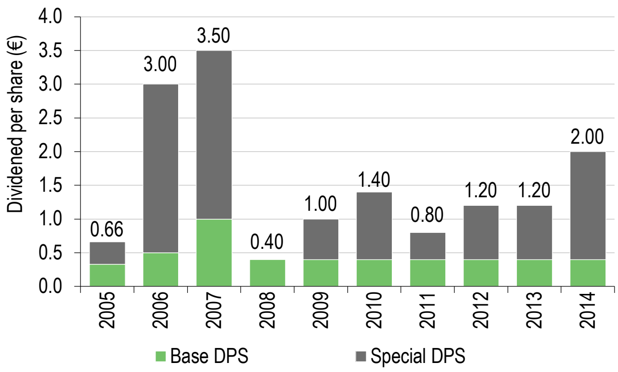
Shareholder base (as 26 June 2015)



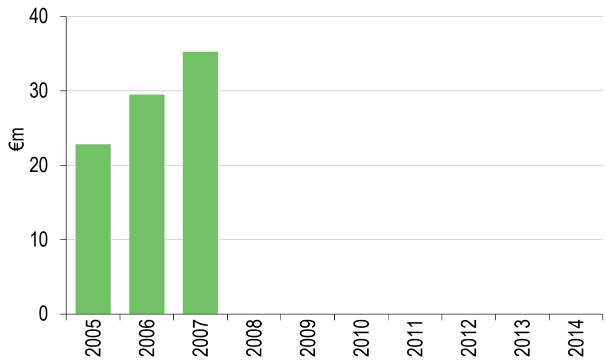
Geographic split of investments (as at 30 April 2015)**



Dividend history



Share buyback history

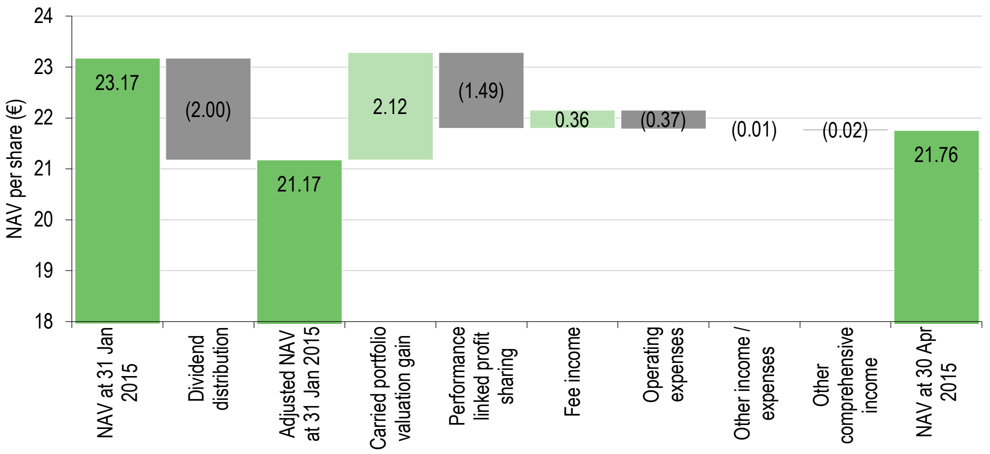


Source: DBAG, Edison Investment Research. Note: *Based on expenses net of fee income; adjusted for performance-related remuneration. **Does not include parallel funds.

Strong underlying valuation gains in Q215

DBAG reported Q215 net income of €8.3m bringing net income for H115 to €21.6m, which compares with €18.2m in H114. There was a strong underlying €28.7m (+19%) valuation gain for the carried portfolio in the second quarter, which adds to the €13.0m (+9%) gain in the first quarter. Valuation gains for the half year were driven by both earnings improvement (€23.6m) at the portfolio companies and increased valuation multiples (€17.9m), reflecting a strong market performance. These gains were partly offset by a €20.4m provision for performance-linked profit sharing in the second quarter relating to DBAG Fund V. The recent strong performance of DBAG Fund V investments led to the expectation that the 8% pa hurdle rate triggering performance-linked payments to the investment team will be met and thus the requirement to make the provision, which relates to the cumulative performance of the fund since its launch in 2007.

Exhibit 2: DBAG's NAV per share progression during Q215



Source: DBAG, Edison Investment Research

As illustrated in Exhibit 2, excluding the €2.00 dividend payment, NAV per share increased 2.8% during the quarter to €21.76 with the profit sharing provision substantially offsetting portfolio valuation gains and fee income largely covering operating and other expenses. For the half year, excluding the dividend payment NAV per share increased by 7.9%.

Performance by business segment

Exhibit 3: DBAG segmental analysis

€m	Investments			Fund services			Group		
	H114	H214	H115	H114	H214	H115	H114	H214	H115
Segment income*	17.3	37.2	20.7	12.4	11.3	10.9	28.3	47.9	30.9
Segment expenses*	(2.7)	(10.3)	(1.5)	(8.6)	(8.1)	(9.0)	(9.9)	(17.8)	(9.8)
Segment net income before taxes	14.6	26.9	19.2	3.8	3.2	1.9	18.4	30.1	21.1
Pre-tax margin	84%	72%	93%	31%	28%	17%	65%	63%	68%
Taxes and minority interests	-	-	-	-	-	-	(0.2)	(0.5)	0.5
Consolidated net income	-	-	-	-	-	-	18.2	29.6	21.6
Proportion of group net income	79%	89%	91%	21%	11%	9%	-	-	-
Financial assets, loans and receivables	203.3	166.2	244.9	-	-	-	-	-	-
Investment portfolio	193.3	153.1	244.6	-	-	-	-	-	-
Financial resources**	83.5	148.8	62.8	-	-	-	-	-	-
Assets/managed assets***	279.7	303.1	297.5	1,205.0	1,298.0	1,175.0	-	-	-

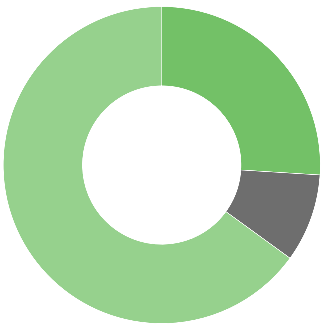
Source: DBAG, Edison Investment Research. Note: Comparison figures restated for IFRS 10 effects. *Synthetic internal transfers (€1.4m, €0.6m, €0.7m) between divisions to reflect management fees on DBAG's share of fund assets have been eliminated in group figures. **Financial resources exclude cash held in investment vehicles. ***Managed assets recognised at cost.

As shown in Exhibit 3, similar to H214 the investment business contributed c 90% of net income in H115. The investment business saw an improved margin due to the strong valuation gains (net of the profit-sharing provision) in DBAG's carried portfolio and lower costs while a combination of lower fee income and higher costs reduced the fund services business margin. Compared with H114, fee income was lower primarily due to a reduction in fees from the DBAG Expansion Capital Fund (ECF), as well as DBAG Fund IV no longer generating fees, having moved beyond its contractual investment period. A lower than expected level of investment by DBAG ECF, reflecting market conditions including vendor preference for longer-term funding, led to an agreement with investors to prolong the investment phase and management fees were accordingly adjusted to a lower level from January 2014.

Portfolio valuation gains

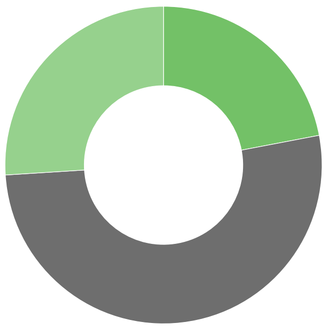
While a significant proportion of valuation gains in H115 came from higher valuation multiples being applied, close to 75% of the overall portfolio remains valued on a 2015 EBITDA multiple of below 8.0x (see Exhibit 5) and c 25% of portfolio investments are still valued at the transaction price (see Exhibit 4) as they have been held for less than one year.

Exhibit 4: Portfolio value by valuation method



Source: DBAG

Exhibit 5: Portfolio value by 2015 EBITDA multiple



Source: DBAG

New investments

As shown in Exhibit 6, DBAG made four new MBO investments and one new expansion capital investment totalling €50.8m in H115. These companies all operate niche market-leading businesses in either engineering or industrial services, which are DBAG's core sectors of expertise. Including add-on acquisitions and growth financings at several portfolio companies, €53.8m was invested in the half year. Combined with valuation gains of €41.7m and disposals of €4.0m, these investments contributed to a 60% increase in portfolio value from €153.1m to €244.6m.

Exhibit 6: H115 portfolio additions

Company	Location	Core business	2014 Revenue €m	Emplo-yees	First Inv't	Type of inv't	Co-inv't fund	Fund Equity share (%)	DBAG Inv't cost €m	DBAG Equity share (%)	DBAG Portfolio value €m
Infiana Group	Forchheim, Germany	Plastic-based release liners/specialised films	€199m	1,000	Dec-14	MBO	DBAG Fund VI	66.8%	12.4	15.4%	€50.8m
Pfaudler Process Solutions Group	Schwetzingen, Germany	Glass-lined reactors for chemical/pharma. industries	US$224m	1,450	Dec-14	MBO	DBAG Fund VI	80.8%	5.9	18.7%	
Oechsler AG	Ansbach, Germany	Injection-moulded components principally for auto suppliers	€280m	2,300	Feb-15	Exp'n capital	DBAG ECF	49.0%	11.1	8.4%	
Gienanth GmbH	Eisenberg, Germany	Castings for auto suppliers, diesel and gas engine blocks	€141m	880	Mar-15	MBO	DBAG Fund VI	79.9%	13.8	16.0%	
Cleanpart Group	Asperg, Germany	Engineering services for semi-conductor industry	€42m	320	Mar-15	MBO	DBAG Fund VI	68.8%	7.6	15.5%	

Source: DBAG, Edison Investment Research

Commitments and financial resources

DBAG's financial resources reduced from €115.8m at 31 January 2015 to €62.8m at 30 April 2015, primarily due to payment of the €27.4m FY14 dividend and €27.1m in new investments during the quarter. At 31 October 2014, DBAG reported €199m of undrawn capital commitments and, with €54m of new investments in H115, we estimate that outstanding commitments of €145m remain at 30 April 2015. DBAG Fund VI's investment period runs to February 2018 and DBAG ECF's investment period appears likely to be extended beyond its current May 2017 end date, which implies an investment rate of c €50m pa for the next three years. With fee income broadly covering operating expenses, DBAG is likely to have sufficient funding for the next 12 months without making any realisations. Although DBAG has a relatively young portfolio with 51% represented by investments held for less than two years, there is potential for realisations to be made from the €44.1m of investments held for over five years (including €8.5m in buyout funds). While no official announcement has been made by the company, there have been press reports (Reuters) that DBAG has appointed advisers in relation to the sale of its stake in Clyde Bergemann Group. This is the last remaining DBAG Fund IV investment, held in the portfolio for 10 years, and DBAG's €11.7m investment cost represents over half of the total for investments held for over five years.

Valuation

Implied valuation of fund services business

Among private equity investment companies, DBAG's business is distinguished by the significant component of recurring fee income generated from its management of co-invested funds for third-party investors. As an indication of the value attributed to the fund services business, we calculate the P/E multiple implied by the premium of DBAG's market value to NAV. Based on DBAG's €378m current market valuation and deducting the €298m reported NAV as the valuation of its investment business, leaves €80m attributable to fund services. This represents an 11x multiple of the €7m indicative pre-tax income for the fund services business in FY14 or a 21x multiple based on annualising the €2m H115 pre-tax income.

A similar analysis of 3i, based on a £5,009m market valuation and £3,806m last reported NAV (31 March 2015), implies a £1,203m value attributable to the fund management business. This equates to a 36x multiple of underlying pre-tax profit based on the £33m reported for the year to end-March 2015. While other factors such as expected NAV progression and growth in assets under management will influence 3i's and DBAG's market valuations, this analysis provides an alternative perspective on valuation to the standard share price comparison with NAV that we apply to the wider peer group next.

Peer group comparison

Exhibit 7 shows a comparison of DBAG with a selected peer group of listed private equity investment companies. DBAG is differentiated from listed private equity peers by its regional and sector focus on the German Mittelstand as well as its fund services business. This makes a direct comparison appear less relevant, although long-term NAV development can be considered the primary driver of performance across the peer group.

Exhibit 7: Listed private equity investment companies peer group comparison

As at 30 April 2015	Country	Mkt cap £m	Price TR 1 year	Price TR 3 year	Price TR 5 year	Price TR 10 year	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex par)
Deutsche Beteiligungs	Europe	267.1	36.2	77.3	79.6	484.5	1.3	25.9	28.8	255.8	26.9
3i	Global	5,023.1	39.8	199.8	117.7	68.9	20.4	57.5	38.7	58.6	34.0
Altamir	Europe	268.9	(3.5)	63.7	71.6	76.9	0.6	28.3	32.1	118.4	(37.6)
Dunedin Enterprise	UK	66.2	(15.1)	6.6	37.0	34.7	(1.7)	(1.2)	30.9	56.1	(37.9)
Electra Private Equity	UK	1,135.9	16.9	87.3	120.7	255.5	20.5	48.7	84.7	246.7	(9.2)
GIMV NV	Global	745.4	4.0	16.3	8.5	118.4	(3.7)	(2.4)	(0.6)	63.9	(0.7)
HgCapital Trust	UK	413.0	8.3	23.8	46.4	182.8	17.7	28.8	57.8	229.6	(8.5)
Average		**1,131.4**	**12.4**	**67.8**	**68.8**	**174.5**	**7.9**	**26.5**	**38.9**	**147.0**	**(4.7)**

Source: Morningstar, Thomson Datastream, Edison Investment Research. Note: TR=total return. All returns expressed in sterling terms. Market cap and discount as at 3 July 2015.

DBAG's NAV total return in sterling terms to 30 April 2015 is below the peer group average over one, three and five years but ahead over 10 years. The weakness of the euro against sterling over the last year has been unhelpful to DBAG when comparing with UK and global peers, with DBAG's one-year NAV total return being 16.2% in euro terms. DBAG's 10-year NAV total return in euro terms (12.3% pa) compares favourably with the LPX Europe index (6.3%, all listed private equity companies in Europe) and the LPX Direct index (6.3%, all listed private equity companies that invest directly).