

Deutsche Beteiligungs

Q2 results

Positive momentum continues in Q215

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.

Investment companies

7 July 2015

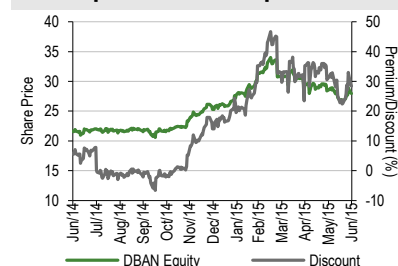
Price	€27.67
Market cap	€378m
NAV*	€298m

NAV per share*	€21.76
Premium to NAV	27.2%

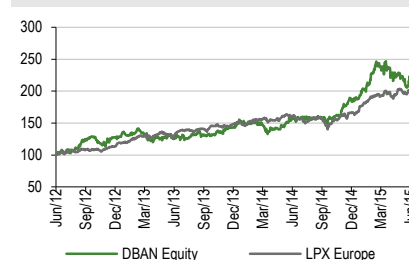
*As at 30 April 2015

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

Analysts

Gavin Wood	+44 (0)20 3681 2503
Andrew Mitchell	+44 (0)20 3681 2500
Martyn King	+44 (0)20 3077 5745

investmenttrusts@edisongroup.com

[Edison profile page](#)

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

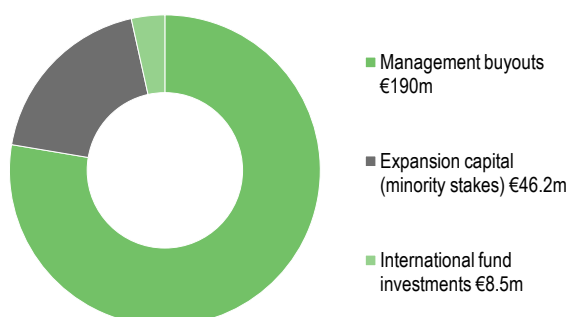
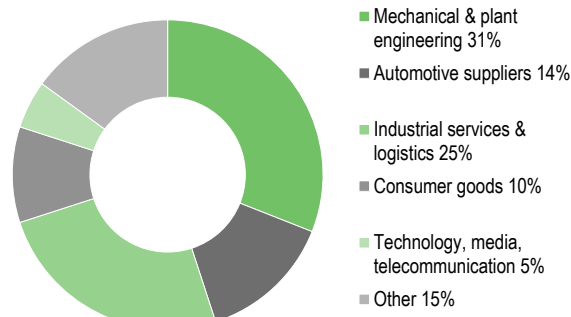
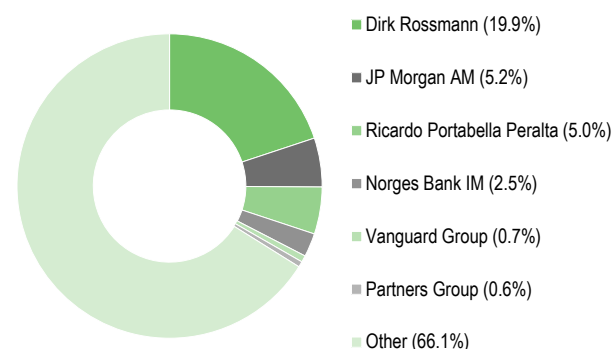
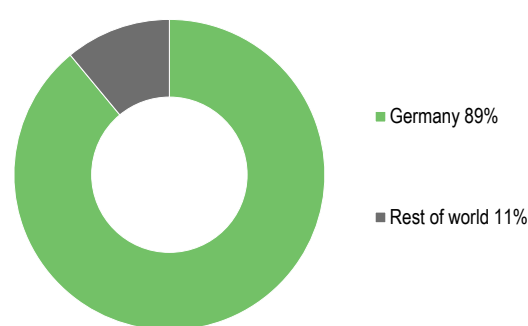
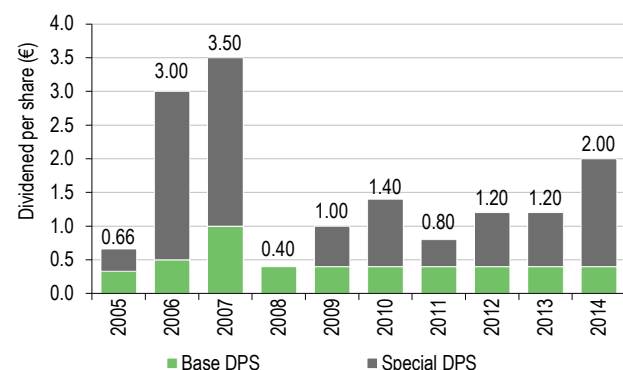
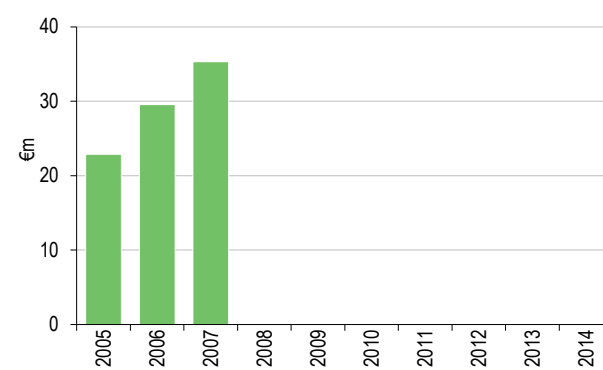
AGM	25 February 2016
Third quarter results	14 September 2015
Year end	30 September
Dividend paid	March
Launch date	December 1985
Continuation vote	N/A

Capital structure

FY14 net expense ratio*	0.7% (2.2% unadjusted)
Net cash	21.1%
Annual management fee	N/A (Self-managed)
Performance fee	N/A (Self-managed)
Company life	Unlimited
Loan facilities	None

Fund details

Group	Deutsche Beteiligungs
Manager	Team managed
Address	Boersenstrasse 1 60313 Frankfurt am Main, Germany
Phone	+49 69 95787-01
Website	www.deutsche-beteiligung.de

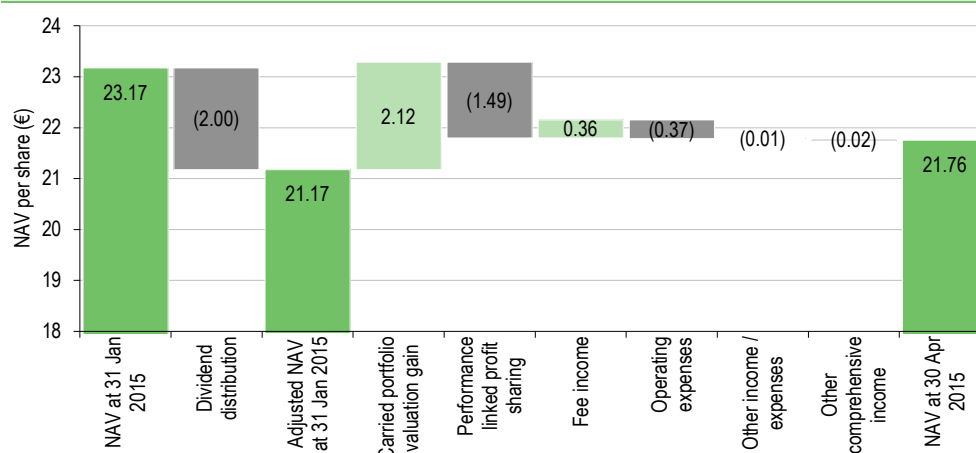
Portfolio split (as at 30 April 2015)**

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.

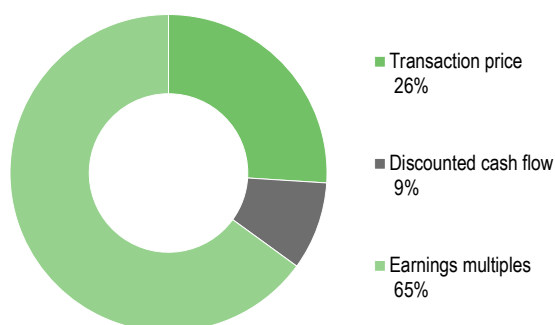
As shown in Exhibit 3, similar to H214 the investment business contributed c 90% of net income in H115. The investment business saw an improved margin due to the strong valuation gains (net of

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

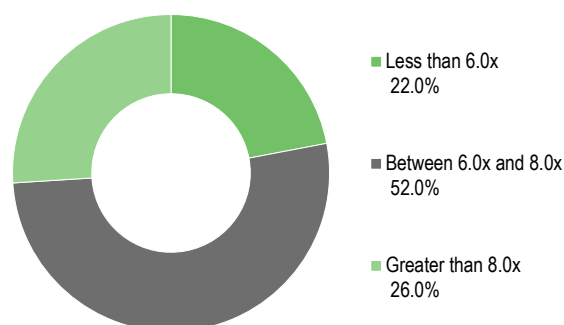
While a significant proportion of valuation gains in H115 came from higher valuation multiples being applied, close to 75% of the overall portfolio remains valued on a 2015 EBITDA multiple of below 8.0x (see Exhibit 5) and c 25% of portfolio investments are still valued at the transaction price (see 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	Employees	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	Price TR	Price TR	Price TR	Price TR	NAV TR	NAV TR	NAV TR	NAV TR	Discount
		£m	1 year	3 year	5 year	10 year	1 year	3 year	5 year	10 year	(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).

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2015 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Beteiligungs and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2015. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.