

Deutsche Beteiligungs

Q1 results

Increased rate of new investment in FY15

Deutsche Beteiligungs (DBAG) has made a positive start to FY15, reporting a 5.0% increase in NAV in the first quarter and committing a total of €55.9m to five new investments. The portfolio additions are all engineering and industrial service companies, confirming DBAG's focus on these sectors. The main contributor to earnings was €13.0m in valuation gains, driven by higher 2015 earnings forecasts for portfolio companies. DBAG management's unchanged FY15 earnings guidance equates to c 9% pa NAV growth and new investments add potential for the medium term.

As at 31/01/15	Total share return (%)	Total NAV return (%)	LPX Europe (%)	DAX 30 index (%)
1 year	33.3	15.4	20.3	14.9
3 years	100.0	51.1	85.0	65.6
5 years	105.2	55.9	105.8	90.7
10 years	418.4	223.5	72.2	151.3

Source: Thomson Datastream, Morningstar. Note: Cumulative total return performance data in euros as at last published NAV.

First quarter results show steady progress

DBAG reported Q115 net income of €13.3m compared with €12.5m in Q114 and €47.8m in FY14. The main constituent was a €12.2m net result of investment activity, primarily comprising valuation gains resulting from a shift in the valuation basis of portfolio companies from 2014 to 2015 earnings. Fee income from fund services of €5.2m was modestly lower than €5.6m in Q114, matched by a decline in net operating expenses to €4.9m. The adoption of IFRS 10 has had only a minor effect on consolidated net income and net assets. Adjusting for dividend payments, NAV per share increased by 5.0% to €23.17 during the quarter, compared with a 4.7% increase in the comparative quarter of the previous year and 15.8% in FY14.

Improving medium- and long-term prospects

Before adjustment for the shortened financial year to 30 September 2015, DBAG's management guidance for FY15 is unchanged, with net income expected to exceed comparable FY14 net income of €23.1m by up to 10%, which would equate to a 9% pa NAV return, excluding dividends. The increased rate of new investments in FY15, with five MBO and expansion-capital transactions announced, is encouraging for medium- and long-term prospects. After these acquisitions and a €27.4m payment in March 2015, we estimate that DBAG has financial resources of €65m which should provide adequate funding for the next 12 months without any portfolio realisations.

Valuation: Premium rating

DBAG shares have moved from parity to a more than a 40% premium to NAV over the past four months. Over this period, the LPX Europe index has seen its discount narrow from 17% to 5%. In our view, DBAG's premium rating is explained by the predictable stream of recurring fee income. The implied earnings multiple of DBAG's fund services business, while around 20x, is significantly lower than that of 3i in the UK, its most direct peer.

Investment companies

25 March 2015

Price	€33.60
Market cap	€460m
NAV*	€317m
NAV per share*	€23.17
Premium to NAV	45.0%
FY14 dividend yield	6.0%

*Last published NAV as at 31 January 2015.

Shares in issue	13.7m
Free float	70%
Code	DBAN
Primary exchange	Frankfurt

Share price performance



%	1m	3m	12m
Abs	13.2	28.5	54.3
Rel (local)	5.6	6.2	18.1
52-week high/low	€23.17	€20.45	

Business description

Deutsche Beteiligungs is a Germany-based listed private equity and fund advisory company focused on mid-sized companies in Germany and neighbouring German-speaking countries.

Next events

FY14 dividend payment	25 March 2015
Q215 results	15 June 2015

Analysts

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[Edison profile page](#)

Exhibit 1: DBAG at a glance
Investment objective and fund background

DBAG aims to achieve long-term capital growth through private equity investments and fund advisory services. DBAG targets this objective as a private equity investor through a strategy of "investing, developing and realising value growth", and as a fund manager by growing managed and advised assets. 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

23 March 2015 – €12.5m MBO investment in industrial services firm Cleanpart Group.
16 March 2015 – Q1 results to 31 January 2015.
10 February 2015 – €11.3m expansion capital investment in plastics engineering firm Oechsler AG.

Forthcoming announcements/catalysts

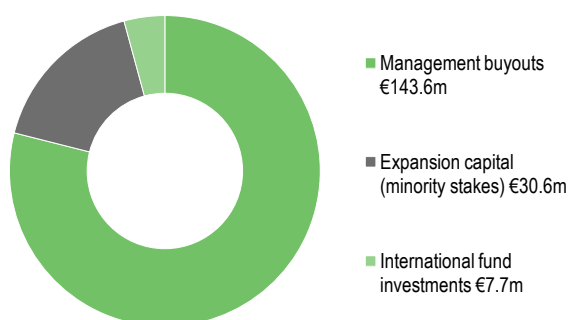
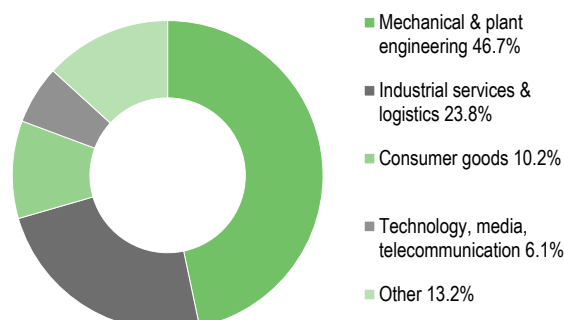
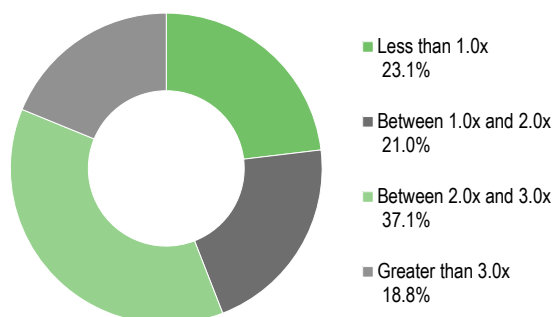
AGM	24 March 2015
Second quarter results	15 June 2015
Year end	30 September
Dividend	25 March 2015
Launch date	December 1985
Wind-up	N/A

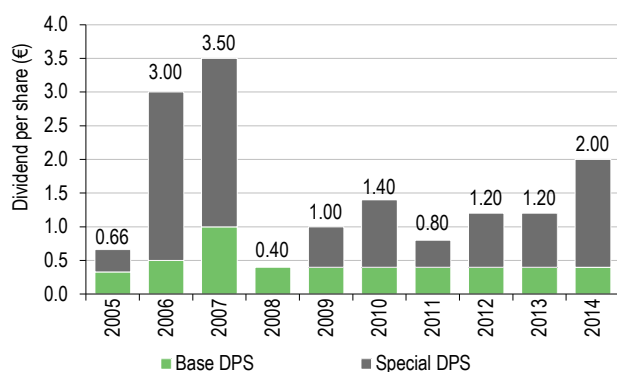
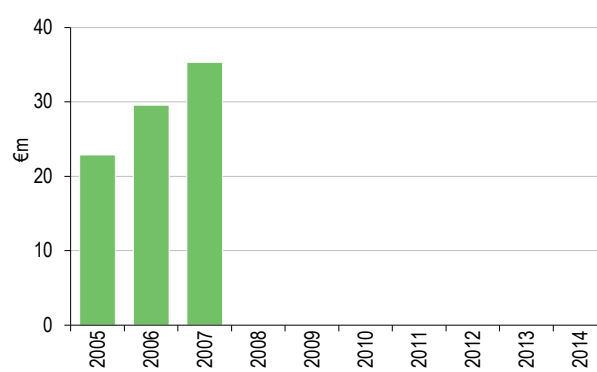
Capital structure

FY14 net expense ratio*	0.7% (2.2% unadjusted)
Net gearing	Net cash
Annual management fee	N/A
Performance fee	N/A
Company life	Unlimited
Loan facilities	N/A

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 31 January 2015)**

Sector breakdown (as at 31 January 2015)**

NAV split by net debt/EBITDA 2014 (as 31 January 2015)**

Geographic split of investments (as at 31 January 2015)**

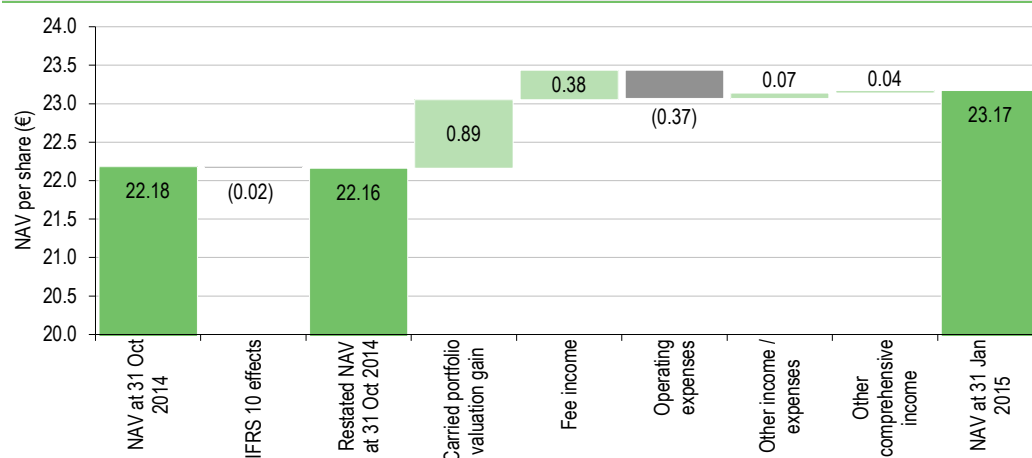
Dividend history

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.

First quarter 2015 results show steady progress

DBAG reported Q115 net income of €13.3m compared with €12.5m in Q114. The €12.2m net result of investment activity, primarily comprising portfolio valuation gains, was in line with Q114 which included a €5.5m valuation gain on the now-divested Homag. Fee income from fund services of €5.2m was modestly lower than €5.6m in Q114 with management fees no longer payable by DBAG Fund IV and a fee reduction for the DBAG Expansion Capital Fund. This decrease was matched by a decline in net operating expenses to €4.9m. The adoption of IFRS 10 has principally resulted in a reallocation of some P&L and balance sheet items with only a minor effect on consolidated net income and net assets. NAV per share increased 4.6% (5.0% after adjusting for €2.00 per share dividend payment), to €23.17 during the quarter (see Exhibit 2).

Exhibit 2: DBAG's NAV per share progression during Q115



Source: DBAG, Edison Investment Research

Performance by business segment

At group level, DBAG's Q115 pre-tax income is similar to the comparative quarter in the prior year as well as the quarterly average pre-tax income for FY14. However, this is not an indication that earnings will accrue at a similar rate for the remainder of FY15. A steady increase in the value of the investment portfolio cannot be assumed as valuations are dependent on market multiples as well as individual company earnings progressing in line with budget. An analysis of the business by segment (Exhibit 3) highlights that net income from fund services can vary significantly between quarters due to non-recurring elements.

Exhibit 3: DBAG segmental analysis

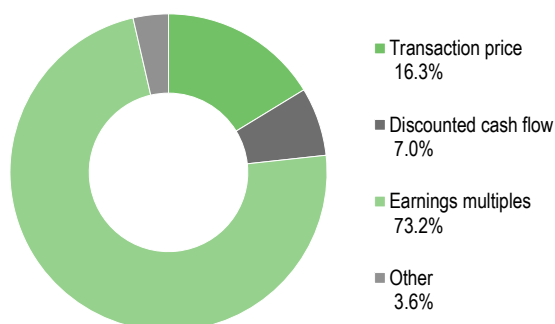
€m	Investments			Fund Services			Group		
	Q114	FY14	Q115	Q114	FY14	Q115	Q114	FY14	Q115
Segment income*	12.2	54.5	12.2	6.3	23.7	5.6	17.8	76.2	17.4
Segment expenses*	(1.5)	(13.0)	(0.9)	(4.6)	(16.7)	(4.4)	(5.3)	(27.7)	(4.9)
Segment net income before taxes	10.7	41.5	11.3	1.8	7.0	1.2	12.5	48.5	12.5
Pre-tax margin	88%	75%	93%	28%	29%	21%	70%	64%	72%
Taxes & minority interests	-	-	-	-	-	-	(0.0)	(0.7)	0.8
Consolidated net income	-	-	-	-	-	-	12.5	47.8	13.3
Proportion of group net income	86%	85%	91%	14%	15%	9%	-	-	-
Financial assets**	197.4	166.2	211.3	-	-	-	-	-	-
Investment portfolio	188.1	153.1	181.9	-	-	-	-	-	-
Financial resources***	102.8	148.8	115.8	-	-	-	-	-	-
Assets/Assets under management	290.6	303.1	316.9	1,276	1,298	1,227	-	-	-

Source: DBAG. Note: Comparison figures restated for IFRS 10 effects. *Synthetic internal transfers (€0.7m, €2.0m, €0.4m) between divisions to reflect management fees on DBAG's share of fund assets have been eliminated in group figures. **Financial assets includes investment portfolio plus other assets & liabilities in investment vehicles. ***Financial resources excludes cash held in investment vehicles.

Portfolio valuation gains

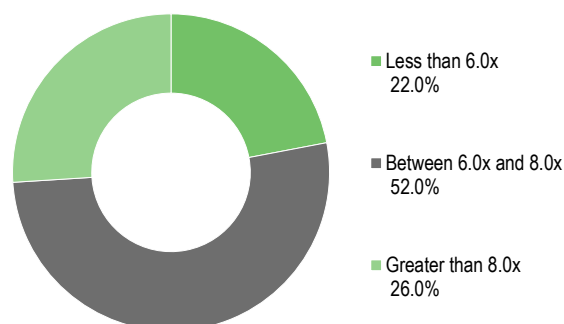
At the end of the first quarter, the portfolio valuation basis was shifted from 2014 to 2015 (Exhibit 5), and due to higher revenues and earnings forecasts for the current year, nearly all companies valued using earnings multiples (Exhibit 4) made a positive contribution. Valuation gains were tempered by lower market multiples for 2015 as well as 10-15% discounts being applied to reflect the potential for budgets to be revised during the year. A lesser effect is expected in subsequent quarters reflecting increasing confidence in current year earnings forecasts with no change in valuation basis. Current year new investments will not contribute to valuation movements as they are held at transaction cost until they have been in the portfolio for more than one year.

Exhibit 4: Portfolio value by valuation method



Source: DBAG

Exhibit 5: Portfolio value by 2015 EBITDA multiple



Source: DBAG

New investments

One expansion capital and three MBO investments have already been completed in the current financial year with a fourth MBO transaction awaiting regulatory approval (Exhibit 6). Including further investments in portfolio companies, €18.9m of new investments were made in the first quarter and €37.6m have been completed or announced subsequently. New investments in the second quarter lift the value of the portfolio to c €220m from the €182m reported at the end of January 2015. The five companies added to the portfolio in the current year operate a wide range of niche market-leading businesses in either engineering or industrial services which are DBAG's core sectors of expertise. Plans for developing these businesses include international expansion, development of parts and service activities and add-on acquisitions. In addition to its investments, DBAG will assist by providing additional industry expertise and access to its network of contacts.

Exhibit 6: FY15 portfolio additions

Company	Location	Core business	2014 Revenue	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%	€55.9m
Pfandler 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	2,260	Feb-15	Exp'n capital	DBAG ECF	11.6%	11.3	8.4%	
Gienanth GmbH	Eisenberg, Germany	Castings for auto. suppliers, diesel and gas engine blocks	€144m	890	Mar-15	MBO	DBAG Fund VI	N/A	13.8	18.8%	
Cleanpart Group	Asperg, Germany	Engineering services for semi-conductor industry	€42m	327	Mar-15	MBO	DBAG Fund VI	N/A	12.5	13.0%	

Source: DBAG, Edison Investment Research

Commitments and financial resources

At end January 2015, DBAG's reported financial resources stood at €115.8m. However, this excludes €20.1m of cash held in investment vehicles, €13.8m of which will finance DBAG's investment in Gienanth. The second quarter will see substantial cash outflows with a scheduled €27.4m dividend payment as well as €23.8m for new investments. Adjusting for these payments reduces DBAG's available financial resources to €65m. DBAG reported €199.1m of undrawn capital commitments at the end of the last financial year and, with €56.4m of new investments announced in the current year, we estimate that outstanding commitments currently stand at €143m. A c €60m per year investment run-rate, implied by the two- to three-year remaining investment periods for DBAG Expansion Capital Fund and DBAG Fund VI, and fee income broadly covering operating expenses suggests that DBAG should be adequately funded for the next 12 months without any realisations.

Summary of IFRS 10 changes to financial reporting

The adoption of IFRS 10 has resulted in a reallocation of net valuation movements of other assets and liabilities within the P&L from operating income/expenses to the net result of investment activity. The most significant change to the balance sheet is an effective reallocation between cash and financial assets with cash outflows now recorded when DBAG's co-investment fund makes a capital call rather than when payments are made. IFRS 10 restatements have resulted in minor (c 0.1%) changes to Q114 reported net income and FY14 reported NAV.

Change of financial year end to 30 September

To facilitate capital market communication and synchronise accounting periods with its private equity funds, at its March 2015 Annual Meeting DBAG approved a change to its financial year, which will now run from 1 October to 30 September (previously 1 November to 31 October). The change will be effective from 1 October 2015 with a shortened financial year being reported for the period from 1 November 2014 to 30 September 2015.

Valuation

Implied valuation of fund services business

A distinctive feature of DBAG's business is the significant component of recurring fee income generated from its management of co-invested funds for third-party investors. To give an indication of the value ascribed 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 €460m current market valuation and assuming the €317m reported NAV represents the valuation of its private equity investment business, the €143m residual value can be attributed to its fund services business. This valuation represents a 20x multiple of the €7m indicative pre-tax income for the fund services business in the year to 31 October 2014.

A similar analysis of 3i, based on a £4,872m market valuation and £3,646m last reported NAV (31 December 2014), implies a £1,226m value attributable to the fund management business. This equates to a 38x multiple of annualised underlying profit based on the £16m reported for the half-year to end September 2014. 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 from the share price comparison with NAV that can be applied to the wider peer group.

Peer group comparison

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 of less relevance, 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 31 January 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 AG	Europe	340.1	19.8	76.1	74.3	451.0	15.8	50.7	49.3	305.9	45.0
3i	Global	4,871.6	28.9	181.4	102.6	39.8	20.2	43.9	50.9	63.8	35.0
Altamir	Europe	310.9	(8.5)	63.4	78.0	76.6	(0.6)	26.6	32.9	121.7	(26.7)
Dunedin Enterprise	UK	70.3	(8.8)	23.6	43.4	41.1	0.5	1.0	35.2	57.5	(32.5)
Electra Private Equity	UK	1,141.1	25.0	108.5	131.6	267.2	14.6	40.4	85.3	263.0	0.8
GIMV NV	Global	769.7	4.4	12.0	19.0	106.2	(6.3)	(1.4)	0.2	56.8	6.9
HgCapital Trust	UK	418.8	3.1	18.4	46.8	194.3	4.1	16.4	43.1	199.0	(7.7)
Average		1,131.8	9.1	69.1	70.8	168.0	6.9	25.4	42.4	152.5	3.0

Source: Morningstar, Thomson Datastream, Edison Investment Research. Note: TR=total return. All returns expressed in sterling terms. Market cap and discount as at 24 March 2015.

As shown in Exhibit 7, DBAG's NAV total return in sterling terms to 31 January 2015 is ahead of the peer group average over one, three, five and 10 years. DBAG's 10-year NAV total return in euro terms (12.5% pa) also compares favourably with the LPX Europe index (5.6%, all listed private equity companies in Europe) and the LPX Direct index (5.7%, all listed private equity companies that invest directly).

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