EDISON

Deutsche Beteiligungs

Nine-month results

Homag sale underpins raised guidance

Investment companies

For the nine months to 31 July 2014, Deutsche Beteiligungs (DBAG) reported a 14.9% NAV total return and management has raised FY14 guidance. DBAG agreed the sale of its entire stake in quoted Homag in July 2014, adding 7.4% to NAV net of costs. Unquoted investments added 6.4% to NAV, primarily due to the revaluation of recent investments. One new investment has been made in the current year and management reports a strong pipeline of potential transactions, suggesting the pace of deals could pick up in due course. The total gain to be realised on the Homag sale provides scope for a substantial surplus dividend to be paid.

As at 31/07/14	Total share return (%)	Total NAV return (%)	LPX Europe (%)	DAX 30 Index (%)
1 year	28.2	17.6	12.0	13.7
3 years	38.9	33.0	38.1	31.4
5 years	95.8	66.1	121.1	76.4
9.75 years*	351.7	222.8	67.5	137.5

Source: Morningstar. Note: Cumulative total return performance data in euros as at last published NAV. *NAV figures restated under IFRS available from 30 October 2004.

Homag sale drives 14.9% NAV total return

For the nine months to 31 July 2014, DBAG's NAV increased by 14.9% before dividends, primarily due to a €19.4m net contribution from Homag following DBAG agreeing the sale of its 20% stake. Total proceeds from the divestment, 2007 IPO and dividends received represent a cash exit multiple of 3.5 times the total investment made and a 15.0% internal rate of return (IRR) from first investment in 1997. Unquoted investments contributed €16.2m, primarily due to recent investments being revalued from transaction cost to fair value.

FY14 guidance raised

DBAG management has raised FY14 guidance, now expecting consolidated net income to exceed the €32.3m achieved in FY13 by c €10m. This implies a return on equity of c 9% in FY14 excluding Homag, compared with previous guidance for DBAG's 8% cost of equity to be met. A €6m (€0.44 per share) increase in pension provisions is expected to reduce year-end NAV below July's €22.01 per share. Subject to market conditions, the guidance implies FY14 year-end NAV will increase to c €21.80 per share from €20.36 at 31 October 2013, which would represent a 13.8% total return for the year. A €47.9m total capital gain on the disposal of Homag means FY14 German GAAP net profit should significantly exceed the €35.6m reported for FY13 and may provide scope for a higher surplus dividend than FY13's €0.80 per share.

Valuation: Premium to peers has narrowed

DBAG's share price has recovered 20% from its 2014 low in mid-April when its discount to NAV had widened to 13% and is now trading virtually in line with the July NAV. This compares with the LPX Europe Index discount at 16%, and the LPX Direct Index discount at 11%. In our view, DBAG's premium rating relative to peers can be explained by its stream of recurring asset management income.

26 September 2014

Price	**€21.94**
Market cap	**€300m**
NAV*	**€301m**
NAV per share*	**€22.01**
Discount to NAV	0.3%
FY13 dividend yield	5.5%

*Last published NAV as at 31 July 2014.

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

Share price performance

%	1m	3m	12m
Abs	0.9	3.2	15.3
Rel (local)	0.9	7.1	5.1
52-week high/low		€22.7	€18.3

Business description

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

Next event

FY14 results	22 January 2015

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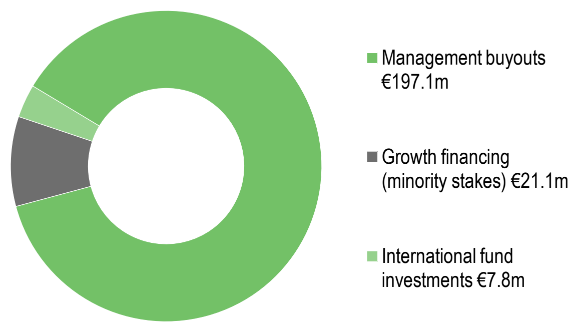
Exhibit 1: DBAG at a glance

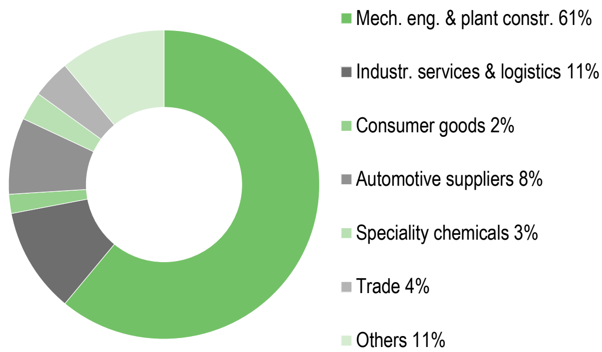
Investment objective and fund background	Recent news
DBAG acquires subsidiaries of corporate groups and mid-sized enterprises in Germany and neighbouring German-speaking countries. It focuses on growth-driven profitable businesses valued at between €50m and €250m.	12 September 2014 – Q3 results to 31 July 2014. 15 July 2014 – Sale of Homag announced; FY14 net income forecast raised. 13 June 2014 – Interim results to 30 April 2014.

Forthcoming announcements/catalysts		Capital structure		Fund details	
AGM	24 March 2015	FY13 total expense ratio	2.6%	Group	Deutsche Beteiligungs
Full-year results	22 January 2015	Net gearing	Net cash	Manager	Team managed
Year end	31 October	Annual management fee	N/A	Address	Boersenstrasse 1, 60313 Frankfurt am Main, Germany
Dividend	25 March 2015	Performance fee	N/A		
Launch date	December 1985	Company life	Unlimited	Phone	+49 69 95787-01
Wind-up	N/A	Loan facilities	N/A	Website	www.deutsche-beteiligung.de

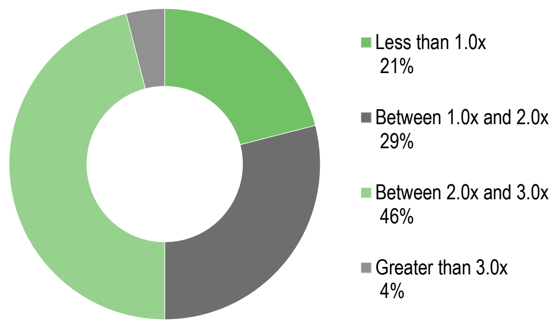
Portfolio split (as at 31 July 2014)*



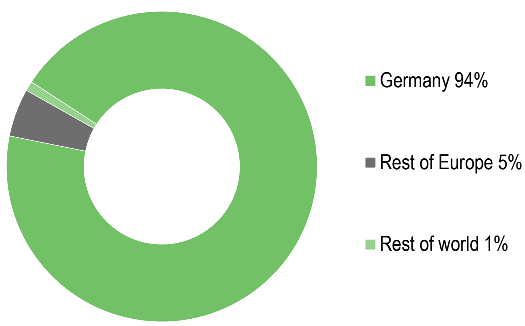
Sector breakdown (as at 31 July 2014)*



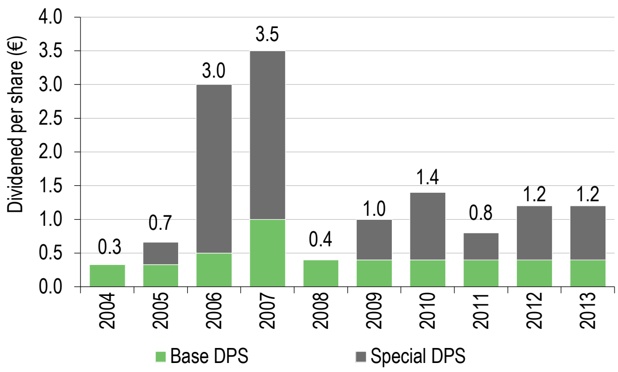
NAV split by net debt/EBITDA 2014 (as 31 July 2014)*



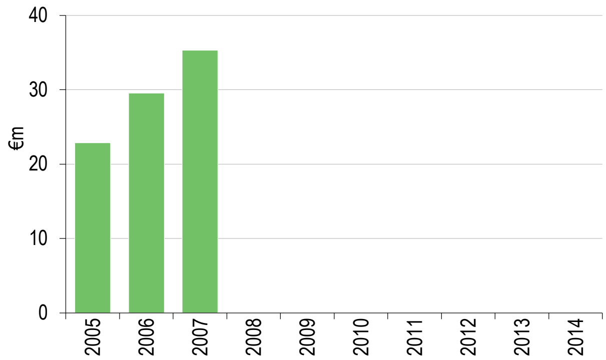
Geographic split of investments (as at 31 July 2014)*



Dividend history



Share buyback history

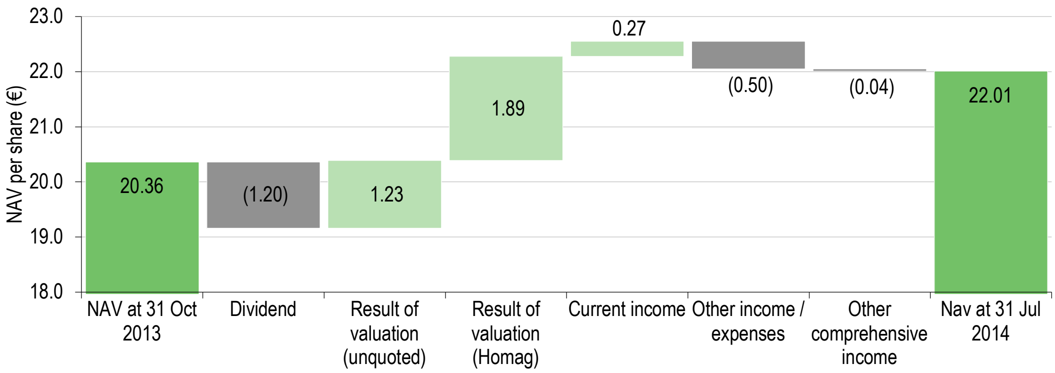


Source: DBAG, Edison Investment Research. Note: *Does not include parallel funds.

NAV growth driven by Homag exit

For the nine months to 31 July 2014, DBAG's NAV per share increased by 14.9% before dividends (Q3 +7.6%), representing a 20.3% annualised rate, which is substantially ahead of the 11.5% increase achieved in FY13 as well as the 9.75-year (since NAV first reported under IFRS) annualised total return of 12.8%. DBAG's NAV total return compares favourably with 9.75-year annualised total returns of 5.4% and 9.3% for the LPX Europe Index and DAX 30 Index. The main components of the change in NAV during the nine months are shown in Exhibit 2. Net of costs, the agreed sale of Homag added 7.4% to NAV and gains on the unquoted portfolio added 6.4% to NAV.

Exhibit 2: DBAG's NAV per share increased to €22.01 during 9m14



Source: DBAG

Reported IFRS net income for the nine months to 31 July 2014 increased substantially to €39.6m (of which €21.5m was generated in Q314) compared with €21.3m in the nine months to 31 July 2013, and IFRS EPS increased to €2.89 from €1.56 in the comparative period. A greater contribution from realised and unrealised gains on the portfolio (€46.5m versus €28.1m) was only offset to a very small extent by higher net expenses (€5.7m versus €5.3m), which benefited from a full nine-month contribution from advisory fees on the DBAG Fund VI. DBAG raised €567m for this fund in late 2012 and its investment period began in February 2013.

Homag

The largest contributor to unrealised valuation movements was listed Homag (DBAG and parallel funds own a combined 39.5%), which contributed €25.9m; on 15 July 2014, DBAG agreed the sale of its Homag shares to Dürr, a mechanical engineering and plant construction group, for €26.00 per share representing a 46% increase compared with the €17.78 market price at 30 October 2013. Regulatory approvals from Poland and Russia are required to complete the Homag sale and DBAG expects these to be received by 31 October 2014. At 31 July 2014, Homag represented 36% of the investment portfolio and 27% of NAV. DBAG made its first investment in Homag in 1997 and increased its stake (together with the parallel funds) in 2006. In 2007, DBAG realised part of its stake at Homag's IPO and in 2012 made a further investment (together with parallel funds). Total proceeds of €148.9m from the divestment, 2007 IPO and dividends received represent a cash exit multiple of 3.5 times the €42.4m total investment made and a 15.0% internal rate of return (IRR) from the first investment in 1997.

Unquoted portfolio

Attributable unrealised gains of €16.2m on the unquoted portfolio related mainly to recent investments being revalued from transaction cost to fair value. €8.6m of the gains were achieved in Q314, the majority from three investments (Formel D, inexio and Stephan Machinery), which were valued at fair value for the first time having seen positive developments since acquisition. Two investments that were valued at fair value for the first time in H114 (Heytex and PSS) contributed the balance of the unrealised gains. Older portfolio companies only saw minor revisions to valuations over the nine months. At 31 July 2014, only one portfolio company had recorded a loss in value compared with five at 30 April 2014 suggesting relatively stable prospects rather than negative trends developing. Two of the seven new investments made during FY13 remain to be revalued from cost to fair value during Q414 as they will then have been held for more than one year.

Unser Heimatbäcker

Shortly after DBAG's €9.9m investment in June 2014, Unser Heimatbäcker began implementing its growth strategy with the acquisition of the De Mäkelbörger bakery group out of pre-insolvency restructuring proceedings in July 2014. It is planned to integrate De Mäkelbörger into Unser Heimatbäcker, adding 1,200 employees and over 100 outlets in the states of Mecklenburg-West Pomerania and Brandenburg, thereby strengthening its market position in its home region of north-eastern Germany.

DNS:NET

DBAG made an initial €5.0m expansion capital investment in September 2013 to fund expansion of DNS:NET's broadband and cable network customer base. After DNS:NET won a bid in the state of Brandenburg, DBAG provided an additional €1.3m of capital during Q314. Alongside a government grant, this will be used to fund connection of an additional 13,000 households to DNS:NET's ultrafast broadband network.

Broetje-Automation

In August 2014, Broetje-Automation acquired the aircraft assembly technology business of Dürr (which acquired DBAG's Homag stake) to expand its product portfolio and create the world's largest supplier of aircraft assembly systems with revenues of c €150m. In exchange, Dürr has taken an 11% minority stake in Broetje-Automation as well as a cash component.

inexio

Following an initial €3.2m expansion capital investment in inexio in May 2013 to help fund expansion of its broadband network, DBAG invested an additional €1.4m during H114. In August 2014, DBAG invested a further €0.4m to support continued growth of this profitable business.

Expenses

The total expense ratio (personnel expenses and net other operating income/net assets) increased only marginally to 2.6% during the nine months despite including €5.3m in transaction costs and performance-linked remuneration relating to the disposal of Homag. Excluding these costs, the TER was close to zero, primarily reflecting an increase in fee income due to DBAG VI fund fees being received for the full nine-month period (€4.0m increase). As disinvestments are made, the TER will increase due to a reduction in fee income with the Homag disposal reducing annual fee income by €0.3m. Management's expectation is for a TER of around 3% over the medium term.

High rate of investments expected

During the nine months to 31 July 2014, follow-on investments of €6.3m were made in existing portfolio companies and €9.9m was committed to Unser Heimatbäcker (completed in May 2014), the sole new investment during the period. The €16.2m invested in the current year represents a slower rate of investment compared with FY13, which recorded seven new investments totalling €44.5m. However, DBAG management maintains its forecast for a high rate of investments to continue and reports that there are a number of potential transactions in the pipeline for the rest of the year, although the timing of completion of these deals remains uncertain. DBAG's target mid-market segment of the MBO market remains stable with DBAG's core sectors (mechanical engineering and plant construction, automotive suppliers, industrial support services) maintaining a steady share of close to 50% of potential transactions. Management reports that more transaction opportunities have been screened over the past 12 months than during the preceding 12 months.

DBAG had €78m of its own financial resources available for investment at 31 July 2014 (in addition to c €575m available within the co-investment funds). The receipt of €82m on completion of the Homag disposal will increase DBAG's own financial resources to €160m. This compares to DBAG's potential commitments of about €197m for investment alongside the DBAG Fund VI and DBAG Expansion Capital Fund over the next three years. Management's stated goal is to invest c €50m each year for the current and three subsequent financial years funded from current resources and realisations. DBAG's investment portfolio is relatively immature with eight of the 21 investee companies having been owned for less than two years, implying that realisations are likely to remain at a low rate in the near term. Principal cash outflows during the nine months comprised the €16m dividend payment, €10m investment in Unser Heimatbäcker, €6m follow-on investments and €4m performance-related income payments. The main inflows were €12m loan repayments and a €2m distribution from disinvesting international fund holdings.

FY14 net income guidance raised

The agreed sale of DBAG's 20.1% stake (3.15m shares) in Homag at €26.00 per share removes the uncertainty over Homag's potential contribution to DBAG's FY14 earnings and management has confirmed that the disposal will contribute €19.4m to FY14 earnings net of all associated costs. When the Homag divestment was announced in July 2014, DBAG management revised its guidance for FY14 consolidated net income to slightly exceed the €32.3m achieved in FY13 compared to previous expectations for FY14 net income to clearly fall short of FY13 net income although still matching DBAG's 8.0% cost of equity (based on no value contribution from the investment in Homag as this would have represented a share price forecast).

DBAG management has refined its revised guidance, confirming its assumption that a positive net contribution will be delivered in Q414, and now expects FY14 consolidated net income to exceed FY13 by about €10m, assuming no major changes in the macroeconomic environment. The revised guidance implies a return on equity of close to 9% being achieved in FY14 excluding the contribution from Homag, reaffirming management's initial FY14 guidance issued in January 2014.

DBAG reported consolidated net income of €39.6m for the first nine months of the year, implying around €3m net income is anticipated in the fourth quarter. A substantial element of this appears likely to be achieved through the revaluation from transaction cost to fair value of the final two of the seven new investments made in FY13. Net fee income is currently running at around €5m per quarter, which should offset a large part of DBAG's fourth quarter operating costs. Management has indicated that a €6m increase in pension provisions is likely to be required in the current financial year, which does not affect net income but would reduce the year-end NAV per share by €0.44.

Based on management's revised guidance, FY14 year-end NAV per share would be around €21.80 compared with €20.36 at 31 October 2013, representing a 13.8% total return for the year (adjusting for the €1.20 per share dividend paid).

Dividends

In DBAG's German GAAP financial statements, which are the basis for dividend distributions, the Homag investment is carried at average historical cost. The divestment therefore results in a significantly higher net capital gain of €47.9m (€3.50 per share) being recorded compared with the €19.4m (€1.42 per share) under IFRS accounting. Management's revised forecast is for DBAG's

FY14 German GAAP net profit to significantly exceed the €35.6m reported for FY13. This creates the expectation for a surplus dividend to be declared for FY14 in addition to the base dividend, with the potential for the surplus dividend to be higher than the €0.80 per share declared for FY13.

On average over the last five years, DBAG has distributed c 50% of retained German GAAP profit as dividends with the surplus dividend representing 22% to 45% of retained profits. Simplistically adjusting management's FY14 IFRS guidance for realised and unrealised gains would suggest German GAAP net profit could be around €43m. Adding this to €43m brought forward less €16m dividend paid and deducting the €6m pension provision would give €64m retained profit. The lower end of the recent payout ratio range would imply a potential surplus dividend of €14m or €1.00 per share could be envisaged.

Valuation

Exhibit 3: Peer comparison table

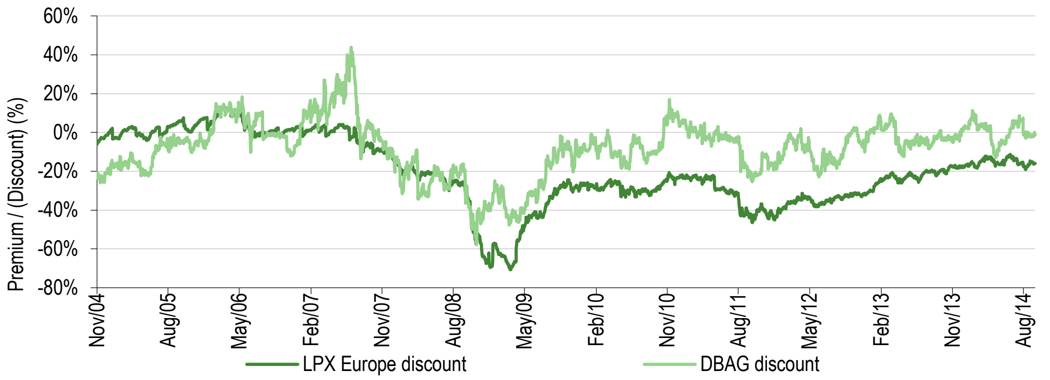
As at 31 July 2014	Country	Mkt cap £m	Price TR 1 year	Price TR 3 year	Price TR 5 year	Price TR 10 year	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (Ex Par)
Deutsche Beteiligungs AG	Europe	237.9	13.3	25.5	78.4	403.5	1.9	16.4	48.8	302.1	4.3
3i	Global	3,667.1	3.7	59.3	59.8	39.8	19.9	16.6	4.5	63.1	4.3
Altamir	Europe	335.5	20.0	59.1	280.0	215.1	8.5	21.7	56.2	200.0	(26.5)
Dunedin Enterprise	UK	87.3	7.9	39.0	68.5	111.8	(2.8)	3.9	35.6	77.0	(17.0)
Electra Private Equity	UK	938.3	13.7	60.8	157.8	263.8	8.9	31.8	85.1	264.3	(8.7)
GIMV NV	Global	717.3	(8.3)	(9.6)	22.5	160.8	(10.1)	(12.6)	9.2	74.1	(4.4)
HgCapital Trust	UK	380.7	(12.9)	(0.8)	45.4	267.3	4.6	14.7	51.4	268.5	(15.1)
Promethean	UK	5.6	8.7	(60.2)	(33.7)		(10.4)	(67.6)	(68.9)		(34.2)
Simple average			**5.7**	**21.6**	**84.8**	**208.9**	**2.6**	**3.1**	**27.7**	**178.4**	**(12.1)**
Weighted average			**4.1**	**46.5**	**81.5**	**123.8**	**12.3**	**15.4**	**24.4**	**122.5**	**(1.7)**

Source: Morningstar. Note: All returns are expressed in sterling terms.

DBAG's business is differentiated, even among single-manager listed private equity peers, by its regional and sector focus on the German Mittelstand, and by the significant component of recurring fee income generated from its management of co-invested funds for third-party investors. This makes a direct comparison with the listed private equity peer group more difficult, although we see both as primarily driven by NAV development over the long term.

As noted above, DBAG has a 9.75-year (the period of comparable IFRS data) NAV total return of 12.8% pa, which compares favourably with its closest peers (Exhibit 3) and the LPX Europe Index (5.4%, includes all listed private equity companies in Europe) and the LPX Direct Index (6.0%, includes all listed private equity companies that invest directly). As with peers, the shares moved to a significant (although smaller, see Exhibit 4) discount to NAV during the global financial crisis, but recovered during 2009 and have subsequently traded at or around the NAV.

Exhibit 4: DBAG's premium to peers re-established after temporary contraction



Source: Bloomberg, Morningstar

The current nil premium to NAV is in line with the 12-month average and above the three-year average (5% discount). Having traded at a premium from the start of 2014, the shares moved to a 13% discount to NAV in mid-April before recovering steadily and moving back to a premium in mid-June. This widening of the discount during April can be partly attributed to the €1.20 per share FY13 dividend payment at the end of March not being reflected in NAV until 30 April. The P/NAV differential versus LPX Europe peers has generally narrowed since the global financial crisis and has narrowed substantially over the past two years as the LPX Europe average discount has narrowed steadily to c 15% from over 30%. Moreover, we believe the remaining premium to peers can be attributed to DBAG's stream of recurring asset management income.

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