

Deutsche Beteiligungs

On track to meet FY16 guidance

Deutsche Beteiligungs (DBAG) reported a strong performance in the first half of FY16 with an 11.1% increase in NAV supporting management's guidance for a c 14% return on NAV for the full year. While macroeconomic conditions are reported to have become more demanding, portfolio companies have diverse exposures to market and economic cycles and the majority continue to budget for higher revenues and earnings in 2016. DBAG invested €21m during the half year including €19m in two new companies and three divestments were agreed. Although it made a negative value contribution, the sale of Clyde Bergemann Power Group has brought DBAG Fund IV to a successful close.

12 months ending	Total share price return (%)	Total NAV return (%)	LPX Europe (%)	LPX Europe NAV (%)	DAX 30 (%)
30/04/12	(10.8)	(2.1)	(14.5)	(0.0)	(10.0)
30/04/13	16.2	11.6	27.6	6.4	17.0
30/04/14	11.8	10.2	18.8	9.9	21.3
30/04/15	60.8	16.2	24.6	15.3	19.3
31/03/16*	(7.0)	12.6	(1.3)	1.4	(13.0)

Source: Thomson Datastream, Morningstar, Bloomberg. Note: *11-month period. Discrete total return performance in euros.

Strong results for six months to 31 March 2016

DBAG reported a dividend-adjusted 11.1% increase in NAV for the first half of FY16 bringing NAV per share to €23.51, with net income of €32.0m compared to €27.0m for the whole of FY15. Valuation gains were primarily a reflection of the majority of portfolio companies budgeting higher revenues and earnings in 2016. Changes in market multiples had a significant negative effect on valuations in Q116, but this reversed in Q216 and there was a small net positive effect for H116 overall. Total valuation and disposal gains for the half-year reached €39.0m including a net €3.3m positive contribution from divestments.

Outlook: Market environment remains challenging

DBAG reports that underlying macroeconomic conditions have become more demanding, with sectors such as mechanical engineering (a core sector for DBAG) feeling the effects of lower demand in emerging economies and uncertainty over the outlook for China. However, DBAG's portfolio consists of companies with differing exposures to market and economic cycles and confidence in the overall outlook for portfolio companies has led DBAG management to confirm its guidance, suggesting that FY16 net income could reach €40m, which would equate to a dividend-adjusted 13.8% return on NAV.

Valuation: Premium to NAV has narrowed

DBAG shares are trading at a 12.7% premium to NAV compared with an average 19.8% premium over the last 12 months. We see this premium explained by the income stream from its fund services business, the value of which is not reflected in reported NAV. The recent narrowing of the premium reflects the shares weakening along with the wider market, while reported NAV has continued to progress higher.

Investment companies

24 May 2016

Price	€26.49
Market cap	€362m
NAV*	€322m

NAV per share* €23.51

Premium to NAV 12.7%

*As at 31 March 2016.

FY15 total dividend yield 3.8%

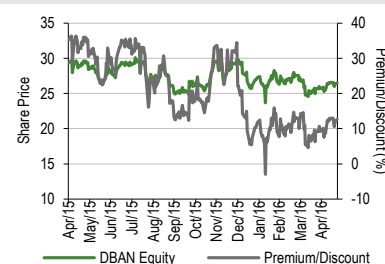
Ordinary shares in issue 13.7m

Code DBAN

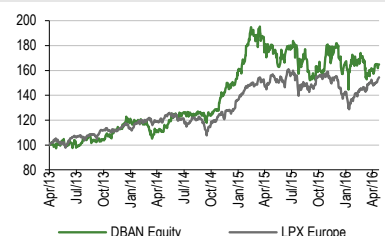
Primary exchange Frankfurt

Sector Private equity

Share price/premium performance



Three-year cumulative perf. graph



52-week high/low €30.09 €23.68

NAV high/low €24.41 €22.16

Gearing

Gross* 0.0%

Net cash* 11.5%

*As at 31 March 2016.

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Exhibit 1: Company 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.

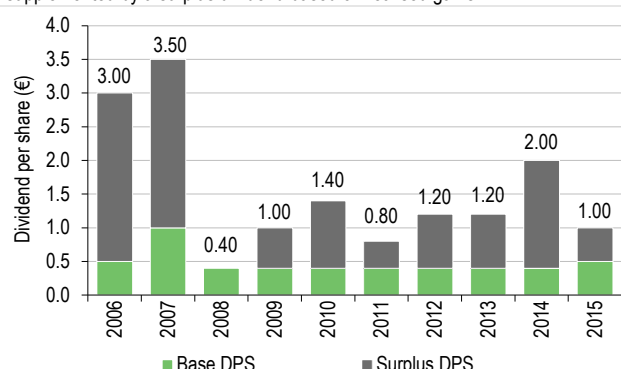
Recent developments

- 11 May 2016 – H116 results: NAV total return +11.1% (dividend-adjusted).
- 15 April 2016 – Sale of investment in Clyde Bergemann Power Group to family office co-shareholder.
- 26 February 2016 – Sonja Edeler, representative of DBAG's major shareholder Rossmann Beteiligungs, joins supervisory board, succeeding Roland Frobél.

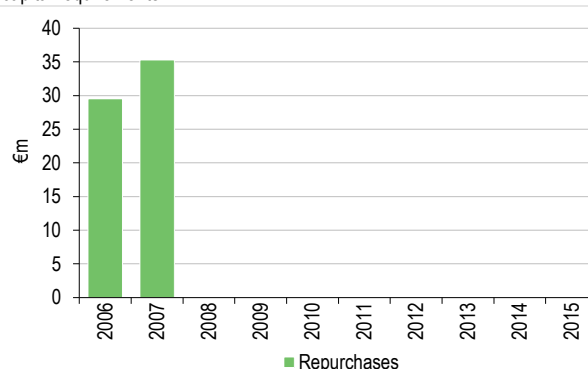
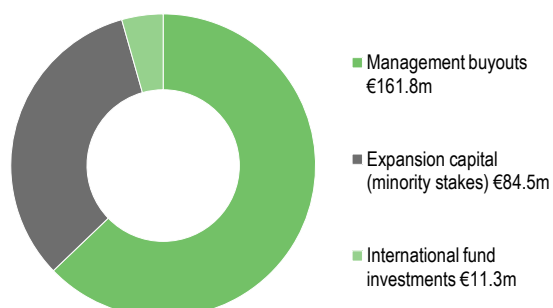
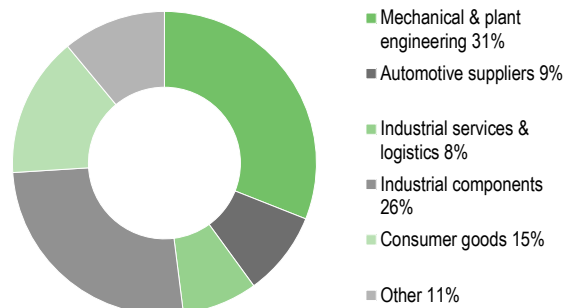
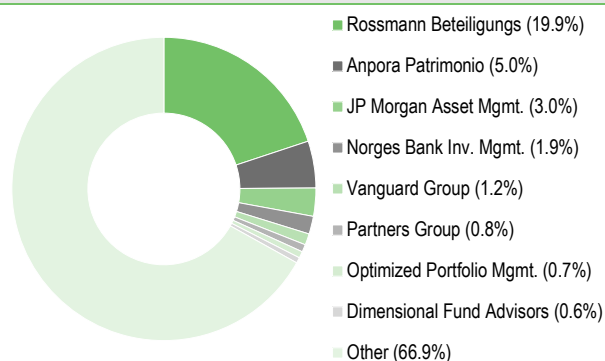
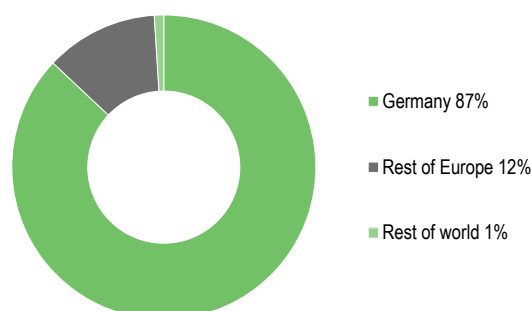
Forthcoming		Capital structure		Fund details	
AGM	February 2017	FY15 net expense ratio*	0.6% (0.8% unadjusted)	Group	Deutsche Beteiligungs
Quarterly results	11 August 2016	Net cash	11.5%**	Manager	Team managed
Year end	30 September	Annual mgmt fee	N/A (Self-managed)	Address	Boersenstrasse 1
Dividend paid	February 2017	Performance fee	N/A (Self-managed)		60313 Frankfurt am Main, Germany
Launch date	December 1985	Company life	Unlimited	Phone	+49 69 95787-01
Continuation vote	N/A	Loan facilities	€50m	Website	www.deutsche-beteiligung.de

Dividend policy and history

DBAG's policy is to pay a sustainable annual base dividend from retained profits supplemented by a surplus dividend based on realised gains.


Share buyback policy and history

DBAG uses share repurchases and capital increases to manage longer-term capital requirements.

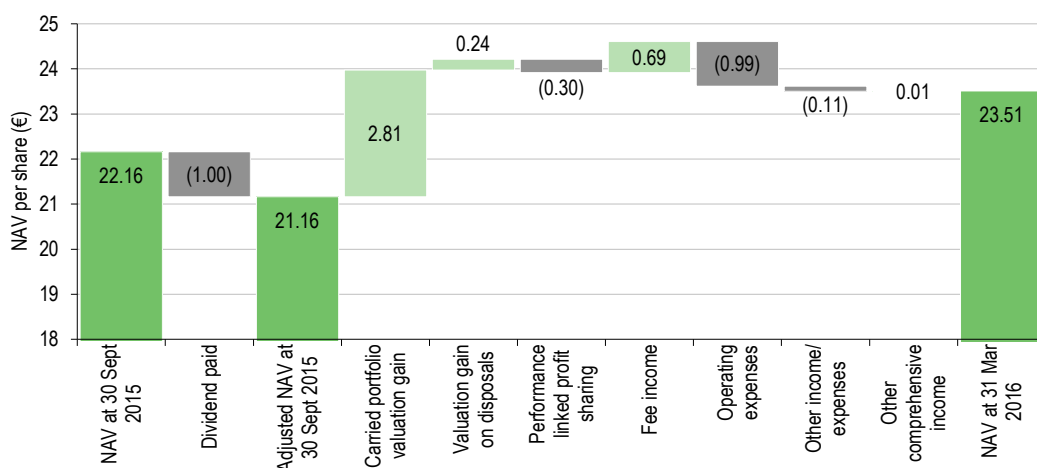

Portfolio split by investment type (as at 31 March 2016)***

Portfolio exposure by sector (as at 31 March 2016)***

Shareholder base (as at 11 May 2016)

Portfolio exposure by geography (as at 31 March 2016)***


Source: DBAG, Edison Investment Research, Dealogic, IPREO, Thomson. Note: *Based on expenses net of fee income; adjusted for performance-related remuneration. **Including €21.3m of securities classified as long-term assets. ***Does not include parallel funds.

H116 results support FY16 forecast

DBAG reported a dividend-adjusted 11.1% increase in NAV for the six months to 31 March 2016 bringing NAV per share to €23.51 (see Exhibit 2). Taking the €1.00 per share dividend payment into account, there was a marginal underlying increase in NAV during the second quarter. The strength of the NAV gains recorded in the first quarter of the financial year reflects valuations being rebased to 2016 multiples and the majority of portfolio companies budgeting higher revenues and earnings. Higher budgeted earnings substantially outweighed the significant negative effect on valuations that changes in market multiples had in Q116. Market multiples moved higher in Q216 to give a small net positive effect for H116 as a whole. Divestments agreed in the first half of the year generated a net €3.3m positive contribution, including an €8.3m negative value contribution from Clyde Bergemann Power Group, which was revalued to the agreed sale price, although the transaction was not announced until after the period end. Total valuation and disposal gains for the half-year reached €39.0m compared to €42.3m in the prior year period, which saw a significant positive effect from rising market multiples as well as a strong earnings uplift.

Exhibit 2: DBAG's NAV per share progression in H116



Source: DBAG, Edison Investment Research

FY16 guidance confirmed

DBAG's first-half FY16 net income of €32.0m compares to €21.4m reported for the prior year period and €27.0m for the whole of FY15. The second quarter contributed only €1.2m to net income, with a negative valuation movement of c €4.1m relating to the divestment of Clyde Bergemann Power Group weighing on earnings. DBAG management has indicated that there will be no material effect on Q3 earnings from this disposal and has confirmed its FY16 guidance of exceeding FY15 comparable net income of €25.2m by more than 20% excluding any contribution from divestments, suggesting that FY16 net income could reach €40m subject to fluctuations in market valuations. Adjusting for the €13.7m FY15 dividend payment, this guidance equates to a 13.8% return on NAV, which is in line with the dividend-adjusted 14.3% pa average return DBAG achieved over the last 10 financial years. Net of carried interest payments, the disposal of Spheros will crystallise a €12.6m capital gain, outweighing an €11.2m charge from the sale of Clyde Bergemann, but providing limited scope for payment of a surplus dividend for FY16 on top of the €0.50 base dividend.

Performance by business segment

As in FY15, the investment business represented the principal component of DBAG's net income in H116 (see Exhibit 3). The higher level of investment business income compared with H115 reflects the strong valuation gains referred to earlier. The increase in expenses (net of other operating

income) for this business reflects a non-recurring gain in H115 as well as €0.5m in expenses relating to arrangement of a €50m credit facility in H116. As investments are realised from the managed funds, there is a natural decline in the level of fee income DBAG receives and this was reflected in the lower fee income for DBAG's fund services business in H116 compared to the prior year period, with managed assets declining by €128.6m. As well as a decline in fees from DBAG Fund V, fee income was lower due to DBG Fonds I no longer generating fees. Fund services costs were higher primarily due to expansion of the investment team during FY15. Lower fee income and higher costs brought the fund services business to just below break-even in H116 and net income is likely to persist at around this level until DBAG launches a new managed fund.

Exhibit 3: DBAG segmental analysis

€m unless stated	Investments			Fund Services			Group		
	H115	H215	H116	H115	H215	H116	H115	H215	H116
Segment income*	20.9	8.3	36.2	10.9	9.6	10.1	31.1	17.3	45.6
Segment expenses*	(1.4)	(2.9)	(3.9)	(8.9)	(9.4)	(10.5)	(9.6)	(11.7)	(13.7)
Segment net income before taxes	19.5	5.4	32.3	2.0	0.2	(0.4)	21.5	5.6	31.9
Pre-tax margin	93%	65%	89%	18%	2%	-4%	69%	32%	70%
Taxes & minority interests	-	-	-	-	-	-	(0.1)	-	0.1
Consolidated net income	-	-	-	-	-	-	21.4	5.6	32.0
Proportion of group net income	91%	96%	101%	9%	4%	-1%	-	-	-
Financial assets, loans & receivables	244.9	250.2	291.5	-	-	-	-	-	-
Investment portfolio	244.6	255.7	257.6	-	-	-	-	-	-
Financial resources**	62.8	58.3	37.0	-	-	-	-	-	-
Assets/managed assets***	297.5	303.1	321.6	1,165.8	1,075.4	946.8	-	-	-

Source: DBAG, Edison Investment Research. Note: *Synthetic internal transfers (€0.7m, €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.

Conclusion of DBAG Fund IV

The divestment of Clyde Bergemann Power Group has brought DBAG Fund IV to a close. Launched in 2002, this was the first of DBAG's funds open to external investors, who committed capital of €228m in addition to €94m committed by DBAG. While Clyde Bergemann has been one of DBAG's less successful investments, management reports that the returns achieved by DBAG Fund IV rank it in the top quartile among funds of a similar vintage, with its investment period running from October 2002 to February 2007. Ten investments were made during this period with exits being realised from 2005 to 2016 at multiples between 0.1x and 6.0x (unweighted average 2.6x) net of costs and more than 2.0x invested capital being returned to investors.

DBAG has seen substantial increases in capital commitments to each of its subsequent funds, with its most recent fund, DBAG Fund VI, being launched in February 2013 with €700m of commitments (including €133m from DBAG). DBAG Fund VI is currently c 60% invested in eight portfolio companies and with its investment period scheduled to conclude by February 2018, thoughts turn towards the prospect of a new fund being launched.

Financial resources and commitments

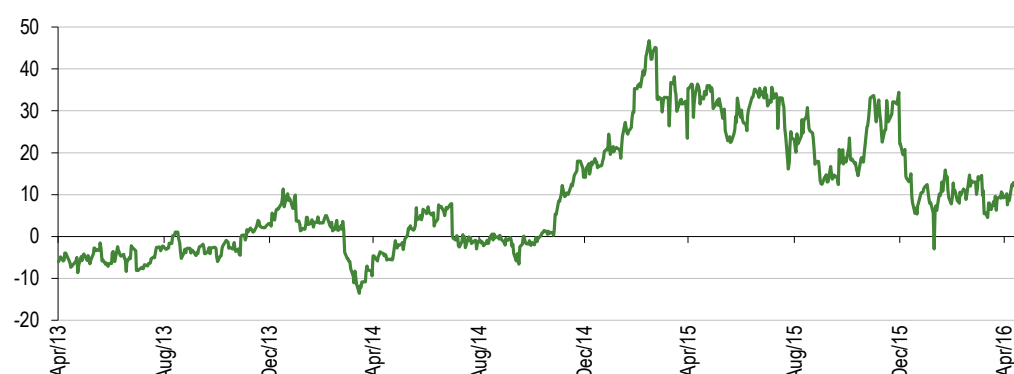
DBAG's financial resources (comprising cash, long- and short-term securities) declined from €58.3m at 30 September 2015 to €37.0m at 31 March 2016, with the major cash flows being €21.2m of new investments, the €13.7m FY15 dividend payment and €14.0m of inflows. €12.8m was invested to take an 18.8% stake in Telio Group alongside DBAG Fund VI and €6.6m was invested to take a 19.8% stake in mageba alongside DBAG ECF. The largest component of the inflows was €8.8m from the recapitalisation of Schülerhilfe. While the sale of Spheros was completed during the half-year, the €22.6m sale proceeds net of carried interest were received after the period end. Although the divestment of Clyde Bergemann Power Group was completed in April 2016, the terms of the transaction mean that sale proceeds will be received over a three-year period with no cash receipts scheduled for the current financial year.

At 31 March 2016, we estimate that DBAG had total undrawn capital commitments of €78m relating to the DBAG ECF and DBAG Fund VI parallel funds that have investment periods ending in May 2017 and February 2018, respectively. Given its c €50m pa target investment run rate and fee income covering the majority of operating expenses, DBAG's €59.6m of financial resources (including Spheros sale proceeds) appears sufficient funding for the next 12 months, with potential further realisations adding to financial resources as well as a prospective distribution from DBG Eastern Europe II following completion of its sale transaction. In addition, DBAG secured a five-year €50m credit facility in January 2016 to provide additional flexibility to manage short-term timing differences in cash inflows and outflows. Added to DBAG's financial resources, the facility increases current total available funds to c €110m, which compares with outstanding commitments of €78m.

Valuation

The value of DBAG's fund services business is not reflected in its reported NAV and we see the value of this business as providing the explanation for DBAG's shares trading at a premium to NAV in contrast with its listed private equity peers. DBAG shares currently stand at a 12.7% premium compared with a 12.5% discount for the LPX Europe Index.

Exhibit 4: DBAG's share price premium/discount to NAV over three years (%)



Source: Thomson Datastream, Edison Investment Research. Note: Negative values indicate a discount, positive values a premium.

As illustrated in Exhibit 4, since the end of its financial year to October 2014, when DBAG started providing separate disclosure on the performance of its investment and fund services businesses, DBAG shares have traded almost continuously at a premium to NAV.

Peer group comparison

Exhibit 5 shows a comparison of DBAG with a selected peer group of listed private equity investment companies. With the exception of 3i in the UK, which also manages third-party funds, DBAG is differentiated from peers by its fund services business as well as its regional and sector focus.

DBAG's NAV total return in sterling terms to 31 March 2016 is ahead of the peer group average over one, three and five years and substantially ahead over 10 years. When comparing DBAG with UK and global peers, consideration should be given to sterling weakness against the euro helping performance over one and 10 years, while DBAG's medium-term outperformance reflects the strength of underlying euro-denominated returns given the context of euro weakness against sterling (the euro strengthened by 9.6% and 13.6% over one and 10 years and weakened by 6.3% and 10.5% over three and five years respectively). As noted in the Valuation section above, DBAG's

shares are trading at a premium to NAV in contrast to the majority of its peers, which do not manage third-party funds, many of which are trading at a substantial discount to NAV. DBAG's above-average 3.8% yield is based on its total dividend for FY15, which comprised a €0.50 base dividend and a €0.50 surplus dividend, with the recurring base dividend providing a 1.9% yield. Although dependent on the level of realised gains in each year, a surplus dividend has been paid for nine of the last 10 financial years (see Exhibit 1).

Exhibit 5: Listed private equity investment companies peer group as at 31 March 2016

% unless stated	Country	Mkt cap £m	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	NAV TR 10 years	Price TR 1 year	Price TR 3 years	Price TR 5 years	Price TR 10 years	Discount (ex par)	Dividend yield (%)
Deutsche Beteiligungs	Europe	282.8	26.5	40.7	44.8	272.4	(0.2)	53.4	52.9	281.3	12.7	3.8
3i	Global	5,057.5	23.1	69.1	55.2	9.4	(1.6)	62.9	83.9	(20.0)	13.7	4.0
Altamir	Europe	318.1	22.5	39.2	46.9	101.1	2.5	21.5	34.9	53.8	(39.4)	4.4
GIMV	Global	955.4	14.8	9.5	2.1	67.0	32.3	34.1	28.7	98.6	14.5	3.7
Dunedin Enterprise	UK	68.8	(1.3)	0.4	8.9	30.0	(4.6)	(16.9)	18.1	(1.6)	(31.1)	1.4
Electra Private Equity	UK	1,552.4	26.8	67.6	105.2	224.9	13.5	51.6	115.5	182.5	(12.4)	
HgCapital Trust	UK	445.7	17.2	26.0	41.8	168.3	5.6	8.0	23.2	122.5	(11.9)	
ICG Enterprise Trust	UK	388.7	11.3	24.6	48.6	101.5	(8.3)	11.1	62.0	62.9	(25.9)	2.9
Oakley Capital Investments	Europe	279.0	(0.3)	10.7	19.3		(18.7)	(12.6)	(6.2)		(26.6)	
Standard Life Euro Private Eq	Europe	348.9	14.2	32.3	46.7	109.5	(5.8)	18.4	43.7	34.9	(25.7)	2.4
Average		969.7	15.5	32.0	41.9	120.5	1.5	23.2	45.7	90.6	(13.2)	3.2

Source: Morningstar, Edison Investment Research. Note: TR=total return. All returns expressed in sterling terms. Market cap, discount and yield as at 23 May 2016.

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