

Deutsche Beteiligungs

Disposal adds to strong Q116 performance

Deutsche Beteiligungs (DBAG) reported a strong performance in the first quarter of FY16 with a 10.6% increase in NAV underpinned by robust earnings and budgets across the carried portfolio. The combined c €10m contribution from the Spheros divestment and a buyout fund realisation roughly balanced the effect of declining market valuations. Investment activity continued at an elevated pace with €21m committed to two new investments. DBAG management has confirmed its FY16 guidance suggesting at least €40m net income, while we note that realised capital gains may provide scope for an increase in the FY16 surplus dividend.

12 months ending	Total share price return (%)	Total NAV return (%)	LPX Europe (%)	LPX Europe NAV (%)	DAX 30 (%)
31/01/12	(16.2)	(7.4)	(15.5)	(1.1)	(8.7)
31/01/13	30.8	16.2	24.1	4.5	20.4
31/01/14	14.8	12.4	23.8	13.5	19.7
31/01/15	33.3	15.7	20.3	15.4	14.9
31/12/15*	14.6	15.0	14.0	7.5	0.5

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

Results for three months to 31 December 2015

DBAG reported strong results for Q116 with net income of €30.8m ahead of the €27.0m recorded in the whole of FY15 and a 10.6% dividend-adjusted rise in NAV to €24.41 per share. There were valuation gains across most of the carried portfolio with gains from the sale of Spheros and a realisation by the DBG Eastern Europe II buyout fund broadly offsetting lower market-based multiples. DBAG continues to find attractive investment opportunities with €21m committed to two new investments. Financial resources rose to €61.7m and this together with a newly signed €50m credit facility is sufficient to cover all current unfunded commitments.

Outlook: No signs of slowdown

Against an uncertain background with German export data signalling a slower final quarter of 2015, DBAG portfolio companies have yet to reflect a slowdown albeit its management prudently acknowledges the risks flagged by recent market weakness, particularly given the potential sensitivity of companies to capital investment trends. The marked recent decline in stock market valuations has partly been reflected in the lower valuation multiples applied at end December 2015, but could have a further negative effect on DBAG's portfolio valuation. DBAG management reports that the current market environment has not affected their deal pipeline and the investment team continues to work intensively on both prospective new investments and exit transactions.

Valuation: Narrowing premium

DBAG shares have traded at a premium to NAV since November 2014, which we see explained by the income stream from its fund services business. The recent narrowing of the premium reflects a combination of the shares weakening, along with the wider market and the strong uplift in reported NAV at end December 2015.

Investment companies

16 February 2016

Price €26.89
Market cap €368m
NAV* €334m

NAV per share* €24.41
 Premium to NAV 10.1%

* As at 31 December 2015.

FY15 total dividend yield 3.7%

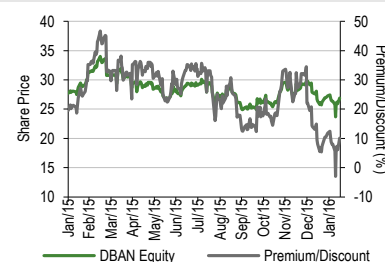
Ordinary shares in issue 13.7m

Code DBAN

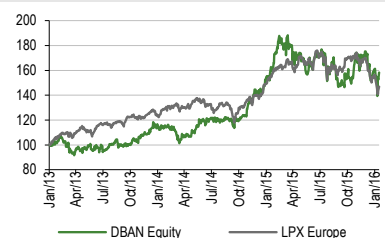
Primary exchange Frankfurt

AIC sector N/A

Share price/premium performance



Three-year cumulative perf. graph



52-week high/low €34.00 €23.68

NAV high/low €24.41 €21.76

Gearing

Gross* 0.0%

Net cash* 18.5%

*As at 31 December 2015.

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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 February 2016 – Q116 results: NAV total return +10.6% (dividend-adjusted).
- 5 January 2016 – €50m credit facility secured to provide a bridge for short-term differences in the timing of cash inflows and outflows.
- 23 December 2015 – Sale of investment in Spheros Group to Valeo.
- 16 December 2015 – Expansion capital investment in Swiss infrastructure and building products provider mageba.

Forthcoming

AGM	25 February 2016
Quarterly results	12 May 2016
Year end	30 September
Dividend paid	26 February 2016
Launch date	December 1985
Continuation vote	N/A

Capital structure

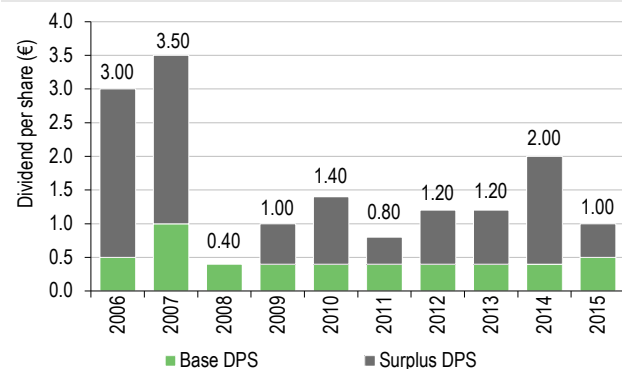
FY15 net expense ratio*	0.6% (0.8% unadjusted)
Net cash	18.5%***
Annual mgmt fee	N/A (Self-managed)
Performance fee	N/A (Self-managed)
Company life	Unlimited
Loan facilities	€50m

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

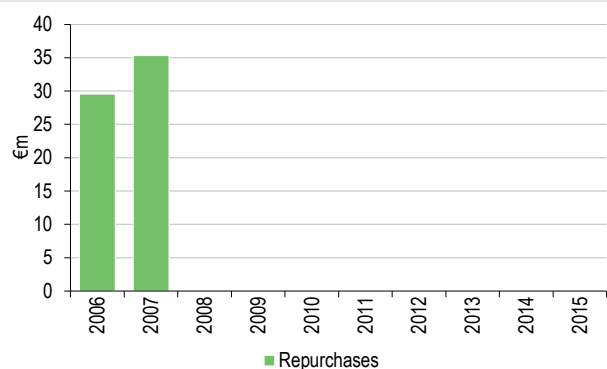
Dividend policy and history

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

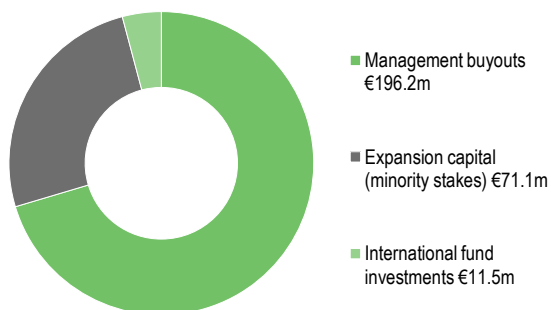


Share buyback policy and history

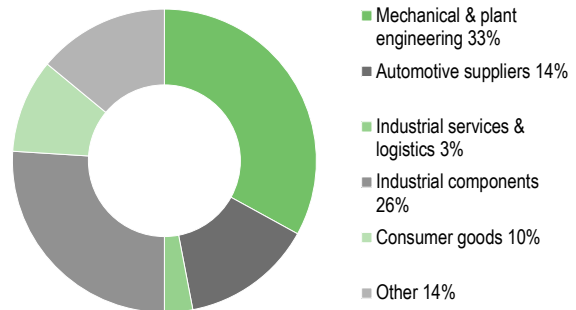
DBAG uses share repurchases and capital increases to manage longer-term capital requirements.



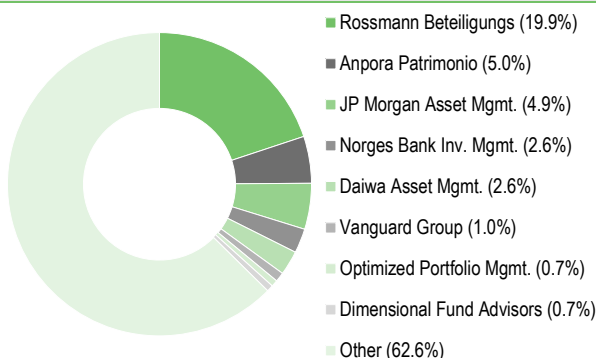
Portfolio split by investment type (as at 31 December 2015)**



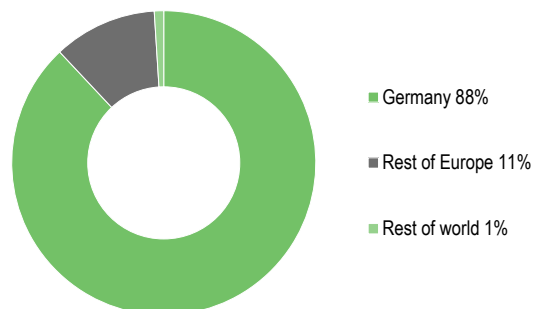
Portfolio exposure by sector (as at 31 December 2015)**



Shareholder base (as at 9 February 2016)



Portfolio exposure by geography (as at 31 December 2015)**

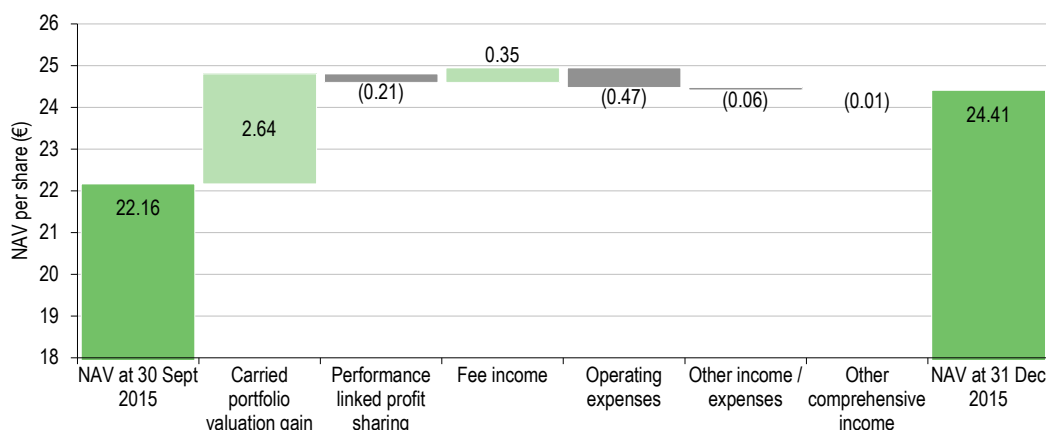


Source: DBAG, Edison Investment Research, Dealogic, IPREO, Thomson. Note: *Based on expenses net of fee income; adjusted for performance-related remuneration. **Does not include parallel funds. *** including €26.2m of securities classified as long-term assets.

A strong start to FY16

DBAG reported first-quarter FY16 net income of €30.8m compared with €13.2m in Q115. The strong results benefited from valuation gains across the carried portfolio; DBAG noted that one source of positive surprise was a particularly cautious budget at one of the more recently acquired investments. The divestment of Spheros and a further realisation contributed c €10m. The majority of portfolio companies are budgeting revenue growth and higher earnings in 2016 and this was the main driver of valuation gains. Lower debt levels also had a positive effect on valuations while declining market valuation multiples tempered gains.

Exhibit 2: DBAG's NAV per share progression in Q116



Source: DBAG, Edison Investment Research

As illustrated in Exhibit 2, NAV per share gained €2.25 in the quarter, equating to a 10.6% increase after adjusting for the €1.00 FY15 dividend, with provisions for performance-linked profit sharing only a minor offset to valuation gains and fee income covering a large part of operating expenses.

Performance by business segment

Exhibit 3: DBAG segmental analysis

€m unless stated	Investments			Fund services			Group		
	Q115	FY15	Q116	Q115	FY15	Q116	Q115	FY15	Q116
Segment income*	12.8	29.2	32.5	5.6	20.5	5.1	18.1	48.4	37.3
Segment expenses*	(0.7)	(4.3)	(1.5)	(4.4)	(18.3)	(5.3)	(4.8)	(21.3)	(6.5)
Segment net income before taxes	12.1	24.9	31.0	1.2	2.2	(0.2)	13.3	27.1	30.8
Pre-tax margin	95%	85%	95%	21%	11%	-4%	73%	56%	83%
Taxes & minority interests	-	-	-	-	-	-	(0.1)	(0.1)	-
Consolidated net income	-	-	-	-	-	-	13.2	27.0	30.8
Proportion of group net income	91%	92%	101%	9%	8%	-1%	-	-	-
Financial assets, loans & receivables	211.3	250.2	290.1	-	-	-	-	-	-
Investment portfolio	181.9	255.7	278.7	-	-	-	-	-	-
Financial resources**	115.8	58.3	61.7	-	-	-	-	-	-
Assets/managed assets***	316.7	303.1	333.8	1,197.0	1,075.4	1,018.0	-	-	-

Source: DBAG, Edison Investment Research. Note: *Synthetic internal transfers (€0.3m, €1.3m, €0.3m) 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 in FY15 the investment business contributed the majority of net income in Q116 (see Exhibit 3). The increase in the investment business income compared with Q115 reflects strong valuation gains while the increase in expenses (net of other operating income) reflects the inclusion of a considerable gain in the value of temporarily-held shares in Q115. Lower fee income and higher costs brought the fund services business to just below break-even. Compared with Q115, fee income was lower due to DBG Fonds I no longer generating fees and a decline in fees from DBAG Fund V, largely due to the refinancing of an investment and repayment of acquisition costs. Fund

services costs were higher due to expansion of the investment team during FY15 as well as the level of investment activity during the quarter.

Strong pace of investment activity continues

The elevated pace of investment activity in FY15 continued in the first quarter of FY16 with €21m committed to two new investments; an MBO investment of up to €12.8m in Telio Group and an expansion capital investment of up to €7.9m in mageba.

The sale of Spheros Group to Valeo was agreed during the quarter, representing the first divestment of a portfolio company since October 2014. DBAG notes that Valeo saw Spheros as a strategic acquisition, helping to secure a cost multiple of more than 2.0x and providing an example of the quality of investment it aspires to make. This transaction will realise a €15m to €18m gain, making a contribution of around €4m to net income in Q116. Spheros will remain in DBAG's portfolio until anti-trust approval for the transaction is received, expected by the end of FY16. A further realisation was agreed by DBG Eastern Europe II international buyout fund comprising the sale of one of its three remaining investments, which contributed around €6m to net income in Q116. Completion of this transaction is expected by June 2016.

Telio Group – leading provider of communications and media systems

Founded in Hamburg in 1998 with subsidiaries in France, Belgium and the Netherlands, Telio Group is a leading European provider and operator of communications and media systems in prisons. Telephones and related systems are installed to create a controlled environment allowing inmates to make calls to approved numbers from communal areas or directly from their cells. Telio's product range includes devices providing other modes of communication, such as TVs, DVD players, radios and PCs with restricted internet access. Telio employs a staff of about 100 and expects to report revenues of close to €30m for 2015. DBAG is taking an 18.8% stake in Telio Group, investing up to €12.8m alongside a c €50m investment by DBAG Fund VI.

Telio's growth is being driven by an increasing focus on supporting prisoners' rehabilitation after their release. Studies have shown that regular contact with family and friends outside of prison can contribute significantly to this goal and inmate access to telephones and other communication devices has been expanded in recent years. Device-based learning in preparation for life after prison is seen as an additional growth opportunity. DBAG management intends to apply the experience gained with the two other telecommunication companies in its portfolio and support Telio's expansion into new markets.

mageba – global supplier of structural bearings and expansion joints

A Swiss family business, mageba is a leading global provider of structural bearings, expansion joints and other products and services for the infrastructure and building sectors. Structural bearings ensure the controlled transfer of forces between a bridge's superstructure and its substructure; expansion joints absorb the longitudinal movements in bridges that occur through temperature variations and traffic load. Growth is being driven by many countries increasing infrastructure expenditure at a faster rate than overall economic growth, rehabilitating existing structures as well as building new transport infrastructure. The company expects to report 2015 revenues equivalent to around €90m. Subsequent to the investment and a capital increase, DBAG and DBAG ECF will hold a 40% interest with DBAG investing up to €7.9m for a 19.8% interest.

One of the business areas to be expanded with the support of DBAG is seismic protection where an opportunity is seen due to many countries budgeting additional funding for projects in this area. mageba provides structural dampers for these applications that not only dissipate seismic forces resulting from earthquakes, but also absorb noise and vibration. The additional equity capital

provided should enable mageba to take advantage of growth opportunities in its existing markets and DBAG also intends to back the company in its further internationalisation.

Financial resources and commitments

Although there was a high level of investment activity in Q116, none of the four main investment and realisation transactions highlighted above were completed during the quarter. As a result, no related cash drawdowns were made or distributions received in the period and DBAG's financial resources increased from €58.3m at 30 September 2015 to €61.7m at 31 December 2015, primarily due to the recapitalisation of the investment in Schülerhilfe in October 2015. DBAG received €8.8m from this transaction, equating to 90% of its original €9.8m investment in October 2013.

At 31 December 2015, DBAG had total undrawn capital commitments of €97m relating to the DBAG ECF and DBAG Fund VI parallel funds that have investment periods ending in May 2017 and February 2018. Given the implied c €50m pa investment run rate and fee income largely covering operating expenses, DBAG appears adequately funded for the next 12 months with the potential for further realisations to add to financial resources. Financial resources are expected to decline in Q216 with the mageba transaction having completed in early February 2016 and the Telio deal expected to complete before the end of March 2016. However, the divestment of Spheros Group will add to financial resources in the current financial year as will a prospective distribution from DBG Eastern Europe II following completion of its sale transaction.

New €50m credit facility

In January 2016, DBAG put in place a five-year €50m credit facility to provide additional flexibility to manage short-term timing differences in cash inflows and outflows. This does not represent a change to DBAG's long-term financing strategy and management has confirmed that there is no intention to introduce any permanent leverage into the capital structure. Securing this facility should enable DBAG to maintain a more efficient balance sheet as excess cash will not need to be held to cover potential shortfalls, which could arise due to the unpredictable timing of both acquisitions and sale transactions. Added to DBAG's €61.7m financial resources, the facility increases total available funds to €111.7m, which compares with outstanding commitments of €97m.

Outlook

Concerns over a slowdown in global economic growth and the risk of a hard-landing in China have contributed to increased market volatility and a marked recent decline in stock market valuations. This has partly been reflected in the lower valuation multiples applied at end-December 2015, but could have a further negative effect on the valuation of DBAG's portfolio. The majority of DBAG's portfolio companies are budgeting higher revenues and earnings in 2016, indicating that the slowing global economy has not materially affected their growth plans. However, DBAG management applies a discount to these figures in valuing portfolio companies to reflect its assessment of the level of uncertainty over budgets being achieved, which may reduce the potential for downward revisions to valuations if earnings disappointments materialise. DBAG management report that the current market environment has not affected its deal pipeline and the investment team continues to work intensively on both prospective new investments and exit transactions.

Following the Q116 results, DBAG management has confirmed its FY16 guidance of exceeding FY15 comparable net income of €25.2m by more than 20% excluding any contribution from divestments. This suggests that net income of at least €40m is expected for FY16 including the €10m from realisations recorded in the first quarter. The disposal of Spheros will crystallise a €15m to €18m capital gain raising the prospect of an increase in the FY16 surplus dividend.

Valuation

We see DBAG's fund services business as the explanation for its shares trading at a premium to NAV, which contrasts with the discount at which the shares of its listed private equity peers trade (DBAG shares currently stand at a 10% premium vs a 24% discount for the LPX Europe index). DBAG's NAV does not incorporate any value for the stream of recurring fee income generated from its management of co-invested funds, but DBAG's market valuation does reflect additional value that can be attributed to the fund services business.

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



Source: Bloomberg, Morningstar, Edison Investment Research

As illustrated in Exhibit 4, since the end of its financial year to October 2014, when DBAG provided increased disclosure on the performance of its fund services business, DBAG shares have traded fairly consistently at a premium to NAV. The recent decline in premium reflects a combination of the shares weakening along with the wider market and the strong uplift in reported NAV at end December 2015.

Peer-group comparison

Exhibit 5 shows a comparison of DBAG with a selected peer group of listed private equity investment companies. DBAG is differentiated from peers by its regional and sector focus as well as its fund services business.

Exhibit 5: Listed private equity investment companies peer group as at 31 December 2015

% 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	280.6	13.5	38.7	43.1	260.9	18.4	62.3	62.4	385.8	8.9	3.8
3i	Global	4,007.1	16.7	68.7	52.0	10.4	11.3	150.1	76.6	(6.3)	(0.2)	4.9
Altamir	Europe	265.4	4.5	26.6	41.5	102.7	7.6	56.7	76.1	91.4	(44.9)	5.3
GIMV	Global	834.3	2.9	9.5	1.8	57.6	20.7	27.7	22.9	82.4	1.5	4.2
Dunedin Enterprise	UK	61.1	2.1	2.6	14.3	41.9	(7.5)	(16.4)	23.0	(5.9)	(43.1)	1.7
Electra Private Equity	UK	1,335.0	23.9	60.0	92.4	242.9	25.5	98.3	127.2	254.1	(14.0)	
HgCapital Trust	UK	369.8	5.3	16.1	34.2	161.8	8.6	20.8	26.4	147.2	(23.6)	
ICG Enterprise Trust	UK	381.6	7.5	27.1	56.9	104.4	6.3	40.4	114.2	86.6	(26.1)	2.9
Oakley Capital Investments	Europe	277.1	(1.0)	9.9	18.5		(6.8)	5.5	(1.0)		(27.0)	
Standard Life Euro Private Eq	Europe	306.9	8.0	30.9	40.8	97.1	1.1	37.1	66.2	48.4	(31.5)	2.7
Average		811.9	8.3	29.0	39.6	120.0	8.5	48.2	59.4	120.4	(20.0)	3.6

Source: Morningstar, Edison Investment Research. Note: TR=total return. All returns expressed in sterling terms. Market cap and discount as at 15 February 2016.

DBAG's NAV total return in sterling terms to 31 December 2015 is ahead of the peer group average over one, three and five years and substantially ahead over 10 years. This outperformance reflects the strength of underlying euro-denominated returns given the context of euro weakness against sterling weighing on DBAG's sterling-denominated returns over one, three and five years (the euro

weakened by 5.9%, 10.9% and 16.6% over these periods), which has been unhelpful to DBAG when comparing with UK and global peers. Helped by the shares moving to a premium to NAV, DBAG has seen an even stronger share price total return performance, which is also ahead of the peer group average over one, three, five and 10 years.

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