

# Deutsche Beteiligungs

New investments at highest level in 10 years

Deutsche Beteiligungs (DBAG) achieved its FY15 financial targets during Q315, although recent market volatility and lower market valuation levels have led to full-year guidance being broadened. The high rate of new investment continued in the quarter, adding to medium-term value creation potential. Total new investment of €72m in FY15 has left financial resources at c €55m, which appears an appropriate level to maintain DBAG's 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 (%)
31/08/11	(4.0)	5.8	4.5	(2.4)
31/08/12	14.1	5.7	8.8	20.5
31/08/13	20.0	7.4	29.8	16.2
31/08/14	18.6	17.6	16.2	16.9
31/08/15	34.2	8.0	22.1	8.3

Source: Thomson Datastream, Morningstar. Note: 12-month rolling discrete total return performance in euros as at last published NAV.

## Results for three months to 31 July 2015

DBAG reported net income of €6.7m in Q315, driven by an €8.4m portfolio valuation gain, bringing nine months net income to €28.3m. NAV per share increased by 1.9% to €22.18, representing a 10.0% advance over nine months, after adjusting for the €2.00 dividend payment. The high rate of investment activity continued from H115 with three investments totalling €10.8m in Q315, and a further €10.5m invested after the quarter end. DBG Fonds I was liquidated with DBAG and the DBAG ECF fund acquiring its remaining investments in Novopress and JCK. While no further fees will be received from DBG Fonds I, the acquired investments have the potential to add to DBAG's investment income.

## Outlook: FY15 earnings guidance revised

While net income for the nine months is ahead of previous guidance for FY15, recent market volatility and lower market valuation levels have led management to broaden expected FY15 net income to between €20m and €25m. This implies a minimum net loss of €3m in the final two months of the shortened financial year to 30 September 2015, reflecting expected operating expenses rather than any adverse change in the earnings outlook for portfolio companies. The addition of seven new companies to the portfolio is encouraging for medium-term prospects and these investments could help near-term performance as they move to earnings-based valuations from transaction prices over the next year.

## Valuation: Premium to NAV has narrowed

We see the significant component of recurring fee income generated from DBAG's management of co-invested funds as the explanation for its shares trading at a significant premium to NAV. DBAG's share price premium to NAV has narrowed from 47% in March 2015 to its current level of 17%. 3i in the UK has a similar business model and its shares are trading at a comparable premium to NAV.

Investment companies

28 September 2015

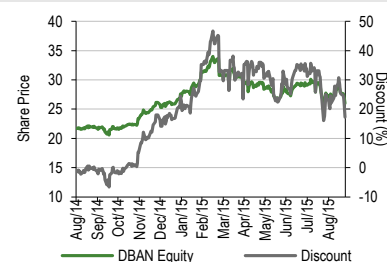
**Price** €26.00  
**Market cap** €356m  
**NAV\*** €303m

NAV per share\* €22.18  
 Premium to NAV 17.2%

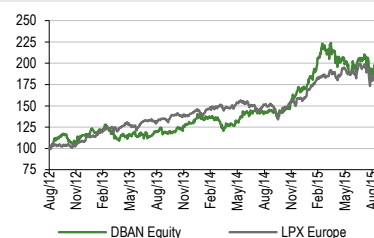
\*As at 31 July 2015.

FY14 total dividend yield 7.7%  
 Ordinary shares in issue 13.7m  
 Code DBAN  
 Primary exchange Frankfurt  
 AIC sector N/A

### Share price/discount performance



### Three-year cumulative perf. graph



52-week high/low €34.00 €20.56  
 NAV high/low €23.17 €21.76

### Gearing

Gross\* 0.0%  
 Net cash\* 18.8%

\*As at 31 July 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**

- 14 September 2015 – Q3 results to 31 July 2015.
- 30 July 2015 – Follow-on investments in portfolio companies Pfaudler and ProXES to fund add-on acquisitions.
- 20 July 2015 – New expansion capital investment in tool systems manufacturer Novopress; increased investment in textile distributor JCK.
- 14 July 2015 – MBO investment in foundry operator Silbitz Group.

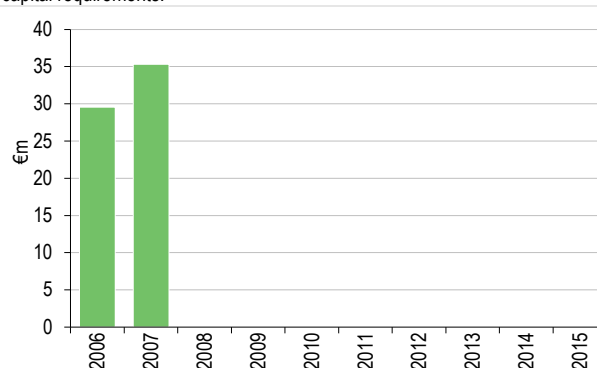
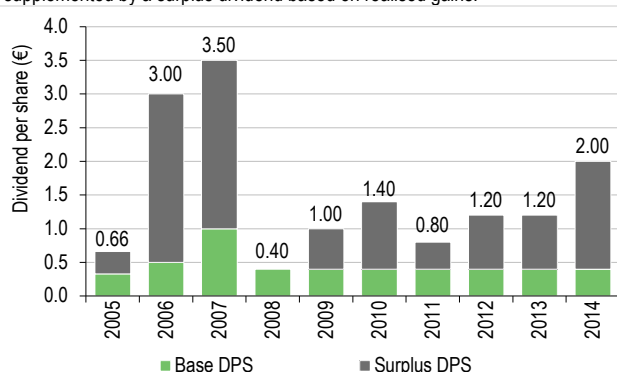
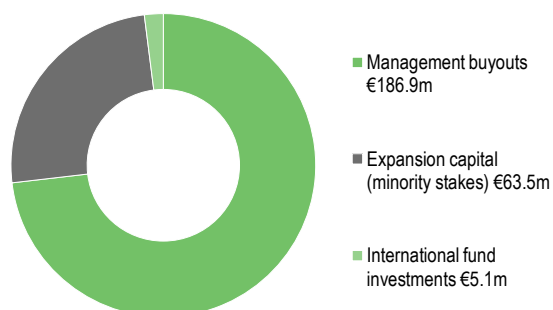
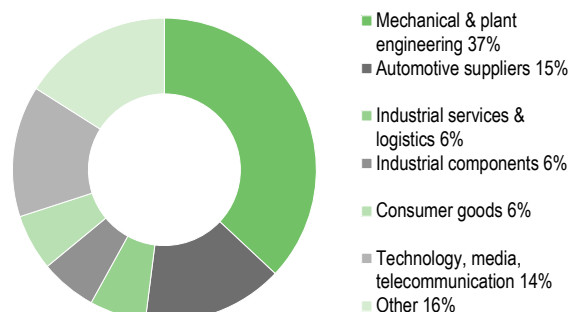
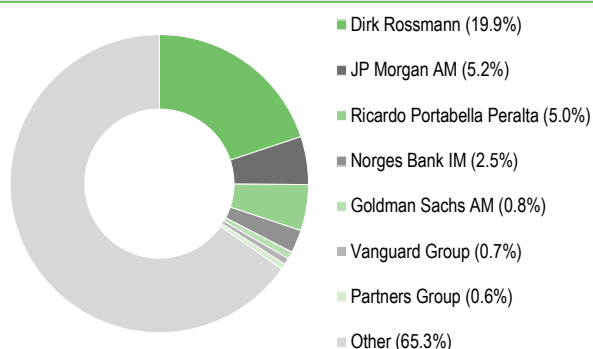
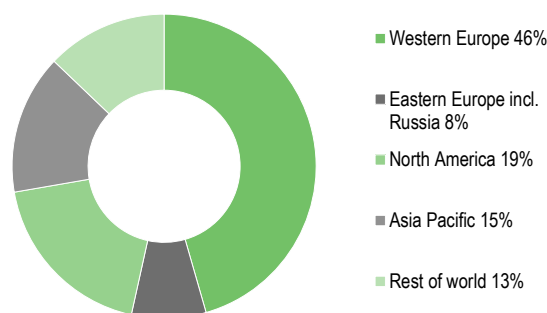
Forthcoming		Capital structure		Fund details	
AGM	25 February 2016	FY14 net expense ratio*	0.7% (2.2% unadjusted)	Group	Deutsche Beteiligungs
Final results	10 December 2015	Net cash	21.1%	Manager	Team managed
Year end	30 September	Annual mgmt fee	N/A (Self-managed)	Address	Boersenstrasse 1
Dividend paid	March	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	None	Website	<a href="http://www.deutsche-beteiligung.de">www.deutsche-beteiligung.de</a>

**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.

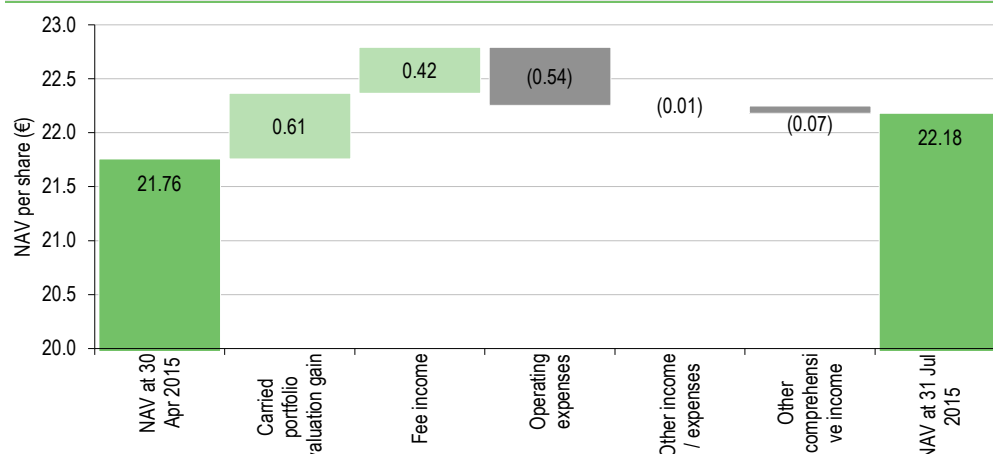

**Portfolio split by investment type (as at 31 July 2015)\*\***

**Portfolio exposure by sector (as at 31 July 2015)\*\***

**Shareholder base (as at 17 September 2015)**

**Portfolio companies' revenues split by geography (latest available data)\*\*\***


Source: DBAG, Edison Investment Research. Note: \*Based on expenses net of fee income; adjusted for performance-related remuneration. \*\*Does not include parallel funds. \*\*\*Based on 12 largest portfolio companies.

## NAV progress continues in Q315

DBAG reported net income of €6.7m in Q315, driven by an €8.4m valuation gain for the carried portfolio with fee income covering the majority of operating expenses, bringing net income for the first nine months to €28.3m. NAV per share increased to €22.18 at 31 July 2015 (see Exhibit 2) representing a 1.9% gain in the third quarter and a 10.0% advance for the first nine months of the financial year, after adjusting for the €2.00 dividend payment.

**Exhibit 2: DBAG's NAV per share progression during Q315**



Source: DBAG, Edison Investment Research

## FY15 earnings guidance revised to reflect market uncertainty

Net income for the nine months of €28.3m was ahead of previous guidance for FY15 but recent market volatility and lower market valuation levels since end-July 2015 have led management to broaden its FY15 net income guidance to between €20m and €25m. While this range is below reported net income for the nine months, it does not represent a substantial change from the previous guidance for FY14 comparable net income of €23.1m being exceeded by up to 10% (€25.4m) in FY15 and, subject to market conditions, this could still be achieved.

## Performance by business segment

**Exhibit 3: DBAG segmental analysis**

€m	Investments			Fund services			Group		
	Q115	Q215	Q315	Q115	Q215	Q315	Q115	Q215	Q315
Segment income*	12.2	8.5	8.4	5.6	5.3	6.1	17.4	13.5	14.1
Segment expenses*	(0.9)	(0.7)	(2.3)	(4.4)	(4.5)	(5.4)	(4.9)	(4.9)	(7.3)
Segment net income before taxes	11.3	7.8	6.1	1.2	0.8	0.7	12.5	8.6	6.8
Pre-tax margin	93%	92%	73%	21%	15%	11%	72%	64%	48%
Taxes and minority interests	-	-	-	-	-	-	0.8	(0.3)	(0.1)
Consolidated net income	-	-	-	-	-	-	13.3	8.3	6.7
Proportion of group net income	90%	91%	90%	10%	9%	10%	-	-	-
Financial assets, loans and receivables	211.3	242.4	255.2	-	-	-	-	-	-
Investment portfolio	181.9	244.6	255.5	-	-	-	-	-	-
Financial resources**	115.8	62.8	56.9	-	-	-	-	-	-
Assets/managed assets***	316.9	297.5	303.4	1,227.0	1,175.0	1,120.5	-	-	-

Source: DBAG, Edison Investment Research. Note: Comparison figures restated for IFRS 10 effects. \*Synthetic internal transfers (€0.4m, €0.3m, €0.4m) 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.

Management reports that most portfolio companies held for more than one year are on track to achieve budgeted improvements in revenues and earnings for 2015 which was the underlying driver of valuation gains, although the effect of higher earnings was partly offset by lower market valuation multiples in Q315. Also contributing to the €8.4m investment income in Q315 were €1.9m

gains on disposals by international buyout funds and €0.9m in interest payments from shareholder loans. Operating costs increased in Q315 due to provisions for variable compensation related to the high level of investment activity. Fee income for the fund services business increased to €6.1m in Q315, primarily due to €1.0m of non-recurring performance-related fee income from DBG Fonds I.

DBG Fonds I was liquidated during Q315 with DBAG and its co-investment fund DBAG ECF acquiring the fund's investments in Novopress and JCK from AlInvest Partners, the fund's shareholder. While no further fees will be received from DBG Fonds I, the investments have the potential to add to DBAG's investment income.

## Continued strong investment activity in H215

DBAG has continued the strong pace of investment activity seen in H115. New investment of €21m since April 2015 includes the MBO of Silbitz, expansion capital investments in Novopress and JCK, and follow-on investments in Pfaudler and ProXES to fund add-on acquisitions. This takes total new investment for the short FY15 to €72m, ahead of the target €50m pa run rate and the highest level in the last 10 years. Seven new companies have been added to the portfolio in FY15 (see Exhibit 4), comprising five MBO and two expansion capital investments all in DBAG's core manufacturing and industrial services sectors. This increases the number of holdings to 25.

**Exhibit 4: FY15 portfolio additions as at 25 September 2015**

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 (%)
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
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	8.5*	18.7
Oechsler	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	Eisenberg, Germany	Castings for auto suppliers, diesel and gas engine blocks	€141m	880	Mar-15	MBO	DBAG Fund VI	79.9	6.9**	16.0
Cleanpart Group	Asperg, Germany	Engineering services for semi-conductor industry	€42m	320	Apr-15	MBO	DBAG Fund VI	68.8	7.6	15.5
Novopress	Neuss, Germany	Tool systems primarily for heating and plumbing industries	N/A	95	Jun-15	Exp'n capital	DBAG ECF	21.0	2.3	19.0
Silbitz Group	Silbitz, Germany	Castings for wind energy systems, drives and engines	€130m	860	Aug-15	MBO	DBAG Fund VI	N/A	7.9	18.0

Source: DBAG, Edison Investment Research. Note: \*includes €2.6m follow-on investment in Q415. \*\*Net of €6.9m refinancing in Q315.

## Commitments and financial resources

The high level of investment activity in FY15 has seen DBAG's cash position reduce substantially, improving the overall capital structure and reducing potential cash-drag on performance. DBAG's financial resources reduced from €62.8m at 30 April 2015 to €56.9m at 31 July 2015 with €10.5m payments for the investments in Silbitz and Pfaudler after the quarter end, largely offset by a €8.7m cash inflow from refinancing the investment in Formel D. Given the €50m pa target investment run rate and fee income largely covering operating expenses, DBAG appears adequately funded for the next 12 months with the potential for realisations to add to current financial resources.

## Valuation

We see the significant component of recurring fee income generated from DBAG's management of co-invested funds as the explanation for its shares trading at a significant premium to NAV. As illustrated in Exhibit 5, DBAG's share price premium to NAV has narrowed from 47% in March 2015 to its current level of 17%. 3i in the UK has a similar business model and its shares are trading at a comparable premium to NAV (see Exhibit 5).

**Exhibit 5: 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.

## Peer group comparison

Exhibit 6 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.

**Exhibit 6: Listed private equity investment companies peer group as at 31 July 2015**

% unless stated	Country	Mkt cap £m	Price TR 1 year	Price TR 3 years	Price TR 5 years	Price TR 10 years	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	NAV TR 10 years	Discount (ex par)
Deutsche Beteiligungs	Europe	259.0	19.5	78.8	79.4	345.8	(4.1)	22.5	30.2	224.8	16.8
3i	Global	4,668.1	52.7	199.6	132.6	58.3	13.0	62.1	45.4	64.8	24.4
Altamir	Europe	270.2	(11.4)	80.6	111.2	54.6	(5.9)	29.1	36.8	102.5	(39.2)
Dunedin Enterprise	UK	67.2	(14.1)	9.6	53.6	31.4	1.0	(6.0)	28.6	51.0	(35.5)
Electra Private Equity	UK	1,167.1	25.2	94.9	157.7	240.0	21.4	48.3	88.6	248.4	(5.9)
GIMV	Global	747.0	14.3	30.4	27.3	109.3	(1.3)	7.1	8.6	55.0	(3.5)
HgCapital Trust	UK	405.0	13.1	30.9	58.3	160.3	11.7	30.3	56.1	182.5	(14.7)
<b>Average</b>		<b>1,083.4</b>	<b>14.2</b>	<b>75.0</b>	<b>88.6</b>	<b>142.8</b>	<b>5.1</b>	<b>27.6</b>	<b>42.0</b>	<b>132.7</b>	<b>(8.2)</b>

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

DBAG's NAV total return in sterling terms to 31 July 2015 is below the peer group average over one, three and five years but substantially 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 10.0% in euro terms.

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