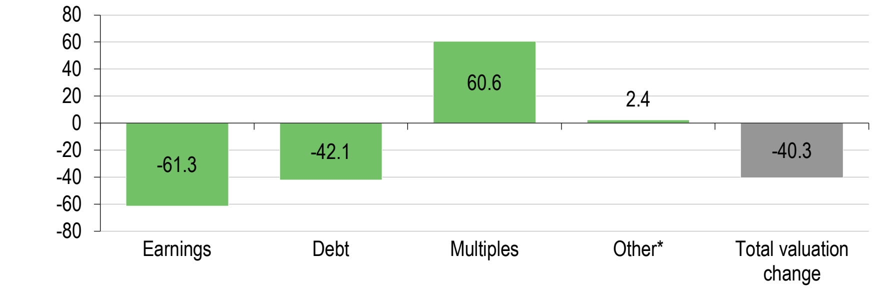
Deutsche Beteiligungs

Lower portfolio earnings but on higher multiples

Investment companies
Private equity

Deutsche Beteiligungs (DBAG) saw a partial rebound of its investment portfolio value in Q320 due to higher market multiples. While this had a €60.6m net positive impact in 9M20, it was more than offset by reduced earnings forecasts for DBAG's portfolio companies, especially in its core sectors (eg automotive). As a result, DBAG's NAV total return (TR) in 9M20 was a negative 4.8%. Meanwhile, the fund services business delivered a solid €6.6m profit in 9M20 (vs €1.6m in 9M19), which should improve further with the start of DBAG Fund VIII's investment phase in August (it recently announced it first MBO).

DBAG's carried portfolio's gross value change in 9M20 split by source (€m)



Source: DBAG, Edison Investment Research. Note: *FX impact, income from portfolio.

The market opportunity

DBAG is a well-established player in the German private equity (PE) mid-market segment. It has shown its ability to benefit from market cyclicality, delivering an average exit multiple of 2.7x since 1998, despite several market downturns. Recurring income from fund services (further supported by the launch of a new management buyout (MBO) fund) provides a degree of stability by covering most ongoing costs and giving DBAG flexibility regarding exits. We also note DBAG's increasing exposure to its new focus sectors (especially broadband telecom), which have so far proved more resilient to the current downturn than DBAG's core industrial sectors (with the latter still making up 46% of the portfolio).

Why consider investing in DBAG?

- Solid track record, with an average MBO exit multiple of 2.7x and growth financings of 3.4x since 1998.
- Growing exposure to 'focus' sectors of broadband/telecommunications, IT services/software and healthcare (38% at end-Q320).
- Steady income from the fund services segment.

Return to a premium to NAV

DBAG's shares tend to trade at a premium to NAV (defined as total equity), which in our view reflects the market-implied value of its fund services business. The recent market turmoil saw DBAG's shares trade down to a 23% discount to NAV on 19 March 2020. They have since rebounded by 32% while the NAV has declined by 5%, so the shares are currently trading at a 13% premium.

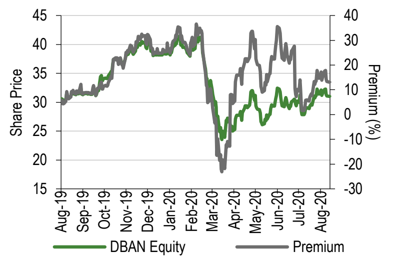
20 August 2020

Price	**€31.00**
Market cap	**€466.4m**
NAV*	**€412.2m**
NAV per share*	€27.40
Premium to NAV	13.1%

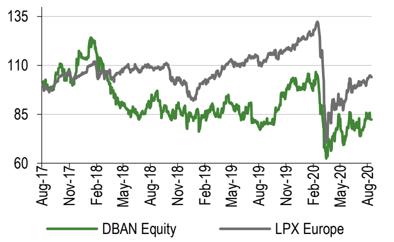
*Defined as total equity. As at end-June 2020.

Yield	4.8%
Ordinary shares in issue	15.0m
Code	DBAN
Primary exchange	Frankfurt
AIC sector	Private Equity
Benchmark	N/A

Share price/discount performance



Three-year performance vs index



52-week high/low	€41.75	€23.50
NAV* high/low	€30.59	€23.94

*Including income.

Gearing

Gross*	0.0%
Net cash*	4.0%

*As at end-June 2020.

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Edison profile page

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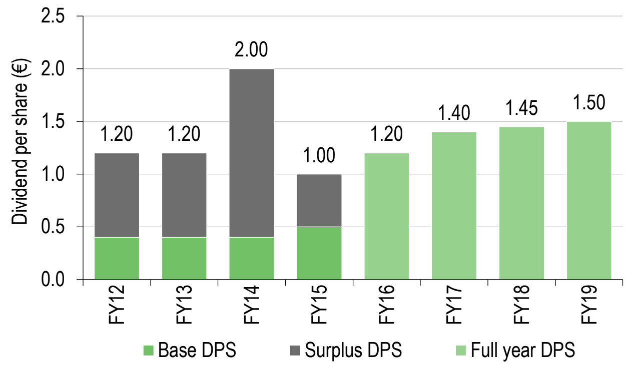
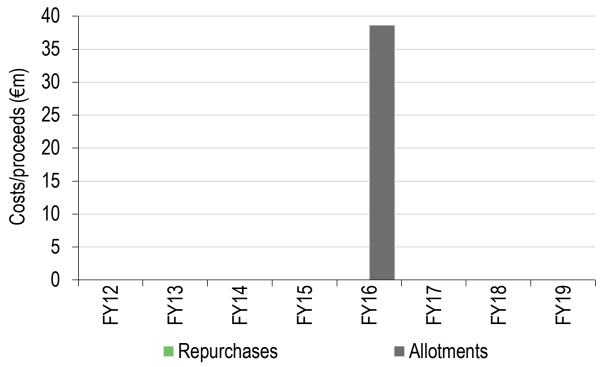
Exhibit 1: Company at a glance

Investment objective and fund background	Recent developments
Deutsche Beteiligungs is a Germany-based and listed private equity investment and fund management company that invests in mid-sized companies in Germany and neighbouring German-speaking countries via MBO transactions and growth capital financings. There is a focus on growth-driven profitable businesses valued between €50m and €250m. DBAG's core objective is to sustainably increase net asset value (NAV).	■ 14 August 2020: DBAG Fund VIII – first MBO announced (Multimon) ■ 6 August 2020: 9M20 results – NAV TR* -4.8% vs LPX Europe NAV TR 3.4%. ■ 13 May 2020: DBAG Fund VIII successfully closed with €1.1bn capital. ■ 13 May 2020: H120 results – NAV TR -16.8% vs LPX Europe NAV TR +2.3%. ■ 25 February 2020: Annual dividend paid at €1.50 per share. ■ 28 September 2019: DBAG announces disposal of its investment in inexio.

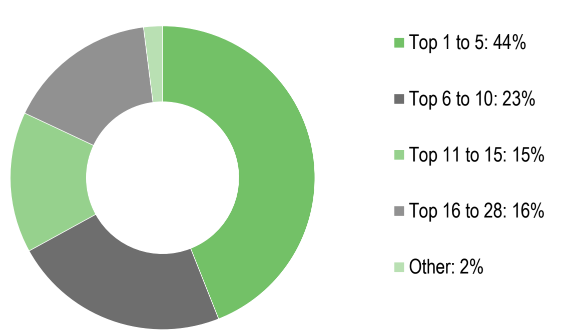
Forthcoming		Capital structure		Fund details	
AGM	25 February 2021	FY19 net expense ratio**	0.2%	Group	Deutsche Beteiligungs
Interim results	30 November 2020	Net cash	4.0%	Manager	Team managed
Year end	30 September	Annual mgmt fee	N/A (self-managed)	Address	Boersenstrasse 1
Dividend paid	February 2021	Performance fee	N/A (self-managed)		60313 Frankfurt am Main, Germany
Launch date	December 1985	Company life	Indefinite	Phone	+49 69 95787-01
Continuation vote	N/A	Loan facilities	€50m (undrawn)	Website	www.dbag.com

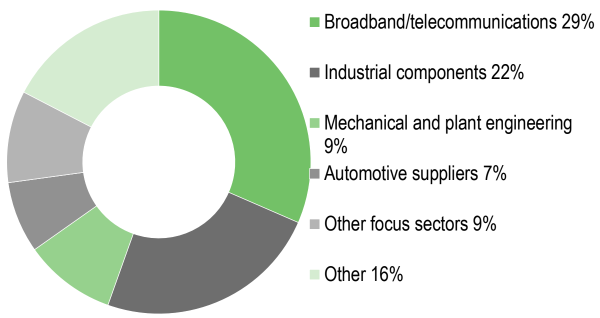
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
DBAG's policy is to pay a stable or rising annual dividend. Prior to FY16, a base dividend was paid, supplemented by a surplus dividend based on realised gains. The guidance of a stable dividend until 2022 has been withdrawn, while the policy remains unchanged in principle.	Share buybacks and capital increases are used to manage longer-term capital requirements. In FY16, €38.6m was raised through a 10% capital increase.



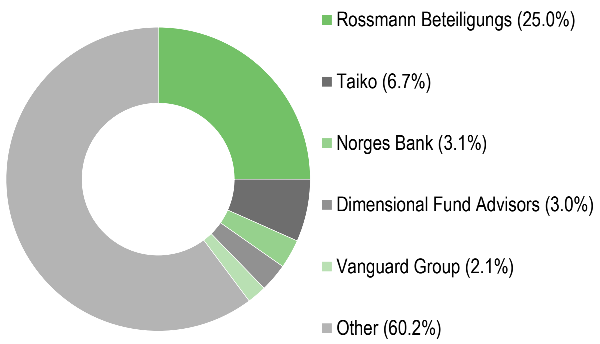


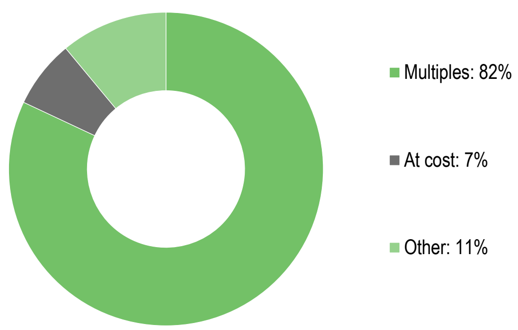
Concentration of DBAG's portfolio value by size (as at end-June 2020)	DBAG's portfolio exposure by sector (as at end-June 2020)





Shareholder base (as at 6 August 2020)	DBAG's portfolio value by valuation method (as at end-June 2020)





Source: DBAG, Edison Investment Research, Refinitiv. Note: *TR – total return, assuming dividend reinvested into portfolio in the quarter of ex-div date, **Based on expenses net of fee income; adjusted for non-recurring items.

Financial results: Reflecting the post-March rebound

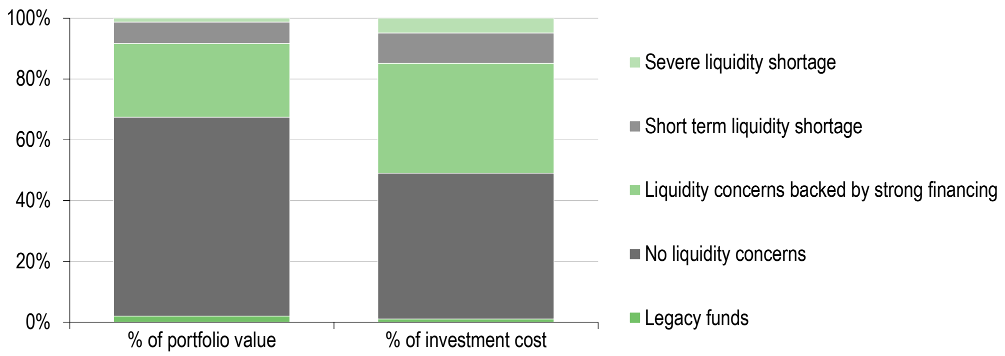
PE earnings rebound in Q320 amid positive market movements

DBAG's financial results for the nine months to end-June 2020 (9M20) reflect the recent macroeconomic crisis and volatile capital markets. The effects of the pandemic weighed heavily on DBAG's H120 results, both through the change in multiples of quoted peers on the back of the March 2020 sell-off (with 74% of the portfolio valued with a multiples method at end-March 2020) and downward revisions to the long-term earnings forecasts (ie excluding the short-term impact of COVID-19) of portfolio companies. The subsequent strong rebound in stock markets, somewhat offset by further reductions to the long-term earnings forecasts of DBAG's portfolio holdings (particularly from the core sectors), translated into a pre-tax loss in the PE segment of c €31m in 9M20 (vs €80m in H120). It is important to note that the above-mentioned revaluations apply to DBAG's carried portfolio, as its exit activity was limited during the period and included only two disposals (inexio and Romaco) for which pricing was agreed at the end of FY19 and reflected in the end-September 2019 valuations.

Management highlighted that industrial companies, which had already seen weaker growth before the pandemic outbreak, have suffered from further deterioration in demand. Moreover, consumer and service companies have experienced headwinds in recent months, presumably due to COVID-19. On the other hand, IT services, software and broadband communications remained resilient. DBAG still considers the overall financial condition of portfolio companies as challenging, but manageable, with 8.3% of its portfolio (by value) as at end-June 2020 experiencing liquidity bottlenecks (vs 7.2% at end-March 2020). Interestingly, based on DBAG's investments at cost, these companies represented 14.8% of the portfolio, which constitutes a decline from 19.5% at end-March 2020. Moreover, management indicated that the liquidity situation within its portfolio improved further in recent weeks on the back of securing additional debt funding.

DBAG's liquidity support to its portfolio companies involves providing a limited amount as an equity component to allow them to obtain bank funding in the form of credit lines. In the current financial year, the company has provided equity injections of €4.4m to seven portfolio companies, with DBAG funds deploying a further €11.2m. These portfolio holdings have also drawn down on credit facilities from the German development bank KfW in the amount of €58.7m. Portfolio companies facing immediate or short term liquidity shortage account for 8% of the portfolio value at end-Q320 and DBAG does not rule out that at least one of them could default.

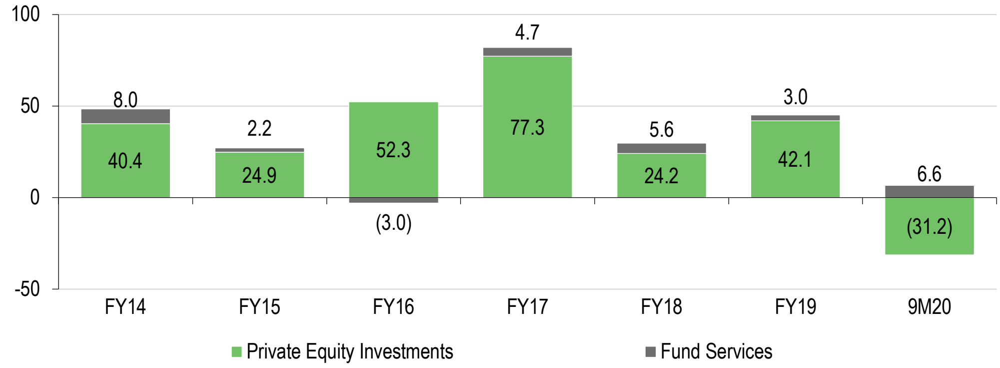
Exhibit 2: Portfolio split by estimated liquidity



Source: DBAG

Meanwhile, the fund services segment achieved a pre-tax profit of €6.6m compared to €1.6m in 9M19, with year-on-year growth assisted by a low base effect (one-off costs in 9M19 related to variable compensation, duplications of functions and severance payments). In 9M20, DBAG collected €21.4m in fees, slightly above the €21.2m in 9M19. This translates to last 12 months (LTM) fee income of 2.14% on average third-party capital of €1.3bn over the period (excluding DBAG's capital and fees collected between segments). The company's consolidated pre-tax loss was €31.2m in 9M20, while its net loss was €24.6m (vs a profit of €12.6m in 9M19).

Exhibit 3: DBAG's PBT by segment (€m)



Source: DBAG

NAV performance: Affected by reduced portfolio valuations

DBAG's NAV (defined as equity value) declined to €412.2m at end-June 2020 from €460.2m at end-September 2019, implying an NAV per share of €27.40 at the end of June 2020 (vs €30.59 at end-September 2019). After accounting for the €22.6m dividend (€1.50 per share) paid earlier this year, this implies a TR of negative 4.8% in 9M20. Fee income contributed a positive €1.36 to NAV per share (€20.4m) in 9M20.

Stock market rally supportive, but some market multiples seem detached from M&A market

The change in the value of DBAG's investment portfolio reduced the NAV by €2.43/share (or €36.5m in total, see Exhibit 4) in 9M20, mostly due to revaluations (down €2.79 per share), offset by €0.36 per share in distributions from portfolio companies. Consequently, the portfolio is currently valued at 1.04x acquisition costs (compared to 1.4x at end-September 2019). The recent rebound in equity markets translated into a positive impact from the change in the multiples used to value DBAG's portfolio of €4.03/share (€60.6m) in 9M20, after Q320 contributed €105.1m to the result. Downward revisions to earnings forecasts, coupled with the rebound in equity markets, has led to significant expansion of market valuation multiples, as highlighted by the mDAX P/E ratio rising to 27x currently, from its low of 13x on 18 March 2020.

Having said that, management believes that current stock market multiples in some sectors (automotive and mechanical engineering in particular) would be difficult to achieve upon exit at present. Here, we must note that DBAG is not applying market multiples to the earnings forecasts of its portfolio companies in a straightforward way, but instead adjusts its own entry multiples to reflect movements in public multiples. Having said that, 82% of DBAG's portfolio is valued based on multiples, with 11% valued using other valuation methods including DCF. The remaining 7% of DBAG's portfolio is valued at cost and has not been affected by these revaluations.

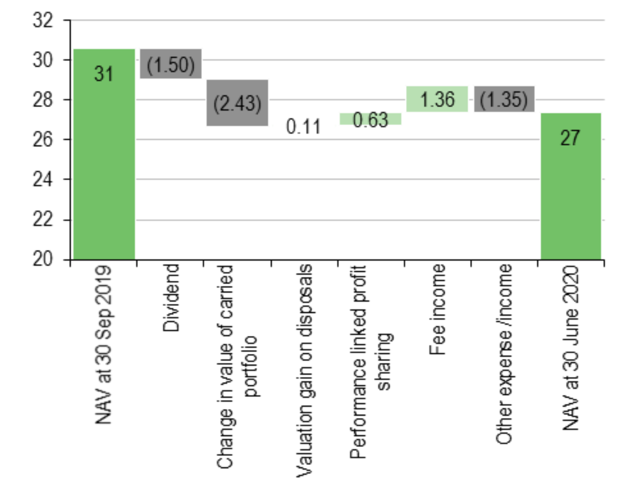
Downward revisions to earnings expectations still weighing on DBAG's NAV

DBAG has further reduced its long-term earnings forecasts for some portfolio companies. The downward revision to seven automotive and mechanical engineering holdings represented a €59.0m drag on DBAG's portfolio valuation, while 17 companies from other sectors added another negative €50.6m. These revaluations were offset only in part by the €48.3m positive impact from acquisitions made in the broadband telecommunications sector, leading to an overall negative contribution from company earnings of €4.07/share (€61.3m) in 9M20.

Additional debt at underlying companies to fuel acquisitions and secure liquidity

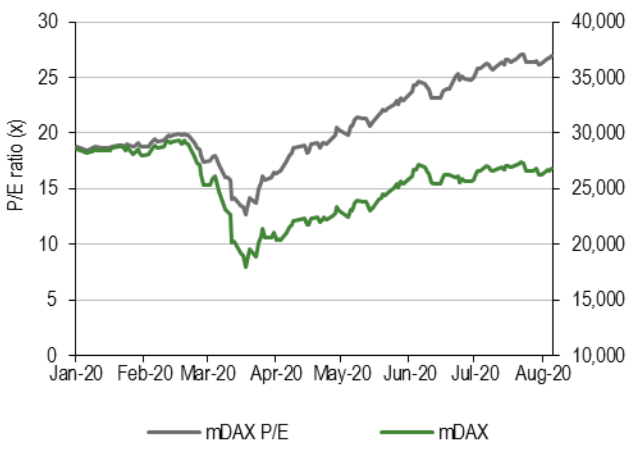
Change in debt at the level of portfolio holdings reduced DBAG's NAV by a further €42.1m, of which €31.6m is attributable to debt used to finance a particularly high number of add-on acquisitions, with the remaining €10.5m related to the drawdown of credit facilities or loans from the German development bank KfW to support liquidity. At end-June 2020, 46% of DBAG's portfolio companies by value had a net debt/EBITDA ratio of 4.0x or higher, with a further 31% in the range 3.0–4.0x. Having said that, we believe this is broadly in line with standard industry levels. Moreover, as DBAG does not receive any current distributions from its portfolio companies during the holding period, the companies are able to use cash surpluses to deleverage at a later stage.

Exhibit 4: DBAG's NAV performance in 9M20 (€/share)



Source: DBAG, Edison Investment Research

Exhibit 5: Ongoing revisions of forecasts* for companies within mDAX



Source: Bloomberg, Edison Investment Research. Note: *Multiple based on earnings forecasts for the next year.

Management guidance: Outlook remains uncertain

DBAG acknowledges that its results and NAV in Q420 (ending September 2020) may be affected by a further deterioration in the results of individual portfolio companies due to COVID-19, which could be mitigated through successful exits from ongoing disposal processes. However, at this stage it is difficult to predict the net effect of the above factors.

Assuming unchanged listed market valuations vs end-June 2020, DBAG expects to close FY20 with an NAV of €400–425m (which at the current share count translates to €26.59–28.25 per share), implying a one-year total return of -4.7% at mid-point. At the same time, DBAG expects a significant increase in earnings in the fund services segment in FY20 to €8–9m (vs €3.0m in FY19) as DBAG Fund VIII started its investment phase at the beginning of August and should thus provide an incremental €2.3m in fee income, according to management. The company continues to guide to a net loss in FY20 of between €5m and €25m.

Commitments increase following launch of new fund

In the nine months from end-September 2019, DBAG invested €54.0m. This includes in particular two MBOs, Cartonplast (€25.7m) and STG, with both transactions agreed in the prior fiscal year, as well as a €3.6m follow-on investment in radiology practices chain blikk (to fund its acquisition of Klinik Helle Mitte) and additional growth capital provided to fibreoptic network provider DNS:NET.

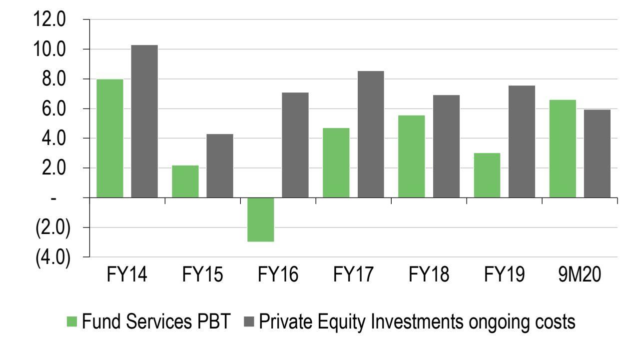
Consequently, DBAG's outstanding commitments (excluding DBAG Fund VIII) at end-June 2020 stood at €92.1m, down from €129.7m end-September 2019. These are largely related to DBAG Fund VII and ECF Fund II, which are still investing.

At the same time, DBAG's financial resources (including both cash and near-cash items such as investments in fixed-income and money market funds) at end-June 2020 stood at €16.5m (compared to €69.4m) following the funding of above-mentioned investments. DBAG's liquid position is further assisted by the undrawn €50m credit facility, translating into a commitment coverage ratio at 72% at end-June 2020. We note that an additional €27.9m of cash and equivalents is held by the investment entity subsidiaries, some of which is to be distributed to DBAG in the future.

However, with the start of the investment period of DBAG Fund VIII on 1 August 2020, DBAG's commitments increased by a further €255m, implying a coverage ratio of 19%. Having said that, these commitments are likely to be called gradually over multiple years (the fund has a six-year investment phase), though the fund has already recently announced its first MBO (Multimon). DBAG's management highlighted that it is exploring different equity and/or debt funding options to support coverage of its commitments and fuel its balance sheet investments in equity minority positions in companies seeking long-term financing. We note that DBAG's board of management is also authorised to issue up to €140m in warrant-linked and/or convertible bonds until February 2022. In addition, the company is yet to receive the proceeds from the inexio exit completed earlier during the fiscal year (accounts for most of the €20.5m 'other' position in portfolio value) and plans to complete the Rheinhold & Mahla disposal before the end of the current calendar year (expected to be closed below the investment cost of €15.4m).

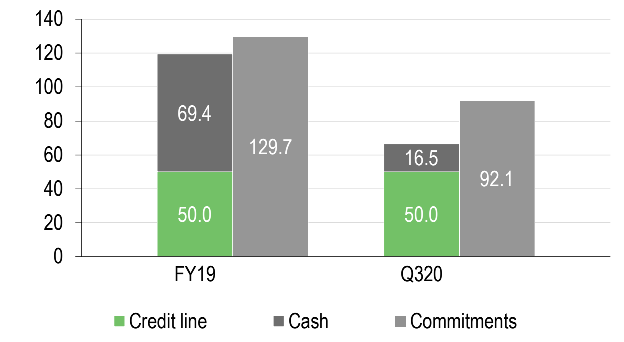
We note that cash collection from the fund services segment is often aligned to cover DBAG's capital calls, which suggests that the company's liquid position may at times be somewhat understated. Overall, DBAG is generating recurring and stable (cash) income from its fund services segment, which covers most of its ongoing operational costs (111% in 9M20, see Exhibit 6).

Exhibit 6: Fund services segment's PBT vs private equity segment's net other expenses (€m)



Source: DBAG, Edison Investment Research

Exhibit 7: DBAG's liquidity position (€m)



Source: DBAG, Edison Investment Research

Market outlook: Value creation in trying times pays off

We believe that in the decade following the 2008/09 Global Financial Crisis (GFC), the broader PE market has solidified its position as an investment class delivering better returns than public markets and has become less prone to downward revaluations. This is highlighted by buyout funds posting a net IRR over the last 10 years superior to stock markets in Developed Europe (FTSE 100 PME) and Asia-Pacific (MSCI Asia-Pacific mPME) and similar to the US (S&P 500 PME) according to Bain[1]. Bain reports the net IRR over the last 20 years was more than double that of public markets in both US and Europe. The rising popularity of PE resulted in almost threefold growth in capital invested in the segment between 2010 and 2020. The DACH region hit a record high in 2019 with total deal value of €54.6bn (up 43% y-o-y and the highest level since 2014), particularly driven by buyout transactions, which surged by 62% y-o-y to €50.1bn.

While the COVID-19 crisis is likely to represent a pause in this trend (and has already started to trigger NAV declines across the sector), we believe that there are several mitigating factors for the PE industry that could allow it to be less severely affected throughout the downturn and subsequent recovery than the broader economy.

PE-backed companies benefit from **more accessible funding during a crisis** and thus their financial condition tends to be more resilient. Apart from follow-on PE investments, private companies may receive funding from private debt funds, which emerged post-GFC as major players in the market (with assets under management (AUM) of US$854bn entering 2020 against US$317bn in 2010 according to Preqin[2]), filling the gap left by banks that were affected by an increased regulatory burden.

Value creation expertise allows managers to outperform throughout the cycle, as illustrated by the findings of a recent McKinsey study[3], which suggests that during the latest recession and recovery (2009–13), PE funds actively involved in managing portfolio companies provided an internal rate of return (IRR) of 23% on average against just 18% reported by funds with no value-creation teams. In this context, it is also important to flag that many general partners (GPs) had been expecting an economic downturn for quite some time even prior to the current downturn and have been positioning their portfolios to more defensive sectors, such as technology, media and telecom (TMT), healthcare and consumer staples. DBAG is a good example here with its expansion into TMT (broadband/telecom in particular) in recent years, even though the company still has a relatively high exposure to automotive and other industrial sectors (c 46% of portfolio value at end-June 2020).

PE funds with available firepower have wider buying opportunities at reasonable valuations to pursue in a distressed environment. In this context, it is worth highlighting that the upturn in the PE market in recent years has driven strong fund-raising, c US$660bn globally in both 2018 and 2019 according to Preqin data. This in turn (together with strong realisation activity over the last two to three years) led to a significant increase in dry powder across the sector. According to Bain & Company, in April 2020 PE funds held a record US$2.6tn in uncalled capital globally, with over US$800bn attributable to buyout funds alone.

The contraction in PE valuations may be less significant than in public markets during the GFC. As highlighted by McKinsey in its recent study, the decline in EV/EBITDA multiples during the GFC (based on a two-year trailing average EBITDA) was less pronounced in US buyout investments with transaction multiples falling from 9.4x in 2007 to 8.8x in 2010, than in public assets (Russell 2000 Index), declining from 11.6x to 9.8x, respectively. Having said that, we need to flag that average 2019 US buyout multiples reached 11.9x, marking the highest level in the last 15 years. The corresponding multiple in the European market was 10.9x in Q319, based on S&P Capital IQ data. According to Roland Berger's European Private Equity Outlook 2020, 94% of surveyed PE professionals considered pre-COVID-19 valuation multiples as demanding.

Fund-raising so far has remained solid, although there are already signs of a 'flight to quality' and due diligence processes becoming extended. In H120, around US$258.9bn of capital was raised in

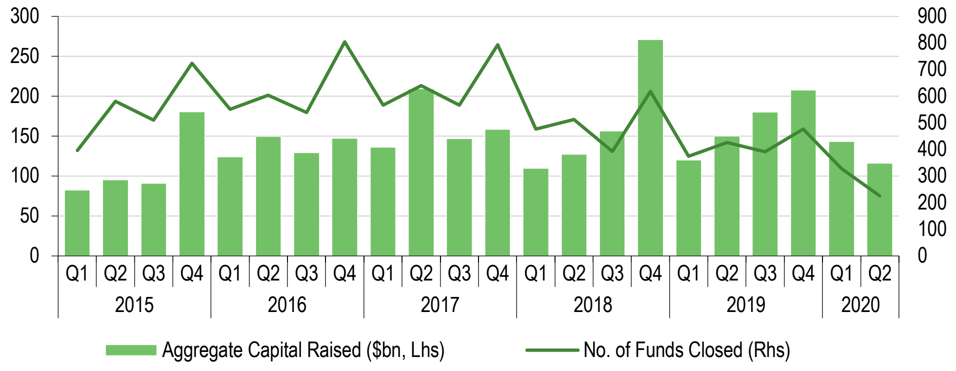
[1] Global Private Equity Report 2020. Bain & Company

[2] Preqin Quarterly Update: Private Equity & Venture Capital, Q2 2020. Preqin

[3] McKinsey Global Private Markets Review 2020. McKinsey & Company

the global PE market according to Preqin data, which is broadly in line with recent years. Limited partners (LPs) now show limited willingness to significantly reduce their investment commitments based on the experience gathered from the previous crisis when PE investments performed well during the recovery phase. We note that DBAG had the final closing of its latest MBO fund (DBAG Fund VIII) in May 2020 and is unlikely to conduct any fund-raising for any potential new funds in the near term.

Exhibit 8: Global quarterly private equity fund-raising, Q115–Q220



Source: Preqin Quarterly Update: Private Equity & Venture Capital, Q2 2020

A survey among German PE companies conducted by specialist journal FINANCE on behalf of DBAG in June 2020 suggests that the M&A market may remain muted in the short term (similarly to what happened during the GFC). Having said that, while GPs are focusing on supporting their existing portfolio companies, they remain open to new investment opportunities, especially in the software/IT, healthcare and TMT sectors. At the same time, they shy away from industrials given their poor industry outlook (incoming orders at around 70% of the five-year average according to DBAG), which may limit DBAG's exit activity in its core sectors. This is also highlighted by German manufacturing PMI, which entered the COVID-19-induced crisis in a downward trend that has lasted since late 2018. However, July 2020 brought some optimism, as the industry is recovering from the lockdown. The reading pointed to the first expansion in factory activity since December 2018, new orders increased at the steepest rate in over two years. Finally, sentiment improved amid hopes of a sustained recovery and the final PMI score arrived at 51, the first time it has been over 50 since December 2018, yet still far from the 63 seen in late 2017. Overall, GPs are likely to extend their holding periods in response to the current crisis.

Asset allocation

Investment strategy: 'Mittelstand' companies with potential

DBAG operates an integrated business model with two complementary business lines, PE investments and fund investment services, built around DBAG-managed PE funds (DBAG funds), through which DBAG invests alongside third-party investors. Investing through the DBAG-managed funds creates a substantially larger capital base, and hence a broader range of investment opportunities, for DBAG's own balance sheet investments. The strategy also provides some assurance to third-party investors in the funds that the manager's interests are aligned with their own.

DBAG invests in well established companies with proven business models rather than early stage businesses or companies requiring restructuring. The companies are often characterised by leading market positions, entrepreneurial management and capacity for innovation, with the prospect of a long-term future for their products.

Amid the current crisis, DBAG expects investment opportunities to arise in equity minority positions in companies seeking reliable long-term financing. Until recently, DBAG was executing these investments through DBAG ECF, but going forward will be investing exclusively through its own balance sheet. DBAG does not intend to invest in distressed assets though as they remain outside of its core strategy.

As well as participating in competitive sale processes, DBAG's extensive network enables it to originate proprietary deal flow. DBAG's investment process consists of three phases:

- **Investing** – identification and assessment of transaction opportunities. In FY19, more than 250 investment opportunities were screened, and four have been selected as particularly promising.
- **Developing** – supporting a portfolio company's development process. DBAG typically supports portfolio companies as a financial investor in a focused partnership role for four to seven years. DBAG sees value appreciation opportunities in its current portfolio mainly from geographical expansion (41% of investments by value at end-September 2019), new business field expansion (27%) and operational improvements (17%). The targeted average annual gross IRR is 25% for MBOs (80% of current portfolio value) and 20% for expansion capital financings (18% of portfolio).
- **Realising** – realising value appreciation through a well-timed and well-structured divestment. Investments are usually exited through a trade sale of portfolio companies to an industrial partner with which companies can continue their development but may also involve the sale to a new financial investor or listing as a public company.

Members of the investment team with more extensive experience and management board members are required to personally co-invest alongside DBAG funds (in order to ensure further interest alignment) and generally contribute 1% of raised capital. They are entitled to a share in profit (carried interest) at 20% of proceeds from sales over the investors' preferred return of 8% pa.

Since 1997, DBAG has financed 56 MBOs alongside DBAG Funds III–VII and DBAG ECF. As at end-June 2020, 32 of these investments had been realised, with aggregate exit valuations representing 2.7x invested capital (see Exhibit 9). This does not include the recently announced disposal of Rheinhold & Mahla at an agreed price below DBAG's original cost (expected to be closed until the end of the current calendar year). Moreover, as discussed later in the note, DBAG recently announced the first MBO by the DBAG Fund VIII.

Exhibit 9: DBAG's MBO transactions realised since 1997 until Q320

Company	Investment date	Divestment date	Holding period (years)	Exit route	Exit multiple
Infiana Group GmbH	Dec-14	Sep-19	4.8	Secondary Buyout	2.2x
Unser Heimatbäcker GmbH	May-14	Jan-19	4.6	Write-off	0.0x
CleanPart Group GmbH	Apr-15	Oct-18	3.5	Trade Sale	2.4x
Formel D GmbH	May-13	Jul-17	4.2	Secondary Buyout	4.9x
ProXES GmbH	May-13	Jul-17	4.2	Secondary Buyout	5.4x
ZGS-Bildungs GmbH	Oct-13	Jul-17	3.8	Secondary Buyout	3.9x
Romaco GmbH	Apr-11	Jun-17	6.2	Trade Sale	2.4x
FDG S.A.	Jun-10	Apr-17	6.8	Secondary Buyout	2.4x
Broetje	Mar-12	Oct-16	4.6	Trade Sale	4.1x
Clyde Bergemann Power Group	May-05	Apr-16	10.9	Trade Sale	0.3x
Spheros GmbH	Dec-11	Mar-16	4.3	Trade Sale	2.5x
Homag Group AG	Feb-07	Oct-14	7.7	IPO / Trade Sale	2.8x
Coveright Surfaces GmbH	Jun-03	Jan-13	9.6	Trade Sale	1.2x
ICTS Europe B.V.	Mar-08	Dec-12	4.8	Write off	0.0x
Preh GmbH	Oct-03	Dec-12	9.2	Trade Sale	3.1x
Coperion GmbH	Jul-07	Nov-12	5.3	Trade Sale	4.2x
Heim & Haus GmbH	Sep-06	May-11	4.7	Buy Back	1.9x
MCE AG	Apr-07	Oct-09	2.5	Trade Sale	4.1x
Lewa GmbH	Sep-05	Aug-09	3.9	Trade Sale	7.3x
AkSys GmbH	Nov-01	Oct-08	6.9	Trade Sale	0.1x
DS Technologie GmbH	Jul-98	Oct-07	9.3	Trade Sale	1.3x
HT Engineering GmbH	Jun-02	Jun-06	4.0	Trade Sale	6.2x
Zapf GmbH	Nov-99	Apr-06	6.4	Trade Sale	0.1x
Otto Sauer Achsenfabrik	Apr-04	Mar-06	1.9	Secondary Buyout	4.1x
Babcock Borsig Service	Nov-03	Apr-05	1.4	Trade Sale	5.8x
Andritz AG	Dec-99	Aug-04	4.4	IPO	2.0x
Edscha AG	Oct-00	Dec-02	2.2	Secondary Buyout	1.8x
Libro AG	Feb-97	Jul-01	3.4	Trade Sale	1.6x
Sebaldus GmbH	Aug-97	Nov-00	3.3	Trade Sale	3.5x
Euvita KG	Jul-97	Aug-00	3.1	Trade Sale	0.9x
GAH AG	Jul-98	Jul-00	2.0	Trade Sale	3.7x
Schoeller & Hoesch KG	May-97	Dec-98	1.6	Trade Sale	2.6x
Simple average			**4.9**		**2.7x**

Source: DBAG. Note: Does not include the announced but not yet closed disposal of Rheinhold & Mahla (agreed in July 2020).

Exhibit 10: DBAG's MBO transactions realised since 1997 by segment until Q320

	Average holding period (years)	Unweighted average exit multiple (x)	Number of exits
Mechanical and plant engineering	6.0	3.6	10
Industrial components	5.3	2.0	3
Industrial services	3.5	3.1	6
Automotive suppliers	4.8	2.8	6
Other	4.2	1.7	7

Source: DBAG, Edison Investment Research

Furthermore, DBAG has realised 14 growth financings at an average exit multiple of 3.4x based on an average holding period of 6.7 years (see Exhibit 11). This includes in particular the inexio exit in November 2019, its first realisation from the focus portfolio at an attractive multiple of 7.6x.

Exhibit 11: DBAG's growth financings realised since 1997 until Q320

Company	Investment date	Divestment date	Holding period	Exit route	Exit multiple
Inexio	May-13	Nov-19	6.5	Secondary buyout	7.6
Novopress	Jun-15	Jul-19	4.1	Repayment	15.7
PSS	Dec-12	Jan-19	6.1	Trade sale	0.5
Homag	Jan-97	Oct-14	17.8	Trade sale	3.4
Bauer	Sep-96	Jul-06	9.8	IPO	4.0
Schlott	Jan-00	Mar-05	5.2	Secondary placement	1.6
Hoermann	May-97	Oct-04	7.4	Repayment	2.5
Sauer	May-97	Apr-04	6.9	Repayment	1.9
HKL Baumachinen	Feb-95	Feb-04	9.0	Repayment	2.4
Rheinhold&Mahla	Dec-99	Sep-02	2.8	Trade sale	1.5
Hawe	Jan-97	Jun-02	5.4	Trade sale	2.6
AVK/SEG	Sep-96	Oct-01	5.1	Trade sale	1.5
Frosch Touristik	Feb-96	Dec-00	4.8	Trade sale	1.4
Palfinger	Nov-96	Jun-99	2.6	IPO	2.1
Average			**6.7**		**3.4**

Source: DBAG

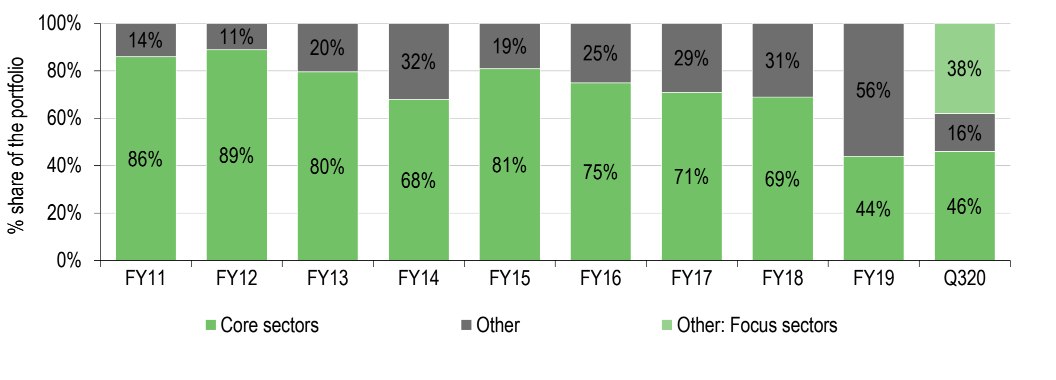
Current portfolio positioning: A tale of two sector pools

DBAG's gross investment portfolio as at end-June 2020 was valued at €368.1m and comprised 23 MBOs, five expansion financings and an investment in international buyout fund DBG Eastern Europe II (an older fund investment from 2001, which is gradually being liquidated through the realisation of the underlying investments). We calculate the total portfolio value at €388.6m, which includes loans granted to portfolio companies (€28.5m), the expected payment for the sale of Inexio (€20.4m), and excludes minorities (€28.6m)

Its portfolio can be divided in three main pools: core sectors, focus sectors and other. Historically, DBAG's core competencies were in German industrials, in particular four sectors: mechanical and plant engineering, automotive suppliers, industrial services providers and industrial components manufacturers. However, in recent years DBAG has reduced these exposures to c 46% of portfolio value at end-June 2020 compared to 81% at end-FY15 (see Exhibit 12).

Simultaneously, DBAG has been building its exposure to the so-called 'focus' sectors, mainly in TMT, which now represent c 38% of the portfolio. This corresponds with the ongoing digitalisation of the economy (which may become accelerated due to the pandemic), creating more attractive opportunities outside of the above-mentioned core segments, along with the growing scale of DBAG funds. We understand that focus sectors will remain DBAG's priority in terms of new investments once activity in the M&A market recovers from the standstill during the coronavirus outbreak. The remaining 16% of the portfolio is allocated to other sectors eg consumer goods.

Exhibit 12: DBAG's portfolio exposure to core sectors FY11–Q320



Source: DBAG

With respect to split by vintage, we note that 26% of DBAG's portfolio at end-June 2020 represents investments held less than two years. On one hand, it means that these are still in the value creation phase and DBAG is unlikely to feel the pressure to realise these investments in the near term. On the other hand, they were purchased closer to the peak of the cycle in 2018–19. Having said that, DBAG's more recent investment activity was largely concentrated in its focus sectors (TMT in particular), where valuations may experience a less pronounced pressure in the current environment. At the same time, 27% of the portfolio represent vintages above five years, ie at the upper end of standard PE holding periods, and a further 45% was held for two to five years, of which some could be considered ripe for an exit. However, we expect that the COVID-19 crisis will lead to extended holding periods across the PE sector and this may also apply to DBAG.

During 9M20, the company finalised two MBOs (Cartonplast and STG, both agreed in FY19), with no new transactions in Q320. Management highlighted that the deal flow has started to improve in June, but it remains below last year's levels. Having said that, in July 2020 DBAG agreed to sell Rheinhold & Mahla from the DBAG ECF portfolio to a strategic investor (Chinese State Shipbuilding Corporation). The company is an industrial services provider for ship interior fitting suffering from challenging conditions in the sector. The agreed selling price is below DBAG's original cost of investment back in September 2016 and has already been reflected in the end-June 2020 valuations (though the company expects a single-digit million euro uplift after the balance sheet date).

Moreover, 13 add-on acquisitions were agreed during the nine months to end-June 2020 across DBAG's portfolio companies (with only one acquisition made by blikk associated with additional funding provided by DBAG). Since the beginning of the calendar year, four of DBAG's portfolio companies executed in total nine acquisitions, suggesting a partial revival of the M&A market. The above transactions were mostly attributable to TMT companies, except for the radiology group **blikk**, which took over a specialised hospital in Berlin (Klinik Helle Mitte), and dialysis practice Morlock. **Duagon** (a network components producer from the DBAG Fund VII portfolio) completed one acquisition in February 2020. Within DBAG ECF's portfolio, **DING Group** (renamed STG) finalised four add-on acquisitions (of which one completed post reporting date), **Netzkontor nord** (broadband telecommunications) acquired Voss Telecom Services and SSF Telekommunikations Management, and **vitronet** completed three deals. Moreover, **BTV** agreed on one transaction in the last quarter.

Post the reporting date, DBAG announced the MBO of PM Plastic Materials. DBAG will invest €16m alongside DBAG Fund VII in the European manufacturer of pre-wired and empty cable conduits, used primarily for electrical installations. The transaction is the first by DBAG's MBO in Italy, and the ninth buyout of DBAG Fund VII – after the investment, more than 75% of the fund will be invested. PM Plastic Materials is a family owned business, employing 120 staff and extruding roughly 320k kilometres of plastic pipes per year. One-third of production comprises pre-wired conduits, which shorten installation time by half. It reached €101m in sales in FY19 after posting revenue growth at 12% pa on average since 2003.

Moreover, DBAG has recently announced the first MBO by the DBAG Fund VIII, which will invest in Multimon, a German provider of fire protection systems (with DBAG's investment alongside the fund of €8.1m). Multimon employs 520 staff and generated revenues of €93m in FY19, of which just under 70% is attributable to Germany and 20% to Poland.

Exhibit 13: DBAG's investment portfolio at end-June 2020

Company	Headquarters	Core business	2019 revenue	Emplo y-ees	First inv't	Type of inv't	Co-inv't fund	Fund equity share	DBAG inv't cost	DBAG equity share	DBAG gross portfolio value
Heytex Bramsche GmbH	Bramsche, Germany	Manufacturer of textile print media and technical textiles	€101m	389	Dec-12	MBO	DBAG Fund V	69.8%	€6.5m	16.8%	>5 yrs
DNS:NET Internet Service GmbH	Berlin, Germany	Telecommunications and IT services based on high-quality fibre-optic	€21m	200	Sep-13	Exp. capital	DBAG ECF	21.8%	€20.9m	15.7%	€99m

		infrastructure in Berlin and Brandenburg									
Pfaudler International Sàrl	Schwetzingen, Germany	Manufacturer of glass-lined reactors and components for the chemical and pharmaceutical industries	US$281m	1,539	Dec-14	MBO	DBAG Fund VI	76.0%	€13.3m	17.8%	
Oechsler AG	Ansbach, Germany	Developer, manufacturer of injection-moulded precision components principally for automotive suppliers	€476m	3,048	Mar-15	Exp. capital	DBAG ECF	11.6%	€11.2m	8.4%	
Gienanth GmbH	Eisenberg, Germany	Iron foundry producing castings for automotive suppliers, diesel and gas engine blocks	€196m	1,146	Mar-15	MBO	DBAG Fund VI	54.7%	€4.2m	12.9%	
JCK KG	Quakenbrück, Germany	Textile retail business, mainly for discounters	€879m	1,644	Jun-92	Exp. capital	DBAG ECF	6.5%	€8.8m	9.5%	
Silbitz Group GmbH	Thuringia, Germany	Iron foundries producing castings for wind energy systems, drive engineering and engine construction	€164m	1,009	Aug-15	MBO	DBAG Fund VI	54.6%	€4.3m	12.8%	**2–5 yrs**
mageba AG	Bülach, Switzerland	Provider of structural bearings, expansion joints and other services for the infrastructure and buildings sectors	CHF102 m	1,040	Feb-16	Exp. capital	DBAG ECF	21.8%	€6.7m	19.8%	
Telio Group	Hamburg, Germany	Developer, installer and operator of communications and media systems in prisons	€52m	200	Apr-16	MBO	DBAG Fund VI	66.7%	€14.3m	15.6%	
Rheinhold & Mahla GmbH*	Hamburg, Germany	Interior outfitting for ships and marine installations, such as cruise ships, ferries and offshore platforms	€144m	507	Sep-16	Exp. capital	DBAG ECF	49.6%	€15.4m	45.0%	
Polytech Health & Aesthetics GmbH	Dieburg, Germany	Development and production of silicone implants used in reconstructive and aesthetic plastic surgery	€51m	273	Oct-16	MBO	DBAG Fund VI	64.9%	€14.4m	15.2%	
Frimo Group	Lotte, Germany	Developer and manufacturer of tooling and production plants for plastic components used in automotive applications	€203m	1,295	Nov-16	MBO	DBAG Fund VI	60.5%	€18.8m	14.2%	
Dieter Braun	Bayreuth, Germany	Supplier of cable assembly and lighting solutions to the automotive industry	€81m	1,540	Jan-17	MBO	DBAG Fund VI	69.3%	€5.9m	16.2%	€166m
More than Meals Europe Sàrl	Luxembourg	Manufacturer of chilled meat products, prepared meals and snacks for private-label brands of large grocery chains	€524m	3,250	Apr-17	MBO	DBAG Fund VII	76.2%	€16.5m	17.2%	
Vitronet Projekte GmbH	Essen, Germany	Fibre-optic network services provider to the telecoms industry	€97m	437	Jun-17	MBO	DBAG ECF	45.5%	€4.5m	41.3%	
duagon AG	Dietikon, Switzerland	Provider of network components for data communication in railway vehicles	CHF113m	469	Jul-17	MBO	DBAG Fund VII	72.9%	€23.8m	21.3%	
Netzkontor Nord GmbH	Flensburg, Germany	Regional provider of services for fibre-optic networks management and construction planning	€28m	484	Jan-18	MBO	DBAG ECF I	50.9%	€5.0m	35.9%	
Sjølund A/S	Sjølund, Denmark	Manufacturer of complex bent aluminium and steel components.	DKK263 m	237	Jan-18	MBO	DBAG ECF I	29.8%	€4.5m	21.0%	
Karl Eugen Fischer GmbH	Burgkunstadt, Germany	Leading manufacturer and developer of cutting systems for the tyre industry	€51m	471	Jun-18	MBO	DBAG Fund VII	71.2%	€22.6m	20.9%	
von Poll Immobilien GmbH	Frankfurt, Germany	Real estate agency	€104m	123	Jul-18	MBO	DBAG ECF I	42.5%	€11.7m	30.1%	**1–2 yrs**
BTV Multimedia GmbH	Hannover, Germany	Manufacturer and full-service provider of cable and fibre-optic networks	€67m	126	Aug-18	MBO	DBAG ECF II	45.6%	€7.0m	32.2%	
FLS GmbH	Heikendorf, Germany	Provider and developer of real-time route optimisation software	€11m	86	Oct-18	MBO	DBAG ECF II	22.0%	€9.5m	15.5%	
Kraft & Bauer Holding GmbH	Holzgerlingen, Germany	Supplier of automated fire extinguishing systems for machine tools	€27m	84	Nov-18	MBO	DBAG Fund VII	61.3%	€13.4m	17.9%	€61m
SERO Schröder Elektronik Rohrbach GmbH	Rohrbach, Germany	Development partner and manufacturing service provider for electronic components, with focus on the automotive sector	€90m	207	Nov-18	MBO	DBAG Fund VII	73.3%	€10.7m	21.4%	

blikk radiology group	Unna, Germany	Regional provider of diagnostic and therapeutic radiology outpatient and inpatient care services	€95m	632	May-19	MBO	DBAG Fund VII	50.0%	€19.0m	10.9%	
cloudflight GmbH	Munich, Germany	Advisory services, software development and cloud operations	CHF33m	400	Jun-19	MBO	DBAG Fund VII	48.2%	€8.2m	14.4%	
Cartonplast	Dietzenbach, Germany	Pool system for the rental of reusable plastic layer pads	€83m	812	Nov-19	MBO	DBAG Fund VII	80.6%	€25.3m	16.4%	**<1 yr**
DING-Gruppe	Bochum, Germany	General contractor for FTTH fibre-optic infrastructures, in-house networks and media supply	€18m	90	Nov-19	MBO	DBAG ECF II	49.5%	€9.6m	34.9%	€35m
Buyout funds											**>5 yrs**
DBG Eastern Europe II	Jersey, Chan. Islands	One investment remaining in portfolio			Jan-03	Buyout fund			€0.1m	14.9%	€7m
Post-reporting date acquisitions											
PM Plastic Materials	Bergamo, Italy	European manufacturer of pre-wired and empty cable conduits	€101m	120	Aug-20**	MBO	DBAG Fund VII	N/D	€16.0m	N/D	N/A
Multimon	Munich, Germany	Provider of fire protection systems	€93m	520	Aug-20***	MBO	DBAG Fund VIII	N/D	€8.1m	17%	N/A

Source: DBAG, Edison Investment Research. Note: *Disposal in July 2020. **Date of announcement– transaction is subject to approval of antitrust authorities which DBAG expects to obtain by end-September 2020. ***Date of announcement.

DBAG funds: Successful closing of a new fund in May

At present, DBAG has assets under management and advisory of €2.5bn (of which c €2.1bn is attributable to third-party investors according to our estimates) compared to €1.7bn at end-September 2019. We note that DBAG's AUM reflects committed amounts and is not subject to revaluations. The significant increase was largely the result of the final closing of the company's latest buyout fund (DBAG Fund VIII) in May 2020. It is comparable in size to its predecessor (DBAG Fund VII) with €1.1bn of committed capital (of which €255m is provided by DBAG), including a €199m top-up fund. The commitments were made by pension funds (35%), insurance companies (25%), funds of funds (11%), banks (9%) and other investors (20%). Interestingly, 86% of the commitments come from investors in former DBAG Funds, illustrating their high satisfaction level.

DBAG has deliberately kept the volume of DBAG Fund VIII in line with the prior fund to retain the flexibility to select only the most promising assets in the relevant market segment and deploy capital swiftly. The new fund was initially scheduled to perform its first investments right after closure. However, the recent macro uncertainty (which makes it difficult to reflect the new reality in corporate valuations for transaction purposes) has limited activity in the M&A market in the initial months following the pandemic outbreak. Consequently, management initially expected the fund to start its investment phase after the end of the current fiscal year (ending September 2020). However, it announced in the Q320 report that actually the investment phase was initiated on 1 August 2020 on the back of promising deal flow exceeding the capacity of DBAG Fund VII.

Meanwhile, DBAG Fund VII remains in its investment phase (ending December 2022) and has so far deployed c 80% of its principal fund commitments (as well as 63% of its top-up fund), while DBAG ECF II is 64% invested (according to our estimates) with its investment period ending at end-2020. Together with commitments to DBAG Fund VIII, this leaves DBAG with at least €1.0bn of firepower to pursue new deals across its funds. All remaining DBAG funds are either fully invested or in realisation phase (see Exhibit 14).

Exhibit 14: DBAG's currently active funds

Fund	Launch date	End of investment period	Target	Status	Size	Thereof DBAG's holding (%)	% allocated
DBAG Fund V	Feb-07	Feb-13	Buyouts	Divesting	€539m	19%	N/A
DBAG Fund VI	Feb-13	Dec-16	Buyouts	Divesting	€700m*	19%	N/A
DBAG Fund VII	Dec-16	Dec-22	Buyouts	Investing	€1,010m	20%	c 80%**
o/w top-up fund	Dec-16	Dec-22	Buyouts	Investing	€202m	8%	63%
DBAG Fund VIII	May-20	Aug-26	Buyouts	Investing	€1,109m	23%	0%****
o/w top-up fund	May-20	Aug-26	Buyouts	Investing	€199m	23%	0%
DBAG ECF	May-11	May-17	Growth financing	Fully invested	€212m	47%	N/A
DBAG ECF I	Jun-17	Jun-18	Growth financing and small buyouts	Fully invested	€85m	41%	N/A
DBAG ECF II	Jun-18	Dec-20	Growth financing and small buyouts	Investing	€96m	41%	64%***

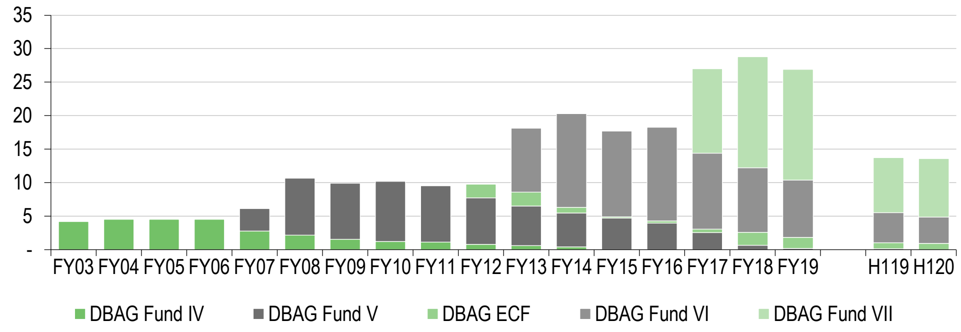
Source: DBAG, Edison Investment Research. Note: *Excluding co-investments from DBAG's senior team members. **Allocation of principal fund excluding the recently announced MBO of PM Plastic Materials; at end-March 2020 it stood at 79%. ***Edison estimate – investment level for the three ECF funds was 68–81% at end-March 2020 according to DBAG. ****Does not account for the MBO of Multimon which has been announced but not yet closed.

The company collects fees for fund management and advisory on the basis of capital committed to DBAG Funds at c 2.0% pa. Consequently, fee income from MBO funds increases steeply upon fund launch and remains broadly stable during the investment period, irrespective of the pace of the fund's deployment. Once the fund is fully invested, fees are charged based on capital invested and fee income subsequently declines during the divesting period. The only exceptions are top-up funds of DBAG Fund VII and VIII, which invest exclusively in transactions that exceed the concentration limits of the principal fund. In this case, fees are charged based on capital invested rather than committed at 1.0% pa for DBAG Fund VII and 1.5% pa for DBAG Fund VIII. DBAG's fee income from ECF funds (targeted at expansion capital investments through minority stakes and small buyouts) is based on capital invested (rather than committed) at 1.75% pa and subsequent investments increase the fees collected by DBAG (and also trigger transaction fees of 2.0%).

In the nine months to end-June 2020, the main contributors to DBAG's fee income were DBAG Fund VI (which still holds seven out of 11 investments and is charging fees based on currently invested capital) and DBAG Fund VII (see Exhibit 15). Starting in August 2020, DBAG Fund VIII will generate annualised fee income from its principal fund at c €18.2m and up to a further €3.0m pa from its top-up fund upon its deployment (not adjusted for DBAG's commitments to the fund). DBAG Fund V currently holds only one investment (out of the original 11 portfolio holdings) and is not generating meaningful fee income to DBAG anymore.

The contribution of ECF funds to DBAG's fee income is limited as well (7% of fee income in H120) and management announced recently that it does not intend to launch new ECF funds. Going forward, smaller buyouts will be executed by the MBO funds, while longer-term investments in minority stakes in owner-managed, mid-market enterprises will be conducted solely from DBAG's own balance sheet. The decision for DBAG to solely use its own balance sheet for these forms of transactions is a relatively recent one by the company, and to date there are no minority investments of this nature on the company's balance sheet that are not held by any DBAG fund. We estimate that DBAG ECF II still has c €40m at its disposal for new investments until the end of the calendar year (though it may want to retain part of this amount for follow-on investments). We estimate that full deployment of the remaining dry powder would generate a minor impact on total fees collected by DBAG.

Exhibit 15: DBAG fee income by fund (€m)



Source: DBAG, Edison Investment Research. Note that Q320 data is not available.

Dividend policy and record

DBAG introduced its current dividend policy in FY16 and aims to pay a stable dividend that increases whenever it is possible. The change of policy from a dividend dependent on realised gains reflects an increased level of recurring fee income and a larger PE investment portfolio allowing for more regular exits (that would be expected to also contribute funds for the dividend payments). Under the current policy, shareholders can expect a smoother progression of dividend payments each year. In February 2020, DBAG distributed a dividend of €22.6m from FY19 income. This translated into a DPS of €1.50 compared with €1.45 a year earlier (+3.4% y-o-y).

Under the current volatile environment caused by the COVID-19 outbreak, DBAG decided to withdraw its earlier guidance for at least a stable dividend until 2022 (announced on 5 May 2020), and does not guide on its dividend payout for now. Having said that, the overall long-term policy remains unchanged in principle.

Valuation: Less volatile, but still under pressure

As highlighted in our earlier notes, DBAG's reported NAV is almost entirely attributable to the value of its PE investment portfolio and does not account for the fair value of its fund services business, which represented third-party AUM of c €1.3bn at end-June 2020 (and c €2.1bn after accounting for DBAG Fund VIII, according to our estimates) and generates considerable recurring fee income. In contrast, DBAG's market value reflects the value of both its fund services business and its PE investment portfolio. Consequently, there is an inherent premium when comparing DBAG's share price with its reported NAV, which disguises any underlying premium or discount that the market may be applying to the value of DBAG's PE investment portfolio. We believe that the value of DBAG's fund services business is the primary reason why the company's shares tend to trade at a premium to NAV.

During March 2020 DBAG's share price followed the broader market sell-off, decreasing by 19% compared to the 25% decrease of LPX Europe. As it traded on pre-COVID-19 NAV, this resulted in temporary discount to NAV with a peak of 23% (the last time DBAG shares traded at a discount to NAV was in 2014). Since then the markets have rebounded, with LPX Europe posting 21.7% increase since end-March, and DBAG's share price 19.9%. Paired with updated valuations of portfolio companies, this now translates into a 13.1% premium, compared to 27.2% on average over the last three years.

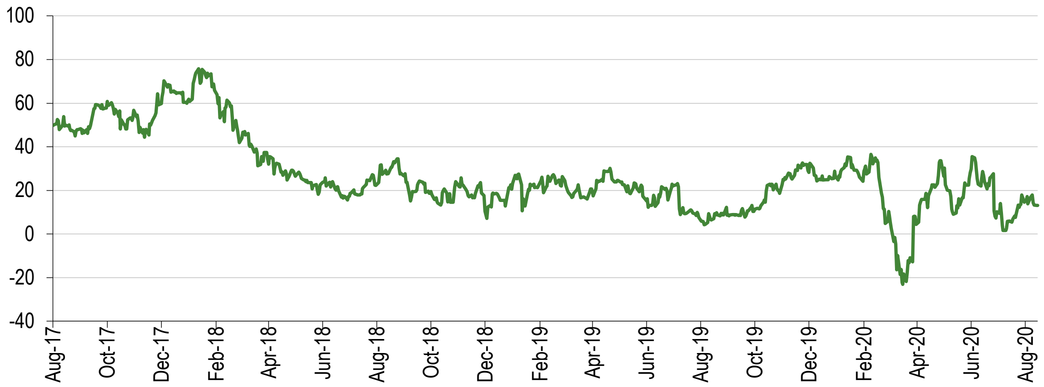
The premium implies €54.1m of excess market capitalisation over the end-June 2020 NAV. Assuming that this represents the market value of DBAG's fund services segment, it translates into an LTM earnings before tax multiple for the segment of 6.8x (compared to €74.6m and a 15.8x multiple in our previous note, respectively). We also use the approach of applying the current discount of the LPX Europe Index to the PE investments business, assuming the segment is valued in line with the broader PE market. At present, the discount stands at 22% (vs 0–20% range over the last five years), and by applying it to DBAG's NAV, we arrive at a fund services segment value of €145.4m and an earnings multiple of 18.2x, which compares with our previous calculations published in May (based on an LPX discount of 28%) of €176.6m and 37.5x.

Exhibit 16: Analysis of DBAG's market value by segment

Approach	Private equity investments at NAV	Private equity investments in line with LPX Europe
Discount applied to private equity investments value	0%	(22%)
Implied value of private equity investments segment (€m)	412.2	321.0
Implied value of fund services segment (€m)	54.1	145.4
Implied LTM earnings multiple of fund services segment (x)	6.8	18.2

Source: DBAG, LPX-Group, Edison Investment Research

Exhibit 17: Share price premium (discount) to NAV over three years (%)



Source: Refinitiv, Edison Investment Research

Peer group comparison

When comparing DBAG's NAV performance with its peers in the current environment, it is critical to understand the NAV revaluation frequency and policy applied by the respective companies in order to understand the timing of last full portfolio revaluation. Although four out of six peers have already published their end-June NAV, these are still predominantly based on LTM earnings and public market multiples at end-March 2020. Conversely, DBAG's end-June NAV already reflects the rebound in listed equities after March 2020 and these updated public valuations were applied to forecasted results of DBAG's portfolio holdings based on long-term earnings prospects (ie excluding the one-off effect of the current pandemic).

Keeping in mind all the above, DBAG posted a one- and three-year NAV total return below the peer average, which we believe stems from higher exposure to German industrials experiencing headwinds prior to the market downturn. In the longer time frames, its returns are in line with its peers, with the five-year and 10-year performance slightly below the peer average. DBAG is currently the only fund in our peer group trading at premium to its NAV, which we explain in the valuation section. On an LTM basis, DBAG's dividend yield of 4.8% is one of the highest in the peer group, compared to 3.2% on average. We note, that given current market turmoil the ability to pay out dividends is under pressure across the sector and prospective yields are likely to be lower on average. Having said that, DBAG is confident it will pay the next annual dividend, although the policy of flat or rising DPS could be temporarily suspended.

Exhibit 18: Listed private equity investment companies peer group as at 18 August 2020*

% unless stated	Region	Market 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	Premium/ (discount)	Dividend yield
Deutsche Beteiligungs	**Europe**	**417**	**2.3**	**18.4**	**106.4**	**176.6**	**(4.3)**	**(10.3)**	**63.6**	**187.0**	**13.1**	**4.8**
3i	UK	9,027	3.8	55.5	178.5	303.3	(22.4)	2.7	93.5	348.4	8.2	3.8
HgCapital Trust	UK	1,013	(0.5)	40.2	105.8	218.9	12.3	50.3	146.2	287.2	5.0	1.8
ICG Enterprise Trust**	UK	549	4.9	33.4	72.8	185.8	(12.7)	7.9	44.1	224.1	(30.7)	3.0
Oakley Capital Investments**	Europe	466	13.4	61.3	108.7	160.2	(3.8)	34.2	47.7	112.4	(29.1)	1.7
Princess Private Equity	Global	571	12.6	37.2	123.3	170.4	6.1	13.1	106.4	334.3	(24.2)	4.8
Standard Life Private Equity	Europe	477	(2.0)	21.8	81.0	186.5	(11.9)	(3.6)	58.0	235.0	(28.1)	4.1
Average		**2,017**	**5.4**	**41.6**	**111.7**	**204.2**	**(5.4)**	**17.4**	**82.7**	**256.9**	**(16.5)**	**3.2**
Rank in peer group		**7**	**5**	**7**	**4**	**5**	**4**	**7**	**4**	**6**	**1**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to end-June 2020. TR=total return in sterling terms. **Latest available NAV as at end-March for HgCapital Trust and end-April 2020 for ICG Enterprise Trust.

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