

Deutsche Beteiligungs

Successful realisations confirm broader capability

Deutsche Beteiligungs (DBAG) announced four divestments in May 2017, confirming FY17 as an exceptional year for portfolio activity, with five new investments and six realisations agreed. The sale of private tutoring services firm Schülerhilfe proved DBAG's ability to complete deals successfully beyond its four traditional sectors of core expertise, while the investment in Vitronet Projekte was DBAG ECF's first buyout transaction, and More than Meals Europe is the first investment that will use DBAG Fund VII's top-up fund to finance add-on acquisitions. Recent realisation gains suggest that FY17's NAV total return could exceed 22%, which would be the highest level since FY12.

12 months ending	Share price (%)	NAV (%)	LPX Europe (%)	LPX Europe NAV (%)	SDAX (%)
30/04/13	16.2	11.6	27.6	6.4	12.2
30/04/14	11.8	10.0	18.8	9.9	22.7
30/04/15	60.8	16.4	24.6	15.3	17.7
31/03/16*	(7.0)	12.6	(1.3)	1.4	4.6
31/03/17	24.0	16.8	20.0	16.0	14.6

Source: Thomson Datastream. Note: *11-month period due to change in financial year end. Discrete total return performance in euros up to last reported NAV date.

FY17: A year of exceptional portfolio activity

DBAG announced four divestments in May 2017, taking the number of realisations in FY17 to six, with five new investments also expected to be completed in FY17. This represents an exceptional pace of portfolio divestment for DBAG, which recorded two realisations in each of the last five financial years other than FY15, when no investments were sold. Based on transactions announced to date, new investment completed in FY17 (to 30 September 2017) should significantly exceed the expected average investment rate of €60m pa based on DBAG's investment commitments to DBAG Fund VII and DBAG ECF.

Broader investment capability confirmed

The sale of private tutoring services provider Schülerhilfe, announced in May 2017, was a strategically important transaction as it represented the first realisation of an investment outside of DBAG's traditional core sectors of expertise, confirming its ability to complete deals successfully across a broader range of industries. Duagon represents DBAG's first MBO transaction in Switzerland, and Vitronet Projekte was the first MBO investment by DBAG ECF. More than Meals Europe (incorporating Abbelen and Oscar Mayer) was the first investment completed by DBAG Fund VII and will use DBAG Fund VII's top-up fund to finance add-on acquisitions.

Valuation: Premium reflects recent realisations

In our view, DBAG's current 60.0% share price premium to NAV is inflated due to management's FY17 earnings guidance and subsequent realisation gains being reflected in the market valuation. We estimate that the prospective c €83m FY17 net income would lift NAV per share to €28.90 at end-September 2017, reducing the premium to c 45%. This may be reflected after Q317 earnings are reported on 8 August, which will incorporate the gains from recent realisations.

Investment companies

7 August 2017

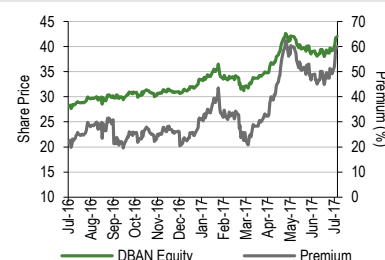
Price	€42.03
Market cap	€632m
NAV*	€395m

NAV per share*	€26.26
Premium to NAV	60.0%

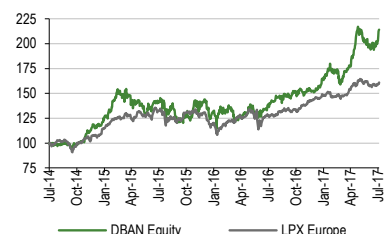
*As at 31 March 2017.

Yield	2.9%
Ordinary shares in issue	15.0m
Code	DBAN
Primary exchange	Frankfurt
AIC sector	Private Equity
Benchmark	N/A

Share price/premium performance



Three-year performance vs index



52-week high/low	€42.64	€28.28
NAV high/low	€26.26	€23.09

Gearing

Gross*	0.0%
Net cash*	15.8%

*As at 31 March 2017.

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Exhibit 1: Company at a glance
Investment objective and fund background

Deutsche Beteiligungs (DBAG) 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 at between €50m and €250m. DBAG's core objective is to sustainably increase net asset value.

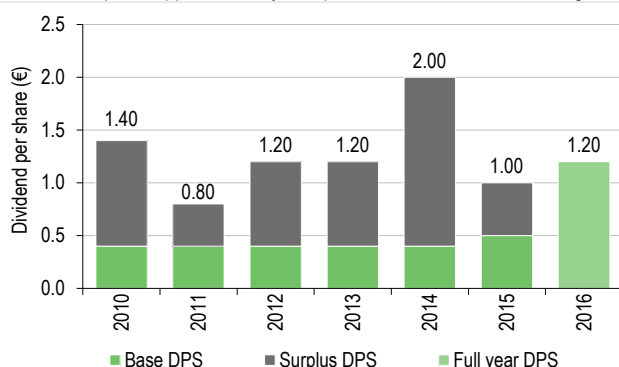
Recent developments

- 20 June 2017: MBO investment in duagon, a Switzerland-based provider of network components for data communication in railway vehicles.
- 18 May 2017: Sale of ProXES Group to Capvis Equity Partners.
- 16 May 2017: Sale of Schülerhilfe to Oakley Capital Private Equity.
- 12 May 2017: Sale of Formel D to 3i.
- 9 May 2017: Q217 results – NAV TR +7.9% vs LPX Europe NAV TR +4.1%.
- 24 April 2017: MBO investment in Vitronet Projekte, a services provider to the telecommunications sector – first MBO investment for DBAG ECF.

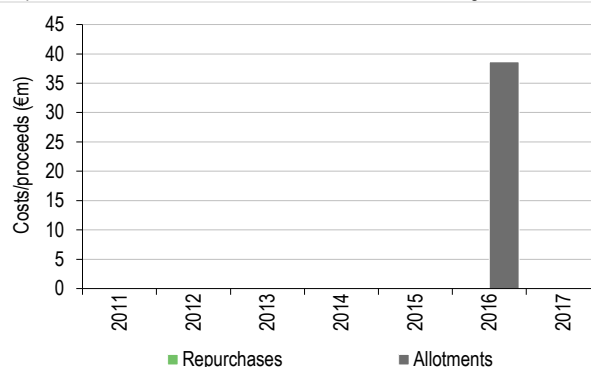
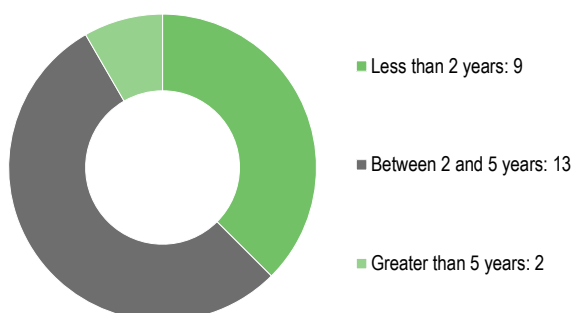
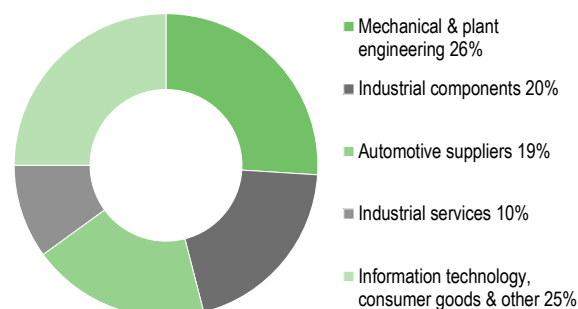
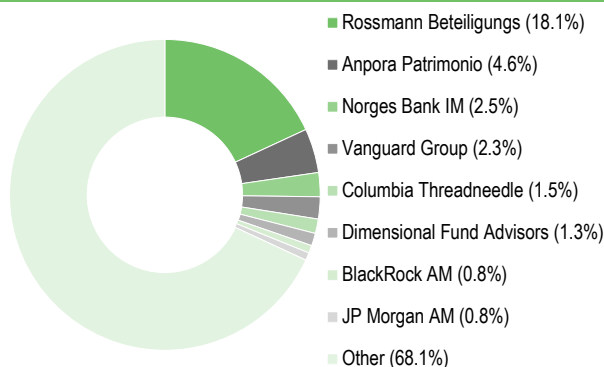
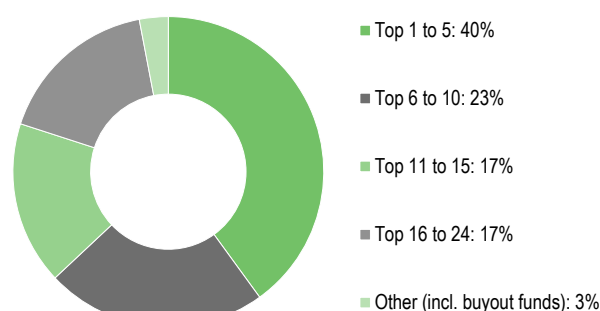
Forthcoming		Capital structure		Fund details	
AGM	February 2018	FY16 net expense ratio*	1.5% (2.9% unadjusted)	Group	Deutsche Beteiligungs
Quarterly results	8 August 2017	Net cash	15.8%**	Manager	Team managed
Year end	30 September	Annual mgmt fee	N/A (self-managed)	Address	Boersenstrasse 1
Dividend paid	February 2018	Performance fee	N/A (self-managed)		60313 Frankfurt am Main, Germany
Launch date	December 1985	Company life	Unlimited	Phone	+49 69 95787-01
Continuation vote	N/A	Loan facilities	€50m	Website	www.dbag.com

Dividend 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.


Share buyback policy and history (financial years)

Share buybacks and capital increases are used to manage longer-term capital requirements. In FY16, 1.4m new shares were issued, raising €38.6m.


Number of portfolio companies by holding period (as at 31 March 2017)***

Portfolio exposure by sector (as at 31 March 2017)***

Shareholder base (as at 25 July 2017)

Concentration of portfolio value by size (as at 31 March 2017)***


Source: DBAG, Edison Investment Research, Thomson Datastream. Note: *Based on expenses net of fee income; adjusted for non-recurring items. **Including €46.5m of securities classified as long-term assets. ***Does not include co-investment funds.

FY17: Five acquisitions and six divestments agreed

DBAG announced four divestments in May 2017, bringing to six the number of realisations agreed in the financial year to date, with five new investments also agreed so far in FY17. As shown in Exhibit 2, four of these divestments were from DBAG Fund V (the sale of Broetje-Automation was announced in FY16), which now has only one remaining investment (Heytex Bramsche), while DBAG Fund VI made its first divestment (Schülerhilfe). This represents an exceptional pace of realisation activity for DBAG, which agreed two or three divestments in four of the last five financial years, with no investments sold in FY15. DBAG management notes that, unusually, the latest three divestments were all made to financial investors (3i, Oakley Capital and Capvis, respectively), while, historically, the majority of portfolio investments have been sold to strategic buyers.

Exhibit 2: DBAG's portfolio investments and divestments completed in FY17 to date

Company	Headquarters	Core business	2016 revenue	Employees	First inv't	Type of inv't	Co-inv't fund	Fund equity share	DBAG inv't cost	DBAG equity share
Investments completed in FY17										
Polytech Health & Aesthetics	Dieburg, Germany	Silicone implants for aesthetic & reconstructive plastic surgery	€31m	180	Oct-16	MBO	DBAG Fund VI	78.8%	€12.4m	18.5%
Frimo Group	Lotte, Germany	Plastic auto component tooling/production plant worldwide	€209m	1,300	Nov-16	MBO	DBAG Fund VI	61.8%	€14.8m	14.5%
Dieter Braun	Bayreuth, Germany	Cable assembly/lighting for automotive industry worldwide	€77m	1,500	Jan-17	MBO	DBAG Fund VI	70.3%	€5.9m	16.5%
More than Meals Europe	Luxembourg	Own-label ready meals/snacks for supermarkets in Europe	€435m	3,250	Apr-17	MBO	DBAG Fund VII	74.0%	€15.0m**	16.0%
Vitronet Projekte	Essen, Germany	Fibre optic network services provider in Germany	€18m	100	Jun-17	MBO	DBAG ECF	44.7%	€7.2m	47.5%
duagon	Dietikon, Switzerland	Railway vehicle data network components worldwide	CHF17m	N/A	Jul-17	MBO	DBAG Fund VII	55.2%	€13.7m	22.4%
Radiology Group	North Rhine-Westphalia, Germany	Diagnostic/therapeutic radiology services in Germany	€54m	500	Aug-17*	MBO	DBAG Fund VII	45.0%	€15.0m**	11.0%
Divestments completed in FY17			Date sale completed							
Broetje-Automation	Wiefelstede, Germany	Aircraft assembly automation machines/plant worldwide	Oct-16		Mar-12	MBO	DBAG Fund V	60.0%	€5.6m	15.0%
Grohmann Engineering	Prüm, Germany	Industrial automation plant development worldwide	Jan-17		Dec-96	Exp'n capital	N/A	0.0%	€2.1m	25.1%
FDG	Orly, France	Services for supermarkets in France/neighbouring countries	Apr-17		Jun-10	MBO	DBAG Fund V	61.9%	€2.2m	15.5%
Romaco	Karlsruhe, Germany	Packaging technology machines/plant worldwide	Jun-17		Apr-11	MBO	DBAG Fund V	74.6%	€8.6m	18.7%
Formel D	Troisdorf, Germany	Car manufacturer and suppliers services worldwide	Jul-17		May-13	MBO	DBAG Fund V	71.2%	€3.7m	17.8%
Schülerhilfe	Gelsenkirchen, Germany	Education and tutoring services in Germany	Jul-17		Oct-13	MBO	DBAG Fund VI	65.4%	€2.5m	15.3%
ProXES	Hamel, Germany	Liquid and semi-liquid food processing plant worldwide	Jul-17		Jun-13	MBO	DBAG Fund V	74.6%	€7.5m	18.6%

Source: DBAG, Edison Investment Research. Note: *Estimated completion date. **Preliminary figure.

There are several noteworthy features among the many transactions DBAG has concluded or announced in FY17 to date. Firstly, the divestment of Schülerhilfe confirms DBAG's ability to transact successfully outside of its four core sectors of expertise (mechanical & plant engineering, automotive suppliers, industrial services providers and industrial components manufacturers). Duagon represents DBAG's first MBO transaction in Switzerland, and Vitronet Projekte represents the first MBO investment by DBAG ECF since it broadened its scope to include MBO as well as expansion capital investments. Dieter Braun was the final investment by DBAG Fund VI, while More than Meals Europe (incorporating Abbelen and Oscar Mayer) was the first investment completed by DBAG Fund VII and will use DBAG Fund VII's top-up fund to finance add-on acquisitions.

Including the two investments agreed in FY16 that completed after the year-end, based on the transactions announced to date, new investment in FY17 (year to 30 September 2017) should significantly exceed the expected average investment rate of €60m pa based on DBAG's investment commitments to DBAG Fund VII and DBAG ECF.

Details of the latest two investments and four divestments are given below. See previous update notes for details of other FY17 transactions ([DBAG update April 2017](#), [DBAG update August 2016](#)).

Vitronet Projekte

In June 2017, DBAG invested €7.2m, alongside DBAG ECF, to acquire a 47.5% stake in German telecoms services provider Vitronet Projekte, in the management buyout of the business from Vitronet Holding, which has moved its focus to the development of its second business line. Founded in 2001, Vitronet Projekte is a full service provider for broadband buildouts, from planning through to maintenance, with network construction services provided via subcontractors. Its customer base primarily comprises energy suppliers and municipalities, and its activities focus on new fibre optic networks and upgrades of existing networks. Headquartered in Essen, with five other sites in Germany, it has c 100 employees and has forecast revenues of c €36m for 2017.

Vitronet Projekte's revenues are expected to grow at a double-digit rate in coming years, with business opportunities deriving primarily from strong demand for fast, high-performance internet access. In Germany, less than 10% of households have a fibre optic connection and the network buildout is one of the government's priority infrastructure projects. Other market drivers are the upgrading of mobile networks (from LTE to 5G) and networks maintained by cable operators.

DBAG sees Vitronet Projekte as providing an excellent platform for growth, being one of the few companies able to provide the entire range of services needed to build larger fibre optic networks, with an excellent reputation and strong market presence. DBAG's experience gained from portfolio companies DNS:net and inexo, which build and operate fibre optic networks in rural areas as well as providing high-speed internet connections, should enable it to assist Vitronet Projekte in developing its internal processes and structures to support strong growth over the next few years.

Duagon

In July 2017, DBAG invested c €14m to take a 22% interest in duagon, a Switzerland-based provider of network components for data communication in railway vehicles. This is the third MBO investment agreed by DBAG Fund VII within six months of the start of its investment period, and the fund will be more than 20% invested following completion of these three acquisitions, all expected during FY17. Duagon is DBAG's first MBO transaction in Switzerland, but it had already established a presence in the country through its February 2016 expansion capital investment in mageba.

Founded in 1995 and based in Dietikon, Switzerland, duagon is an independent supplier of data communication network components that are used by the majority of train manufacturers and systems suppliers. Duagon's products enable communication between individual sub-systems such as doors, brakes, air-conditioning units and the central processor via a train communication network (TCN). The components developed and produced by duagon are equipped with its proprietary software, which standardises individual data streams. This enables the operating status of railway vehicle systems to be monitored centrally by the train crew. Duagon expects to generate revenues of more than CHF20m in 2017.

DBAG's investment will support duagon's international expansion and broader company development as it progresses along the path to becoming the independent market leader in communication solutions for on-board systems. DBAG sees duagon's lasting customer relationships, broad technological expertise and strong competitive position in its niche market as an ideal platform for exceptional revenue and earnings growth.

Divestment of Romaco

In June 2017, DBAG sold its investment in packaging technology specialist Romaco after six years in the portfolio, initially divesting 75% of its holding to strategic buyer Truking Group, a leading China-based engineering company. DBAG Fund V also divested a proportionate share of its holding, with the remaining 24.9% interest held by DBAG and DBAG Fund V to be transferred within three years. DBAG management confirmed that the sale price equated to more than twice the original investment and exceeded Romaco's most recent portfolio valuation, with the sale resulting in an income contribution of c €6m in DBAG's Q217 accounts.

DBAG acquired Romaco in April 2011, aiming to develop the company to provide system solutions covering the complete range of production and packaging processes. That objective has been reached, with a number of add-on acquisitions made. Romaco also expanded its service business and enlarged its geographical reach, with sites in the US, China, Brazil, France and Russia.

Divestment of Formel D

In July 2017, DBAG divested its holding in automotive and component manufacturing service provider Formel D after four years in the portfolio, through a sale to mid-market private equity and infrastructure investment manager 3i, with DBAG Fund V and Formel D's management team also divesting their holdings. The transaction price was not disclosed but DBAG management confirmed that the sale was at a premium to Formel D's portfolio valuation and will contribute c €10m to DBAG's net income in Q317.

On acquiring Formel D in May 2013, DBAG's aim was to expand the business by adding new customers, as well as developing and rolling out additional services alongside international development. These goals were achieved, with the company's management strengthened and business processes redefined. From 2013 to 2016, revenues grew by over 20% pa to €250m, with employee numbers nearly tripling to almost 7,200.

Divestment of Schülerhilfe

In July 2017, DBAG sold private tutoring services provider Schülerhilfe to Oakley Capital Private Equity. The investment in Schülerhilfe was DBAG Fund VI's first transaction in October 2013 and its sale marks the fund's first divestment after less than four years. This was a strategically important transaction for DBAG as it represented the first realisation of an investment outside of the team's traditional core sectors of expertise, confirming DBAG's ability to complete deals successfully across a broader range of industries. The transaction price has not been disclosed, but DBAG management confirmed that the sale was at a premium to Schülerhilfe's portfolio valuation and will contribute c €9m to DBAG's Q317 net income.

DBAG and DBAG Fund VI invested in Schülerhilfe in October 2013 with the objective to grow the business through supplementing its product portfolio. The plans were successfully implemented, with Schülerhilfe launching online services and an e-learning platform, helped by an add-on acquisition in early 2016. Recent new adult education offerings have also contributed to its strong growth, with revenues rising from €48m in 2013 to c €63m in 2016.

Divestment of ProXES

In July 2017, DBAG concluded its investment in ProXES, a leading provider of machines and production lines primarily for the food industry, selling its interests alongside DBAG Fund V to Swiss private equity firm Capvis Equity Partners. The terms of the transaction have not been disclosed, but DBAG management has confirmed that the agreed sales proceeds exceed ProXES's most recent portfolio valuation and the divestment will contribute c €9m to DBAG's net income in Q317.

DBAG invested in Stephan Machinery, forming the core of the ProXES group, in June 2013. The objective at the outset was to build a group of engineering companies with leading positions in their respective markets, which together were able to provide complete production lines in the food processing segment. That goal has been reached, with three companies acquired and successfully integrated to complement the original product range. ProXES has forecast revenues of c €141m for 2017, more than triple the revenue that Stephan Machinery achieved in 2013.

Earnings outlook for FY17

The gain on the sale of Romaco was incorporated in DBAG's Q217 results, but the income contributions from the divestments of Formel D, Schülerhilfe and ProXES are scheduled to be reflected in Q317 results and the gains were not included in DBAG's upgraded earnings guidance issued on 9 May 2017. In this updated guidance, management indicated that net income of more than €56m was expected for the year to 30 September 2017, significantly exceeding the €46.3m comparable income for the prior year as well as previous guidance for a moderate decline in net income. In total, the three transactions will contribute c €27m to net income, indicating that FY17 net income would be expected to exceed €83m. Taking into account the payment of the €1.20 per share FY16 dividend, this suggests that NAV per share could rise to c €28.90 at end FY17 from €24.57 at the start of the year, which would represent a c 22% NAV total return for the year.

Valuation: Premium reflects recent realisations

DBAG's fund services business is not restated at fair value and therefore DBAG's reported NAV does not reflect the prevailing market value of this business, while DBAG's share price reflects the value of both DBAG's investment and fund services businesses. We see the value that the market is attributing to the fund services business as the principal factor contributing to DBAG's shares trading consistently at a premium to NAV, in contrast with the majority of its listed private equity peers. In our view, there is a second factor contributing to the current c €240m premium to NAV: the anticipated uplift in NAV suggested by DBAG management's net income guidance for FY17, supplemented by subsequent announced realisations.

Deducting the potential €83m NAV uplift indicated by management guidance and subsequent realisation announcements from DBAG's current c €240m market value premium to NAV gives an implied valuation of up to c €160m for the fund services business. It is difficult to assess this valuation of the business against historical earnings, as these have ranged between an €8.0m profit and a €3.0m loss over the last three years. However, DBAG management has indicated that fee income is expected to rise from €19.5m in FY16 to c €29.0m in FY18 due to the additional fees generated by DBAG Fund VII. We see this translating into fund services earnings between €4m and €7m in FY17 and FY18, giving a market-implied valuation multiple between 23x and 40x earnings; however, we have not identified a suitable directly comparable listed peer group against which to compare these multiples.

As illustrated in Exhibit 3, DBAG shares have traded almost continuously at a premium to NAV since end-October 2014, when DBAG started reporting separately on its two business segments. In our view, the series of successful realisation announcements lies behind the premium reaching 62.4% in May 2017 and, arguably, the current 60.0% share price premium to NAV is further inflated due to management's FY17 earnings guidance being factored into the market valuation. We estimate that the prospective c €83m FY17 net income could lift NAV per share to c €28.90 at end-September 2017, which would reduce the premium to c 45%, and this may be reflected once Q317 earnings (to end-June 2017) are reported on 8 August, as these figures will incorporate the gains from the recently announced realisations.

Exhibit 3: Share price premium/discount to NAV over three years (%)


Source: Thomson Datastream, Edison Investment Research

Peer group comparison

Exhibit 4 shows a comparison of DBAG with a selected peer group of listed private equity investment companies, with DBAG being differentiated from the majority of peers, other than 3i, by its fund services business, as well as its focus on German mid-market companies. DBAG's NAV total return in sterling terms to 31 March 2017 is ahead of the peer group average over one, five and 10 years and modestly below the average over three years. DBAG's share price total return has outperformed the peer group average over the three, five and 10 years to end-March 2017, with its shares moving to trade at a premium to NAV since it started reporting separately on its fund services business at end-FY14. Similar to 3i, which also manages third-party funds, DBAG's shares are trading at a substantial premium to NAV, in contrast to the majority of the peer group, some of which are trading at a significant discount to NAV. DBAG's 2.9% dividend yield is in line with the peer group median but below the average (largely due to Electra Private Equity's yield being inflated by its March 2017 special dividend).

Exhibit 4: Listed private equity investment companies peer group, as at 4 August 2017*

% 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	573.6	26.0	59.4	97.3	176.1	33.7	93.1	152.6	198.4	60.0	2.9
3i	Global	9,254.3	37.7	104.6	167.8	36.3	71.3	114.2	329.8	20.8	51.0	2.8
Altamir	Europe	557.8	35.0	63.7	105.2	140.1	59.6	59.5	151.4	125.3	(22.6)	3.9
GIMV	Global	1,223.3	16.4	59.8	69.7	112.9	16.4	59.8	69.7	112.9	6.1	3.5
Electra Private Equity	UK	648.9	31.2	102.6	150.1	230.0	48.1	103.5	209.1	236.7	(15.6)	9.1
HgCapital Trust	UK	636.6	21.1	59.3	74.5	176.4	40.2	66.2	88.9	152.8	1.1	2.7
ICG Enterprise Trust	UK	518.1	21.3	39.9	66.8	112.3	34.1	21.9	98.1	94.3	(16.0)	2.7
Oakley Capital Investments	Europe	353.3	17.9	17.9	37.9		13.7	(7.6)	14.1		(25.0)	2.6
Standard Life Private Equity	Europe	503.1	22.8	53.9	71.9	102.3	53.5	61.1	133.4	47.2	(14.1)	3.7
Average		1,585.4	25.5	62.4	93.5	135.8	41.2	63.5	138.6	123.5	2.8	3.7
Rank in peer group		5	4	5	4	3	7	3	3	2	1	5

Source: Morningstar, Edison Investment Research. Note: *Performance data to end-March 2017. TR=total return. All returns expressed in sterling terms.

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