EDISON

DeA Capital

Q2 interim results

Strong H118 investment return and cash flow

Financial services

DeA Capital experienced slightly weaker assets under management (AUM) in H118, driven by Q2 liquidation of real estate assets by maturing funds, but management expects this to reverse in H2. The returns on co-investment in funds managed were very positive, generating NAV gains and strong cash flow to support the continuation of attractive distributions and further investment in growth of the alternative asset management (AAM) platform. The shares are yielding more than 9% and trade at a discount of more than 30% to our adjusted NAV of €1.91 per share.

Year end	Closing AUM* (€bn)	AAM fees** (€m)	NAV/share (€)	DPS (declared) (€)	P/NAV (x)	Yield (%)
12/16	10.6	61.0	2.03	0.12	0.64	9.2
12/17	11.7	59.8	1.92	0.12	0.68	9.2
12/18e	11.6	61.1	1.88	0.12	0.69	9.2
12/19e	12.6	64.1	1.82	0.12	0.71	9.2

Note: NAV as stated, including goodwill. *AUM is ex-SPC Credit Management. **Fees from alternative asset management before inter-company eliminations on own funds managed.

Strong H1 cash flow

AUM was c €11.2bn at end-H118 (FY17: €11.7bn) with real estate AUM (€9.0bn vs €9.5bn) experiencing asset liquidations by some funds reaching maturity. Management expects a positive trend in H2, from new funds. The returns on co-investment in funds managed were positive, generating NAV gains and a net cash inflow of €31.0m in H118, and almost €40m more by early September. The net financial position increased by €25.1m (to €86.9m/€0.34 per share) after adjusting for €30.5m/€0.12 per share of distributions. NAV per share increased to €1.87 (FY17: €1.80 adjusted for distributions paid since).

AAM growth strategy

Already a leader in Italy in alternative assets, providing an integrated platform comprising private equity, real estate and non-performing loans, DeA has a strong and liquid balance sheet to support further growth. Building on its strong domestic base, the group is selectively exploring opportunities for expansion into other European markets, to take advantage at the ongoing growth in the alternative asset subsector within the wider asset management industry, to further expand its base of investors, and broaden its product range. A real estate JV, in France, has just been announced and management continues to seek similar opportunities in other European markets to create a pan-European real estate platform.

Valuation: Cash flow for yield and growth

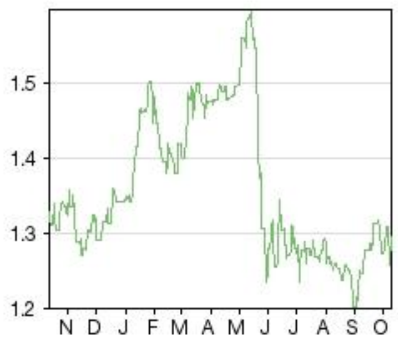
The shares trade at a 30% discount to H118 NAV, and a 32% discount to our adjusted NAV of €1.91, which includes a peer group valuation of the AAM platform and a mark-to-market value for Migros. This is the lower than for any of the peers listed in Exhibit 9. A strong balance sheet and cash flow position supports an attractive yield and provides resources for investment to grow AAM further.

10 October 2018

Price	**€1.30**
Market cap	**€330m**

Holding company net financial position (€m) at 30 June 2018	86.9
Shares in issue (excluding 52.9m treasury shares)	253.8m
Free float	24.4%
Code	DEA
Primary exchange	BIT
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	3.9	(1.1)	(4.4)
Rel (local)	6.7	8.6	7.4
52-week high/low		€1.6	€1.2

Business description

DeA Capital, a De Agostini group company, is Italy's leading alternative asset manager of real estate, private equity and NPLs, with AUM of c €11.2bn at 30 June 2018. The investment portfolio, including co-investment in funds managed, investment in the asset management platform, and direct investment amounted to c €387m.

Next events

STAR conference, London	23 October 2018
Q3 results	8 November 2018

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Edison profile page

DeA Capital is a research client of Edison Investment Research Limited

The Italian leader in alternative assets

DeA Capital is a leader in the Italian AAM sector. It manages assets of around €11.2bn across its integrated AAM platform, comprising private equity, real estate and NPLs, and operates as an investor in its own funds managed and directly from its permanent capital base. The group is majority-owned by De Agostini, a family-owned private group founded in 1901 and owned by the Boroli and Drago families. De Agostini operates in the media, gaming, services and, through DeA Capital, AAM sectors. De Agostini has a 58.3% stake in DeA and, through the loyalty share scheme approved by shareholders in 2015, has a voting interest of 73.4%.

In recent years, DeA's has been reducing its 'large ticket' direct private equity investments and refocusing on supporting the growth of its AAM platform, investing in new capabilities and seeding new fund launches. AAM has good growth prospects as low interest rates continue to stimulate demand for alternative assets (private equity, real assets and hedge funds) from investors seeking sustainable yields. The AAM platform mainly comprises DeA Capital Real Estate, a 64.3%-owned subsidiary that is the leading real estate manager in Italy with AUM of €9.0bn and DeA Capital Alternative Funds, which manages €2.2bn (measured by total commitments) of private equity funds. In addition, 80.0%-owned SPC provides NPL management, and the 45%-owned associate YARD provides property services to the real estate sector, including DeA. Key strategic goals for the AAM business are to further expand the base of investors and the range of products offered and DeA recently announced the creation of DeA Capital Real Estate France, a first step in creating a pan-European real estate platform.

DeA has a strong and liquid balance sheet. Net asset value at 30 June 2018 was €473m, or €1.87 per share, after payment (in May) of €0.12 (c €30m) in dividends. The net assets of the AAM business (30%), investments in private equity and real estate funds (38%), and a significant net financial position (18%), together represent 86% of the NAV. The direct investment portfolio account represents the balance of 14%.

For a detailed analysis of DeA Capital and its strategy, please see our June Outlook note.

Exhibit 1: DeA Capital group financial position at 30 June 2018

	Net assets (€m)			Net assets per share (€)			% of total NAV		
	June (Q2) 2018	March (Q1)* 2018	Dec* 2017	June (Q2) 2018	March (Q1) 2018	Dec* 2017	June (Q2) 2018	March (Q1) 2018	Dec* 2017
Private equity investments									
Kenan (Migros)	30.2	37.4	45.6	0.12	0.15	0.18	6%	8%	10%
Private equity/real estate funds	180.7	156.7	170.9	0.71	0.62	0.67	38%	35%	37%
Other (Crescita, IDeaMI ….)	32.4	33.0	33.4	0.13	0.13	0.13	7%	7%	7%
Total private equity investment	**243.3**	**227.1**	**249.9**	**0.96**	**0.90**	**0.98**	**51%**	**50%**	**54%**
Alternative asset management									
DeA Capital Real Estate	98.1	101.9	101.2	0.39	0.40	0.40	21%	23%	22%
DeA Capital Alternative Funds	39.2	40.8	39.9	0.15	0.16	0.16	8%	9%	9%
Other (YARD, SPC)	6.5	6.1	6.0	0.03	0.02	0.02	1%	1%	1%
Total alternative asset management investment	**143.8**	**148.8**	**147.1**	**0.57**	**0.59**	**0.58**	**30%**	**33%**	**32%**
Investment portfolio	**387.1**	**375.9**	**397.0**	**1.53**	**1.48**	**1.55**	**82%**	**83%**	**86%**
Other net assets/(liabilities)	-0.6	1.0	0.6	0.00	0.00	0.00	0%	0%	0%
Holding company net financial positions	86.9	75.3	61.8	0.34	0.30	0.24	18%	17%	13%
Net asset value	**473.4**	**452.2**	**459.4**	**1.87**	**1.78**	**1.80**	**100%**	**100%**	**100%**

Source: DeA Capital. Note: *March 2018 and December 2017 adjusted for subsequent distribution of €0.12 per share.

Strong investment returns and cash flow in H118

The key features of DeA's results for the six months to 30 June 2018 were the strong disposal gains and cash flows generated by investment realisation, particularly in Q2. NAV increased strongly in Q2 from the Q1 position, adjusted for the €0.12 per share distribution (a yield of more than 9% on the current share price) made in May. The key highlights were:

- Assets under management were c €11.2bn at 30 June compared with €11.7bn at the start of the year. The decline came in real estate AUM, from €9.5bn to €9.0bn, as a result of asset liquidations by some funds reaching maturity. Management expects a positive trend in H2, from new funds and also the first investments by Special Opportunities I Fund that closed in January with a commitment of €200m.
- The group NAV per share was €1.87 at 30 June compared with €1.78 in March, adjusted for the subsequent annual distribution of €0.12 per share, and €1.80 at end-2017, similarly adjusted. The main driver of NAV growth was gains on private equity funds managed by DeA, in which it is co-invested. These were partly offset by unrealised losses on direct investments (primarily the remaining indirect investment in Turkish retailer Migros) and co-investment positions in real estate funds.
- The investment portfolio generated net cash flow to the holding company of €31.0m in H118. €4.3m was invested in the funds whereas DeA received distributions totalling €27.8m, a net balance of €23.5m. In addition, the AAM business paid dividends of €7.5m (H117: €5.4m) to the holding company. At the time of the H118 report (6 September) DeA had invested an additional €2.9m in the funds and received distributions of €40.4m so far in H218.
- As a result of the positive cash flow from the investment portfolio, at 30 June 2018 the holding company net financial position (defined as holding company cash and cash equivalents, available for sale financial assets, and financial receivables less current and non-current liabilities) was €86.9m (€0.34 per share) or c 18% of NAV. At a group level including net financial assets within the subsidiaries it was higher still, at €152.2m. Adjusting for €30.5m (€0.12 per share) of dividends paid, the holding company net financial position increased by €25.1m in H118
- On 20 September DeA announced the creation of DeA Capital Real Estate France as part of its growth strategy for AAM. This is the first step in step of building on DeA's leading real estate asset management position on the Italian market to create a pan-European platform. The new French operation is a joint venture between DeA (70%) and an experienced local management team. DeA believes the new venture may add as much as €1bn to AUM over a three-year period (not reflected in our forecasts) and that margins should be higher than those in Italy, which at c 50bp are relatively low. In addition to France, DeA continues to seek other opportunities and has expressed an interest in Spain, Germany and Northern Europe.

Investment gains driven by fund co-investment

As can be seen in Exhibit 1, DeA ended H118 with a private equity investment portfolio of €243.3m, to which can be added c €40m of real estate fund co-investments that are held through DeA Capital Real Estate and which form part of the €143.8m invested in the AAM platform. The investments include co-investment in DeA-managed funds as well as direct investments, and are variously accounted for as available for sale assets (AFS) measured at fair value, equity accounted associates and fully consolidated subsidiaries. The development of the fund investments is shown in Exhibit 2, with an aggregate fair value adjustment (DeA share) of €31.9m or 14.6% of the opening value.

Exhibit 2: H118 value movement of fund investments

€m	31 December 2017 value	Capital calls	Distributions	Fair value adjustment	Other	30 June 2018 value
Venture capital funds*	8.6	0.0	(0.9)	1.3	0.1	9.0
IDeA I FoF	49.5	0.2	(9.9)	2.5	0.0	42.3
ICF II	37.9	0.1	(3.0)	2.4	0.0	37.4
ICF III	7.9	0.9	0.0	0.8	0.0	9.7
IDeA ToI	20.7	2.6	(12.0)	(0.3)	0.0	10.9
IDeA CCR I	1.6	0.5	(0.7)	(0.1)	0.0	1.2
Santa Palomba	0.4	0.0	0.0	0.0	0.0	0.4
DeA Capital Real Easte SGR funds	43.2	0.0	(1.4)	(2.0)	0.0	39.8
Total funds measured at fair value	**169.8**	**4.4**	**(28.0)**	**4.6**	**0.1**	**150.8**
EESS**	16.5	0.0	(1.6)	0.6	0.0	15.6
Venere**	7.2	0.0	(0.5)	0.2	0.0	6.9
Total funds measured as associates	**23.7**	**0.0**	**(2.1)**	**0.9**	**0.0**	**22.5**
IDeA OF I Fund**	25.5	0.0	0.0	26.4	(0.0)	51.9
Total consolidated funds	**25.5**	**0.0**	**0.0**	**26.4**	**(0.0)**	**51.9**
Total fund investments	**218.9**	**4.4**	**(30.1)**	**31.9**	**0.1**	**225.2**
Fair value gain as % opening value				14.6%		

Source: DeA Capital. Note: *Venture capital fund holdings are externally managed. **DeA share of net assets.

A substantial share of the gain was generated within the 47% owned and fully consolidated IDeA Opportunity I, of which DeA's share of the gain was €26.4m. The driver of this was a binding agreement in May, which completed in July, for the sale of its interest in Corin Orthopaedics Holdings to Pemira for c €66m. The sale value was more than 4x the value at end-FY17.

The direct investments saw a decline in value of c €16m, almost entirely driven by the weakness of Migros and the Turkish Lie (Exhibit 3).

Exhibit 3: H118 value movement of direct investments

€m	31 December 2017 value	30 June 2018 value	Change in value	Change in value (%)
Kenan investments (Migros)	45.6	30.2	(15.4)	(34)
Crescita/Cellularline	8.1	7.6	(0.5)	(6)
IDeaMI	25.0	24.6	(0.4)	(2)
Minority interests	0.3	0.2	(0.1)	N/A
Total direct investments	79.0	62.6	(16.4)	(21)

Source: DeA Capital

Financials and forecasts update

DeA's financial statements combine recurring external asset management earnings with balance sheet-driven changes in the value of investments. For this reason, we recommend that investors focus on:

- trends and performance within the AAM division;
- the development of NAV total return, including the profit contribution from AAM but also changes in the value of the investment portfolio; and
- cash-flow and dividend-generating capacity after investment.

AAM division forecasts

Our updated forecasts for the AAM division are shown in Exhibit 4, alongside our last published forecasts.

Since we last published we have adjusted our forecasts to include the change in accounting principles that became effective from 1 January 2018, which sees unrealised changes in the fair value of available for sale investments taken through the income statement rather than to other comprehensive income (until such time as the investment was sold or impaired, when the gain or loss was posted to the income statement) as was previously the case. The majority of DeA's fund investments are held outside of the AAM division, within the private equity segment, but this is not the case for c €40m invested in DeA Capital Real Estate funds. We continue to assume a 'normalised' 4.0% per year growth in value for these funds, of which we would expect the majority to represent the yield on the assets, but now show this within the AAM division rather than group's other comprehensive income. This change explains the increase in FY19 'other income' and is also present in FY18, but masked by the H118 negative fair value adjustment of €2.0m. The impact on attributable earnings is smaller than implied by the change to other income, as the changes in value include the minority interest in the real estate subsidiary and we deduct the full impact, after tax and minority from adjusted (recurring) earnings.

Despite lower AUM and management fees for the current year, the negative impact is offset in our adjusted earnings forecast by higher associate income (YARD, post-merger), higher income from services (we have increased our assumptions for SPC fees in line with recent experience) and lower tax and minorities (a greater share of the earnings from wholly owned DeA Capital Alternative Funds). We expect the real estate business to recover some of the Q218 weakness in AUM through H218, with growth continuing in FY19, and as a result the reduction in our forecast for FY19 management fees is smaller and more than offset by higher income from services (SPC) and lower assumed expenses.

In addition to assumed investment gains, our adjusted earnings adds back the recurring non-cash purchase price amortisation (PPA) in relation to the intangible value of customer relationships that was recognised on formation of the real estate subsidiary.

We now look for adjusted earnings from AAM of €10.5m in FY18 (was €10.0m) and €10.9m in FY19 (was €10.7m).

Exhibit 4: AAM division detailed forecasts

			New		Old		% change	
	2016	2017	2018e	2019e	2018e	2019e		
AUM (€bn) – end period								
DeA Capital Alternative Funds	1.937	2.190	2.085	2.085	2.010	2.010	0.075	0.075
DeA Capital Real Estate	8.672	9.542	9.472	10.472	10.003	10.503	(0.531)	(0.031)
Total AUM (€bn) – end period	**10.609**	**11.732**	**11.557**	**12.557**	**12.013**	**12.513**	**(0.456)**	**0.044**
AUM (€bn) – average								
DeA Capital Alternative Funds	1.844	1.944	2.154	2.085	2.108	2.010	0.047	0.075
DeA Capital Real Estate	8.059	9.282	9.289	9.972	9.708	10.253	(0.419)	(0.281)
Total AUM (€bn) – average	**9.903**	**11.226**	**11.443**	**12.057**	**11.815**	**12.263**	**(0.373)**	**(0.206)**
Management fees/AUM bps								
DeA Capital Alternative Funds	112	95	91	92	92	92	(1)	
DeA Capital Real Estate	50	45	45	45	45	45	(0)	
Figures in €000s								
DeA Capital Real Estate management fees	40,261	41,381	41,509	44,874	43,688	46,139	(2,180)	(1,265)
DeA Capital Alternative Funds management fees	20,724	18,438	19,593	19,182	19,404	18,492	189	690
Total alternative asset management fees	**60,985**	**59,819**	**61,102**	**64,056**	**63,092**	**64,631**	**(1,990)**	**(575)**
Income from equity investments	531	822	1,395	1,231	1,128	1,235	267	(4)
Other income/expense	1,088	1,676	(949)	1,624	(819)		(130)	1,624
Income from services	8,336	703	1,503	1,400	792	800	711	600
Total revenue	**70,940**	**63,020**	**63,051**	**68,310**	**64,193**	**66,665**	**(1,142)**	**1,645**
Total expenses	**(60,245)**	**(91,116)**	**(46,329)**	**(47,416)**	**(46,326)**	**(47,016)**	**(3)**	**(400)**
Finance income/expense	19	13	(15)				(15)	
Profit before tax	**10,714**	**(28,083)**	**16,707**	**20,894**	**17,867**	**19,649**	**(1,160)**	**1,245**
Taxation	(3,405)	(2,991)	(4,807)	(6,171)	(5,594)	(5,977)	788	(194)
Profit after tax	7,309	(31,074)	11,900	14,723	12,272	13,672	(372)	1,051
Minority interests	1,178	13,575	(2,406)	(3,594)	(2,836)	(3,504)	431	(90)
Attributable profits	**8,487**	**(17,499)**	**9,494**	**11,129**	**9,436**	**10,168**	**58**	**961**
Adjustments (net of tax & minorities)								
PPA	1,042	592	545	495	541	495	4	
SFP	1,494	2,460						
Goodwill		24,897						
Other income/expense	(1,017)	(859)	438	(731)			438	(731)
Adjusted attributable earnings	**10,006**	**9,591**	**10,477**	**10,893**	**9,977**	**10,663**	**500**	**230**
o/w DeA Capital Real Estate	5,058	5,889	5,176	6,237	5,698	6,807	(522)	(569)
o/w DeA capital Alternative funds	3,776	3,133	3,912	3,459	3,544	3,011	368	448
o/w other alternative asset management (inc SPC, YARD)	1,173	570	1,389	1,197	734	846	655	351

Source: DeA Capital, Edison Investment Research

Other group earnings

In addition to our estimates for the AAM profit contribution, our NAV forecasts seek to capture at least part of the potential for growth in NAV from the majority of the investment portfolio that is not captured within the AAM segment. This includes the private equity fund holdings and the direct investments (Kenan Investments/Migros, Crescita/Cellularline and IDeaMI).

Within the private equity fund investments, 47% DeA-owned IDEA Opportunity Fund I (OF1 Fund) is fully consolidated and the IDeA Energy Efficiency and 30.4% DeA-owned Sustainable Development Fund (EESS) is equity accounted. We assume a 7.5% per year 'normalised' growth in the carried value of all of the private equity fund investments (whether carried as AFS, consolidated or equity accounted). This approach differs from the way these assets are actually managed, which seeks to maximise IRR, but we believe it to be a useful way to capture at least some of the returns that may be earned. Our forecasts assume no change to the last published value (or income from) the quoted investments, Migros (Kenan Investments), Crescita/Cellularline and IDeaMI, but in our valuation (see below) we do adjust the value of Migros on a mark-to-market basis.

In Exhibit 5, we break down our group forecasts (shown in Exhibit 12) by segment, as reported by the company.

Exhibit 5: Group segmental forecasts

	FY18e				FY19e			
€m	**AAM**	**Private equity**	**Holdings**	**Group**	**AAM**	**Private equity**	**Holdings**	**Group**
Alternative asset management fees	61.1	0.0	(1.1)	60.0	64.1	0.0	(1.0)	63.0
Income/(loss) from equity investments	1.4	1.2	0.0	2.6	1.2	1.0	0.0	2.2
Other investment income/expense	(0.9)	52.9	0.0	51.9	1.6	10.3	0.0	11.9
Income from services	1.5	0.0	0.3	1.9	1.4	0.0	0.0	1.4
Other expenses	(46.3)	(3.3)	(5.5)	(55.2)	(47.4)	(2.0)	(5.6)	(55.0)
Financial income & expense	(0.0)	0.3	0.0	0.3	0.0	0.0	0.0	0.0
PBT	**16.7**	**51.1**	**(6.2)**	**61.6**	**20.9**	**9.3**	**(6.6)**	**23.5**
Tax	(4.8)	0.0	(0.6)	(5.4)	(6.2)	0.0	2.3	(3.9)
Profit/(loss) for the period	**11.9**	**51.1**	**(6.8)**	**56.2**	**14.7**	**9.3**	**(4.3)**	**19.7**
Minority	(2.4)	(30.1)	0.0	(32.5)	(3.6)	(1.0)	0.0	(4.6)
Attributable profit/(loss) for the period	**9.5**	**21.1**	**(6.8)**	**23.8**	**11.1**	**8.3**	**(4.3)**	**15.1**

Source: Edison Investment Research

DeA continues to generate strong cash flow

As noted above, positive net cash flow from the investment portfolio since 30 June 2018 will have further increased the holding company net financial position (defined as holding company cash and cash equivalents, available for sale financial assets and financial receivables less current and non-current liabilities) from the €86.9m (€0.34 per share) or c 18% of NAV reported at that date.

Our forecasts assume H218 investment in the funds (capital calls of commitments) of €15.6m (including the €2.9m to early September) and reimbursements of €50.5m (including the €40.4m to early September), taking the annual net positive balance to €60.8m. Making no assumption of new investment, this takes our forecast for the holding company net financial position to c €120m by year-end, equivalent to €0.47 per share. Again assuming no new investment but allowing for continued distributions of €0.12 per share, although we forecast the net financial balance will decline in FY19, it will remain well above €100m.

Exhibit 6: Forecast net financial position

€m	**2013**	**2014**	**2015**	**2016**	**2017**	**2018e**	**2019e**
Cash and bank deposits	26.1	55.6	123.5	96.4	127.9	170.4	158.9
Available-for-sale financial assets	5.4	5.1	7.5	4.2	4.4	5.3	5.3
Financial receivables in balance sheet	30.4	2.7	3.5	3.7	1.3	0.0	0.2
Non-current financial payables	(150.2)	(5.2)	0.0	(0.0)	0.0	0.0	0.0
Current financial payables	(39.4)	(0.4)	(0.7)	(1.2)	(0.2)	(0.2)	(0.2)
Consolidated net financial position	(127.7)	57.8	133.8	103.1	133.4	175.5	164.2
Adjustment for holding company tax					(4.5)	(0.5)	(0.5)
Total adjusted net financial position					**128.9**	**175.0**	**163.7**
o/w alternative asset management		16.1	40.4	23.3	36.5	50.9	50.9
o/w private equity		1.1	3.4	0.1	0.1	5.0	5.0
o/w holding company	**(138.7)**	**40.6**	**90.0**	**79.7**	**92.3**	**119.6**	**108.3**

Source: DeA Capital, Edison Investment Research

Our FY19 cash flow projections assume a positive net balance from the investment portfolio of €20m as shown in Exhibit 7, with the main driver continuing to be the maturation of a number of the older funds. As a further indication of DeA's balance sheet strength, we estimate that the holding company net financial position at end FY18 and FY19 will be well above the level of undrawn fund commitments.

Overall, our forecasts for the net financial position through 2018 and 2019 should be viewed as illustrative, as they assume no further purchases or sales of direct investments, although these are likely, or strategic investments in the AAM platform. In particular, we would note the potential for a medium-term exit from the remaining Migros investment as the investment vehicle through which the stake is indirectly owned reaches maturity. The carrying value of the remaining Migros investment was €30.1m at end-Q218, but the weakness of the Turkish equity market and currency has reduced this to c €17m more recently.

Exhibit 7: Net fund calls/reimbursements and commitments

€m	2014	2015	2016	2017	2018e	2019e
Capital calls	(18.6)	(20.0)	(16.5)	(11.7)	(20.0)	(20.0)
Capital reimbursements from funds	29.0	42.1	25.6	52.7	80.8	40.0
Net capital reimbursements from funds	**10.4**	**22.1**	**9.2**	**41.0**	**60.8**	**20.0**
Fund commitments brought forward	104.8	106.5	92.6	107.7	103.3	103.3
Net new commitments	21.1	5.8	32.3	7.7	20.0	N/A
Capital calls	(18.6)	(20.0)	(16.5)	(11.7)	(20.0)	(20.0)
Exchange differences & other	(0.8)	0.3	(0.7)	-0.4	0	0
Undrawn commitments carried forward	**106.5**	**92.6**	**107.7**	**103.3**	**103.3**	**83.3**
Holding company net financial position	**40.6**	**90.0**	**79.7**	**92.3**	**119.6**	**108.3**

Source: DeA Capital, Edison Investment Research

Group estimate revisions

The most significant change to our group forecasts is the increase in the holding company net financial position and to a lesser extent the increase in forecast NAV per share, both resulting from the significant investment gains realised in H118.

As noted above, in our valuation we mark-to-market the value of DeA's indirect stake in Migros, held via Kenan Investments, but we do not do so in our year-end NAV forecasts, given market volatility and the inherent uncertainty in doing so. If the Migros share price and TRY/€ exchange rate end the year at current levels, the impact on our forecast NAV per share would be to reduce it by c €0.05.

Exhibit 8: Group estimate changes

	AUM (€ bn)			Fees from AAM* (€m)			Holdco net financial position (€m)			NAV/share (€)			Dividend (€)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018e	12.0	11.6	-3.8	63.1	61.1	-3.2	100.9	119.6	18.6	1.83	1.88	3.0	0.12	0.12	0.0
2019e	12.5	12.6	0.4	64.6	64.1	-0.9	88.8	108.3	21.9	1.76	1.82	3.6	0.12	0.12	0.0

Source: Edison Investment Research

NAV discount with financial resources to grow

DeA shares trade at a significant discount of 30% to the H118 published NAV per share of €1.87, and a slightly larger discount of 32% to our adjusted NAV per share of €1.91, which replaces the stated book value of the alternative asset management platform with our assessment of a fair value based on P/E multiples observed across a group of both alternative and more conventional asset management companies listed in Exhibit 9. Even if the shares were to trade at this adjusted NAV, DeA would still be trading at a lower price to book value (P/BV) than any other company in this group, which has a median P/BV of c 2.0x.

Exhibit 9: Peer group comparison

	Price (local)	Mkt. cap ($m)	PER current year	PER next year	P/BV current (x)	P/BV next (x)	ROE current (%)	ROE next (%)	Yield (%)
Brookfield Asset Management	43.3	43,116	42.5	23.4	1.6	1.5	4	N/A	1.3
KKR	26.4	21,659	15.3	14.1	1.6	1.5	10.3	9.7	2.5
3i Group	9.18	11,657	7.3	7.6	1.1	1.0	16.7	14.6	3.3
Intermediate Capital	10.3	3,930	14.7	13.5	2.1	1.9	14.7	14.7	2.0
Tikehau	25.4	2,948	-	15.6	N/A	N/A	-0.1	7.7	N/A
Deutsche Beteiligungs	33.85	597	14.5	9.5	1.1	1.0	7.8	10.8	4.1
Average narrow group			10.3	12.1	1.5	1.4	9.9	11.5	3.0
Median narrow group			12.4	12.8	1.5	1.4	10.1	11.1	3.0
Blackstone	37.25	46,270	12.1	11.4	6.2	5.9	25.4	36.3	6.2
Partners Group	757	20,387	26.3	24.6	9.3	8.4	37.2	35.3	2.5
Apollo	33.1	13,264	20.7	10.3	8.0	5.6	23.6	31.8	5.6
Schroders	29.8	10,870	13.3	12.7	2.2	2.1	17.3	16.9	3.8
Janus Henderson	26	5,046	8.9	8.6	1.0	0.9	11.4	11.5	3.0
Man Group	1.6	3,350	9.6	7.6	1.5	1.4	16.6	20.4	6.6
Ashmore	3.5	3,299	14.8	13.1	3.0	2.7	21.3	22.3	4.8
Jupiter	3.84	2,292	11.7	11.9	2.8	2.7	23.8	23.4	4.5
Azimut	12.7	2,071	12.4	10.4	2.8	2.6	24.7	28.6	7.9
Patrizia	16.4	1,761	20.3	15.6	1.5	1.4	8.0	9.5	N/A
Average whole group			13.5	12.5	2.9	2.6	16.7	18.4	4.2
Median whole group			13.9	12.3	2.1	1.9	16.6	15.8	4.0
Dea Capital*	1.3	287	13.8	21.7	0.7	0.7	5.0%	3.3%	9.2%

Source: Bloomberg data as at 9 October 2018. Note* DeA figures are group and differ from AAM segment discussion.

We have divided Exhibit 9 into a ‘narrow group’ of companies that DeA management believes mostly closely resemble its own strategy of combining alternative asset management for third parties with balance sheet investments, both co-investment in funds managed and direct investment. We have also included a broad range of other private equity, specialist and conventional asset managers, many of whom focus on ‘balance sheet light’ third-party asset management.

Given the mix of strategies, combining widely differing reliance on ‘recurring’ asset management earnings and balance sheet-driven investment earnings, we would not suggest focusing on any particular valuation multiple. Before examining the DeA valuation in more detail, we first explain our adjusted NAV calculation.

Adjusted NAV of €1.91 per share

Exhibit 10 shows our calculation of adjusted NAV per share (€1.91). The adjustments to stated NAV are:

- For the AAM division, from the stated NAV of €143.8m we have re-allocated the real estate funds owned (with an adjustment for minority interest) to what we call the ‘investments’ division, and have valued the division at €141.6m or 13.0x our forecast FY19 adjusted earnings of €10.9m. We have exercised judgement over the chosen multiple, but note that it lies between the average and median range for the broader group. An increase or reduction in the multiple to 14.0x/12.0x would lift or reduce adjusted NAV by c €0.04.
- The ‘investments’ include the €243.3m of direct and fund investments shown in the breakdown of NAV in Exhibit 1, plus the reallocated real estate funds. We have adjusted the Q2 net asset

values by marking to market the indirect investment in Migros held through Kenan Holdings using a Migros share price of TRY14.4 and a TRY/€ exchange rate of 7.03.

- The 'other' column represents the holding company net financial position (predominantly cash) and other net assets, shown in Exhibit 1. The post Q2 fund distributions will have increased this amount with a corresponding decrease in investments.
- The calculation of adjusted NAV is similar to our previously published 'sum-of-the parts' but differs in that the SOP, by removing all of the AAM net assets, failed to capture the value of the real estate funds. The change in methodology adds €0.10 per share.

Exhibit 10: Summary of adjusted NAV

€m	AAM	Investments	Other	Total	Per share
NAV	143.8	243.3	86.3	473.4	1.87
Adjustments	-25.6	25.6			
Kenan mark to market		-12.2			
Adjustment to earnings valuation	23.4				
Adjusted NAV	141.6	256.7	86.3	484.6	1.91
Memo:					
FY19 reported (IFRS) earnings	**11.1**	**4.0**		**15.1**	
Adjustments	-0.2				
Adjusted earnings	**10.9**				
P/E	**13.0**				

Source: Edison Investment Research

Our adjusted NAV includes the investment portfolio and other assets and liabilities (overwhelming cash) at the reported NAV (other than for Migros). DeA's substantial cash balances (18% of NAV and increasing) provide it with considerable financial flexibility to continue the highly attractive level of shareholder distributions (including an active share repurchase programme) while at the same time investing primarily to grow the AAM platform. The unusually low valuation of DeA shares in terms of the discounts to reported and adjusted NAV compared with peers is clear. The near-term downside from the strongly liquid balance sheet is that at current interest rates it acts as a drag on overall returns as can be seen from the NAV total return analysis in Exhibit 11 (the annual change in NAV during the period plus shareholder distributions).

Exhibit 11: NAV total return

	FY16	FY17	FY18e	FY19e
Opening NAV per share (€)	2.07	2.03	1.92	1.88
Distributions per share (€)	0.12	0.12	0.12	0.12
Closing NAV per share (€)	2.03	1.92	1.88	1.82
NAV total return	**3.5%**	**0.5%**	**4.5%**	**3.2%**

Source: Edison Investment Research

The immediate catalyst to a re-rating of DeA shares is recognition by investors of the low inherent valuation of the company. But more than that, the successful deployment of this excess capital has the potential to lift overall returns and accelerate the growth of the potentially more highly valued AAM platform.

Exhibit 12: Financial summary

Period ending 31 December (€000's)	2014	2015	2016	2017	2018e	2019e
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Alternative Asset Management fees (after inter-company eliminations)	66,045	62,416	59,114	57,944	60,046	63,031
Income (loss) from equity investments	(786)	(539)	524	3,898	2,643	2,250
Other investment income/expense	(56,149)	72,464	12,338	8,633	51,945	11,874
Income from services	19,176	18,496	8,509	2,208	1,819	1,400
Other income		3,204	288	144	33	0
Revenue	28,286	156,041	80,773	72,827	116,487	78,555
Expenses	(87,957)	(128,514)	(66,888)	(98,616)	(55,180)	(55,016)
Net Interest	2,905	4,982	(1,220)	(84)	295	0
Profit Before Tax (norm)	(56,766)	32,509	12,665	(25,873)	61,602	23,539
Tax	1,720	6,452	(199)	(420)	(5,376)	(3,853)
Profit After Tax (norm)	(55,046)	38,961	12,466	(26,293)	56,226	19,686
Profit from discontinued operations	(887)	286	0	682	0	0
Profit after tax	(55,933)	39,247	12,466	(25,611)	56,226	19,686
Minority interests	(1,668)	1,825	(39)	13,959	(32,470)	(4,576)
Net income (FRS 3)	(57,601)	41,072	12,427	(11,652)	23,755	15,111
Profit after tax breakdown						
Private equity	(60,739)	78,322	7,859	8,327	51,118	9,269
Alternative asset management	9,464	(37,304)	7,309	(31,073)	11,900	14,723
Holdings/Eliminations	(4,658)	(1,771)	(2,702)	(2,865)	(6,793)	(4,306)
Total	(55,933)	39,247	12,466	(25,611)	56,225	19,686
Average Number of Shares Outstanding (m)	273.8	266.6	263.1	258.3	253.8	253.8
IFRS EPS - normalised (c)	(21.0)	15.4	4.7	(4.5)	9.4	6.0
Distributions per share (declared basis)	0.30	0.12	0.12	0.12	0.12	0.12
BALANCE SHEET						
Fixed Assets	786,141	558,086	559,335	454,156	397,917	392,041
Intangible Assets (including goodwill)	229,711	167,134	156,583	117,233	116,405	116,405
Other assets	39,988	38,590	35,244	10,305	7,641	7,641
Investments	516,442	352,362	367,508	326,618	273,871	267,995
Current Assets	117,585	173,882	141,521	178,161	203,108	198,220
Debtors	50,711	20,694	15,167	32,955	23,842	23,842
Cash	55,583	123,468	96,438	127,916	170,419	165,531
Other	11,291	29,720	29,916	17,290	8,847	8,847
Current Liabilities	(36,193)	(31,294)	(26,979)	(34,783)	(27,600)	(27,600)
Creditors	(35,833)	(30,643)	(25,757)	(34,583)	(27,400)	(27,400)
Short term borrowings	(360)	(651)	(1,222)	(200)	(200)	(200)
Long Term Liabilities	(40,911)	(15,514)	(12,830)	(12,475)	(10,689)	(10,689)
Long term borrowings	(5,201)	0	(19)	0	0	0
Other long term liabilities	(35,710)	(15,514)	(12,811)	(12,475)	(10,689)	(10,689)
Net Assets	826,622	685,160	661,047	585,059	562,736	551,972
Minorities	(173,109)	(138,172)	(131,844)	(95,182)	(85,300)	(89,876)
Shareholders' equity	653,513	546,988	529,203	489,877	477,435	462,096
Year-end number of shares m	271.6	263.9	261.2	255.7	253.8	253.8
NAV per share	2.41	2.07	2.03	1.92	1.88	1.82
CASH FLOW						
Operating Cash Flow	188,419	188,492	19,148	91,146	121,986	25,563
Acquisitions/disposals	(1,476)	70	(290)	(633)	(49)	0
Financing	(157,756)	(38,148)	(4,362)	(26,073)	(46,336)	0
Dividends	0	(82,432)	(33,494)	(32,962)	(33,098)	(30,450)
Other						
Cash flow	29,187	67,982	(18,998)	31,478	42,503	(4,888)
Other items	0	(97)	(8,032)	0	0	0
Opening consolidated cash	26,396	55,583	123,468	96,438	127,916	170,419
Closing consolidated cash	55,583	123,468	96,438	127,916	170,419	165,531
Financial debt	(5,561)	(651)	(1,241)	(200)	(200)	(200)
Closing consolidated net (debt)/cash	50,022	122,817	95,197	127,716	170,219	165,331
Holding company net financial position	40,600	90,016	79,739	92,301	119,642	108,274

Source: DeA Capital, Edison Investment Research

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