EDISON

DEA Capital

Update on Q318 results

Strong cash used to grow asset management

Financial services

DeA reported a solid Q318, with growth in AUM and a further strong increase in its net financial position driven by net reimbursement from fund co-investment. Since the end of Q3, it has increased its stake in its main real estate asset management subsidiary, which increases the share of AAM in the total, simplifies the group structure and is accretive to earnings and our adjusted net asset value, increased to €1.94 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	9.3
12/17	11.7	59.8	1.92	0.12	0.67	9.3
12/18e	11.6	60.2	1.84	0.12	0.70	9.3
12/19e	12.4	61.1	1.78	0.12	0.73	9.3

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.

AUM growth and strong cash flow in Q2

Q318 AUM increased to c €11.4bn from €11.2bn at the end of Q2, and asset management fees for the first nine months are c 3% ahead of the prior year. Management expects a positive trend in H2 from new funds. The net financial position increased by €53.4m (to €140.3m/€0.55 per share) or 30% of NAV. NAV per share was €1.83, down on Q218 (€1.87) but up from the end of FY17 (€1.80 adjusted for €0.12 in distributions paid since). The majority of the fund co-investment showed valuation gains in the quarter, but these were offset by negative adjustments on two real estate funds and the indirect investment in Migros, the listed Turkish retailer, although the value of the latter has improved from the lower levels seen during the quarter.

Accretive growth in AAM

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 in Italy and into wider Europe. Since the end of Q318, DeA has increased its stake in DeA Capital Real Estate to 94.0% from 64.3% at book value, for €40m (or a maximum €44.5m under an earn-out clause), funded from its strong cash position. We believe the transaction is accretive of earnings and our adjusted NAV and simplifies the group structure. It follows the recent creation of a real estate JV in France.

Valuation: Cash flow for yield and growth

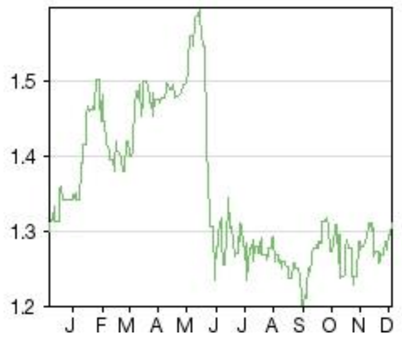
The shares trade at a 30% discount to Q318 IFRS NAV, larger than for any of the peers listed in Exhibit 7, and trade at a larger 34% discount to our adjusted NAV of €1.94 (up from €1.91). Our adjusted NAV includes a peer group valuation of the AAM platform and a mark-to-market value quoted investments. A strong balance sheet and cash flow position supports an attractive yield and provides resources for investment to grow AAM further.

5 December 2018

Price	**€1.29**
Market cap	**€327m**

Holding company net financial position (€m) at 30 September 2018	140.3 3
Shares in issue (excluding 52.9m treasury shares	253.8m
Free float	24.5%
Code	DEA
Primary exchange	BIT
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.3	7.9	1.6
Rel (local)	1.5	13.4	15.3
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 €11.4bn at 30 September 2018. The investment portfolio, including co-investment in funds managed, investment in the asset management platform, and direct investment amounted to c €322m.

Next events

Approval of FY18 results	April 2019
Q119 results	May 2019

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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 €11.4bn across its integrated AAM platform, comprising private equity, real estate and NPLs, and operates as an investor in its own funds managed, and invests directly, from its permanent capital base. The group is majority-owned by De Agostini, a family-owned private group founded in 1901, itself 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 around 70%.

In recent years, DeA 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, in which DeA has recently increased its ownership to 94% from 64.3%, the leading real estate manager in Italy with AUM of €9.1bn (measured by total managed assets) and DeA Capital Alternative Funds, which manages €2.3bn (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 September 2018 was €463m, or €1.83 per share. The net assets of the AAM business (31%), investments in private equity and real estate funds (27%), and a significant net financial position (30%), together represent 88% of the NAV. The direct investment portfolio account represents the balance.

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 September 2018

	Net assets (€m)			Net assets per share (€)			% of total NAV		
	September (Q3)	June (Q2)	December*	September (Q3)	June (Q2)	December*	September (Q3)	June (Q2)	December*
	2018	2018	2017	2018	2018	2017	2018	2018	2017
Private equity investments									
Kenan (Migros)	19.7	30.2	45.6	0.08	0.12	0.18	4%	6%	10%
Private equity/real estate funds	126.4	180.7	170.9	0.50	0.71	0.67	27%	38%	37%
Other (Cellularline, IDeaMI ….)	31.6	32.4	33.4	0.12	0.13	0.13	7%	7%	7%
Total private equity investment	**177.7**	**243.3**	**249.9**	**0.70**	**0.96**	**0.98**	**38%**	**51%**	**54%**
Alternative asset management									
DeA Capital Real Estate	97.9	98.1	101.2	0.39	0.39	0.40	21%	21%	22%
DeA Capital Alternative Funds	40	39.2	39.9	0.16	0.15	0.16	9%	8%	9%
Other (YARD, SPC)	6.8	6.5	6.0	0.03	0.03	0.02	1%	1%	1%
Total alternative asset management investment	**144.7**	**143.8**	**147.1**	**0.57**	**0.57**	**0.58**	**31%**	**30%**	**32%**
Investment portfolio	**322.4**	**387.1**	**397.0**	**1.27**	**1.53**	**1.55**	**70%**	**82%**	**86%**
Other net assets/(liabilities)	0.7	(0.6)	0.6	0.00	0.00	0.00	0%	0%	0%
Holding company net financial positions	140.3	86.9	61.8	0.55	0.34	0.24	30%	18%	13%
Net asset value	**463.4**	**473.4**	**459.4**	**1.83**	**1.87**	**1.80**	**100%**	**100%**	**100%**

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

Q3 saw strong cash flows continuing

Q3 saw growth in AUM and a continuation of strong cash flows, primarily driven by net reimbursements from mature fund co-investments. Investment performance was held back by negative revaluation movements on the residual indirect stake in Migros, the listed Turkish retailer. The majority of the fund investments showed gains, but these were offset by negative adjustments on two real estate funds. Since the end of the quarter, DeA has proposed the cancellation of 40m treasury shares, which we view positively. More significantly, it has increased its stake in DeA Capital Real Estate from 64.3% to 94.0% at what we believe to be favourable price. The key Q3 highlights were:

- Assets under management increased to €11.4bn as at 30 September from €11.2bn in June. DeA Capital Alternative Funds completed the launch of the IDeA Agro Fund in July, which will invest in environmentally sustainable agricultural companies operating in Italy. The real estate AUM also benefitted from the establishment of the Tessalo fund, a closed-end sale and lease-back fund with an Italian healthcare group. DeA Capital Real Estate has supported the fund with an investment of €18.5m.
- The group NAV per share was €1.83 at 30 September compared with €1.87 in June, and €1.80 at end-2017, adjusted for the subsequent annual distribution of €0.12 per share. The main driver of NAV growth during the year has been gains on private equity funds managed by DeA, in which it is co-invested.
- Group NAV and the DeA Capital Real Estate reported earnings were negatively affected by a €2.6m provision against valuation losses, mainly attributable to a development fund which has incurred a planning consent set-back, and a sale and lease-back fund with a bank where the bank will repurchase the assets at (lower) more recent market values. The Q3 adjustment brings the year to date adjustment in respect of these funds to €4.4m. Our adjusted earnings for the AAM division adjust for fund valuation movements, positive and negative.
- Within the direct investment portfolio, the remaining indirect investment in Turkish retailer, Migros incurred unrealised losses, in respect of the Migros share price and the Turkish lire of €10.5m or €0.10 per share. The valuation has improved by c €13.5m since our last published adjusted NAV, adding €0.05 per share.
- In addition to the Tessalo investment, during Q318, €3.6m was invested in the existing funds and DeA received €56.5m in distributions. Year to date, the net holding company liquidity generated by the investment portfolio amounts to €83.8m.
- As a result of the continuing positive cash flow being generated by the investment portfolio, the holding company net financial position increased to €140.3m (€0.55 per share), or 30% of NAV, as at 30 September (June: €86.9m).

Ownership of DeA Capital increased to 94%

On 21 November 2018, DeA announced that it had completed the acquisition of an additional c 29.7% of DeA Capital Real Estate, from minority partner INPS, increasing DeA's ownership to c 94.0%. We believe this development is positive as it underlines DeA's focus on the growth of its AAM platform, increases the share of AAM earnings within the group, appears to us to be attractively priced, and is a significant move towards simplifying the DeA corporate structure. The divestment by INPS is in line with its strategy, initiated in 2017, to gradually dispose of non-core real estate investments. The remaining 6% is owned by Fondazione Carispezia, a private foundation that remains one of the main shareholders in the Italian bank, Credit Agricole Carispezia.

The consideration for the acquisition of the stake is €40m, based on the book value of DeA Capital Real Estate, wholly financed from DeA's significant internal cash resources. In addition, there is a maximum earn-out of €4.5m over the three-year period 2019-2021 which is subject to DeA Capital meeting undisclosed set targets for new assets under management.

We estimate that DeA is paying between 9.7x and 11.7x our forecast underlying earnings for FY19 to acquire the additional stake in DeA Capital Real Estate. The additional (forecast) post tax, pre-minority adjusted earnings acquired are €2.3m. 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. In calculating the acquisition multiple, we adjust the acquisition cost for the 30 September value of the additional share of available for sale fund investments, owned by DeA Capital Real Estate, that have been acquired (c €17.2m). This adjusted acquisition cost (an amount of between €22.8m and €27.3m) represents the amount paid for the additional earnings.

Exhibit 2: DeA Capital Real Estate stake acquisition appears attractively priced

€000's unless stated otherwise	FY19e
DeA capital Real Estate net income (before minority)	**8,751**
Adjustments (after tax, pre-minority)	
PPA	770
Other investment income	(1,635)
DeA Capital Real Estate adjusted net income	**7,886**
Share of profit acquired	29.7%
Profit acquired	**2,342**
Minimum acquisition cost	40,000
Maximum acquisition cost	44,500
Adjustment for DeA Capital Funds acquired:	
Value of funds owned by DeA Capital Real Estate	57,826
Share of funds acquired	**29.7%**
Funds acquired	**17,174**
Minimum acquisition cost adjusted for funds acquired	22,826
Maximum acquisition cost adjusted for funds acquired	27,326
Minimum P/E	**9.7**
Maximum P/E	11.7

Source: Edison Investment Research

Cancellation of treasury shares

DeA is proposing to cancel 40m of the 52.9m treasury shares (c 17% of the shares outstanding) that it has acquired over the past few years under its ongoing share repurchase programme. Although this will have no impact on reported liquidity, NAV, earnings, or EPS, as the treasury shares are deducted from this calculation, we welcome the move as we believe it shows that management believes its significant net positive financial position is sufficient to support its current growth plans without the need to reissue the shares. Should this situation change, management can make the case for new share issuance based on the merits of the investment opportunity. As the shares are in any case withdrawn from the market, cancellation should have no negative impact on share trading liquidity.

The reason for the cancellation is that with ongoing repurchases, the free float has recently fallen beneath the minimum level that is required to maintain DeA's listing in the STAR market segment of Borsa Italiana's Mercato Telematico Azionario (MTA) equity market. This segment of the market is dedicated to mid-sized companies with a market capitalisation of less than €1 billion, which voluntarily adhere to comply with the requirements to:

- High transparency and disclosure requirements
- High liquidity
- Corporate governance practices that are in line with international standards.

To restore and maintain compliance with these requirements, DeA will propose the cancellation of shares to shareholders at an extraordinary general meeting, planned for April 2019. Meanwhile, the parent company De Agostini has already waived 50% of its double voting right entitlement on the shares that it owns, awarded under the company's shareholder loyalty programme. Assuming shareholder approval for the share cancellation, Exhibit 3 shows the effect on the number of shares and the parent company voting position, which is broadly unchanged as a percentage.

Exhibit 3: Impact of treasury share cancellation and loyalty vote waiver

In million shares	Before	After
Shares in issue	306.7	266.7
Treasury	52.9	12.9
Shares ex treasury (used for NAV and EPS)	**253.8**	**253.8**
Shares with double voting rights	180.3	90.9
Total votes (inc treasury)	**487.0**	**357.6**
De Agostini shares	178.8	178.8
De Agostini shares (% of total)	**58.3%**	**67.0%**
De Agostini votes	357.6	268.2
De Agostini votes (% of total)	**73.4%**	**75.0%**

Source: DeA Capital, Edison Investment Research

Financials

We have made a number of relatively small adjustments to the AAM earnings estimates to reflect recent trends, but the main change is an increase in attributable earnings resulting from the reduced minority interests.

Our assumptions for AUM are little changed although we have slightly reduced our expected average fee margins in line with recent experience. Forecast management fees are lower as a result, but the effect on adjusted earnings, before minority interests, is partly offset by lower forecast expenses, again reflecting recent experience. It should be noted that the fall in expenses that we forecast, from FY18 to FY19, is more than accounted for by the assumed non-repetition of the provisions taken in FY18 within DeA Capital Real Estate. Reported earnings also benefit from a higher forecast other income/expense related to the notional return assumed on fund investments, which have increased to c €57m as a result of the €18.5m investment by DeA Capital Real Estate in the Tessalo fund in Q3. These notional returns are stripped out of adjusted earnings figure, which is also adjusted for non-cash purchase price amortisation (PPA) and other one-off items.

Our forecast adjusted earnings is reduced by c 5% for the current year (to €10.0m) but in FY19 a full year impact from the reduction in minority interests more than compensates for our underlying earnings reduction, leaving adjusted attributable earnings c 12% higher.

Exhibit 4: AAM division detailed forecasts

	New				Old		Change	
	2016	2017	2018e	2019e	2018e	2019e	2018e	2019e
AuMs (€bn) – end period								
DeA Capital Alternative Funds	1.937	2.190	2.213	2.213	2.085	2.085	0.128	0.128
DeA Capital Real Estate	8.672	9.542	9.391	10.191	9.472	10.472	(0.081)	(0.281)
Total AuM (€bn) – end period	**10.609**	**11.732**	**11.604**	**12.404**	**11.557**	**12.557**	**0.047**	**(0.153)**
AuMs (€bn) – average								
DeA Capital Alternative Funds	1.844	1.944	2.202	2.213	2.154	2.085	0.048	0.128
DeA Capital Real Estate	8.059	9.282	9.258	9.691	9.289	9.972	(0.030)	(0.281)
Total AuM (€bn) – average	**9.903**	**11.226**	**11.461**	**11.904**	**11.443**	**12.057**	**0.018**	**(0.153)**
Management fees/AuM bps								
DeA Capital Alternative Funds	112	95	89	88	91	92	(2)	(4)
DeA Capital Real Estate	50	45	44	43	45	45	(1)	(2)
Figures in €000s								
DeA Capital Real Estate	40,261	41,381	40,614	41,671	41,509	44,874	(895)	(3,203)
DeA Capital Alternative Funds	20,724	18,438	19,605	19,474	19,593	19,182	12	292
Total alternative asset management fees	**60,985**	**59,819**	**60,218**	**61,146**	**61,102**	**64,056**	**(883)**	**(2,910)**
Income from equity investments	531	822	1,119	1,197	1,395	1,231	(276)	(33)
Other income/expense	1,088	1,676	(705)	2,336	(949)	1,624	243	712
Income from services	8,336	703	1,678	1,400	1,503	1,400	175	
Revenue	**70,940**	**63,020**	**62,310**	**66,079**	**63,051**	**68,310**	**(741)**	**(2,232)**
Total expenses	**(60,245)**	**(91,116)**	**(48,444)**	**(46,806)**	**(46,329)**	**(47,416)**	**(2,115)**	**610**
Finance income/expense	19	13	(16)		(15)		(1)	
Profit before tax	10,714	(28,083)	13,850	19,273	16,707	20,894	(2,857)	(1,622)
Taxation	(3,405)	(2,991)	(4,416)	(5,709)	(4,807)	(6,171)	391	462
Profit after tax	**7,309**	**(31,074)**	**9,434**	**13,563**	**11,900**	**14,723**	**(2,466)**	**(1,160)**
Minority interests	1,178	13,575	(1,442)	(525)	(2,406)	(3,594)	964	3,069
Attributable profits	**8,487**	**(17,499)**	**7,992**	**13,038**	**9,494**	**11,129**	**(1,502)**	**1,909**
Adjustments (net of tax & minorities)								
PPA	1,042	592	566	724	545	495	21	229
SFP	1,494	2,460						
Goodwill		24,897						
Other income/expense	(1,017)	(859)	271	(1,537)	438	(731)	(167)	(806)
Provisions against investment impairment			1,170				1,170	
Adjusted attributable earnings	**10,006**	**9,591**	**9,999**	**12,225**	**10,477**	**10,893**	**(478)**	**1,332**
o/w DeA Capital Real Estate	5,058	5,889	4,622	7,413	5,176	6,237	(554)	1,175
o/w DeA capital Alternative funds	3,776	3,133	3,783	3,649	3,912	3,459	(129)	190
o/w other alternative asset management (inc SPC, YARD)	1,173	570	1,595	1,163	1,389	1,197	206	-33

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).

We assume 7.5% per year 'normalised' growth in the carried value of all of the private equity fund investments and 4% per year for real estate funds (substantially representing the expected income returns), whether carried as available for sale investments, consolidated or equity accounted. We believe this to be a useful way to capture at least some of the returns that may be earned on these investments even though our approach differs from the way these assets are actually managed, seeking to maximise IRR. Our forecasts assume no change to the last published value (or income from) the quoted investments, Migros (Kenan Investments), Cellularline (formerly Crescita) and IDeaMI, but in our valuation (see below) we do adjust these to market values.

In Exhibit 5, we break down our group forecasts (shown in Exhibit 12) by segment, as reported by the company, which feed through into our NAV forecast. The most significant change relates to the Private Equity segment where our normalised return methodology described above does not adjust for a reversal of the negative investment returns in Q318.

Exhibit 5: Summary of DeA Group segmental forecasts

Attributable profit/(loss) for the period (€m)	New		Old		Change	
(IFRS, unadjusted)	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
AAM	8.0	13.0	9.5	11.1	(1.5)	1.9
Private Equity	8.8	6.3	21.1	8.3	(12.3)	(2.0)
Holdings	(6.6)	(4.3)	-6.8	-4.3	0.2	0.0
Group	10.2	15.1	23.8	15.1	(13.6)	(0.0)

Source: Edison Investment Research

Exhibit 6 shows a summary of some of the key group level forecasts. The strong cash generation in Q3 can be seen in the relatively modest reduction in the forecast holding company net financial position, despite the €40m cash payment related to the real estate minority interest acquisition. Given the strong cash flow, we continue to expect further strong dividend distributions. The slight reduction in our forecast NAV per share reflects the Q3 investment returns discussed above.

Exhibit 6: Group level changes in key forecasts

	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	11.6	11.6	0.4	61.1	60.2	-1.4	119.6	105.0	-12.2	1.88	1.84	-2.3	0.12	0.12	0.0
2019e	12.6	12.4	-1.2	64.1	61.1	-4.5	108.3	92.4	-14.7	1.82	1.78	-2.3	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 Q318 published NAV per share of €1.83, a larger discount of 34% to our adjusted NAV per share of €1.94. DeA's P/NAV of. c 0.7x is the lowest of the peer group shown in Exhibit 7. We have divided this peer group 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 supported by permanent capital, 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 this mix of strategies amongst its peer group, 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.

Exhibit 7: Peer group comparison

	Price (local)	Market cap ($m)	P/E current year	P/E next year	P/NAV current year	P/NAV next year	ROE current year	ROE next year	Yield
Brookfield Asset Management	56.9	42,672	25.7	31.8	2.3	2.0	13.8	7.4	1.1%
KKR	22.2	18,477	11.5	11.8	1.3	1.2	13.1	11.7	2.7%
3I Group	815.4	10,093	6.5	6.9	1.0	0.9	17.3	14.6	3.9%
Intermediate Capital	1012.0	3,738	11.9	12.9	2.1	1.9	17.6	16.1	3.5%
Tikehau	23.3	2,728	N/A	13.6	1.0	1.0	N/A	7.5	1.2%
Deutsche Beteiligungs	32.5	555	10.5	10.0	1.0	1.0	8.2	9.5	4.5%
Average: narrow group			**13.2**	**14.5**	**1.5**	**1.3**	**14.0**	**11.1**	**2.8%**
Blackstone	32.7	39,321	11.0	10.1	3.5	3.3	32.3	36.1	6.9%
Partners Group	656.0	17,557	22.7	21.3	8.0	7.4	38.6	37.1	3.2%
Apollo	26.5	5,328	22.8	8.4	6.0	5.2	28.7	66.0	6.8%
Schroders	2545.0	9,015	11.5	11.2	1.9	1.8	17.1	16.4	4.5%
Janus Henderson	22.8	4,527	8.0	8.2	0.9	0.9	11.3	11.1	6.2%
Man Group	143.4	2,856	9.1	7.2	1.4	1.3	14.3	18.7	8.2%
Ashmore	380.2	3,447	16.1	14.3	3.2	2.9	20.9	21.8	4.5%
Jupiter	321.8	1,874	10.0	10.7	2.4	2.3	23.8	21.7	8.1%
Azimut	11.0	1,792	11.2	9.5	2.5	2.4	22.5	27.2	8.9%
Patrizia	17.0	1,785	18.3	16.3	1.5	1.4	10.2	9.5	2.4%
Average: broader group			**14.1**	**11.7**	**3.1**	**2.9**	**22.0**	**26.6**	**6.0%**
Average: total group			**13.8**	**12.7**	**2.5**	**2.3**	**19.3**	**20.8**	**4.8%**
DeA Capital*	1.3	370	32.1	21.7	0.7	0.7	0.0	0.0	9.3%

Source: Thomson Reuters. Prices as at 5 December 2018. Note: *DeA figures are Edison forecasts and are group figures, which differ from the AAM segment forecasts.

Minorities acquisition lifts adjusted NAV to €1.94 per share

Our adjusted NAV 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 7. We also mark to market DeA's quoted investments. The acquisition of minority interest in DeA Capital Real Estate has a positive impact on our adjusted NAV, which is increased from €1.91 to €1.94, as discussed below:

- For the AAM division, from the stated NAV of €144.7m we have allowed for the €40m acquisition of the DeA Capital Real Estate minority, and we have re-allocated the real estate funds owned (with a reduced adjustment for minority interests) to what we call the 'investments' division, and have valued the division at €177.7m or 13.0x our forecast FY19 adjusted earnings of €12.2m. 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 €0.05.
- The acquisition of DeA Capital Real Estate minorities enhances our adjusted NAV because the 13.0x multiple that we are using is above the 9.7x to11.7x P/E implied acquisition multiple for the underlying earnings described above.
- The 'investments' include the €177.7m of direct and fund investments shown in the breakdown of NAV in Exhibit 1, plus the reallocated real estate funds. We have also marked to market the indirect investment in Migros held through Kenan Holdings using a Migros share price of TRY15.27 and a TRY/€ exchange rate of 6.09. The market values of Cellularline and IDeaMI show no significant change from end-Q318.
- The 'other' column represents the holding company net financial position (predominantly cash) and other net assets, shown in Exhibit 1, and is adjusted for the cash consideration in respect of the minority interest acquisition.

Exhibit 8: Summary of adjusted NAV					
€m unless otherwise stated	**AAM**	**Investments**	**Other**	**Total**	**Per share**
NAV	144.7	177.7	141.0	463.4	1.83
Adjustments	-54.4	54.4			
Kenan mark to market		1.2			
Adjustment to earnings valuation	28.6				
Real Estate minority purchase	40.0		-40.0		
Adjusted NAV	**158.9**	233.2	101.0	493.2	1.94
Memo:					
FY19e reported (IFRS) earnings	13.0	2.1		15.1	
Adjustments	-0.8				
Adjusted earnings	**12.2**				
P/E	13.0				

Source: Edison Investment Research

The P/NAV valuation of DeA is the lowest of the peer group shown in Exhibit 7. DeA has the additional benefit of strong cash flow from maturing investments to support a high level of distribution, in excess of recurring income, representing a yield of c 9%. However, 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 9 (the annual change in NAV during the period plus shareholder distributions). Compared with our last published NAV total return forecasts, FY18 is reduced (due to the Q3 investment moves discussed above), but FY19 is increased as a result of the acquisition of minority interests.

Exhibit 9: NAV total return				
(€)	**FY16**	**FY17**	**FY18e**	**FY19e**
Opening NAV per share	2.07	2.03	1.92	1.84
Distributions per share	0.12	0.12	1.84	1.78
Closing NAV per share	2.03	1.92	0.12	0.12
NAV total return (%)	**3.5%**	**0.5%**	**2.3%**	**3.2%**

Source: Edison Investment Research

The immediate catalyst to a re-rating of DeA shares is the recognition by investors of the low inherent valuation of the company. But more than that, the successful continuing 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 10: Financial summary

Period ending 31 December (€000s)	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	59,244	60,167
Income (loss) from equity investments	(786)	(539)	524	3,898	1,457	2,160
Other investment income/expense	(56,149)	72,464	12,338	8,633	39,449	10,665
Income from services	19,176	18,496	8,509	2,208	2,144	1,400
Other income		3,204	288	144	62	0
Revenue	28,286	156,041	80,773	72,827	102,356	74,392
Expenses	(87,957)	(128,514)	(66,888)	(98,616)	(57,061)	(54,406)
Net Interest	2,905	4,982	(1,220)	(84)	419	0
Profit Before Tax (norm)	(56,766)	32,509	12,665	(25,873)	45,714	19,986
Tax	1,720	6,452	(199)	(420)	(4,996)	(3,407)
Profit After Tax (norm)	(55,046)	38,961	12,466	(26,293)	40,718	16,579
Profit from discontinued operations	(887)	286	0	682	0	0
Profit after tax	(55,933)	39,247	12,466	(25,611)	40,718	16,579
Minority interests	(1,668)	1,825	(39)	13,959	(30,526)	(1,486)
Net income (FRS 3)	(57,601)	41,072	12,427	(11,652)	10,192	15,093
Profit after tax breakdown						
Private equity	(60,739)	78,322	7,859	8,327	37,906	7,292
Alternative asset management	9,464	(37,304)	7,309	(31,073)	9,434	13,563
Holdings/Eliminations	(4,658)	(1,771)	(2,702)	(2,865)	(6,623)	(4,276)
Total	(55,933)	39,247	12,466	(25,611)	40,717	16,579
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)	4.0	5.9
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	380,048	372,874
Intangible Assets (inc. goodwill)	229,711	167,134	156,583	117,233	116,020	116,020
Other assets	39,988	38,590	35,244	10,305	8,365	8,365
Investments	516,442	352,362	367,508	326,618	255,663	248,489
Current Assets	117,585	173,882	141,521	178,161	173,390	166,694
Debtors	50,711	20,694	15,167	32,955	19,983	19,983
Cash	55,583	123,468	96,438	127,916	141,865	135,169
Other	11,291	29,720	29,916	17,290	11,542	11,542
Current Liabilities	(36,193)	(31,294)	(26,979)	(34,783)	(34,360)	(34,360)
Creditors	(35,833)	(30,643)	(25,757)	(34,583)	(34,160)	(34,160)
Short term borrowings	(360)	(651)	(1,222)	(200)	(200)	(200)
Long Term Liabilities	(40,911)	(15,514)	(12,830)	(12,475)	(11,050)	(11,050)
Long term borrowings	(5,201)	0	(19)	0	0	0
Other long term liabilities	(35,710)	(15,514)	(12,811)	(12,475)	(11,050)	(11,050)
Net Assets	826,622	685,160	661,047	585,059	508,028	494,158
Minorities	(173,109)	(138,172)	(131,844)	(95,182)	(41,346)	(42,832)
Shareholders' equity	653,513	546,988	529,203	489,877	466,683	451,326
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	1.84	1.78
CASH FLOW						
Operating Cash Flow	188,419	188,492	19,148	91,146	133,756	23,754
Acquisitions/disposals	(1,476)	70	(290)	(633)	(40,056)	0
Financing	(157,756)	(38,148)	(4,362)	(26,073)	(46,653)	0
Dividends	0	(82,432)	(33,494)	(32,962)	(33,098)	(30,450)
Other						
Cash flow	29,187	67,982	(18,998)	31,478	13,949	(6,696)
Other items	0	(97)	(8,032)	0	0	0
Opening consolidated cash	26,396	55,583	123,468	96,438	127,916	141,865
Closing consolidated cash	55,583	123,468	96,438	127,916	141,865	135,169
Financial debt	(5,561)	(651)	(1,241)	(200)	(200)	(200)
Closing consolidated net (debt)/cash	50,022	122,817	95,197	127,716	141,665	134,969
Holding company net financial position	40,600	90,016	79,739	92,301	105,017	92,362

Source: Company data, Edison Investment Research

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New Zealand

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[1] APKS Note: Amended as the report prepared does not fall within the regulatory definition of "Investment Research".

[2] APKS Note: Please confirm that any such shareholdings are held subject to the personal dealing/conflict policy.

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