EDISON

DeA Capital

Alternative manager with strong asset support

Company outlook

Financial services

Over the past year, DeA Capital (DeA) has continued to make good progress in implementing the growth strategy for its alternative asset management (AAM) platform, comprising private equity, real estate and non-performing loans (NPLs). New fund launches have contributed to assets under management (AUM) growth of c 10% since end-FY16. Meanwhile, cash flow from its significant asset portfolio has remained strong, more than sufficient to fund co-investment in new fund launches, new direct investments and a continued high dividend distribution. After recent volatility in Italian markets, the yield is again more than 9% and the discount to our fair value of €1.72 per share is c 26%.

Year end	Closing AUM* (€bn)	Fees from AAM** (€m)	NAV/share (€)	DPS (declared) (€)	P/NAV (x)	Yield (%)
12/16	10.6	61.0	2.03	0.12	0.62	9.5
12/17	11.7	59.8	1.92	0.12	0.66	9.5
12/18e	12.0	63.1	1.83	0.12	0.69	9.5
12/19e	12.5	64.6	1.76	0.12	0.72	9.5

Note: NAV as stated, including goodwill. *AUM is ex-SPC Credit Management. **Before inter-company eliminations on own funds managed.

Focus on AAM growth

DeA is a leader in AAM within Italy, providing an integrated platform comprising private equity, real estate and NPLs, with AUM of more than €11.6bn. Its strategic focus is to consolidate this strong domestic market position while selectively exploring opportunities for expansion into other European markets. The latter would be targeted at taking advantage at the ongoing growth in the alternative asset subsector within the wider asset management industry, further expanding DeA's base of investors, as well as broadening its product range. DeA also seeks to expand its presence in the NPL segment.

Strong asset backing and cash generation

DeA has a strong capital base, with net assets (adjusted for the May dividend payment) of more than €450m, or an adjusted €1.78 per share at end-Q118. In addition to investments in the AAM platform, it has an investment portfolio of more than €200m, comprising co-investments in own funds managed and direct shareholder investments. Management sees potential net divestment of c €100–150m over the next 2–4 years, a significant sum, available for reinvestment in new fund launches, new investments and distributions to shareholders.

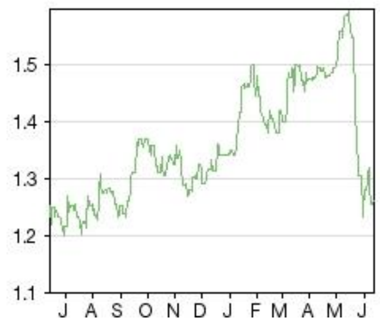
Valuation: Market volatility may offer opportunity

With the shares having adjusted for payment of the €0.12 per share (FY17) DPS, combined with volatility in the Italian markets, the prospective yield is again above 9% and may provide investors with an attractive entry point. The discount to the end-March 2018 (ex-dividend) NAV of €1.78 per share is back at c 30% and the discount to our sum-of-the-parts fair value of €1.72 per share is c 25%. The latter values the AAM business by reference to peer earnings multiples and adjusts the remaining Migros investment for recent weakness in Turkish markets.

12 June 2018

Price	**€1.26**
Market cap	**€319m**
Holding company net financial position (€m) at 31 March 2018	105.8
Shares in issue (excluding 53.2m treasury shares)	253.5m
Free float	24.4%
Code	DEA
Primary exchange	BIT
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(20.7)	(14.7)	1.4
Rel (local)	(13.6)	(12.2)	(2.5)
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 more than €11.6bn at 31 March 2018. The investment portfolio, including direct investments, fund investments and investment in the asset management platform amounted to c €376m.

Next events

Half-year results	6 September 2018

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Edison profile page

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Leader in Italian AAM

DeA is a leader in AAM within Italy. It has more than €11.6bn in AUM across its integrated AAM platform, comprising private equity, real estate and NPLs, and also operates as an investor, in its own funds managed and directly, from its permanent capital base.

DeA is majority-owned by De Agostini, a private group, owned by the Boroli and Drago families, with operations in the media, gaming and services 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, it has been DeA's strategy to reduce its direct private equity investments and deploy the capital to support the growth of its AAM platform, while also returning significant amounts of excess cash to shareholders. AAM has stronger growth prospects, greater earnings visibility and more stable cash flows than direct private equity investment, and has the potential to be more highly valued by the market; 2017 saw further good progress in this strategy. The AAM platform mainly comprises DeA Capital Real Estate (formerly known as IDeA FIMIT), a 64.3%-owned subsidiary managing €9.4bn in real estate funds, and DeA Capital Alternative Funds (formerly known as IDeA Capital Funds), which manages €2.2bn of private equity funds. In addition, 80.0%-owned SPC provides NPL management, and the 45%-owned associate IRE provides property services to the real estate sector, including DeA.

DeA's net asset value at 31 March 2018 was €482.7m, or €1.90 per share, before the May payment of 0.12 (c 30m) in dividends. The net assets of the AAM business (31%), investments in private equity and real estate funds (32%), and a significant net financial position (22%), together represent 85% of the NAV. The direct investment portfolio account represents the balance of 15%.

Exhibit 1: DeA Capital group financial position at 31 March

	Net assets (€m)			Net assets per share (€)			% of total NAV		
	March (Q1) 2018	December 2017	December 2016	March (Q1) 2018	December 2017	December 2016	March (Q1) 2018	December 2017	December 2016
Kenan (Migros)	37.4	45.6	66.9	0.15	0.18	0.26	8%	9%	13%
Private equity/real estate funds	156.7	170.9	202.9	0.62	0.67	0.78	32%	35%	41%
Crescita, IDeAIMI ….)	33.0	33.4	11.7	0.13	0.13	0.04	7%	7%	2%
Total private equity investment	**227.1**	**249.9**	**281.5**	**0.90**	**0.98**	**1.08**	**47%**	**51%**	**57%**
AAM									
DeA Capital Real Estate	101.9	101.2	122.7	0.40	0.40	0.47	21%	21%	25%
DeA Capital Alternative Funds	40.8	39.9	37.7	0.16	0.16	0.14	8%	8%	8%
IRE	6.1	6.0	6.9	0.02	0.02	0.03	1%	1%	1%
Total AAM	**148.8**	**147.1**	**167.3**	**0.59**	**0.58**	**0.64**	**31%**	**30%**	**34%**
Total investment portfolio	**375.9**	**397.0**	**448.8**	**1.48**	**1.55**	**1.72**	**78%**	**81%**	**90%**
Other net assets/(liabilities)	1.0	0.6	0.7	0.00	0.00	0.00	0%	0%	0%
Holding company net financial positions	105.8	92.3	79.7	0.42	0.36	0.31	22%	19%	15%
Net asset value	482.7	489.9	529.2	1.90	1.92	2.03	100%	100%	100%

Source: DeA Capital

On a global basis, low interest rates continue to stimulate demand for alternative assets (private equity, real assets, hedge funds) from investors seeking sustainable yields, although, as we discuss below, the group has had to deal with a number of headwinds particular to the Italian environment. A global report produced by PwC (*Alternative asset management 2020: Fast forward to centre stage*) in 2015 shows that alternative assets have been growing at twice the rate of traditional investments over the past decade and forecasts further growth of c 8% pa to 2020.

Focus on AAM platform growth

The AAM platform provides a wide range of products on a multi-asset platform across private equity, real estate and NPLs. It has a proven capability to structure and launch innovative products and benefits from a deep knowledge of, and extensive contacts within, the Italian market. The AAM platform comprises:

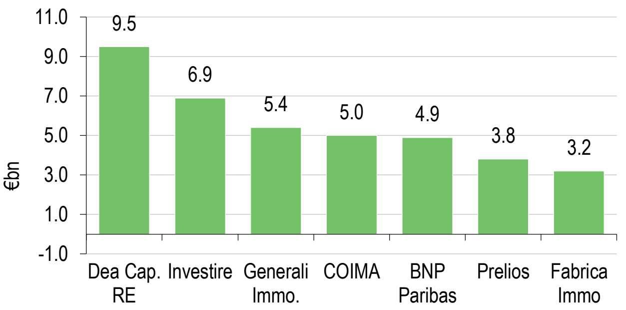
- 100% ownership of DeA Capital Alternative Funds, which manages private equity funds (funds of funds, co-investment funds, theme funds and credit funds) with AUM of €2.2bn at 31 March 2018, spread across 10 managed funds.
- A controlling 64.3% interest in DeA Capital Real Estate, Italy's largest independent real estate asset manager with AUM of €9.4bn at 31 March 2018, spread across 43 managed funds (three of which are listed).
- A controlling 80.0% interest in SPC, a company that specialises in the recovery of secured and unsecured debt, with a focus on the banking, leasing, consumer and commercial sectors within Italy. AUM at 31 March 2018 was €0.4bn, additional to the more than €11.6bn core private equity and real estate AUM.
- A strategic 45% interest in IRE, which provides property and facilities management, project management and brokerage services to the Italian real estate sector. DeA reduced its investment from 96.3% in FY16 to allow IRE to operate more independently in the market and in 2017 IRE acquired Yard, a complementary full-service provider.

The overall strategy for the AAM division is aimed at consolidating DeA's existing leading position within Italy, while also exploring opportunities for selectively expanding into other countries within Europe. The latter would be targeted at taking advantage at the ongoing growth in the alternative asset subsector within the broader asset management industry, further expanding DeA's base of investors as well as broadening its product range. DeA also seeks to expand its presence in the NPL segment. During the past two years, the components of DeA's AAM platform have begun to work more closely together in areas such as investor servicing and marketing, while the subsidiary businesses have been rebranded (under the DeA Capital Real Estate and DeA Capital Alternative Funds banners) in an effort to raise investor awareness of the group as an integrated AAM platform across private equity, real estate and NPL management.

DeA Capital Real Estate

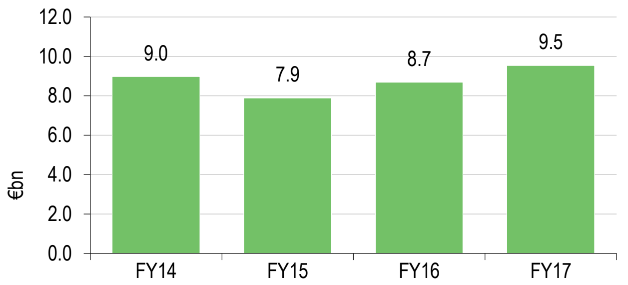
DeA Capital Real Estate is the largest independent real estate manager in Italy, with a c 20% share by AUM (Exhibit 2). AUM has been on a growth path since Q216, following a period of weakness as Italian pension funds reduced their property weightings and fixed-term funds (launched before the global financial crisis) matured. Net management fees in FY17 were €41.4m, representing an average fee margin of c 45bp of AUM, a level that we expect to be broadly maintained during our forecast period. Reserved (or segregated) funds represent around 90% of the €9.5bn AUM, with the three listed funds, which primarily appeal to retail investors and for which fee margins are higher at c 65bp, accounting for the balance.

Exhibit 2: Leading Italian real estate managers by AUM



Source: DeA Capital, Assogestioni. Note: DeA Capital data as at December 2017 and Assogestioni last published data as at June 2017. COIMA-adjusted for H217 fund terminations.

Exhibit 3: DeA Capital Real Estate AUM growth



Source: DeA Capital

DeA's leading position in real estate management has its origins in the 2011 merger of its First Atlantic Real Estate business into FIMIT, to form IDeA FIMIT, which has since become DeA Capital Real Estate.

DeA Capital Real Estate specialises in core real estate investment strategies, targeting income-producing real estate that is bought and then held for the long term; however, it also offers value strategies. Value strategies look for opportunities to benefit from improving the income stream and value of the property acquired. Overall, it seeks investments in transactions with low risk, stable returns and low volatility. As a result, its portfolios are focused on good quality real estate assets in large Italian cities (c 60% by value in Milan and Rome), with a significant share of the total (c 68%) represented by office buildings and bank branches.

DeA Capital Real Estate's appeal to institutional investors such as pension funds, insurance companies, sovereign wealth funds, corporations and banks, both from Italy and from abroad, is enhanced by its strong market positioning in Italy. The investor base comprises c 100 institutional investors, representing c 90% of all investments and more than 70,000 retail investors.

Business development is focused on expanding existing funds, launching new core and value initiatives, and expanding the product range. During 2017, six new funds were launched, and in January 2018, DeA broadened its product offering with the closing of the Special Opportunities I fund, which has net assets of €200m that will be allocated to the purchase of non-performing secured loans via securitisation vehicles. This €200m is not included in the Q118 AUM total as investment had not commenced at that date. DeA has only a very small ownership of its traditional funds managed but has subscribed €20m (10%) to the innovative new Special Opportunities 1 fund. The remaining commitment was underwritten by Apollo Global Management, one of the leading global players in alternative investment.

Exhibit 4: Summary of real estate funds managed (31 March 2018)

Real Estate Funds managed by DeA Capital Real Estate SGR		
Listed funds	**Fund description**	**AUM (€m)**
Atlantic 1	Italian closed-end funds investing in Italian real estate	510
Atlantic 2 - Berenice		86
Alpha		321
Total listed funds		**917**
Reserved funds		8,536
Total real estate funds		**9,453**
Not included in total as at 31 March 2018		
Special Opportunities Fund 1	Italian closed-end fund investing in real estate NPLs	200
Total, including Special Opportunities Fund 1		**9,653**

Source: DeA Capital

Management sees opportunities to enhance profitability through the rationalisation of smaller and overlapping funds, while introducing innovative product innovations to complement traditional funds and raise the blended average fee margin.

DeA Capital Alternative Funds

DeA Capital Alternative Funds is a leading player in the somewhat more fragmented Italian private equity management sector. The €2.2bn of assets managed are the responsibility of a substantial team of 37 investment professionals. The 10 funds managed by the team are shown in Exhibit 5, and comprise funds of funds, co-investment funds, thematic funds and credit funds.

Across the funds of funds, DeA has relationships with general partners that are invested in c 700 companies through 80 funds worldwide. Through its directly managed funds, DeA supports the management teams of c 30 direct investee companies.

DeA's investor base comprises more than 260 limited partners, including high net worth/entrepreneurs as well as institutional investors.

Exhibit 5: Summary of private equity funds managed (31 March 2018)

Private equity funds managed by DeA Capital Alternative Funds SGR						
Multi-manager	**Vintage**	**Fund description**	**Total fund commitment (AUM) (€m)**	**DeA holding value (€m)**	**% called**	**DeA commitment as % total**
IDeA I Fund of Funds	Jan 2007	Italian closed-end funds of PE funds with a global focus	646	44.0	90.9%	25.5%
ICF II	Feb 2009		281	37.4	73.4%	18.1%
ICF III	April 2014		67	8.5	60.2%	18.7%
IDeA Crescita Globale	2013		55			
Total multi-manager			**1,049**	**90.0**		
Single manager						
IDeA Opportunity Fund I	May 2008	Italian closed-end fund invested in minority stakes of Italian companies across different industries.	217	26.9	85.8%	47.0%
IDeA Energy Efficiency & Sustainable Devp.	Aug 2011	Italian closed-end fund dedicated to energy efficiency and sustainable growth.	100	15.0	78.5%	30.4%
IDeA Taste of Italy	Dec 2014	Italian closed-end fund dedicated to the Italian food and beverage industry.	218	11.1	56.8%	11.6%
Investitori Associati IV	2004	Italian closed-end fund originally promoted by Investitori Associati SGR and managed by DeA Capital Alternative Funds since 2015.	54			
Total single manager			**589**	**53.0**		
Credit funds						
IDeA Corporate Credit Recovery I	June 2016	Italian closed-end funds investing in the NPLs of Italian companies and in debtor in possession (DIP) proceedings.	222	1.0	27.4%	3.4%
IDeA Corporate Credit Recovery II	Dec 2017		301		0.7%	5.0%
Total credit funds			**523**	**1.0**		
Total private equity funds			**2,160**	**144.0**		**18.9%**

Source: DeA Capital

Fund launches in recent years have been in the areas of thematic funds and credit funds, driving a gradual shift away from funds of funds, which have proven less popular with investors. Looking forward, DeA anticipates a regular stream of new fund launches, with a seeding commitment of c 10%, consistent with its experience of recent launches. Our forecasts look for flat AUM through FY19 but the extent to which new fund launches are able to offset the expected run-off of older funds of funds remains an area of uncertainty.

AAM divisional performance and forecasts

We provide a summary of the AAM division's earnings and our forecasts in Exhibit 6. The accounting treatment of the merger of DeA's First Atlantic Real Estate business into FIMIT in 2011 created a material balance of goodwill and other intangibles, and non-cash recurring amortisation and impairment of these balances has affected the reported earnings of the division in recent years. This makes it more difficult to track the underlying progress and so we provide an adjusted earnings measure-making allowance for the following items:

- **Purchase price amortisation.** 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 the balance sheet at the merger of FIMIT.
- **SFP impairment.** With the FIMIT acquisition, DeA separately acquired financial equity instruments representing a 35% share (lower than its 64.3% share of the ongoing activities) of the carried interest in the funds that FIMIT had previously managed. In 2016 (€7.2m before tax

and minorities) and again in 2017 (€9.2m), the value of these financial equity instruments was impaired, reflecting a lower expectation of the future value of the carried interest. DeA has a remaining exposure of c €8m, which it hopes to receive over time, depending on the associated fund returns.

- **Goodwill impairment.** In 2017, DeA recognised a goodwill impairment relating to the 2011 FIMIT merger of €34.2m and also impaired the €2.9m of goodwill relating to SPC. After adjustment for minority interests in DeA Capital Real Estate, the combined impact was €24.9m. The FIMIT impairment reflects an acceptance that fee levels are unlikely to return to historical levels rather than any change in current trading performance or immediate prospects. Remaining goodwill for the real estate business is €62.4m, of which €40.1m is attributable to DeA shareholders, and our forecasts and valuation for the business suggest that this is conservatively struck.
- The reported earnings of the AAM division include other items that are non-recurring in nature but for which we do not make adjustment. For example, in Q118, DeA Capital Real Estate recognised a negative c €1m mark-to-market adjustment for units that it holds in the Conero real estate fund.

AUM in both private equity and real estate has been growing organically and steadily since Q216, increasing from €9.5bn at the end of Q116 to €11.6bn at end-Q118. We expect both to continue to add assets, primarily through new fund launches, with real estate continuing to show the stronger net AUM growth and private equity facing the headwind of older funds of funds maturities. Fee margins relative to average AUM have declined in both private equity and real estate in recent years as a result of competitive pressures and mix changes, but have recently appeared to stabilise and we forecast this to continue. Although we express private equity fee margins relative to the readily available AUM, defined as total fund commitments, the actual basis for earnings may often differ. Most fees are based either on AUM or the fund-level NAV, although other arrangements also exist. For Q118, management has indicated that the ‘asset base’ on which the fees for that quarter were earned was €1,549m, compared with AUM of €2,160m.

Edison-adjusted Q118 net earnings of €1.8m were c 12% below the Q117 level and represent c 18% of our full-year forecast. However, as noted above, these include c €1.1m of pre-tax negative valuation movement on own real estate funds held or c €0.5m after tax and minorities. We do not forecast future adjustments, either positive or negative, of this nature. Our assumption that this negative item does not recur accounts for c 5pp of the 7% increase in adjusted earnings that we forecast for FY19, with cost growth broadly keeping pace with management fee growth.

As management continues to focus on growing the AAM platform, the business should be highly scalable with any additional AUM and fee growth having a disproportionate impact on profitability.

Exhibit 6: AAM financial summary

	2016	2017	2018e	2019e		Q117	Q118	Q118/Q117
AUM (€bn) – end period								
DeA Capital Alternative Funds	1.937	2.190	2.010	2.010		1.900	2.160	
DeA Capital Real Estate	8.672	9.542	10.003	10.503		9.000	9.453	
Total AUM (€bn) – end period	**10.609**	**11.732**	**12.013**	**12.513**		**10.900**	**11.613**	**7%**
AUM (€bn) – average								
DeA Capital Alternative Funds	1.844	1.944	2.108	2.010		1.900	2.175	
DeA Capital Real Estate	8.059	9.282	9.708	10.253		8.850	9.498	
Total AUM (€bn) – average	**9.903**	**11.226**	**11.815**	**12.263**		**10.750**	**11.673**	**9%**
Management fees/AUM (bp)								
DeA Capital Alternative Funds	112	95	92	92		89	92	
DeA Capital Real Estate	50	45	45	45		46	44	
Figures in €000s								
DeA Capital Real Estate	40,261	41,381	43,688	46,139		10,070	10,448	
DeA Capital Alternative Funds	20,724	18,438	19,404	18,492		4,249	5,017	
Total AAM fees	**60,985**	**59,819**	**63,092**	**64,631**		**14,319**	**15,465**	**8%**
Income from equity investments	531	822	1,128	1,235		53	202	
Other income/expense	1,088	1,676	(819)			(41)	(819)	
Income from services	8,336	703	792	800		228	192	
Revenue	**70,940**	**63,020**	**64,193**	**66,665**		**14,559**	**15,040**	**3%**
Total expenses	**(60,245)**	**(91,116)**	**(46,326)**	**(47,016)**		**(10,997)**	**(11,733)**	**7%**
Finance income/expense	19	13						
Profit before tax	**10,714**	**(28,083)**	**17,867**	**19,649**		**3,562**	**3,307**	**(7%)**
Taxation	(3,405)	(2,991)	(5,594)	(5,977)		(968)	(1,267)	
Profit after tax	**7,309**	**(31,074)**	**12,272**	**13,672**		**2,594**	**2,040**	**(21%)**
Minority interests	1,178	13,575	(2,836)	(3,504)		(631)	(336)	
Attributable profits	**8,487**	**(17,499)**	**9,436**	**10,168**		**1,963**	**1,704**	**(13%)**
Adjustments (net of tax and minorities)								
PPA	1,042	592	541	495		140	137	
SFP	1,494	2,460						
Goodwill impairment		24,897						
Adjusted attributable earnings	**11,023**	**10,450**	**9,977**	**10,663**		**2,103**	**1,841**	**(12%)**
o/w DeA Capital Real Estate	4,554	6,492	5,698	6,807		1,298	790	
o/w DeA capital Alternative funds	3,776	3,133	3,544	3,011		719	950	
o/w other AAM (inc SPC, IRE)	2,693	826	734	846		86	100	

Source: Edison Investment Research

Private equity investment has been refocused

DeA’s private equity investment portfolio amounted to €227.1mn at end-Q118, including real estate and private equity fund investments of €156.7m and direct investments of €70.4m. DeA’s fund commitments are mainly to the private equity funds, with an end-Q118 value of €144.0m (see Exhibit 6). Just €2.6m of DeA’s end-Q118 net assets were allocated to own managed real estate funds. The total fund investments also include €10.1m of legacy investment in a group of externally managed venture capital funds.

The end-Q118 direct investment portfolio of €70.4m included:

- **Migros (via Kenan Investments).** Through its 17.1% interest in Kenan Investments, DeA has an indirect interest of c 4.0% in Migros, a large, quoted, Turkish food retailer. The Migros stake was significantly reduced during 2017, from an indirect c 6.9%, at prices significantly ahead of current levels, which have recently been affected by volatility in Turkish capital markets. We believe it is likely that the remaining stake will be exited during the next two years, as the primary investment vehicle in which DeA is a participant reaches maturity. No further sales are reflected in our estimates and our fair value marks to market the existing investment.
- **Crescita.** DeA acquired a 5.8% stake in the issued shares of this newly launched Italian special purpose acquisition vehicle (SPAC) in early 2017 for €8.1m. Crescita expects to complete a business combination with the Cellular Group, brand holder of the Italian leader in accessories

for smartphones and tablets, by the summer of 2018. On completion, DeA will be owner of c 4% of the enlarged entity.

- **IDeaMI**. Together with Banca IMI, DeA sponsored the launch of this SPAC in December 2017, taking a 9.7% interest in the total shares issued. In addition to ordinary shares in the SPACs, DeA owns special shares that may be converted to ordinary shares on beneficial terms, following a business combination with a suitable target within 24 months of listing.

The private equity investment operations have been substantially liquidated and the remaining investments refocused in recent years in a way that can be summarised as follows:

- Sponsoring the new initiatives of the AAM fund platform with an expected seeding commitment of c 10% of total commitments, lower than in the past. Due to the heavier commitments to earlier funds, it can be seen that, on average, DeA's commitments to the existing managed funds is closer to 20%.
- Sponsoring new Italian SPAC initiatives, as market conditions and investor demand allow.
- Selectively investing in new private equity transactions but, in contrast to earlier transactions, on a co-investment/club basis with a smaller (€25–30m) ticket size.

The primary purpose of the division is to support the development of the AAM activities and enhance the returns on shareholder capital. On balance, the amount of capital committed to the operation is likely to continue to reduce, providing significant net cash flow to support continuing shareholder distributions.

Financials

A summary of the historical and our forecast financial statements (prepared under IFRS) is shown at the back of this report in Exhibit 15. The application of IFRS accounting principles to DeA's operations has historically created a fairly complex picture, and although changes in the application of IFRS will make this simpler in future, we continue to suggest 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.

Our expectations for the AAM division are discussed in detail earlier in this report, and in this section we provide details on our NAV and cash flow forecasts.

IFRS reporting

The majority-owned AAM businesses are fully consolidated within the income statement and separately disclosed within the divisional reporting. The AAM accounting is very clear, although as noted above, their carrying value includes an amount of goodwill, subject to an annual impairment test. Non-cash impairment has had an impact on the reported AAM divisional results and group results in recent years, for which we make adjustment. It is the application of IFRS accounting to the investment portfolio, other than the AAM platform, that has historically added complexity to DeA's consolidated accounts as a result of the following:

- Until 1 January 2018, unrealised changes in the fair value of the available for sale (AFS) assets were recorded directly in shareholders' funds through other comprehensive income, until such time as the investment was sold or impaired, when the gain or loss was posted to the income statement. The AFS assets include 'private equity' investments in Migros, Crescita and IDeaMI, as well the majority of its fund investments. Beginning with Q118, these fair value movements are now taken through the income statement.

- DeA's 46.99% interest in the IDeA OF1 fund is fully consolidated under IFRS10, but until Q118 unrealised fair value movements on its AFS assets have also appeared within other consolidated income until sold or impaired.
- DeA's 30.4% interest in the IDeA EESS fund and its 9.1% interest in the Venere property fund are both accounted for as associates, with DeA's share of the change in net asset value recognised directly in the income statement. The other associate is the operating company, IRE, in which DeA has a 45% interest.

Within the AFS assets, Migros, Crescita, and IDeaMI are valued at their quoted market prices. The valuations of the unquoted fund investments are management estimates based on their best judgement and estimation, using techniques that are common to the private equity industry.

Although the reporting of fair value movements on AFS investments in the income statement (rather than other comprehensive income) is a simplification, we would argue against relying on the income statement as a guide to performance and value creation, as it will continue to include volatile capital movements.

Estimating future changes in NAV

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 investment portfolio. We assume a normalised growth in the carried value of all of the fund investments (whether carried as AFS, consolidated, or equity accounted), an approach that differs from the way that 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 over time. We assume:

- A 7.5% pa growth in value (fair value gains net of impairment) for all private equity funds. For modelling purposes, we assume that all of the IDeA OF1 returns are unrealised valuation movements, taken to other comprehensive income. A 4.0% pa growth in value for the real estate funds (Venere and the DeA Capital Real Estate funds), of which we would expect the majority to represent the yield on the assets.
- The blended average forecast AFS fund return (private equity plus real estate) is c 6%, which compares with an average 9.0% (fair value movement less impairment) over the past five years. The five-year average return (fair value movement plus net profit) on the consolidated IDeA OF1 has been lower than our assumed 7.5%, at 3.6%.

Somewhat conservatively, we have assumed no changes in the value of (or income from) the quoted investments, Migros, Crescita and IDeaMI.

We forecast continuing strong cash flow

At 31 March 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 €105.8m or c 22% of NAV. At a group level, including net financial assets within the subsidiaries, it was higher still, at €170.5m.

As can be seen in Exhibit 7, the net financial position has been transformed from negative to positive during recent years and has remained strong. During the period, operational cash flows, the proceeds from divestment of direct holdings (GDS, Sigla, part-Migros) and net reimbursements from fund investments have exceeded new direct investment (Crescita, IDeaMI), a high level of dividend distribution (c €30m pa currently) and strong share repurchase activity (a cumulative €42.3m since the beginning of 2013, including €2.9m in Q118).

Exhibit 7: Net financial position

	2013	2014	2015	2016	2017	2018e	2019e
Cash and bank deposits	26.1	55.6	123.5	96.4	127.9	161.0	148.3
Available-for-sale financial assets	5.4	5.1	7.5	4.2	4.4	4.2	4.2
Financial receivables in balance sheet	30.4	2.7	3.5	3.7	1.3	0.6	1.2
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	165.6	153.5
Adjustment for holding company tax					(4.5)	(0.5)	(0.5)
Total adjusted net financial position (group)					**128.9**	**165.1**	**153.0**
o/w AAM		16.1	40.4	23.3	36.5	56.1	56.1
o/w private equity		1.1	3.4	0.1	0.1	8.6	8.6
o/w holding company	**(138.7)**	**40.6**	**90.0**	**79.7**	**92.3**	**100.9**	**88.8**

Source: DeA Capital, Edison Investment Research

Our expectation of continuing net reimbursements from fund investments is included in the net financial balances shown in Exhibit 7. In 2017, fund capital reimbursements of €61.5m exceeded capital calls of €20.0m by €41.5m. In Q118, the net positive balance was €17.9m and we assume €41.5m for the full year and an additional €20.0m in FY19. The main driver of this positive fund cash flow remains the maturation of a number of the older funds as discussed above. For 2018, we have included the new €20m fund commitment (10% of the total) that DeA has made to support the launch of the Special Opportunities Fund 1 (real estate NPLs) and although we have not attempted to forecast these in Exhibit 8, further commitments to new funds are likely. The table provides significant comfort on the ability of DeA to continue to pay high dividends while meeting its existing commitments to funds and continuing to invest in its businesses.

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 €37.4m at end-Q118.

Exhibit 8: Net fund calls/reimbursements and commitments

	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	61.5	40.0
Net capital reimbursements from funds	**10.4**	**22.1**	**9.2**	**41.0**	**41.5**	**20.0**
Fund commitments brought forward	104.8	106.5	92.6	107.7	103.3	103.3
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**	**100.9**	**88.8**

Source: DeA Capital, Edison Investment Research

Small revisions to forecasts following Q118 results

We have made only small changes to our FY18 forecasts following the recent Q118 results release, and introduced an FY19 estimate for the first time. We have been slightly more cautious about private equity fee margins (now looking for these to remain flat) and also assume slightly higher recurring costs than previously. As noted above, the c €1.4m reduction in our FY18 AAM adjusted earnings estimate is substantially driven by the €1.1m Q118 mark-to-market adjustment for the units held in the Conero real estate fund. For FY19, we have conservatively estimated modest net growth in AUM and fees, offset by cost growth.

FY18 NAV per share is reduced versus our previous forecast as a result of the Q118 decline in the value of the Migros stake, which more than offset asset value growth elsewhere in the portfolio. Our year-end NAV is based on the Q118 valuation for Migros, rather than the current market value, although we allow for the post-Q118 further decline (equivalent to c €0.04 per DeA share) in the valuation analysis below.

Exhibit 9: 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	12.0	0.5	63.5	63.1	(0.6)	87.0	100.9	16.0	1.87	1.83	(2.2)	0.12	0.12	0.0
2019e	N/A	12.5	N/A	N/A	64.6	N/A	N/A	88.8	N/A	N/A	1.76	N/A	N/A	0.12	N/A

Source: Edison Investment Research

High yield and attractive discount to NAV/SOP

DeA's share price reached a 52-week high of €1.60 in May, ahead of the €0.12 DPS payment for the 2017 financial year. The dividend payment coincided with Italian equity market volatility resulting from political uncertainties. As a result, the share price discount to the Q118 NAV per share (ex-dividend) is again c 30%, and the discount to our sum-of-the-parts (SOP)-based fair value is c 26%. The prospective yield (using Edison forecast 2018 DPS of €0.12) is more than 9%.

SOP fair value of €1.72 per share

Our fair value for DeA is €1.72 per share, based on an SOP valuation, and allowing for the €0.12 per share dividend paid to shareholders on 23 May 2018. Our SOP compares with the Q118 IFRS NAV per share of €1.78, also adjusted for the dividend since paid.

The updated SOP fair value is lower than the adjusted €1.80 (€1.92 less the €0.12 dividend subsequently paid) that we last published on 26 March 2018, with the reduction equally spread between the market valuation of the Migros stake and our peer-based earnings multiple valuation of the AAM division, reflecting a slight decline in the sector multiple for consensus earnings.

The components of our SOP valuation, the components of which are shown in Exhibit 10.

Exhibit 10: SOP fair value

	Value (€m)	Value per share (€m)	Comment
Kenan (Migros)	28.3	0.11	Market price (8 June 2018)
Crescita, IDeAIMI, other	33.0	0.13	From Q118 report - FV/net equity
Private equity/real estate funds	156.7	0.62	From Q118 report - FV/net equity
Total direct and fund investments	**218.0**	**0.86**	
Alternative asset management	**143.1**	**0.56**	14.3x FY18 earnings
Other assets	1.0	0.00	From Q118 report - FV/net equity
Net financial positions	75.4	0.30	Q118 report less dividends paid since
Group total	**437.4**	**1.72**	

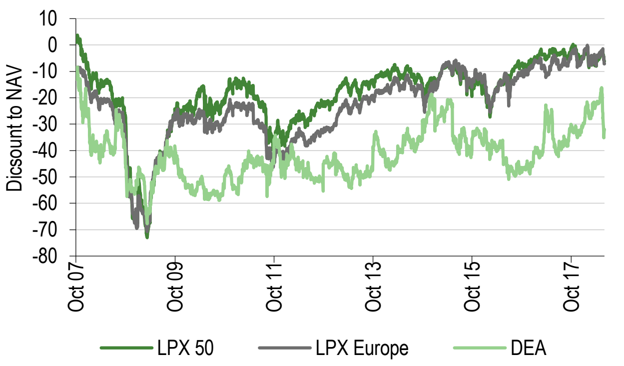
Source: DeA Capital, Edison Investment Research

Within the SOP, and discussed below, we value the AAM division at €0.56 per DeA share, using a peer comparison-based earnings multiple discussed in detail later in this section. Most of the other values are as reported at Q118 with the exception of the Migros stake, which we adjust to the current market value.

DeA's investments in own private equity and real estate funds, of which c 95% is investment in DeA managed funds, represent a further €0.62 per share, based on the Q118 NAV. Taken together with our AAM division valuation, these core AAM activities (AAM and supportive co-investment in own funds managed) represent €1.18 per share or 69% of our fair value. Adding the holding company cash position would increase this to 86% of our fair value.

The components of our fair value suggest to us that DeA should be compared with other alternative asset managers. However, noting DeA's still large investment portfolio, a comparison with the listed private equity fund sector also shows a significantly larger than average discount to NAV for DeA, again indicating that the recent pull-back in the share price may provide an attractive entry point.

Exhibit 11: DeA Capital v LPX50 & LPX Europe discounts to NAV (10-year)



Source: Bloomberg, Edison Investment Research

Exhibit 12: DeA Capital discount to NAV over the past three years

Source: Bloomberg, Edison Investment Research

AAM valuation

Our valuation of the AAM division is based on the application of what we believe to be a suitable multiple to our forecast for net income after minority interests. To establish a suitable multiple, we consider the consensus P/E multiples for a number of alternative asset managers, specialist and conventional asset managers in Europe and North America.

The range of consensus multiples is wide, although the averages indicate that both the market P/E and P/BV valuations of the alternative/private equity managers is higher than that for the conventional asset managers, while dividend yields are lower. This would be consistent with the faster growth of alternative assets under management, which is widely expected to continue.

Exhibit 13: Asset manager valuation summary

	Price (local)	Market cap (US$m)	Current year P/E (x)	Next year P/E (x)	P/BV (x)	Dividend yield (%)
Private equity/alternative						
Apollo	32.33	13,386	16.5	10.3	7.66	5.7
Partners Group	719.00	19,585	26.1	24.0	9.16	2.6
Blackstone	32.34	39,879	11.2	9.9	5.24	7.2
KKR	22.47	18,748	10.4	8.8	1.48	3.0
Tikehau	26.80	3,194	N/A	N/A	N/A	N/A
Intermediate Capital	11.65	4,459	17.1	15.7	2.37	1.8
3i Group	9.55	12,383	8.6	8.0	1.18	3.1
Conventional						
Ashmore	3.74	3,612	17.6	15.5	3.46	4.4
Man Group	1.85	4,005	9.8	8.4	1.60	5.8
Azimut	14.59	2,430	12.0	10.7	3.17	6.9
Janus Henderson	31.09	6,207	10.7	10.1	1.21	2.5
Jupiter	4.54	2,788	13.2	12.6	3.23	3.8
Schroders	32.71	11,862	14.8	14.2	2.44	3.5
Averages						
Alternative		15,948	15.0	12.8	4.5	3.9
Conventional		5,150	13.0	11.9	2.5	4.5
All		10,964	14.0	12.4	3.5	4.2

Source: Bloomberg data. Note: Priced at 4 June 2018.

Our valuation of DeA's AAM division is equivalent to 14.3x 2018 adjusted net earnings. To arrive at this, we have taken the average of the market average P/E multiples for the alternative/private equity managers for both 2018 and 2019.

At €143.1m, our valuation is only slightly lower than the IFRS book value of €148.8m at 31 March 2018, lending support to the valuation of the remaining intangible assets carried in the balance sheet.

Exhibit 14: Asset manager share price performance summary

	Share price performance (%)			
	1m	**3m**	**YTD**	**12m**
DeA	(8.3)	0.4	4.1	8.0
Private equity/alternative				
Apollo	3.1	0.2	(4.1)	16.9
Partners Group	(.7)	9.9	8.5	21.0
Blackstone	1.8	(2.9)	1.2	(3.9)
KKR	(2.1)	4.4	6.9	19.8
Tikehau	(3.6)	6.4	20.7	13.3
Intermediate Capital	2.9	13.7	0.7	31.2
3i Group	1.2	5.6	4.7	2.8
Conventional				
Ashmore	(3.8)	(4.8)	(6.0)	8.9
Man Group	1.5	15.6	(9.7)	17.8
Azimut	(13.1)	(12.3)	(4.1)	(16.0)
Janus Henderson	(1.3)	(10.8)	(19.1)	(7.0)
Jupiter	(.9)	(7.0)	(24.9)	(6.7)
Schroders	(1.5)	(1.5)	(6.3)	4.4
Averages				
Alternative	0.4	5.3	5.5	14.4
Conventional	(3.2)	(3.4)	(11.7)	0.2
All	**(1.3)**	**1.3**	**(2.4)**	**7.9**

Source: Bloomberg data. Note: Priced at 4 June 2018.

Compared with the broader asset management sector, on a 12-month view, DeA's share price performance is in line with the average for all companies shown in Exhibit 12, although below the average for the alternative/private equity managers; however, noting that DeA is well above average yield, on a total share price performance basis, the gap largely disappears.

Migros valuation includes recent weakness

Our SOP valuation values the Migros stake at the recent price of TRY18.9 per share and an exchange rate of TRY5.27 versus the euro. This compares with a price of TRY23.78 per share and an exchange rate of TRY4.88/€ reflected in the end-Q118 NAV.

Ongoing share buy-back programme

To manage its share price discount to NAV, DeA has an active and ongoing share repurchase programme. Share repurchases by value have averaged €8.2m pa in the three years to end-2017 (2017: €8.0m) and were €2.9m in Q118. The company now holds c 53m shares in treasury, a little more than 17% of the total, with authorisation to buy back up to 20% of the total.

Sensitivities

DeA's financial results and prospects are very sensitive to financial market conditions. These affect its ability to realise divestments, raise new funds and find new investment opportunities, and will also influence the valuations of its investments, AUM and asset management fees. Although not immune from market fluctuations, the growing significance of AAM within the overall group, driven by recurring fee revenues, is likely to reduce the overall sensitivity to market fluctuations.

The valuations of the underlying investments in the private equity funds and those direct investments that are in unquoted investments are based on a rigorous but ultimately subjective assessment by management, with inevitable uncertainty about realisable values.

The indirect investment in Migros has been subject to the considerable volatility of the Turkish equity and foreign exchange markets, although DeA's stake has been significantly reduced over the past year at a valuation well ahead of the current level. At end-Q118, it represented €0.15 per share or less than 8% of NAV.

Any disruption to markets, as witnessed during the global financial crisis, could be expected to slow the pace at which the PE funds are able to realise investments and reimbursements capital, and could have a noticeable effect on the net balance of capital calls and reimbursements with a negative impact on group cash flow.

Exhibit 15: 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	61,277	62,657
Income (loss) from equity investments	(786)	(539)	524	3,898	1,286	2,423
Other investment income/expense	(56,149)	72,464	12,338	8,633	(956)	3,592
Income from services	19,176	21,700	8,509	2,208	919	800
Other income						
Revenue	28,286	156,041	80,485	72,683	62,525	69,471
Expenses	(87,957)	(128,514)	(66,888)	(98,616)	(53,170)	(53,816)
Net Interest	2,905	4,982	(1,220)	(84)	373	0
Profit Before Tax (norm)	(56,766)	32,509	12,377	(26,017)	9,728	15,655
Tax	1,720	6,452	(199)	(420)	(3,664)	(3,606)
Profit After Tax (norm)	(55,046)	38,961	12,178	(26,437)	6,064	12,048
Profit from discontinued operations	(887)	286	0	0	0	0
Profit after tax	(55,933)	39,247	12,178	(26,437)	6,064	12,048
Minority interests	(1,668)	1,825	(39)	13,959	(5,834)	(5,408)
Net income (FRS 3)	(57,601)	41,072	12,139	(12,478)	230	6,641
Profit after tax breakdown						
Private equity	(60,739)	78,322	7,859	8,327	(1,446)	2,634
Alternative asset management	9,464	(37,304)	7,309	(31,073)	12,272	13,672
Holdings/Eliminations	(4,658)	(1,771)	(2,702)	(2,865)	(4,726)	(4,403)
Total	(55,933)	39,247	12,466	(25,611)	6,100	11,903
Average Number of Shares Outstanding (m)	273.8	266.6	263.1	258.3	253.5	253.5
IFRS EPS - normalised (c)	(21.0)	15.4	4.6	(4.8)	0.1	2.6
Dividend per share (declared basis)	0.00	0.12	0.12	0.12	0.12	0.12
Exceptional capital distribution per share (declared basis)	0.30	0.00	0.00	0.00	0.00	0.00
BALANCE SHEET						
Fixed Assets	786,141	558,086	559,335	454,156	411,928	406,533
Intangible Assets (inc. g'will)	229,711	167,134	156,583	117,233	116,815	116,815
Other assets	39,988	38,590	35,244	10,305	15,632	15,632
Investments	516,442	352,362	367,508	326,618	279,481	274,086
Current Assets	117,585	173,882	141,521	178,161	196,141	189,612
Debtors	50,711	20,694	15,167	32,955	22,251	22,251
Cash	55,583	123,468	96,438	127,916	160,986	154,457
Other	11,291	29,720	29,916	17,290	12,904	12,904
Current Liabilities	(36,193)	(31,294)	(26,979)	(34,783)	(33,540)	(33,540)
Creditors	(35,833)	(30,643)	(25,757)	(34,583)	(33,340)	(33,340)
Short term borrowings	(360)	(651)	(1,222)	(200)	(200)	(200)
Long Term Liabilities	(40,911)	(15,514)	(12,830)	(12,475)	(10,674)	(10,674)
Long term borrowings	(5,201)	0	(19)	0	0	0
Other long term liabilities	(35,710)	(15,514)	(12,811)	(12,475)	(10,674)	(10,674)
Net Assets	826,622	685,160	661,047	585,059	563,855	551,931
Minorities	(173,109)	(138,172)	(131,844)	(95,182)	(101,016)	(106,424)
Shareholders' equity	653,513	546,988	529,203	489,877	462,839	445,508
Year-end number of shares m	271.6	263.9	261.2	255.7	253.5	253.5
NAV per share	2.41	2.07	2.03	1.92	1.83	1.76
CASH FLOW						
Operating Cash Flow	188,419	188,492	19,148	91,146	66,175	23,886
Acquisitions/disposals	(1,476)	70	(290)	(633)	(49)	0
Financing	(157,756)	(38,148)	(4,362)	(26,073)	(2,640)	0
Dividends	0	(82,432)	(33,494)	(32,962)	(30,415)	(30,415)
Other						
Cash flow	29,187	67,982	(18,998)	31,478	33,070	(6,529)
Other items	0	(97)	(8,032)	0	0	0
Opening cash	26,396	55,583	123,468	96,438	127,916	160,986
Closing cash (group)	55,583	123,468	96,438	127,916	160,986	154,457
Financial debt	(5,561)	(651)	(1,241)	(200)	(200)	(200)
Closing net (debt)/cash	50,022	122,817	95,197	127,716	160,786	154,257

Source: DeA Capital, Edison Investment Research

EDISON

Contact details	Revenue by geography
Via Brera 21 Milan 20121 Italy www.deacapital.it	N/A

Management team

Executive chairman: Lorenzo Pellicioli	CEO: Paolo Ceretti
Lorenzo Pellicioli, the chairman of the board of DeA Capital, has been CEO of the De Agostini Group since 2005. His early career was spent in media and advertising including roles with the Mondadori Group. He later joined Costa Crociere Group, where he held a number of senior management positions. In 1997, he participated in the privatisation of Seat Pagine Gialle, becoming CEO of Seat and then taking charge of the internet business unit of Telecom Italia. From 2006 until 2015 he was chairman of Gtech. Then, following the merger with IGT, he was appointed deputy chairman of IGT. He has wide-ranging board experience and is currently a member of the board of directors of Assicurazioni Generali and a member of the advisory board of Palamon Capital Partners.	Paolo Ceretti has been CEO since 2007, having held the position of general manager of De Agostini SpA, the holding of the De Agostini Group, since 2004 and where he is also CEO of De Agostini Editore. His professional experience was previously gained within the Agnelli Group, where he held various positions from 1979 (notably at Fiat and Ifil, now EXOR). He is also CEO of IDeaMI, the special purpose acquisition company promoted by DeA Capital and Banca IMI) and a member of the board of directors of IGT, Banijay Group and other companies of the group.
CFO: Manolo Santilli	**Head of strategy: Pier Luigi Rossi**
Manolo Santilli became CFO of DeA Capital in 2007 and investor relations director in 2016. He joined De Agostini Group in 2004, where he is also the administration and reporting manager for the holding company De Agostini SpA. He gained his professional experience with STET International from 1996, where he was in the planning, controlling and initiative evaluation area, and subsequently, in 2000, at IFIL/FIAT. From 2002, he was investment manager at Finmeccanica before joining De Agostini.	Pier Luigi Rossi joined DeA Capital as head of strategy and development in July 2017, reporting directly to the CEO, supporting senior management decision making in relation to strategic investments, divestments and management of the shareholdings. After starting his career at Value Partners Management Consulting, he worked in the London investment banking department of Morgan Stanley from 1997–2003. From 2003–2007, he was with Mediocredito Centrale (Capitalia Group), becoming head of group M&A and business development. From the end of 2007 to June 2017, he was founding partner of Sator and partner of Sator Private Equity Fund, where he was also head of investor relations and board member of various portfolio companies.

Principal shareholders	(%)
De Agostini SpA	58.3%

Companies named in this report

Apollo Global Management (APO), Partners Group (PGHN), Blackstone Asset Management (BX), Fortress Investment Group (FIG), KKR (KKR), Tikehau Investment Management (TKO), Intermediate Capital Group (ICP), 3i Group (III), Ashmore (ASHM), Man Group (EMG), Azimut (AZM), Janus Henderson (JHG), Jupiter (JUP), Schroders (SDR).

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