DeA Capital

Company outlook

Alternative manager with balance sheet support

Financial services

As DeA Capital targets growth in its alternative asset management operations, where it is already a leader in Italy, the past year has seen it eliminate the minority interest in its key real estate subsidiary and take its first steps towards building out a pan-European real estate platform. New fund launches across private equity, real estate and credit have more than offset the impact of maturing fund of funds.

Year end	Closing AUM (€bn)	AAM fees* (€m)	NAV/share (€)	DPS (declared) (€)	P/NAV (x)	Yield (%)
12/17	11.7	59.8	1.92	0.12	0.65	9.6
12/18	11.9	63.3	1.84	0.12	0.68	9.6
12/19e	12.2	62.4	1.73	0.12	0.72	9.6
12/20e	12.6	61.4	1.65	0.12	0.76	9.6

Note: NAV as reported, including goodwill. *Divisional AAM fees before group consolidation adjustment for own funds managed.

Building out the AAM platform

DeA is a leader in AAM in Italy, providing an integrated platform comprising private equity, real estate and credit funds, with AUM of €11.9bn. Its strategic focus is to consolidate this strong domestic market position, while selectively exploring opportunities for expansion into other European markets. It seeks to benefit from the growth in the alternative asset subsector within the wider asset management industry, while further expanding its base of investors, as well as broadening its product range. 100% ownership of DeA Capital Real Estate represents a simpler, more flexible and potentially more efficient base from which to expand the real estate platform from Italy into broader Europe. The recent creation of real estate advisory and consultancy subsidiaries in Spain and France are the first steps in this development.

With strong balance sheet support

DeA has a strong capital base and cash flow. The end-Q119 net assets (adjusted for the c €31m/€0.12 per share dividend payment in May) were almost €450m, or €1.70 per share. In addition to investments in the AAM platform, it has an investment portfolio of c €170m, comprising co-investments in own funds managed and direct shareholder investments. Management sees potential net divestment of c €100 over the next three years or so, a significant sum, available to support AAM growth through platform investment, support for new fund launches, opportunistic new direct investments and distributions to shareholders. We believe this would be supportive of asset management growth and a higher group ROE.

Valuation: Cash flow for yield and growth

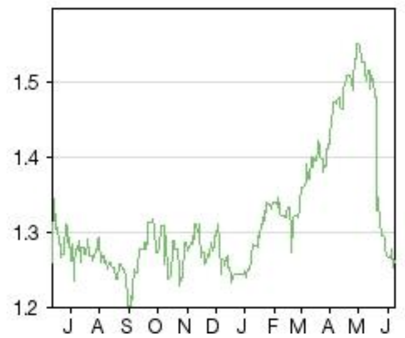
The discount to IFRS NAV has narrowed over the past year, but at c 0.7x DeA still has the lowest P/BV among a range of peers and the highest yield. The discount to our adjusted NAV (see page 8) of €1.75 (ex-dividend) is slightly larger still. A strong balance sheet and cash flow position support an attractive yield, and provide resources for investment to grow AAM further.

10 June 2019

Price	**€1.26**
Market cap	**€327m**

Holding company net financial position (€m) at 31 March 2019	92.5
Shares in issue (excluding treasury shares)	259.2m
Free float	24.4%
Code	DEA
Primary exchange	BIT
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(17.4)	(9.2)	(1.9)
Rel (local)	(14.0)	(7.3)	5.6
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 €11.9bn at 31 March 2019. The investment portfolio, including co-investment in funds managed, investment in the asset management platform and direct investment, amounted to c €372m.

Next events

Half year 2019 results	5 September 2019

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Edison profile page

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Leader in Italian AAM

DeA Capital (DeA) one of Italy's largest alternative investment operators, with assets under management of c €11.9bn and an investment portfolio of more than €370m as at 31 March 2019. DeA shares are listed on the FTSE Italia STAR section of the Milan Stock Exchange and the company 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 currently owns 58.3% of the shares but, allowing for the cancellation of treasury shares recently approved by shareholders and due to take effect in August, this will increase to 67.1%. On the same basis, the free float will increase from the current 24.4% to 30.4%.

In alternative asset management (AAM), DeA is the leading independent (ie non-bank) promoter and manager of real estate, private equity and credit investment funds through its subsidiaries DeA Capital Real Estate and DeA Capital Alternative Funds, both now wholly owned. In addition, 45%-owned associate YARD provides property services to the real estate sector to a range of clients including DeA.

The investment portfolio comprises DeA's investment in the AAM platform as well as co-investment in its own funds managed and direct investments. The investments are made from the group's permanent capital base, which allows the group to take a long-term view and avoids any of the pressures to divest within a pre-determined time frame that may occur with a traditional private equity fund.

In recent years, DeA's strategy has been to recycle the proceeds of divestment from legacy large-ticket private equity investments and reimbursements from maturing fund holdings towards investment in further building the AAM platform infrastructure, supporting new fund launches, and selective direct investment including the sponsoring of Italian special purpose acquisition vehicles (SPACs), while also returning significant amounts of excess cash to shareholders. In our view, 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.

DeA's net asset value at 31 March 2019 was €471.1m, or €1.82 per share, before the May payment of €0.12 per share (c €30m) in dividends. The net assets of the AAM business (43%), investments in private equity and real estate funds (26%) and a significant net financial position (20%) together represent 89% of the NAV. The direct investment portfolio accounted for most of the balance (8%).

Exhibit 1: Group financial position

	31-Mar-19		31-Dec-18	
	€m	€ per share	€m	€ per share
Alternative Asset Management (AAM)				
DeA Capital Real Estate	151.5	0.58	140.4	0.55
DeA Capital Alternative Funds	45.5	0.18	43.4	0.17
Other (inc YARD, DeA Capital RE France/Spain)	5.6	0.02	5.6	0.02
Total AAM	**202.6**	**0.78**	**189.4**	**0.75**
Private Equity Investment				
Private equity/real estate funds	120.9	0.47	125.0	0.49
Kenan Investments (Migros)	17.3	0.07	19.4	0.08
Other (inc IDeaMI, Cellularline)	31.6	0.12	31.6	0.12
Total private equity investment	**169.8**	**0.65**	**176.0**	**0.69**
Total investment portfolio	**372.4**	**1.44**	**365.4**	**1.44**
Other net assets/(liabilities)	6.2	0.02	0.5	0.00
Holding company net financial position	92.5	0.36	100.6	0.40
Net asset value (NAV) – before €0.12 per share distribution in May 2019	**471.1**	**1.82**	**466.5**	**1.84**

Source: DeA Capital

Highly focused on growing the AAM platform

DeA is already the leading independent promoter and manager of real estate, private equity and credit investment funds in Italy, and the group's strategy is to grow this further while expanding into other countries in Europe. The latter would be targeted at taking advantage at the growth in the alternative asset subsector within the broader asset management industry, while further expanding DeA's base of investors as well as broadening its product range.

2018 and the early months of 2019 saw two significant developments:

- **The buyout of minority interests in DeA Capital Real Estate.** At the start of FY18, DeA owned c 65% of this key subsidiary, but in two transactions has taken full ownership. We welcome this move, believing it was conducted on attractive terms, increases DeA's AAM exposure, adds flexibility to the management of the group and simplifies its structure. In November 2018, DeA 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%. The consideration for the acquisition of the stake was €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 earnout of €4.5m over the three-year period 2019–21 that is subject to DeA Capital meeting undisclosed set targets for new assets under management. In March 2019, DeA acquired the remaining 6%, also at book value, which was owned by Fondazione Carispezia, a private foundation that remains one of the main shareholders in the Italian bank, Credit Agricole Carispezia. The €8m consideration has been settled with DeA treasury shares, which are subject to a six-month lock-up, and the agreement also includes a maximum earnout of €0.9m. The implied value placed on the c 5.2m treasury shares issued was c €1.55, above the market price at the time and now.
- **First steps in the creation of a pan-European real estate platform**. Building on its existing leading position in Italy, DeA established two new majority-owned real estate subsidiaries in France and Iberia in partnership with experienced local management. 70%-owned DeA Capital Real Estate France was established in September 2018 and was followed by 73%-owned DeA Capital Iberia in February 2019. The new companies are partnered with experienced local management and aim to develop real estate advisory and consultancy activities for fund-raising and real estate management.

DeA's existing AAM platform consists of 198 professionals and provides a wide range of products on a multi-asset platform across real estate, private equity and credit investment funds. It has a proven capability to structure and launch innovative products and benefits from a deep knowledge of, and extensive contacts in, the Italian market. We next look at the main platform components in more detail.

DeA Capital Alternative Funds

DeA Capital Alternative Funds manages private equity funds with aggregate AUM of €2.5bn at 31 March 2019. It manages 12 closed funds of funds, comprised of funds of funds (five), thematic funds (five) and credit funds (two).

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 are of older vintage and in their disinvestment phase, and have in any case proved 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.

2018 saw the launch of the thematic fund IDeA Capital Agro Fund in July (€80m commitment), and the shipping segment ('CCR Shipping') of the credit fund, IDeA Corporate Credit Recovery II Fund (€170m commitment), in December 2018. IDeA Capital Agro Fund is the first Italian private equity fund dedicated to investments in Italian agricultural businesses with eco-sustainable business models. CCR Shipping is a new segment for the IDeA Corporate Credit Recovery II Fund, dedicated to acquiring shipping loans from banking partners. During Q119, DeA Capital Alternative Funds launched the DeA Endowment Fund, a closed-end fund of funds intended for investment by banking foundations, and was awarded the management of a portion of Azimut Capital-managed 'Azimut Private Debt' closed-end fund. Together, these new mandates added €114m to AUM.

DeA Capital Real Estate

DeA Capital Real Estate is the largest independent real estate manager in Italy, with a c 20% share by AUM. It had AUM of €9.3bn at 31 March 2019 comprising 47 managed funds including two listed funds.

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 with a significant share of the total 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. In 2018, eight new funds were launched raising AUM of €1.0bn.

The investment portfolio supports AAM

DeA's private equity investment portfolio amounted to €169.8mn at end-Q119, including real estate and private equity fund investments of €120.9m and direct investments of €48.9m. The fund investments are primarily co-investment in nine of the DeA-managed private equity funds, but also include a small amount of investment in three own-managed real estate funds, and a small balance of legacy investment in five externally managed venture capital funds. In addition to the investment portfolio, a c €55m (as at 31 March 2019) investment in DeA managed real estate funds is held within the DeA Capital Real Estate subsidiary.

The end-Q119 direct investment portfolio of €48.9m 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. The investment was valued at €17.3m (€0.07 per share) at 31 March 2019 but has since increased in value by c €1.0m (see Valuation section).
- **Cellularline.** DeA has a 4.4% minority shareholding in Cellularline, with a market value of c €6.2m, resulting from the business combination of Crescita SPAC and Cellular Group. DeA had originally acquired a stake in the issued shares of Crescita, an Italian special purpose acquisition vehicle (SPAC) when it launched in early 2017, for €8.1m.

- **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. IDeaMI's objective is to create a business combination within 24 months of listing. In December 2018, IDeaMI shareholders rejected a proposed combination with Agrati Group.

The legacy large-ticket 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

Key drivers of value

A summary of the historical and our forecast group financial statements (prepared under IFRS) is shown at the back of this report in Exhibit 9. The IFRS results include changes in the fair value of DeA's fund and direct investments, and this contributes to significant volatility. 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.

AAM division forecasts

The AAM division segmental reporting in the DeA group accounts includes the core AAM platform comprising DeA Capital Real Estate and DeA Capital Alternative Funds, but also other activities including 45%-owned property services associate YARD and the investments being made in the European real estate platform in France and Spain. We model the AAM activity in line with the group segmental accounts and the financial results should not be directly compared with management's comments about the ('core') AAM platform result.

Our forecasts for this year and next look for broadly flat AUM in alternative funds and steady growth in real estate. In alternative funds, AUM is defined as total investment commitments, whereas the actual basis for management fees may be AUM or the fund-level NAV, or in some cases other arrangements also exist. Similarly, in real estate, there is a difference between published AUM, based on the gross assets managed, and the fee earning asset base. In real estate the difference mainly arises because some funds generate fees based on net asset rather than gross assets. DeA has recently begun to publish the 'asset base' on which fees are generated on a regular basis and at end-Q119 this was €1.7bn for alternative funds (c 70% of AUM) and in real estate it was €8.6bn (c 92% of AUM). We expect broadly stable fee margins, although the picture is distorted in alternative funds by the recent additional performance fee income that has been earned on the Investitori Associati IV private equity fund, originally promoted by Investitori Associati SGR but managed in run-off by DeA Capital Alternative Funds since 2015. We understand that this was c €2.5m in each of Q418 and Q119. We do not forecast further performance fees given their non-recurring nature and the difficulty in doing so (this is why our forecast management fees are lower in FY20), although DeA management is hopeful that the continuing run-off process will generate further payments, while over the medium term it hopes to benefit from performance fees/carried interest in other funds.

From our discussion with the company, we expect that investment in the pan-European real estate platform development will be in the range of c €2.5–€3.0m pa over the next two years and we have allowed for this but have included no immediate revenue benefit. In Exhibit 2 this is reflected in the 'other' segment loss, with investment costs partly offset by other activities including 45%-owned associate YARD.

Our adjusted earnings measure tracks the underlying recurring earnings of the segment. It adds back non-cash purchase price amortisation (PPA) relating to the historical transactions that created DeA Capital Real Estate, takes out the notional 'normalised' earnings that we attribute to the segment in respect of the real estate fund investments that it holds (see below), and adjusts for other non-recurring items.

Exhibit 2: Summary of AAM segment forecast

€m unless stated otherwise	2015	2016	2017	2018	2019e	2020e
Period-end AUM (€bn)						
DeA Capital Alternative Funds	1.643	1.937	2.190	2.430	2.534	2.534
DeA Capital Real Estate	7.884	8.672	9.542	9.451	9.711	10.111
Total period-end AUM (€bn)	9.527	10.609	11.732	11.881	12.245	12.645
Period average AUM (€bn)						
DeA Capital Alternative Funds	1.581	1.844	1.944	2.230	2.521	2.534
DeA Capital Real Estate	8.600	8.059	9.282	9.266	9.491	9.911
Total period average AUM (€bn)	10.181	9.903	11.226	11.495	12.012	12.445
Management fees/AUM (bp)						
DeA Capital Alternative Funds	107	112	95	105	87	78
DeA Capital Real Estate	55	50	45	43	43	42
INCOME STATEMENT						
DeA Capital Real Estate	47,725	40,261	41,381	39,768	40,383	41,626
DeA Capital Alternative Funds	16,947	20,724	18,438	23,483	22,055	19,765
Total alternative asset management fees	**64,672**	**60,985**	**59,819**	**63,251**	**62,438**	**61,391**
Income from equity investments	(359)	531	822	717	1,160	1,189
Other income/expense	(88)	1,088	1,676	(4,212)	2,545	2,267
Income from services	18,549	8,336	703	1,867	3	
Revenue	82,774	70,940	63,020	61,623	66,146	64,848
Total expenses	(120,285)	(60,245)	(91,116)	(47,539)	(46,928)	(47,314)
Finance income/expense	616	19	13	(39)	(100)	
Profit before tax	(36,895)	10,714	(28,083)	14,045	19,118	17,534
Taxation	(409)	(3,405)	(2,991)	(4,817)	(6,607)	(5,940)
Profit after tax	(37,304)	7,309	(31,074)	9,228	12,511	11,594
Minority interests	16,631	1,178	13,575	(109)	190	
Attributable profits	(20,673)	8,487	(17,499)	9,119	12,701	11,594
Adjustments (net of tax & minorities)						
PPA		1,042	592	543	688	420
SFP		1,494	2,460	632		
Goodwill			24,897			
Other income/expense		(1,017)	(839)	2,948	(1,781)	(1,587)
Provisions against investment impairment						
Adjusted attributable earnings		**10,006**	**9,611**	**13,242**	**11,608**	**10,427**
o/w DeA Capital Real Estate		5,058	5,889	7,103	8,260	8,701
o/w DeA Capital Alternative Funds		3,776	3,153	6,114	4,513	3,177
o/w other (inc YARD and European RE platform investment)		1,173	570	25	(1,165)	(1,451)

Source: Company data, Edison Investment Research

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 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 of capturing 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, Cellularline and IDeaMI.

We forecast continuing strong cash flow

At 31 March 2019, 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 €92.5m or c 20% of NAV. At a group level, including net financial assets within the subsidiaries, it was higher still, at €137.7m.

Since the end of Q119, the holding company net financial position has benefited from a €22.9m dividend distribution from the AAM business, a significant increase from €7.5m in 2018, and substantially covering the c €31m (€0.12 per share) shareholder distribution in May 2019.

As can be seen from Exhibit 3, the net financial position has been consistently strong over several years, allowing DeA the flexibility to selectively invest in the AAM platform, and fund development and new direct investments while making attractive distributions to shareholders.

Exhibit 3: Net financial position

€m	2014	2015	2016	2017	2018	2019e	2020e
Cash and Bank deposits	55.6	123.5	96.4	127.9	143.8	133.3	133.6
Available-for-sale financial assets	5.1	7.5	4.2	4.4	6.3	13.5	13.5
Financial receivables in balance sheet	2.7	3.5	3.7	1.3	1.3	2.5	2.5
Non-current financial payables	(5.2)	0.0	(0.0)	0.0	(2.9)	(17.3)	(17.3)
Current financial payables	(0.4)	(0.7)	(1.2)	(0.2)	(0.2)	(2.6)	(2.6)
Consolidated net financial position	57.8	133.8	103.1	133.4	148.3	129.4	129.7
Adjustment for holding company tax				(4.5)	0.0	0.0	0.0
Consolidated net financial position				**128.9**	**148.3**	**129.4**	**129.7**
Subsidiaries	17.2	43.8	23.4	41.1	47.7	25.0	25.0
Holding Company	**40.6**	**90.0**	**79.7**	**92.3**	**100.6**	**104.4**	**104.7**

Source: Company data, Edison Investment Research

Our expectation of continuing net reimbursements from fund investments is included in the net financial balances shown in Exhibit 3. In 2018, net distributions from own-managed private equity fund co-investments were particularly strong at c €80m, sufficient to fund the c €40m cash consideration element for the purchase of minorities in DeA Capital Real Estate and c €31m in shareholder distributions. We expect net flows to remain strong, although not as strong as FY18, and management looks for a potential c €100m net distributions over the next three years, driven by maturing private equity funds. Specifically, our forecast for FY19 includes net distributions of €21m with a further €30 in FY20. Capital commitments were €103m at end-Q119 and our net distribution figure allows for c €40m of this to be called up by end-FY20. It is likely that a significant part of the balance will not be called as it relates to older vintage funds.

Overall, our forecast for the net financial position through FY20 should be viewed as illustrative, as it assumes no further purchases or sales of direct investments or investments in the AAM platform. We consider both likely and welcome.

No change to FY19 estimates

In this note we have made no revisions to our FY19 estimates, which we updated in our last note following the Q119 results. We have extended our forecast period out to FY20, as summarised in Exhibit 4. It is worth noting that we have factored in the cancellation of 40m treasury shares approved by shareholders at the AGM and effective in August, although this will have no impact on liquidity, NAV or EPS.

Exhibit 4: Estimate update

	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.
12/19e	12.2	12.2	0.0	62.4	62.4	0.0	84.1	84.2	0.0	1.73	1.73	0.0	0.12	0.12	0.0
12/20e	N/A	12.6	N/A	N/A	61.4	N/A	N/A	84.6	N/A	N/A	1.65	N/A	N/A	0.12	N/A

Source: Edison Investment Research. Note: *Divisional AAM fees before group consolidation adjustment for own funds managed.

NAV discount with financial resources to grow

DeA shares trade at a P/NAV of c 0.7x, the lowest in the peer group shown in Exhibit 5. At the same time, DeA's yield of close to 10%, with distributions supported by a strong holding company financial position and significantly net positive cash flow from its investment portfolio, is the highest in the group. In our view, there is significant value in DeA that is not captured in the current share price. In part, this reflects the low ROE that it generates compared with the peer group, partly but not wholly explained by the depressing effect of high liquidity (c 20% of NAV). As DeA continues to apply this cash to building out its AAM platform, growing its AUM base and building recurring earnings, meanwhile rewarding shareholders with generous distributions of surplus liquidity, we would expect ROE to strengthen and for this to be progressively recognised in the valuation of the company.

Peer valuation comparison

We have divided Exhibit 5 into two groups. The first is 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 investment (both co-investment in funds managed and direct investment) supported by permanent capital. We have also included a broad range of other private equity, specialist and conventional asset managers, many of which focus on 'balance sheet-light' third-party asset management. Given this mix of strategies among its peer group, combining widely differing reliance on 'recurring' asset management earnings and balance sheet-driven investment earnings, we would caution against focusing on any particular valuation multiple. In our view, Exhibit 5 highlights the significant value in DeA, as well as the immediate returns to shareholders via strong and regular distributions.

Exhibit 5: Peer group valuation summary

	Price (local)	Market cap ($m)	Last year-end	P/E last reported year (x)	P/E current year (x)	P/NAV last reported year (x)	P/NAV current year (x)	ROE last reported year (%)	ROE current year (%)	Historic yield (%)
Brookfield Asset Mgt	46.9	46,644	Dec-18	13.8	20.9	1.5	1.6	N/A	9.0	1.3
KKR	23.7	12,897	Dec-18	12.3	14.0	1.5	1.3	21.5	9.7	2.7
3i Group	1055.0	13,033	Mar-19	8.2	8.1	1.3	1.2	16.8	15.1	3.3
Intermediate Capital	1339.0	4,936	Mar-18	14.4	15.8	2.7	2.5	N/A	16.5	3.4
Tikehau	20.5	2,387	Dec-18	(19.7)	13.5	0.9	0.9	N/A	6.8	1.2
Deutsche Beteiligungs	33.3	563	Sep-18	14.9	16.6	1.1	1.1	7.5	5.1	4.4
Ave. narrow group				**7.3**	**14.8**	**1.5**	**1.4**	**15.3**	**10.4**	**2.7**
Blackstone	40.1	47,949	Dec-18	17.0	17.3	4.2	4.4	43.8	21.1	6.0
Partners Group	710.8	19,133	Dec-18	24.8	23.0	9.6	8.4	N/A	39.0	3.1
Apollo	31.5	6,323	Dec-18	(150.1)	12.9	7.7	9.0	-6.0	69.4	6.1
Schroders	2901.0	10,032	Dec-18	13.7	14.4	1.8	2.1	16.9	15.0	3.9
Janus Henderson	20.6	4,018	Dec-18	7.5	8.3	0.8	0.8	11.1	9.8	7.0
Man Group	1.8	2,838	Dec-18	13.1	11.8	1.8	1.7	13.1	15.3	6.2
Ashmore	480.0	4,343	Jun-18	22.5	20.4	4.5	4.0	20.4	21.1	3.5
Jupiter	375.6	2,183	Dec-18	11.8	14.0	2.8	2.8	22.9	19.5	4.6
Azimut	15.4	2,478	Dec-18	17.1	8.8	3.8	3.2	N/A	41.1	9.8
Patrizia	17.4	1,810	Dec-18	30.6	17.2	1.4	0.9	N/A	8.1	1.5
Ave. broad group				**0.8**	**14.8**	**3.8**	**3.7**	**17.4**	**25.9**	**5.2**
Ave. whole group				**3.2**	**14.8**	**3.0**	**2.9**	**16.8**	**20.1**	**4.2**
Median narrow group				**13.0**	**14.9**	**1.4**	**1.2**	**16.8**	**9.4**	**3.0**
Median broad group				**15.3**	**14.2**	**3.3**	**3.0**	**16.9**	**20.3**	**5.3**
Median whole group				**13.7**	**14.2**	**1.8**	**1.9**	**16.8**	**15.2**	**3.7**
DeA Capital – Edison*	1.25	366	Dec-18	28.7	70.2	0.7	0.7	2.2	0.4	9.6

Source: Thomson Reuters. Prices as at 6 June 2019. Note: *Forward-looking DeA figures are Edison forecasts and are group figures, which differ from the AAM segment forecasts.

In terms of share price performance, over the past 12 months DeA has outperformed both the narrow and broad peer groups, and allowing for its high yield, this outperformance would be greater if shown in terms of share price total return.

Exhibit 6: Peer group share price performance

	One month	Three months	One year	Ytd	From 12-month high
Brookfield Asset Management	-2.5	3.3	19.5	20.2	-3.3
KKR	-3.9	3.7	5.6	20.8	-17.5
3i Group	-1.0	9.7	11.2	36.4	-3.5
Intermediate Capital	15.0	27.3	17.9	43.2	-15.2
Tikehau	-8.1	-4.7	-21.2	4.3	-29.8
Deutsche Beteiligungs	-6.2	-2.6	-6.6	-0.9	-16.0
Average narrow group	**-1.1**	**6.1**	**4.4**	**20.7**	**-14.2**
Blackstone	0.0	19.7	23.6	34.5	-4.8
Partners Group	-7.6	-1.8	-1.8	19.3	-10.4
Apollo	-5.5	8.5	-2.4	28.5	-13.6
Schroders	-8.3	4.4	-10.6	18.7	-13.8
Janus Henderson	-8.7	-15.6	-34.3	-0.6	-37.7
Man Group	-8.0	2.9	-21.9	9.1	-24.1
Ashmore	5.0	14.8	24.5	31.3	-2.3
Jupiter	2.8	4.3	-14.6	31.3	-18.1
Azimut	-13.5	16.2	10.2	61.3	-15.3
Patrizia	-6.7	-14.9	-2.6	4.6	-15.6
Average broader group	**-5.0**	**3.9**	**-3.0**	**23.8**	**-15.6**
Average whole group	**-3.6**	**4.7**	**-0.2**	**22.6**	**-15.1**
DeA Capital	-10.6	2.0	6.3	11.4	-11.1

Source: Thomson Reuters. Prices as at 6 June 2019

Although it has been consistently positive over the past three years, return on equity is currently relatively low, both in absolute terms and compared with the peer group. As noted in the financial section, the forecast data in Exhibit 7 for the next two years reflects the impact of both our recurring AAM earnings forecasts and the notional return on investments that we factor in. We believe that the successful execution of DeA's strategy, subject to market conditions, should over time result in:

- less cash drag as DeA commits further liquidity to higher-yielding investments or continuing distributions; and
- greater capital efficiency as the less capital-intensive AAM platform continues to grow in size and as a share of the group.

Exhibit 7: NAV total return

€ per share unless otherwise stated	FY16	FY17	FY18	FY19e	FY20e
Opening NAV	2.07	2.03	1.92	1.84	1.73
Distributions	0.12	0.12	0.12	0.12	0.12
Closing NAV	2.03	1.92	1.84	1.73	1.65
NAV total return	3.5%	0.5%	2.2%	0.4%	2.5%

Source: Company data, Edison Investment Research

Our current adjusted NAV is €1.75 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 the P/E multiples observed across the peer group. We also mark to market DeA's quoted investments. The adjustments to the 31 March 2019 stated (IFRS) NAV, producing an adjusted NAV per share of €1.75, are as follows:

- For the AAM division, the stated NAV of €202.6m is adjusted for the reallocation of €55.2m of real estate fund investments to what we call the 'investments' division. The reason for doing this is that we are seeking to value the recurring AAM earnings, which are also adjusted to exclude the investment result relating to these investments. We have valued the recurring AAM earnings at €162.5m or 14.0x our forecast FY19 adjusted earnings of €11.6m. We have exercised judgement over the chosen multiple but note that it is slightly below the average for both the narrow and broad peer groups. FY19e earnings are suppressed by platform investments but this is offset by performance-related fees earned in Q119. FY20e adjusted earnings include no assumption of performance fees but include continuing platform investment costs with no assumption of any revenue benefit. On this basis, the implied multiple of FY20 earnings is slightly higher (15.6x). A 1 point reduction/increase in the P/E multiple reduces/increases adjusted NAV per share by c €0.04.
- The 'investments' column includes the €169.8m 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 TRY12.99 and a TRY/€ exchange rate of 6.53, which implies a lower valuation than at 31 March 2019. The market values of Cellularline and IDeaMI show no significant change from that date.
- 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 €0.12 per share distribution that was paid in May 2019.

Exhibit 8: Summary of Edison adjusted NAV

€m unless otherwise stated	AAM	Investments	Other	Total	Per share
NAV at 31 March 2019	**202.6**	**169.8**	**98.7**	**471.1**	**1.82**
Adjustments	-55.2	55.2			
Kenan mark to market		(1.0)			
Adjustment to earnings valuation	15.1				
Adjusted NAV before dividend payment	**162.5**	**224.0**	**98.7**	**485.2**	**1.87**
€0.12 per share dividend payment 22 May 2019			(30.5)	(30.5)	
Adjusted NAV after dividend payment	**162.5**	**224.0**	**68.2**	**454.7**	**1.75**
FY19 earnings	12.7	-8.1		4.6	
Adjustments	-1.1				
Adjusted earnings	**11.6**				
P/E (x)	14.0				

Source: Edison Investment Research

Sensitivities

DeA's financial results and prospects are very sensitive to financial market conditions over the short to medium term. Financial market conditions directly affect its ability to realise divestments, raise new funds and find new investment opportunities, and also influence the valuations of its investments. Although AAM is not immune from these market fluctuations, its growing significance within the overall group and the increasing share of recurring fee income within revenues, is likely to reduce the overall sensitivity of reported earnings 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.

Annual shareholder distributions of c €31m are in excess of likely recurring earnings and are supported by the significantly positive holding company net financial position and strongly positive net cash flow from the investment portfolio. As a proxy for recurring earnings, our forecast for adjusted AAM earnings in FY19 is €11.6. 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 9: Financial summary

Period ending 31 December (€000s)	2014	2015	2016	2017	2018	2019e	2020e
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Alternative Asset Management fees (after inter-company eliminations)	66,045	62,416	59,114	57,944	62,422	61,761	61,023
Income (loss) from equity investments	(786)	(539)	524	3,898	(59)	1,618	1,926
Other investment income/expense	(56,149)	72,464	12,338	8,633	37,848	271	8,714
Income from services	19,176	18,496	8,509	2,208	2,505	104	0
Other income		3,204	288	144	141	0	0
Revenue	28,286	156,041	80,773	72,827	102,857	63,754	71,663
Expenses	(87,957)	(128,514)	(66,888)	(98,616)	(56,232)	(55,355)	(56,114)
Net Interest	2,905	4,982	(1,220)	(84)	485	181	0
Profit Before Tax (norm)	(56,766)	32,509	12,665	(25,873)	47,110	8,580	15,549
Tax	1,720	6,452	(199)	(420)	(5,765)	(2,778)	(3,431)
Profit After Tax (norm)	(55,046)	38,961	12,466	(26,293)	41,345	5,802	12,119
Profit from discontinued operations	(887)	286	0	682	0	0	0
Profit after tax	(55,933)	39,247	12,466	(25,611)	41,345	5,802	12,119
Minority interests	(1,668)	1,825	(39)	13,959	(30,275)	(1,191)	(1,038)
Net income (FRS 3)	(57,601)	41,072	12,427	(11,652)	11,070	4,611	11,081
Profit after tax breakdown							
Private equity	(60,739)	78,322	7,859	8,327	39,152	(3,115)	5,184
Alternative asset management	9,464	(37,304)	7,309	(31,073)	9,228	12,511	11,594
Holdings/Eliminations	(4,658)	(1,771)	(2,702)	(2,865)	(7,035)	(3,594)	(4,659)
Total	(55,933)	39,247	12,466	(25,611)	41,345	5,802	12,119
Average Number of Shares Outstanding (m)	273.8	266.6	263.1	258.3	253.8	258.9	258.9
IFRS EPS - normalised (c)	(21.0)	15.4	4.7	(4.5)	4.4	1.8	4.3
Distributions per share (declared basis)	0.30	0.12	0.12	0.12	0.12	0.12	0.12
BALANCE SHEET							
Fixed Assets	786,141	558,086	559,335	454,156	372,650	372,418	353,059
Intangible Assets (inc. goodwill)	229,711	167,134	156,583	117,233	114,768	114,493	114,493
Other assets	39,988	38,590	35,244	10,305	8,939	27,048	27,048
Investments	516,442	352,362	367,508	326,618	248,943	230,877	211,518
Current Assets	117,585	173,882	141,521	178,161	185,446	176,880	177,242
Debtors	50,711	20,694	15,167	32,955	18,729	16,811	16,811
Cash	55,583	123,468	96,438	127,916	143,767	133,259	133,621
Other	11,291	29,720	29,916	17,290	22,950	26,810	26,810
Current Liabilities	(36,193)	(31,294)	(26,979)	(34,783)	(37,902)	(40,905)	(40,905)
Creditors	(35,833)	(30,643)	(25,757)	(34,583)	(37,698)	(38,279)	(38,279)
Short term borrowings	(360)	(651)	(1,222)	(200)	(204)	(2,626)	(2,626)
Long Term Liabilities	(40,911)	(15,514)	(12,830)	(12,475)	(14,414)	(28,893)	(28,893)
Long term borrowings	(5,201)	0	(19)	0	(2,859)	(17,280)	(17,280)
Other long-term liabilities	(35,710)	(15,514)	(12,811)	(12,475)	(11,555)	(11,613)	(11,613)
Net Assets	826,622	685,160	661,047	585,059	505,780	479,499	460,503
Minorities	(173,109)	(138,172)	(131,844)	(95,182)	(39,299)	(32,490)	(33,527)
Shareholders' equity	653,513	546,988	529,203	489,877	466,481	447,010	426,975
Year-end number of shares m	271.6	263.9	261.2	255.7	253.8	258.9	258.9
NAV per share	2.41	2.07	2.03	1.92	1.84	1.73	1.65
CASH FLOW							
Operating Cash Flow	188,419	188,492	19,148	91,146	96,408	29,566	31,478
Acquisitions/disposals	(1,476)	70	(290)	(633)	(275)	(202)	0
Financing	(157,756)	(38,148)	(4,362)	(26,073)	(46,994)	(7,606)	0
Dividends	0	(82,432)	(33,494)	(32,962)	(33,098)	(32,264)	(31,116)
Other							
Cash flow	29,187	67,982	(18,998)	31,478	16,041	(10,506)	362
Other items	0	(97)	(8,032)	0	(190)	(1)	0
Opening consolidated cash	26,396	55,583	123,468	96,438	127,916	143,767	133,260
Closing consolidated cash	55,583	123,468	96,438	127,916	143,767	133,260	133,622
Financial debt	(5,561)	(651)	(1,241)	(200)	(3,063)	(19,906)	(19,906)
Closing consolidated net (debt)/cash	50,022	122,817	95,197	127,716	140,704	113,354	113,716
Holding company net financial position	40,600	90,016	79,739	92,301	100,600	104,379	104,741

Source: Company accounts, Edison Investment Research

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 to 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

3i Group (III); Apollo Global Management (APO); Ashmore (ASHM); Azimut (AZMT); Blackstone Asset Management (BX); Brookfield Asset Management (BAM); Deutsche Beteiligungs (DBAN); Intermediate Capital Group (ICP); Janus Henderson (JHG); Jupiter (JUP); KKR (KKR); Man Group (EMG); Partners Group (PGHN), Patrizia (PATG); Schroders (SDR); Tikehau Investment Management (TKO)

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