Deutsche Beteiligungs

Rapid start to DBAG Fund VII's investment period

Investment companies

Deutsche Beteiligungs (DBAG) has continued into FY17 the strong pace of portfolio activity achieved in the previous two financial years, with c €63m of transactions in the year to date, representing the second highest annual level of new investment in more than 10 years. Following DBAG Fund VI's investment period closing in January 2017, DBAG Fund VII has made a rapid start, with its first two transactions agreed in March and April 2017. The recent strength of transaction activity means that DBAG's portfolio is relatively immature, but investments are well spread by vintage and the portfolio is not overly concentrated, with the top five holdings representing 41% of portfolio value at end-2016.

12 months ending	Share price (%)	NAV (%)	LPX Europe (%)	LPX Europe NAV (%)	SDAX (%)
31/01/13	30.8	16.2	24.1	4.5	21.9
31/01/14	14.8	12.4	23.8	13.5	21.9
31/01/15	33.3	15.6	20.3	15.4	8.8
31/12/15*	14.6	15.1	14.0	7.5	18.9
31/12/16	4.8	8.7	10.3	7.5	4.6

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

Continuing strong portfolio activity in FY17

Less than seven months into FY17 (year ending 30 September 2017), DBAG has announced three new investments and two divestments, also completing two investments and one divestment agreed in H216. These transactions bring new investment to c €63m, continuing the strong pace of portfolio activity achieved over the previous two financial years. FY15 saw a significant step-up in new investment to €71.4m, which was well ahead of the €20.6m average for the prior 10 years, while FY16 new investment totalled €32.6m, with two of the agreed transactions (€27.2m) completing after the year end.

First two investments for DBAG Fund VII

The investment in a radiology group announced in March 2017 marked the first investment for the recently launched €1bn DBAG Fund VII. This was quickly followed by the announcement in April 2017 of two parallel management buyouts to form a convenience foods group. This represented another significant milestone, as management plans to utilise DBAG Fund VII's top-up fund for this transaction to finance add-on acquisitions to expand the group. The initial investment by DBAG Fund VII for this transaction is €80m, with the top-up fund enabling equity capital investment to be increased up to €200m.

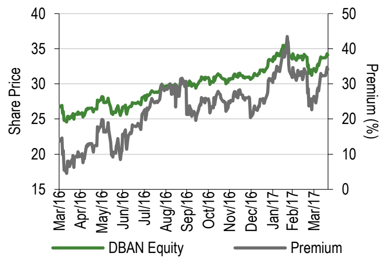
Valuation: 3.5% yield and sustainable dividend

DBAG shares are trading at a 34.1% premium to end-December 2016 NAV, which compares with a one-year average premium of 23.1% and a recent peak premium of 43.5%. In our view, the c €130m premium largely represents the market-implied value of DBAG's fund services business, which is not reflected in reported NAV. DBAG's 3.5% dividend yield is slightly above the peer group median.

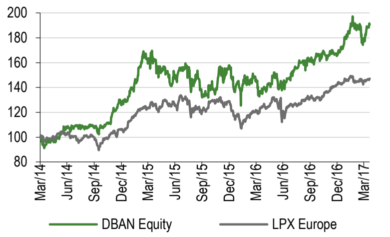
21 April 2017

Price	**€34.13**
Market cap	**€513m**
NAV*	**€383m**
NAV per share*	€25.46
Premium to NAV	34.1%
*As at 31 December 2016.	
Yield	3.5%
Ordinary shares in issue	15.0m
Code	DBAN
Primary exchange	Frankfurt
Sector	Private equity
Benchmark	N/A

Share price/premium performance



Three-year performance vs index



52-week high/low	€36.53	€24.98
NAV high/low	€25.46	€23.09

Gearing

Gross*	0.0%
Net cash*	15.5%

*As at 31 December 2016.

Analysts

Gavin Wood +44 (0)20 3681 2503
Sarah Godfrey +44 (0)20 3681 2519

investmenttrusts@edisongroup.com

Edison profile page

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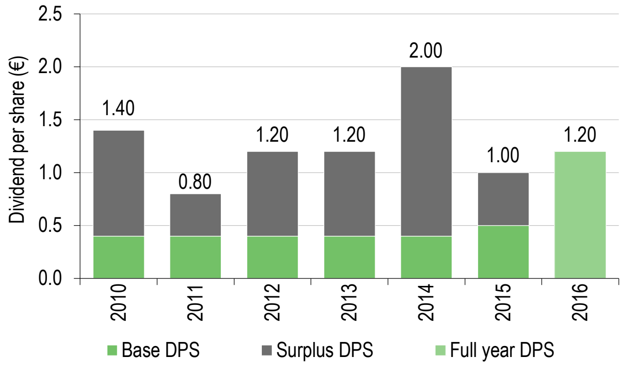
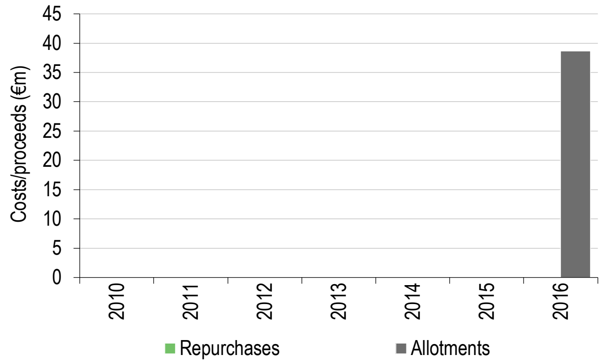
Exhibit 1: Company at a glance

Investment objective and fund background	Recent developments
Deutsche Beteiligungs (DBAG) acquires subsidiaries of corporate groups and invests in mid-sized companies in Germany and neighbouring German-speaking countries via MBO transactions and growth capital financings. There is a focus on growth-driven profitable businesses valued at between €50m and €250m. DBAG's core objective is to sustainably increase net asset value.	■ 5 April 2017: MBO investment in European chilled convenience foods group, based on two parallel transactions to establish a European market leader. ■ 29 March 2017: MBO investment in German radiology group, created from the merger of two radiology practices – the first investment for DBAG Fund VII. ■ 24 February 2017: Sale of holding in FDG Group to CM-CIC Investissement. ■ 9 February 2017: Q117 results – NAV TR +3.6% vs LPX Europe NAV TR +6.6%.

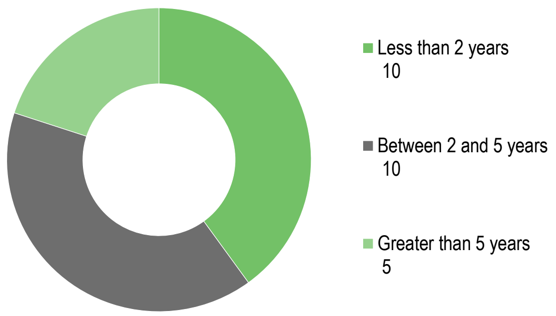
Forthcoming		Capital structure		Fund details	
AGM	February 2018	FY16 net expense ratio*	1.5% (2.9% unadjusted)	Group	Deutsche Beteiligungs
Quarterly results	9 May 2017	Net cash	15.5%**	Manager	Team managed
Year end	30 September	Annual mgmt fee	N/A (self-managed)	Address	Boersenstrasse 1
Dividend paid	February 2018	Performance fee	N/A (self-managed)		60313 Frankfurt am Main, Germany
Launch date	December 1985	Trust life	Unlimited	Phone	+49 69 95787-01
Continuation vote	N/A	Loan facilities	€50m	Website	www.dbag.de

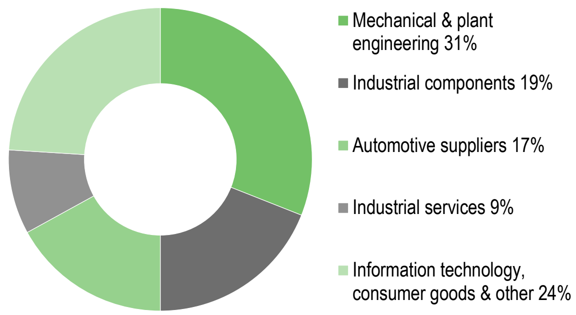
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
Since FY16, DBAG's policy has been to pay a stable or rising annual dividend. In previous years, a base annual dividend was paid from retained profits and supplemented by a surplus dividend based on realised gains.	DBAG uses share repurchases and capital increases to manage longer-term capital requirements. In September 2016, DBAG issued 1.4m new shares (10% of issued capital) at a 22.3% premium to NAV, raising €38.6m.



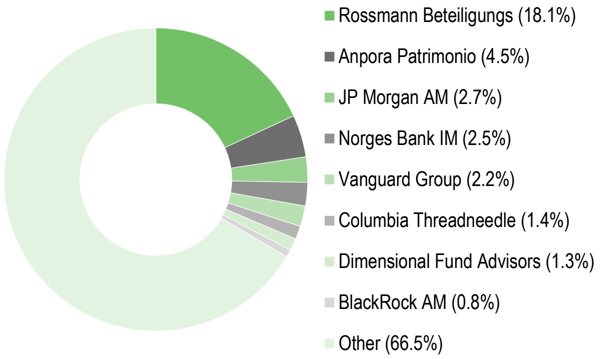


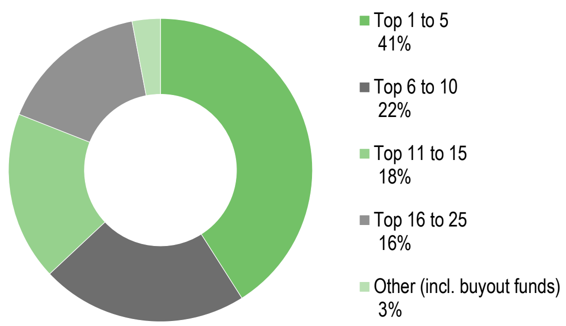
No. of portfolio companies by holding period (as at 31 December 2016)***	Portfolio exposure by sector (as at 31 December 2016)***





Shareholder base (as at 17 April 2017)	Concentration of portfolio value by size (as at 31 December 2016)***





Source: DBAG, Edison Investment Research, Thomson Datastream. Note: *Based on expenses net of fee income; adjusted for non-recurring items. **Including €46.8m of securities classified as long-term assets. ***Does not include co-investment funds.

FY17: A third year of strong portfolio activity

In FY17 to date, DBAG has completed the investments in Polytech Health and Frimo as well as the divestment of Broetje-Automation that were all announced in H216, with three further new investments and two divestments announced (see Exhibit 2). In total, these transactions bring FY17 new investment to c €63m, more than five months ahead of the financial year end.

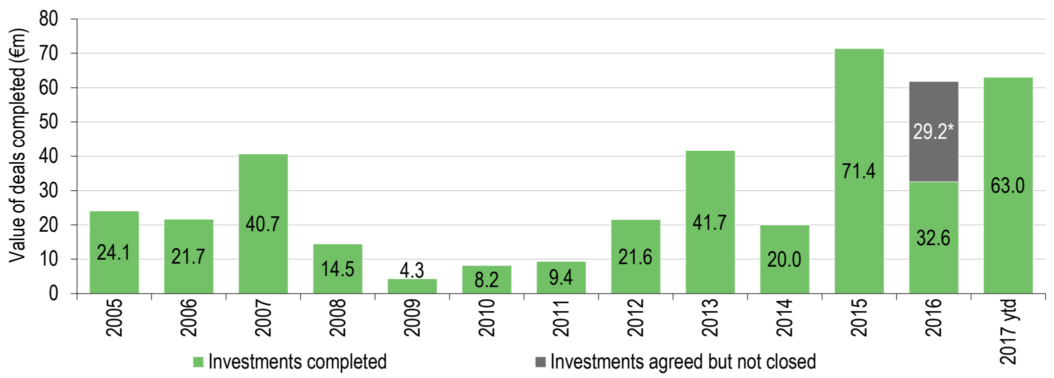
Exhibit 2: DBAG's portfolio investments and divestments in FY17 to date

Company	Headquarters	Core business	2016 revenue	Employees	First inv't	Type of inv't	Co-inv't fund	Fund equity share	DBAG inv't cost	DBAG equity share
FY17 investments										
Polytech Health & Aesthetics	Dieburg, Germany	Silicone implants for plastic surgery in Europe	€31m	170	Oct-16	MBO	DBAG Fund VI	75.1%	€12.4m	17.6%
Frimo Group	Lotte, Germany	Plastic auto component tooling/ production plant worldwide	€212m	1,400	Nov-16	MBO	DBAG Fund VI	57.6%	€14.8m	13.5%
Dieter Braun	Bayreuth, Germany	Cable assembly/lighting for automotive industry worldwide	€77m	1,500	Jan-17	MBO	DBAG Fund VI	55.9%	€5.9m	13.1%
Radiology group	North Rhine-Westphalia, Germany	Diagnostic/therapeutic radiology services in Germany	€54m	87	Jun-17	MBO	DBAG Fund VII	45.0%	€15.0m	11.0%
Abbelen & Oscar Mayer	Tönisworst, Germany & UK	Own-label ready meals/snacks for supermarkets in Europe	€433m	>2,650	Jun-17	MBO	DBAG Fund VII	64.0%	€15.0m	16.0%
FY17 divestments			**Date sold**							
Broetje-Automation	Wiefelstede, Germany	Aircraft assembly automation machines/plant worldwide	Sold Oct-16		Mar-12	MBO	DBAG Fund V	60.0%	€5.6m	15.0%
Grohmann Engineering	Prüm, Germany	Industrial automation plant development worldwide	Sold Nov-16		Dec-96	Exp'n capital	N/A	0.0%	€2.1m	25.1%
FDG Group	Orly, France	Services for supermarkets in France/neighbouring countries	Sold Mar-17		Jun-10	MBO	DBAG Fund V	63.8%	€2.2m	15.5%

Source: DBAG, Edison Investment Research

Having generated proceeds of €82m from the sale of its investment in Homag, which represented 36% of DBAG's portfolio at end-July 2014, DBAG achieved a significant step-up in the pace of investment activity during FY15, as illustrated in Exhibit 3. Total new investment for the 11-month financial year to 30 September 2015 reached €71.4m, ahead of the target €50m pa run rate and the €20.6m average for the prior 10 years. Seven new companies were added to the portfolio in FY15, comprising five MBO and two expansion capital investments, all in DBAG's core manufacturing and industrial services sectors, with two small divestments completed, resulting in an increase in the number of portfolio holdings from 19 to 24.

Exhibit 3: DBAG portfolio new investment value by financial year



Source: DBAG, Edison Investment Research. Note: *Included in €63.0m investments completed in 2017 ytd.

DBAG continued the strong pace of investment activity throughout FY16, agreeing investments in five new portfolio companies – three MBOs through DBAG Fund VI and two co-investments alongside DBAG ECF – as well as three divestments. New investment for the financial year totalled €32.6m, with two of these transactions (€27.2m) and a follow-on investment (c €1.9m), as well as one of the divestments, being completed after the year end.

Dieter Braun – final investment by DBAG Fund VI

In January 2017, DBAG invested €5.9m, alongside DBAG Fund VI, taking a 13.1% interest in Dieter Braun, in the management buyout of the business from financial investor Seafort Advisors. Braun is a specialist cable assembly and lighting supplier to the automotive industry, providing solutions involving a high degree of complexity and variable lead times. Founded in 1993 and headquartered in Bayreuth, Germany, Braun operates facilities in the Czech Republic, Ukraine, Mexico and China. Revenues have grown at 19% pa over the past seven years to €77m and it employs 1,500 staff.

Braun is benefiting from an increasing volume of electrical and electronic components in vehicles as well as the trend by OEMs and suppliers to outsource production processes. DBAG's investment will support Braun's capacity expansion and development of new production lines to meet growing demand and strengthen the company's position in a fragmented market. In addition, there is potential to expand Braun's product portfolio as well as broadening its geographical reach.

This acquisition represented the 11th investment by DBAG Fund VI, bringing its investment period to an end after less than four years – a year ahead of the fund's scheduled investment period end in February 2018. With the fund 86% invested, remaining commitments will be available to support the growth of portfolio companies, including potential add-on acquisitions.

Radiology group – first investment by DBAG Fund VII

In March 2017, DBAG announced an investment in two radiology practices in the state of North Rhine-Westphalia, Germany, which will be merged to form a group. DBAG will invest €15m for an 11% stake in the group as part of the c 55% stake being taken by DBAG Fund VII through the management buyout, which represents its first investment. The interests held by 18 physicians who have managed and developed the two group practices are being acquired, with all reinvesting to hold a combined 44% stake in the group. The transaction is expected to complete by mid-2017, following regulatory approvals.

The radiology practices (www.radiologieherne.de, www.ranova.de) have provided outpatient and inpatient care for over 40 years, offering a complete range of radiological and nuclear medical examinations, therapy and interventions, acting as partners to private practices as well as hospitals. They operate at 15 locations, staffed by 87 physicians, and generated €54m total revenues in 2016.

DBAG's investment will help finance ongoing development. Combining the practices and increasing the scale of the group is seen as an effective way to develop these capital-intensive medical services. Collectively, the practices can maintain high standards of quality, while providing their services cost-effectively due to their structure and size. Further organic development and acquisitions of other practices are planned as well as additional cooperative projects with hospitals.

Convenience food group – utilising DBAG Fund VII top-up fund

In April 2017, DBAG announced the management buyouts of family-owned businesses Abbelen and Oscar Mayer, aiming to establish a European market leader for chilled convenience products, primarily fresh ready meals and snacks. DBAG is investing €15m for a 16% stake as part of an €80m investment by DBAG Fund VII, which will hold an overall c 90% stake. The acquisitions are being made via a holding company, managed by Helmut Morent and Francois Legrain, who have extensive experience in the sector and jointly sourced the two transactions with DBAG. These two managers and group company senior executives will hold the remaining shares in the group.

Abbelen and Oscar Mayer will continue to be run autonomously, but will operate under the umbrella of the holding company, with the objective to expand the companies' product ranges and broaden the group's international distribution. The holding company will target add-on acquisitions, aiming to bring group revenues to more than €500m. DBAG Fund VII's top-up fund will be used to finance add-on acquisitions, enabling equity capital investments of up to €200m for a single transaction.

Abbelen is the largest private-label manufacturer of meatballs and ready-made burgers in Germany, with revenues of €140m. From its meat processing factory in Tönisvorst (North Rhine-Westphalia), it supplies all of the large supermarket and discounter chains in Germany and bordering countries. Oscar Mayer is the leading producer of chilled prepared meals in the UK, which are sold under private labels of leading grocery retailers and discounters. The company operates four sites in England and Wales with a staff of c 2,650 and produces more than three million chilled prepared meals and snacks a week, generating revenues of £253m (c €293m) in its 2015/16 financial year.

Divestment of Grohmann Engineering

In November 2016, DBAG agreed the sale of Grohmann Engineering, a developer and manufacturer of plants for industrial automation, to strategic buyer Tesla Motors, after almost 30 years as a portfolio holding. DBAG management confirmed that sale proceeds of c €10m were above its most recent portfolio valuation, with the exit generating a mid-single digit positive value contribution.

DBAG's investment in Grohmann Engineering dates from a growth financing by a predecessor company, which took a 25.1% stake in January 1987. DBAG assumed the entire interest in 1996, with no parallel investment by a DBAG managed fund. Over 20 years, Grohmann Engineering grew its revenues by over 6% pa to €123m in 2015, while employee numbers tripled to c 700. As well as DBAG's 25.1% holding, Tesla acquired the 74.9% interest held by Klaus Grohmann, who founded the company in 1984.

Divestment of FDG Group

In March 2017, alongside DBAG Fund V and the company's management, DBAG sold its holding in FDG Group, a supplier of non-food products to supermarkets primarily located in France, to the private equity arm of French banking group Crédit Mutuel-CIC. Financial terms have not been disclosed but DBAG management has confirmed that sales proceeds equate to more than twice the original investment and are in line with its most recent portfolio valuation.

DBAG acquired the FDG Group in June 2010 from its founding families, in collaboration with Quartus, its partner in the French market. Since 2010, with the objective to broaden its product range, FDG Group has grown organically and through the acquisition of two smaller companies, with net sales rising from €111m to c €123m in 2016, in the face of lacklustre economic growth in France. Efficiency gains were also achieved through greater integration of the highly decentralised group. The new owner will support FDG Group's growth, with further add-on acquisitions planned.

Current portfolio positioning

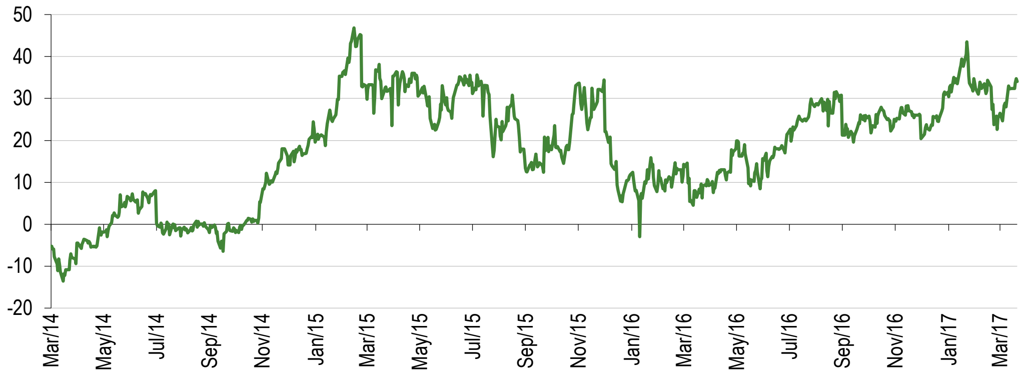
After completing the three new investments and two divestments announced so far in FY17, DBAG's portfolio will comprise 27 holdings, including two international buyout funds in the final stages of realisation (with a total of three remaining investments, representing c 3% of DBAG's portfolio value). The recent strong pace of activity means that the portfolio is relatively immature, but investments are well spread by vintage, with five held for more than five years and 10 held for less than two years at end-December 2016. Although the portfolio holds a relatively small number of investments, it is not overly concentrated, with the top five holdings representing 41% of the portfolio by value at end-2016. At the same date, 76% of the portfolio by value was represented by companies from DBAG's four core sectors of expertise: mechanical & plant engineering, automotive suppliers, industrial services providers and industrial components manufacturers (see Exhibit 1). While focused on these sectors, companies held in the portfolio operate across a wide range of industries with different dynamics and further diversification is provided by the 24% of the portfolio represented by companies operating in consumer-related industries.

Valuation

DBAG's fund services business is not restated at fair value and therefore DBAG's reported NAV does not reflect the prevailing market value of this business, while DBAG's share price reflects the value of both DBAG's investment and fund services businesses. We see the value of DBAG's fund services business as the explanation for its shares trading at a premium to NAV in contrast with the majority of its listed private equity peers. In our view, the current c €130m premium to NAV largely represents the value that the market is attributing to DBAG's fund services business. It is difficult to assess this valuation against the historical earnings of the fund services business, as these have varied between an €8.0m profit and a €3.0m loss over the last three years. DBAG management expects fee income to rise from €19.5m in FY16 to c €29.0m in FY18 due to the additional fees generated by DBAG Fund VII. We see this translating into fund services earnings between €4m and €7m in FY17 and FY18, giving a market-implied valuation multiple between 19x and 33x earnings.

As illustrated in Exhibit 4, DBAG shares have traded almost continuously at a premium to NAV since end-October 2014, when DBAG started reporting separately on its two business segments. The current 34.1% share price premium to NAV compares with a one-year average premium of 23.1% and a recent peak premium of 43.5%.

Exhibit 4: Share price premium/discount to NAV over three years (%)



Source: Thomson Datastream, Edison Investment Research

Peer group comparison

Exhibit 5 shows a comparison of DBAG with a selected peer group of listed private equity investment companies. DBAG is differentiated from the majority of its listed private equity peers by its focus on German mid-market companies and its fund services business. Relative to the peer group average, DBAG's NAV total return in sterling terms to 31 December 2016 is lower over one and three years, ahead over five years and substantially ahead over 10 years. Although weaker over one year, DBAG's share price total return has outperformed its NAV total return over three, five and 10 years to end-December 2016, which reflects the shares moving to trade at a premium to NAV since DBAG first reported separately on its fund services business at end-FY14. Similar to 3i, which also manages third-party funds, DBAG's shares are trading at a substantial premium to NAV in contrast to the majority of the peer group, some of which are trading at a significant discount to NAV. DBAG's 3.5% dividend yield is slightly above the peer group median but below the average (largely due to Electra Private Equity's yield being inflated by its March 2017 special dividend).

Exhibit 5: Listed private equity investment companies peer group, as at 20 April 2017*

% unless stated	Country	Mkt cap £m	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	NAV TR 10 years	Price TR 1 year	Price TR 3 years	Price TR 5 years	Price TR 10 years	Discount (ex-par)	Dividend yield (%)
Deutsche Beteiligungs	Europe	429.5	27.0	51.4	95.6	219.4	22.4	67.4	148.5	270.1	33.2	3.5
3i	Global	7,523.1	42.0	100.2	139.7	52.8	52.5	107.9	377.4	27.7	38.4	2.8
Altamir	Europe	438.4	39.8	63.4	109.2	129.6	40.3	46.1	169.5	132.0	(33.8)	4.6
GIMV	Global	1,136.0	31.5	55.9	76.4	118.5	31.5	55.9	76.4	118.5	6.1	3.5
Electra Private Equity	UK	983.1	40.2	99.0	143.7	265.4	34.8	115.3	262.6	260.0	(8.7)	6.0
HgCapital Trust	UK	569.2	19.5	53.0	69.5	178.7	43.1	70.5	82.9	178.3	(7.7)	3.0
ICG Enterprise Trust	UK	490.4	19.5	28.8	57.5	108.4	19.8	24.0	124.4	108.6	(17.7)	2.9
Oakley Capital Investments	Europe	313.4	17.9	17.9	37.9		16.9	(10.6)	27.0		(32.2)	2.9
Standard Life Private Equity	Europe	488.9	29.9	52.5	71.5	108.1	43.0	59.0	158.8	67.6	(9.0)	3.8
Average		**1,374.7**	**29.7**	**58.0**	**89.0**	**147.6**	**33.8**	**59.5**	**158.6**	**145.3**	**(3.5)**	**3.7**
Rank in peer group		**8**	**6**	**7**	**4**	**2**	**7**	**4**	**5**	**1**	**2**	**4**

Source: Morningstar, Edison Investment Research. Note: *Performance data to end-December 2016. TR=total return. All returns expressed in sterling terms.