# EDISON

# Deutsche Beteiligungs

## Strengthened balance sheet for new opportunities

Investment companies
Private equity

**18 December 2024**

| | |
|---|---|
| **Price** | **€23.15** |
| **Market cap** | **€423.9m** |
| **NAV*** | **€688.4m** |
| NAV per share* | €37.59 |
| Discount to NAV | 38.4% |

*As at end-September 2024.

| | | |
|---|---|---|
| Yield | | 4.3% |
| Shares in issue (excluding treasury shares) | | 18.3m |
| Code/ISIN | | DBAN/DE000A1TNUT7 |
| Primary exchange | | Frankfurt |
| 52-week high/low | €30.35 | €21.40 |
| NAV high/low | €37.59 | €35.28 |

### Gearing

| | |
|---|---|
| Net gearing at end-Sep 2024* | 15.0% |

*Excluding purchase price liability.

### Fund objective

Deutsche Beteiligungs is a German-based and listed private equity investment and fund management company that invests in mid-sized companies in Germany and neighbouring countries via management buyout transactions and growth capital financings. It also manages c €2bn of third-party capital, which generates stable recurring fee income. Following the acquisition of a majority stake in ELF Capital, DBAG expanded its offer to include private debt.

### Bull points

- Solid long-term track record, with an average PE exit multiple of 2.5x at end-FY24.
- Emphasis on 'growth sectors', such as IT services and software, energy transition/sustainability themes and healthcare.
- Recurring cash flow from fund services.

### Bear points

- Continued impact from the weak macroeconomic environment in Germany, especially on DBAG's industrial holdings.
- Interest rate normalisation may reduce prospective private equity returns, put pressure on interest coverage ratios and/or lead to refinancing issues across private equity-backed companies in the medium term.
- Higher average leverage of portfolio companies versus pre-COVID-19 levels.

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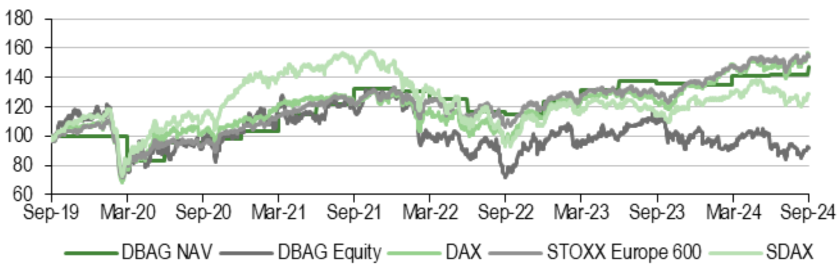
***Deutsche Beteiligungs is a research client of Edison Investment Research Limited***

**Deutsche Beteiligungs (DBAG) reported an 8.5% NAV total return (TR) in FY24 (to end-September 2024), supported by positive movements in valuation multiples, which offset the negative impact from changes in earnings and the higher net debt of portfolio companies. DBAG's portfolio remains affected by the subdued macroeconomic environment in Germany, although its continued portfolio shift away from more traditional industrial holdings likely provided a cushion. Following the convertible bond and promissory loan note issues earlier this year, along with several successful exits, DBAG's strong balance sheet positions the company well to explore the many attractively priced investment opportunities that management sees in the current market environment. DBAG's shares now trade at a 38% discount to the last reported NAV of its private markets investments, on top of which DBAG's shares offer exposure to the company's fund services business. Therefore, we consider the discount wide even considering the market headwinds.**

**DBAG's five-year NAV TR broadly matched the DAX and STOXX Europe 600**




Source: DBAG, LSEG Data & Analytics, Edison Investment Research

## Mid-market private equity remains attractive

The private equity (PE) mid-market (which DBAG focuses on) offers several potential advantages: 1) many of the acquired companies have not been owned by PE before (92% of DBAG's buyouts in 2019–23 were from families and founders), potentially providing an opportunity for value creation; 2) portfolio exits are less dependent on the IPO market (DBAG rarely uses IPOs as an exit route and two-thirds of its exits are to trade buyers); and 3) deals are less reliant on funding via syndicated loans. PE transaction activity has been stabilising and gradually improving throughout 2024, and PitchBook estimates that European deal value and count in 2024 is on pace for 27.5% and 11.5% y-o-y growth, respectively.

## A seasoned player in the DACH region and beyond

DBAG is a well-established investor and asset manager in the PE mid-market and a go-to partner for private company owners, especially families and founders, across Germany and neighbouring countries (eg Italy). The company entered the dynamic private debt market with the acquisition of ELF Capital in November 2023. DBAG has been tapping into a wider set of sectors more strongly for several years now, with significant exposure to so-called 'growth' areas, including IT services and software; environment, energy and infrastructure; as well as healthcare. Moreover, its industrial portfolio has been moving away from more traditional holdings.

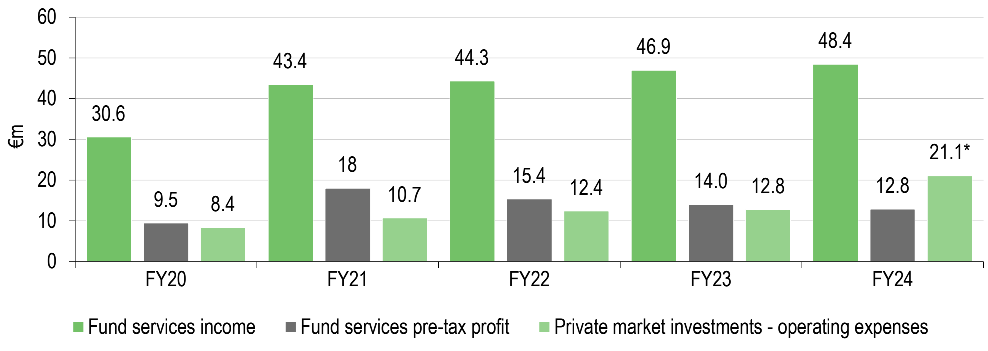
## DBAG's value proposition

### An experienced private markets investor and asset manager in the DACH region and beyond

DBAG operates a unique business model as an investor and asset manager focused on the PE mid-market (buyout and growth/expansion financing) and private debt market, primarily in the DACH region (Germany in particular), as well as selected other European countries. It operates two complementary business lines, private markets investments and fund investment services, built around funds advised by DBAG (PE) and ELF Capital (private debt), through which DBAG invests alongside third-party investors. It had c €2.7bn in assets under management and advisory (including DBAG's investments) at end-September 2024. Investing through the DBAG- and ELF Capital-managed funds creates a substantially larger capital base, and hence a broader and complementary range of investment opportunities, for DBAG's own balance sheet investments. The strategy also provides some assurance to third-party investors in the funds that the manager's interests are aligned with their own.

There are currently two DBAG funds in the investment phase: the flagship DBAG Fund VIII (with a total size of €1.1bn, of which €200m is attributable to DBAG) and DBAG Expansion Capital Fund IV (€249m, of which €100m is attributable to DBAG's commitments), which recently had its final close. The majority-owned ELF Capital (acquired in November 2023) has two funds that are in the investment stage: ELF European Lending Fund II, which is focused on senior debt (€50m, of which half is attributable to DBAG's commitments), and ELF Capital Solutions Fund I, which has a more flexible mandate covering highly structured investments, including hybrid capital/structured equity investments (€76m, of which €75m is attributable to DBAG).

**Exhibit 1: DBAG's fund services income and profit compared to the operating expenses of the PE investment segment**



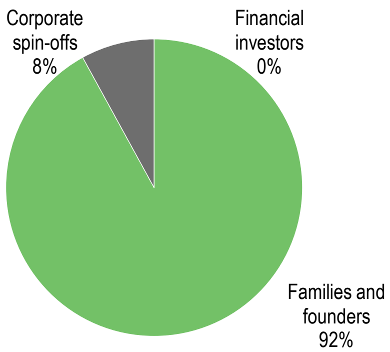

Source: DBAG. Note: *FY24 results include run-up costs for DBAG ECF IV and DBAG Luxembourg, as well as amortisation of client relationships in conjunction with the ELF Capital acquisition and the regular adjustment of the carrying value of DBAG's existing call option for the remaining 49% stake in ELF Capital.

### Looking for high-quality mid-market investments

DBAG invests in companies with proven business models, rather than early-stage businesses or companies requiring restructuring/distressed assets. Importantly, DBAG focuses on the PE mid-market, which we believe offers several potential advantages, especially in the current environment (see our comment above). The partnership with ELF Capital allows DBAG to further expand its deal origination and investor network.

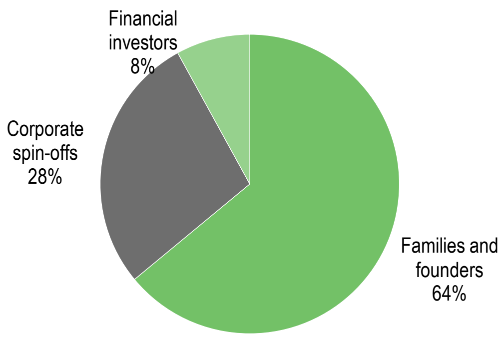
DBAG may be considered one of the preferred PE partners for private company owners, especially families and founders, across Germany and neighbouring countries. This is underpinned by DBAG's deep understanding of the mid-market in the DACH region and the industries it invests in. It is illustrated by the fact that 92% of all DBAG's management buyout (MBO) investments in 2019–23 were businesses acquired from families and founders, compared to 64% for all German mid-market MBOs, see Exhibits 2 and 3.

**Exhibit 2: Sellers of DBAG's MBOs between 2019 and 2023**




Source: DBAG

**Exhibit 3: Sellers of German mid-market MBOs between 2019 and 2023**




Source: DBAG

DBAG is managed internally and has an investment team consisting of more than 30 members with over 250 years' experience in aggregate. The alignment of the team's interests with DBAG and fund investors is supported by co-investments made alongside the DBAG funds by senior members at c 1–2% of capital raised. They are entitled to a share in profit (carried interest) at 20% of proceeds from sales over the investors' preferred return of 8% pa. Members of the investment team also receive a variable remuneration based on the success of DBAG's long-term investments. The investment team is supported by an extensive external network of 80+ experienced industrial partners and senior advisers.

DBAG's team is actively engaged in the development of its portfolio companies, both organically and through targeted M&A. In the last four years, DBAG assisted its portfolio companies in carrying out 65 bolt-on acquisitions, and 10 add-ons were signed and/or closed in FY24. DBAG's buy-and-build strategy and expertise is illustrated, for instance, by its investment in Cloudflight, a full-service provider for industrial digital transformation. The partial sale of the company was agreed in November 2022 (DBAG retained a minority stake) after a holding period of around three years, with DBAG achieving a multiple on invested capital (MOIC) above 4x. DBAG invested in the company alongside DBAG Fund VII in June 2019 by creating Cloudflight from software specialist Catalysts and IT research and consultancy firm Crisp Research. Since then, the platform company has performed six add-on acquisitions and grew revenues from €59m in 2019 to €80m in 2021.

Another example is in-tech, a service provider for software development, testing and validation, which was sold after a two-year holding period (2022–24). During this time, it made two targeted accretive add-ons (eg in cybersecurity) and was sold in FY24 at a healthy 3.3x MOIC. DBAG led several value-creation activities at in-tech, including the expansion of value-add services and new products, the implementation of SAP S/4HANA, broadening of the management team and the introduction of an advisory board, fostering near- and offshoring, as well as consolidating a fragmented market in core domains.

## Continued shift away from traditional industrial investments

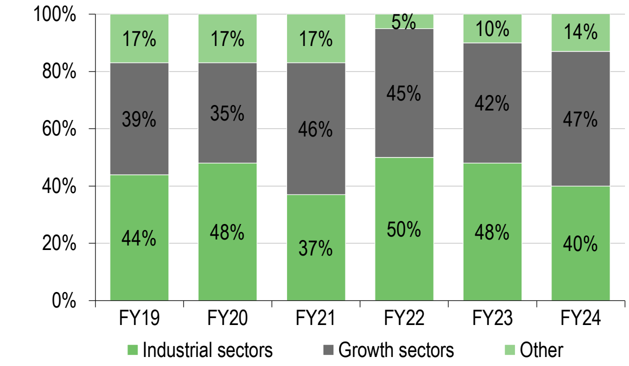
Historically, DBAG's portfolio largely reflected the German industrial mid-market, with industrial businesses making up c 80% of its portfolio in FY15. Since then, DBAG has consistently increased its exposure to other sectors, providing a cushion against the macroeconomic headwinds that have affected DBAG's industrial portfolio since 2019. These so-called growth sectors now include IT services and software (22% of end-September 2024 portfolio value), healthcare (9%) and environment, energy and infrastructure (19%) (see Exhibit 4). The latter has been presented as a separate sector for the first time in DBAG's FY24 results. It includes companies previously reported under the 'broadband and technology' growth sector (with current holdings including Deutsche Giga Access, Netzkontor and vitronet), as well as companies such as Avrio Energie (an operator of a biogas plant with further expansion plans in biogas and solar), NOKERA (a producer of buildings in serial and sustainable construction), Hausheld (a developer of smart metering solutions for electricity networks), Itelyum (active in recycling of industrial waste) and TBD Technische Bau Dienstleistungen (a provider of construction services for infrastructure solutions).

We also note that DBAG has been transitioning its industrial and industrial technology portfolio away from older and more traditional holdings, as illustrated by some of its current top 15 holdings: congatec (an industrial technology company focused on high-performance embedded computer products), Dantherm (a provider of heating, cooling, drying, ventilation and air cleaning technology) and MTWH (a manufacturer of metal applications for the luxury goods industry). Two further examples of DBAG's changing emphasis in its industrial and industrial services portfolio are Cartonplast, a provider of a pool system for the rental of reusable plastic layer pads, and ProMik, a provider of programming and testing solutions for the electronics manufacturing industry. We believe that DBAG has visibly reduced its exposure to the automotive sector, and currently has only four major older-vintage holdings in this space. These include Karl Eugen Fischer (a manufacturer and developer of cutting systems for the tyre industry, acquired in 2018, currently among the top 6–10 holdings), and three companies beyond its top 15 holdings: Oechsler (a producer of plastic components, for industries such as the automotive sector, acquired in 2015), Brown Connectivity Solutions (a producer of cable systems and interior vehicle lighting, acquired in 2017), as well as Silbitz (which owns four foundries producing castings on a steel and iron basis) (see Exhibit 5).

Finally, DBAG seeks to broaden its portfolio geographically, especially in Italy, where it opened an office in Milan in 2021 and where up to 25% of DBAG Fund VIII's can be invested. At end-September 2024, DBAG's Italian investments represented 10% of its portfolio and included names such as the above-mentioned Itelyum and MTWH. Moreover, post balance sheet date, DBAG invested in Great Lengths, an Italian producer and distributor of premium natural hair extensions for professional hairdresser salons. DBAG has already made a successful realisation of an Italian holding (pmflex in FY23).

While these portfolio changes do not fully shield DBAG from macroeconomic headwinds in Germany (see below), they provide its portfolio with a greater diversity of earnings drivers and in some instances a more defensive profile.

**Exhibit 4: The share of growth sectors in DBAG's portfolio continues to increase**




Source: DBAG

**Exhibit 5: DBAG portfolio split as at end-September 2024**


Source: DBAG

## Trading at a substantial discount to NAV

Despite the macroeconomic headwinds, DBAG's five-year NAV TR to end-September 2024 kept up with both the DAX and the STOXX Europe 600, reaching 49.8% (or 8.4% pa) in euro terms (see front page chart). Importantly, DBAG's recent realisations at or above previous carrying value (with an average uplift of 29% for FY24 exits) indicate DBAG's prudent approach to portfolio valuations. Meanwhile, its share price TR decoupled from the NAV performance and was negative over that period, leading to a discount to last reported NAV of 38% currently (see Exhibit 6). We note that, prior to 2022, DBAG's shares traded at a premium to NAV (18% on average over the five years to end-2021), which we believe was due to the share price reflecting the additional value of DBAG's fund services business, which manages c €2bn of third-party capital, the value of which is not directly captured within DBAG's reported NAV. Given this and DBAG's portfolio changes in terms of sector exposure, the current discount to NAV may be considered wide.

**Exhibit 6: DBAG's historical discount/premium to NAV**


Source: DBAG, LSEG Data & Analytics, Edison Investment Research

We believe it is instructive to examine the market-implied valuation of both DBAG segments in two scenarios: 1) using the implied value of PE investments, assuming fund services are valued in line with peers; and 2) using the implied value of the fund services segment, assuming that PE investments are valued in line with peers. For peers in DBAG's fund services segment, we use a group of listed asset managers with exposure to alternative unlisted assets, such as real assets or PE: Blackstone, EQT, Partners Group, Intermediate Capital, Tikehau Capital, Cohen & Steers and CVC Capital Partners. In the case of PE investments, we use the peer group shown in Exhibit 12, excluding 3i.

**Exhibit 7: Analysis of DBAG's market value by segment**

| | |
|---|---|
| **Fund services in line with peers** | |
| Earnings multiple applied to fund services segment's valuation | 20.7x |
| Implied value of fund services segment* | €217.2m |
| Implied value of private equity investments segment | €206.7m |
| Implied discount of private equity investments value to DBAG's end-Sep 2024 NAV** | 68% |
| **Private equity investments in line with peers** | |
| Discount applied to private equity investments value to DBAG's end-Sep 2024 NAV | 25.3% |
| Implied value of private equity investments segment** | €475.0m |
| Implied value of fund services segment | (€51.1m) |
| Implied FY24e earnings multiple of fund services segment* | N/A |

Source: DBAG, Edison Investment Research. Note: *Based on the midpoint of management guidance. **Multiple and discount are calculated based on DBAG's NAV excluding intangible assets arising from the ELF Capital acquisition.

Assuming the fund services segment is valued in line with peers (on a 20.7x FY25e earnings multiple) and using DBAG's current market capitalisation, the implied value of DBAG's PE investments would be c €217m (68% below its end-September 2024 NAV, which we conservatively adjust for the intangibles arising from the ELF Capital acquisition), while DBAG's peers currently trade at an average 25% discount.

On the other hand, if we assume that the PE investments were valued in line with peers, then DBAG's current market capitalisation would imply that the market assigns a negative value to the asset management business. This needs to be put in the context of management's expectations of an increase in fund services pre-tax profit to €12–18m in FY27 (upon the expected launch of DBAG Fund VIII's successor).

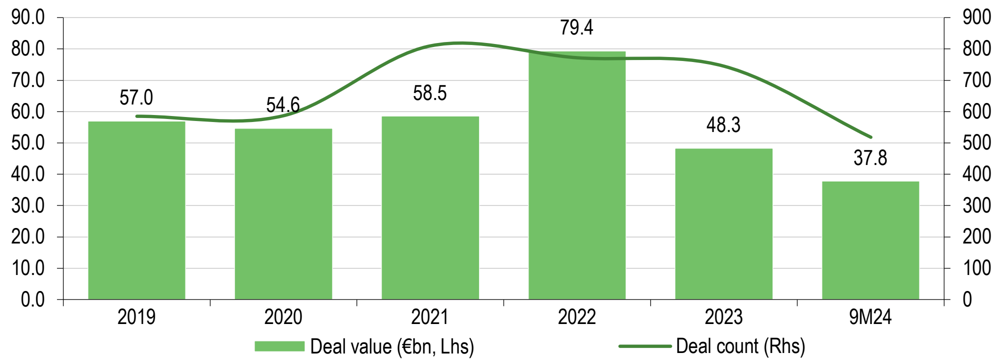
We note that the €30.7952 conversion price of the recently issued convertible bonds represents a c 14.7% discount to DBAG's end-June 2024 NAV, which would translate into a minor c 3% end-September 2024 NAV per share dilution upon conversion.

## Market outlook: Recovery in the global PE market

Global PE transaction activity has been stabilising and gradually improving throughout 2024, increasing by 36% y-o-y in the first nine months of 2024 (9M24), according to EY's *Private Equity Pulse: Key Takeaways from Q3 2024* publication, citing Dealogic data. EY stated that the gap between buyers' and sellers' price expectations has begun to narrow, supported by a turn in the interest rate cycle and improving conditions in the debt financing markets. The latter is illustrated by Partners Group's comment in its *Quarterly Liquid Credit Market Commentary Q3 2024* that investor demand continues to outstrip supply in the new leveraged loan issuance market, leading to tighter single-B loan spreads. According to EY's PE Pulse Survey, 74% of general partners expect a pick-up in capital deployment over the next six months, up from 63% recorded at the beginning of the year. This is underpinned by a high level of dry powder accumulated in recent years, with continued strong fund-raising in Europe of €109.6bn in 9M24 (compared with full-year volumes of €122.1bn and €104.6bn in 2023 and 2022, respectively), including healthy mid-market fund-raising (ie fund-raising between €100m and €5bn), according to PitchBook. Fund-raising in Germany stood at €7.0bn in 9M24 compared to the full-year figures of €4.3bn and €1.9bn in 2023 and 2022, respectively.

PitchBook estimates that European deal value and count in 2024 is on pace for 27.5% and 11.5% y-o-y growth, respectively. PE deal activity in Germany reached €37.8bn in 9M24, a run-rate indicating a broadly stable full-year level versus the €48.3bn recorded in 2023 (see Exhibit 8). In the context of DBAG's activities beyond the DACH region, we note that Italy has seen particularly strong deal-making, accounting for two-thirds of the deal value in Southern Europe. With respect to European exits, there were some initial signs of the IPO market opening up, while exits to corporates remain modest. As a result, sponsor-to-sponsor deals accounted for more than half of the European deals for the first time since 2014, according to PitchBook, which also estimates that European exit value is on track to finish 2024 at a roughly flat year-on-year level, still 34.3% below 2021 highs.

**Exhibit 8: Deal value and count in the German PE market**




Source: PitchBook. Note: Data as of end-September 2024.

The European private debt market saw 115 deals in Q324, down from the busy previous quarter with 133 deals, but strong deal flow is expected to continue in Q424, according to Private Debt Investor, citing the recent mid-market monitor released by Houlihan Lokey. DBAG's management highlighted that Houlihan Lokey believes that, while the players in the M&A market for German mid-cap deals (both private debt funds and banks) are more conservative in their investment decisions amid higher interest rates, they are generally open to transactions and provide extensive support to high-quality assets.

# FY24 performance driven by higher valuation multiples

## Weaker operating portfolio performance reflects broader macroeconomic issues

The German economy continues to face multiple challenges, including higher energy prices amid curbed gas imports from Russia; changing foreign trade patterns (most notably the trade balance with China), which negatively affect industries such as automotive, machinery and chemicals; and an ageing population, which weighs on the supply of a skilled labour force. The HCOB Germany Manufacturing PMI compiled by S&P Global remains in contraction territory, at 43.0 in November 2024. Germany's fiscal consolidation, in accordance with its debt brake that limits the federal government's annual structural deficit to 0.35% of annual GDP, may also be dampening activity, for instance in terms of public infrastructure investments. The prospect of potential US tariffs following Donald Trump's presidential election win adds to the downside risks. In its October 2024 World Economic Outlook Report, the International Monetary Fund forecast Germany's GDP would be flat in 2024 (after a 0.3% decline in 2023), followed by moderate 0.8% growth in 2025 (revised downwards by 0.5pp compared to the April 2024 report). The economic weakness in the country also contributed to the collapse of the ruling coalition in Germany, with early elections scheduled for February 2025.

The less-than-favourable economic outlook translated into a negative contribution from the operational performance of DBAG's portfolio holdings in aggregate in FY24, in terms of both earnings growth and change in net debt (see Exhibit 9) (though management had indicated in August that, in some instances, the weaker performance was also due to poor management at portfolio company level). In FY24, 15 holdings made a positive earnings contribution, while 12 contributed negatively, and several companies improved earnings due to acquisitions, which resulted in higher debt. That said, the share of holdings with a net debt to EBITDA ratio of 3.0x or more declined from 74% at end-September 2023 to 58% at end-September 2024, due to earnings growth and change in portfolio mix.

**Exhibit 9: DBAG's gross gains/(losses) on measurement and disposal portfolio by sources**

| €m | FY24 | FY23 |
|---|---|---|
| Changes in fair value of unlisted investments | 32.4 | 51.6 |
| *Change in earnings* | *(17.5)* | *39.4* |
| *Change in debt* | *(21.9)* | *(59.4)* |
| *Change in multiples* | *70.3* | *121.0* |
| *Change in exchange rates* | *(2.1)* | *(6.6)* |
| *Other* | *3.6* | *(42.7)* |
| Net result of disposal | **35.2** | **63.0** |
| **Total** | **67.7** | **114.6** |

Source: DBAG

## Expanding valuation multiples drove FY24 NAV TR

Defying the local macroeconomic environment, Germany's flagship DAX Index performed well throughout DBAG's last financial year (to end-September 2024), and subsequently reached new all-time highs. This was largely due to a high weighting to technology and financial services companies, such as SAP, Allianz, Deutsche Telekom, Münchener Rückversicherungs-Gesellschaft and Deutsche Börse. Meanwhile, the small-cap (SDAX) and mid-cap (MDAX) indices, which are better comparators for DBAG's portfolio holdings, posted only moderate gains over the last 12 months, while the STOXX Europe 600 was up 20% in euro terms between end-September 2023 and end-September 2024 (see frontpage chart).

The change in valuation multiples had a positive impact on DBAG and was the main contributor to its NAV TR of 8.5% in FY24 (after 18.1% in FY23 and a 13% NAV TR loss in FY22). We note that DBAG's calibration process of valuation multiples across its portfolio companies reflects the development of both private and public valuations, with the private market factor determined based on the correlation between the returns of the Cambridge Associates Europe Developed PE Index and the STOXX Europe 600 Index.

## Fund services income to fall temporarily before the new launch

DBAG's fund services business posted increases in income and EBITA of 3% and 15% y-o-y to €48.4m and €16.2m, respectively, supported by fees related to DBAG ECF IV, ELF Capital funds and DBAG Luxembourg. The segment should increase its profit once the new flagship fund (DBAG Fund VIII's successor) is launched. However, given that DBAG Fund VIII is only c 50% invested (with 80% targeted for 2025), DBAG is in no rush to launch a new fund, and this is more likely to occur in 2026 at the earliest. Therefore, DBAG's management guides to a fund services profit of €8–13m in FY25.

**Exhibit 10: Income statement by segment (€m)**

| | FY24 | FY23 | y-o-y |
|---|---|---|---|
| Net income from investment activity | 61.1 | 109.6 | (44%) |
| Other income/expenses | (21.1) | (12.8) | 65% |
| **PE investments pre-tax profit** | **40.1** | **96.8** | **(59%)** |
| Fund services income | 48.4 | 46.9 | 3% |
| EBITA | 16.2 | 14.1 | 15% |
| Other income/expenses | (35.6) | (32.9) | 8% |
| **Fund services pre-tax profit** | **12.8** | **14.0** | **(9%)** |
| **Consolidated net profit** | **47.5** | **105.8** | **(55%)** |

Source: DBAG

## Several successful exits despite macroeconomic challenges

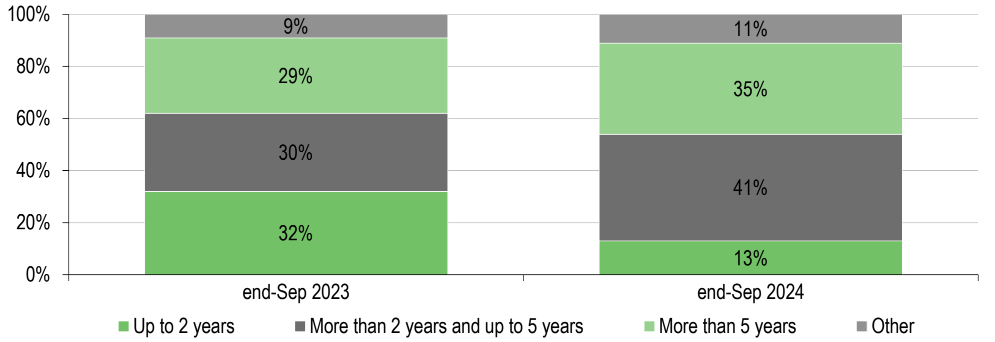
Between 1995 and 2023, DBAG fully or partially realised 57 investments, which yielded a robust 2.5x gross MOIC (in appendices 1 and 2, we present DBAG's fully realised MBOs and growth financings). DBAG's major exits in FY24 were also completed at attractive returns, including the above-mentioned exit of in-tech (3.3x), GMM Pfaudler (a manufacturer of glass-lined reactors and components for the chemical and pharmaceutical industries, 3.0x), and R+S Group (a provider of technical building services, sold at an internal rate of return of more than 40% after a two-year holding period). Moreover, Solvares Group, a provider of field service management, field sales management and transport management and logistics solutions, was partially sold to Five Arrows (the alternative assets arm of Rothshild & Co) in April 2024 at a slight uplift to end-2023 carrying value. To continue its remaining investment in Solvares, DBAG set up its first continuation fund, which it will advise for a fee. The Solvares transaction resulted in a MOIC of 2.5x for the DBAG ECF Fund III and a management fee increase for DBAG of 77%, versus the fee generated for Solvares via advising DBAG ECF Fund III. We also note that in FY24 DBAG sold meatball producer Abbelen from the More Than Meals group (the latter being held by DBAG Fund VII).

However, DBAG's portfolio continued to feel the strain of the tough macroeconomic environment of recent years (especially its industrial and industrial technology holdings), with challenges including weak demand, a shortage of skilled labour, high input costs as well as demanding supply chain management. This was illustrated by the sale for a symbolic price of Sjølund (a manufacturer of bent aluminium and steel components) in FY22, as well as the derecognitions post insolvency of FRIMO (a provider of tools and machinery for the automotive industry) in FY23 and Gienanth (an iron foundry) in FY24.

Another indication of the macroeconomic challenges is the fact that DBAG's current industrial and growth holdings are both held at an average c 1.2x cost (ie visibly below the average realised MOIC). While this partly reflects the fact that PE portfolios are generally a blend of different investment vintages, and each successful disposal (in line with a target return) normally reduces the average unrealised MOIC of the portfolio, we note that investments held for less than two years made up only 13% of DBAG's portfolio at end-September 2024, a reduction from 32% at end-September 2023 (see Exhibit 11). DBAG's management admits that, while companies that DBAG has been supporting for two to five years should now be at a stage where value-creation measures gather pace and are reflected in their performance, the challenging macroeconomic environment may delay this and lead to longer holding periods. DBAG's portfolio disposals represented on average 12–13% of the opening portfolio value per annum in the last five financial years, which is a rate lower than the 20%+ expected for an average five-year holding period. Its portfolio companies held for more than five years were valued at a modest 1.15x cost at end-September 2024.

Management therefore guides to an NAV per share of €35–42 at end-December 2024, versus €37.59 at end-September 2024 (DBAG is introducing an abridged financial year from 1 October to 31 December 2024 to changing its fiscal year-end to December). DBAG guides to a broadly flat NAV per share at €36–43 at end-December 2025 (though this includes the proposed €1.00 dividend per share). Subsequently, management expects €44–53 by end-2027, which, assuming a €1.00 annual dividend per share, implies an NAV TR of c 13% pa, according to our calculations.

**Exhibit 11: DBAG's portfolio by vintage, FY24 versus FY23**




Source: DBAG

**Exhibit 12: Listed PE investment companies peer group at 17 December 2024* in sterling terms**

| % unless stated | Market cap £m | NAV TR 1y | NAV TR 3y | NAV TR 5y | NAV TR 10y | Price TR 1y | Price TR 3y | Price TR 5y | Price TR 10y | Premium/ (discount) | Dividend yield |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Deutsche Beteiligungs** | **362.0** | **4.1** | **7.9** | **38.6** | **183.8**** | **(20.8)** | **(25.0)** | **(13.4)** | **89.2** | **(38.4)** | **4.3** |
| 3i | 35,207 | 23.4 | 115.4 | 207.5 | 833.1 | 63.1 | 183.5 | 234.1 | 1,124.0 | 60.0 | 1.8 |
| GIMV | 929 | 8.8 | 21.0 | 23.7 | 135.0 | 1.6 | (16.8) | (14.2) | 72.4 | (29.5) | 6.6 |
| HgT | 2,334 | 6.9 | 31.1 | 125.1 | 442.7 | 34.2 | 38.6 | 145.4 | 531.0 | (2.1) | 1.3 |
| ICG Enterprise Trust | 822 | 4.0 | 34.1 | 80.4 | 244.4 | 3.9 | 10.9 | 58.1 | 162.8 | (34.4) | 2.7 |
| Oakley Capital Investments | 886 | 2.7 | 59.6*** | 128.7*** | 301.1*** | 14.9 | 47.5 | 141.4 | 271.1 | (27.6) | 0.9 |
| Partners Group Private Equity | 595 | (5.1) | (0.5) | 34.8 | 181.4 | (8.3) | (11.3) | 33.3 | 200.0 | (28.7) | 6.8 |
| Patria Private Equity Trust | 820 | 0.8 | 28.9 | 91.2 | 288.7 | 24.9 | 18.4 | 81.4 | 228.8 | (29.8) | 3.9 |
| **Median** | **5,942** | **5.9** | **41.4** | **98.8** | **346.6** | **19.2** | **38.7** | **97.1** | **370.0** | **(13.2)** | **3.4** |
| **Rank** | 8 | 4 | 7 | 6 | 6 | 8 | 8 | 7 | 7 | 8 | 3 |

Source: LSEG Data & Analytics, Edison Investment Research. Note: TR, total return. *12-month NAV performance based on end-September 2024 or latest earlier available NAV (end-July 2024 for ICG Enterprise Trust). **DBAG's 10-year NAV TR is calculated from end-October 2014 due to availability of data. ***Oakley Capital Investments' NAV total returns are for periods of 3.25, 5.25 and 10.25 years due to availability of data.

**Exhibit 13: Five-year discrete performance data in sterling terms**

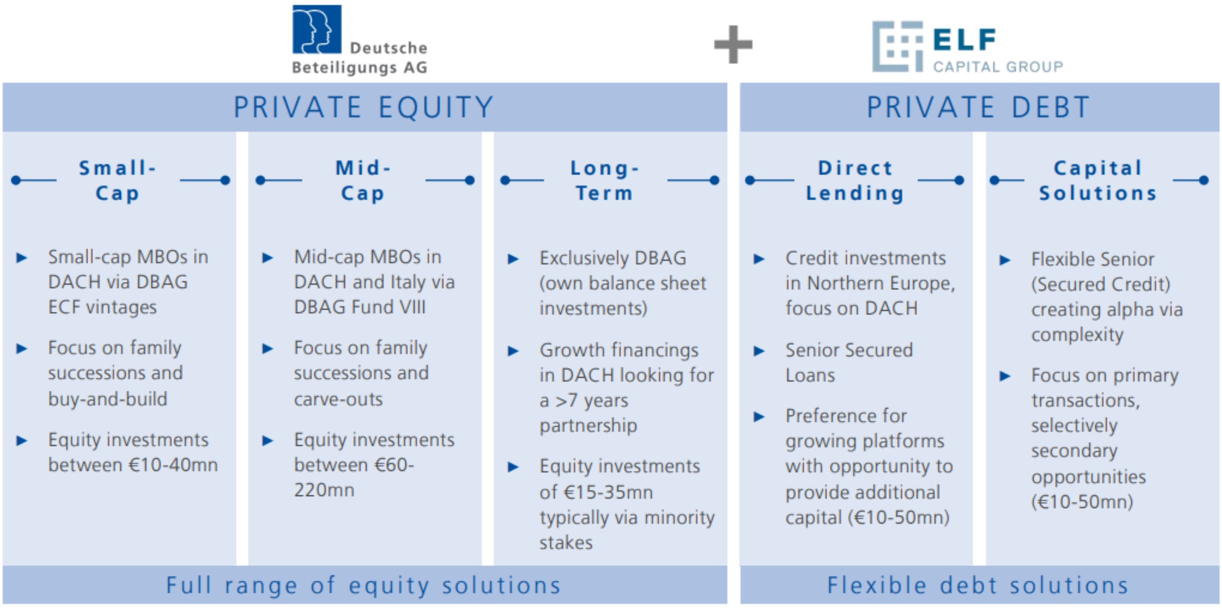
| Last 12 months ending | Share price (%) | NAV (%) | SDAX (%) | UK All-Share Index (%) |
|---|---|---|---|---|
| 30/09/20 | (5.6) | 0.3 | 16.1 | (16.6) |
| 30/09/21 | 22.2 | 28.2 | 25.3 | 27.9 |
| 30/09/22 | (38.7) | (11.4) | (35.0) | (4.1) |
| 30/09/23 | 54.4 | 16.9 | 21.0 | 13.9 |
| 30/09/24 | (20.8) | 4.1 | 5.5 | 13.4 |

Source: DBAG, LSEG Data & Analytics. Note: All percentages on a total return basis.

## New investments: Cautious in the short term but seeing many opportunities

DBAG's structuring options range from traditional MBOs of majority stakes (with an equity investment of €60–220m), smaller buyouts (with an initial ticket size of €10–40m), long-term investments executed entirely from DBAG's own balance sheet, through to private debt investments (see Exhibit 14). In September 2023, DBAG announced its entry into the private debt segment via a strategic partnership with ELF Capital, an adviser of credit funds that was spun off from ESO Capital's German direct lending platform (see our December 2023 note for details). DBAG's private equity and private debt investments are complementary in that private debt offers returns that are positively affected by higher interest rates (as opposed to PE valuations), provides a steady interest income stream and has shorter holding periods than PE.

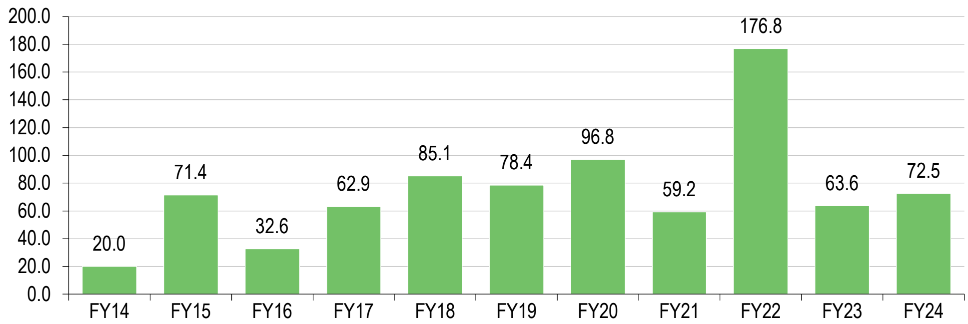
**Exhibit 14: DBAG's structuring options**




Source: DBAG

DBAG's approach in terms of new platform investments was cautious in FY24, as activities included only the agreed buyout of UNITY (see our August 2024 note for details), as well as the completed buyout of ProMik (announced in October 2023) and the long-term investment in NOKERA (reinvestment of part of the R+S exit proceeds into a minority stake announced in July 2023 and closed in FY24), discussed in our May 2024 note. That said, DBAG also saw 10 add-on acquisitions signed and/or closed across its portfolio in FY24, providing €9.4m of add-on financing during the financial year. Follow-on investments in existing holdings amounted to €21.2m. Finally, ELF Capital completed its first transaction as part of the DBAG group, with an expected three-year return of 13.1% and a 1.4x MOIC on debt funding provided to a healthcare company based in Ireland.

**Exhibit 15: DBAG's historical private equity investments per year (€m)**



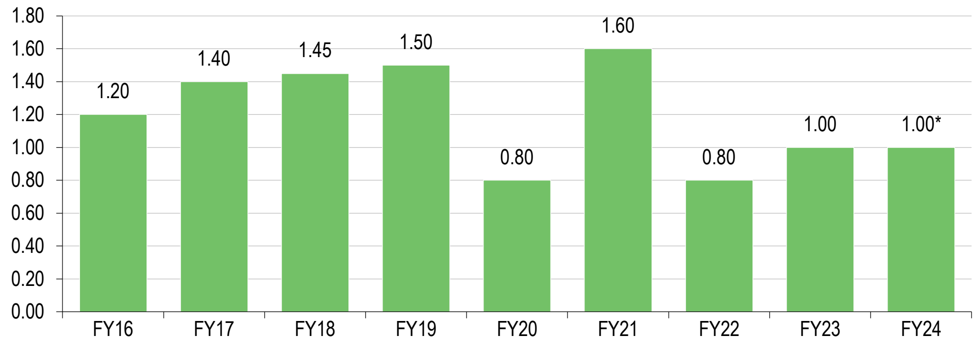

Source: DBAG, Edison Investment Research

Management highlighted that the number of investment opportunities evaluated by DBAG increased from 241 in FY23 to 328 in FY24 and reached 550 in total when the opportunities evaluated by ELF Capital Group are included. We attribute this to the first signs of a recovery in global M&A activity, reduced competition (as evidenced by two of its competitors no longer pursuing new investments), as well as cross-deal flow from ELF Capital Group. DBAG's management also highlighted the favourable pricing environment. This suggests a possible significant pick-up in deal activity (even if spread over the next few years), in anticipation of which DBAG issued a convertible bond in June 2024 (see our flash note for details) and promissory loan notes. The recently raised capital, coupled with the exits discussed above, brought DBAG's financial resources to €150.4m at end-September 2024, which, together with €120m of undrawn credit lines, comfortably covers around 75% of DBAG's outstanding investment commitments to DBAG and ELF Capital funds of €358.2m. We also note that the maturity of the convertible bonds aligns well with the usual holding period of a PE investment of around three to five years.

## Dividends and buybacks

The company's approach to shareholder distributions shifted earlier this year from a pure dividend policy to a broader distribution policy, as management highlighted that it would consider buybacks on a more regular basis. DBAG now pays a stable dividend per share of €1.00 (which currently represents a dividend yield of 4.3%), and in February 2024 it launched an up to €20m buyback programme, €13.2m of which was spent as of end-September 2024 to buy back c 0.5m shares (or 2.7% of the end-September 2023 share capital outstanding). Total distributions to shareholders therefore amounted to c €32m in FY24, or c 4.8% of DBAG's end-September 2023 NAV. Management expects to conclude the current buyback programme in December or January and will then consider another programme.

**Exhibit 16: DBAG's dividend per share track record (€)**




Source: DBAG. Note: *Dividend proposed to the AGM by the management board 19 November 2024, which was approved by the supervisory board on 27 November.

## DBAG's approach to ESG

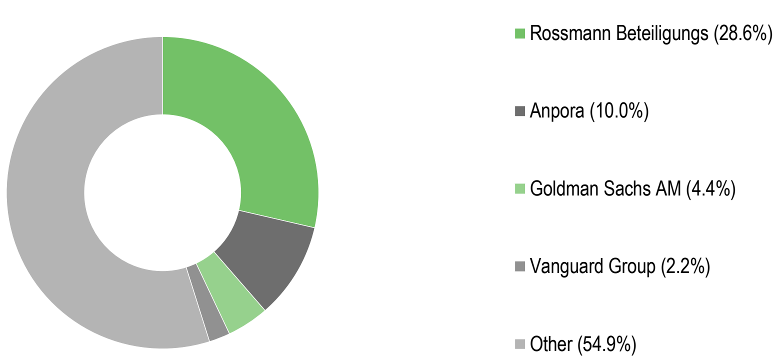
DBAG has been a signatory of the United Nations Principles for Responsible Investment since December 2021 and has embedded sustainability aspects in its corporate governance and investment process, highlighting that this improves the alignment of shareholders' and fund investors' targets with DBAG's objectives. At the same time, management highlights it must make a balanced assessment in its investment decisions between what is valued by society and what is economically advisable. To monitor and manage the ESG performance at DBAG and portfolio companies, it started to collect a set of general and business model specific ESG key performance indicators (KPIs) in FY21. These address key sustainability topics identified by management, including greenhouse gas emissions, occupational health and safety, employee satisfaction, gender parity and compliance. Since FY23, DBAG has integrated these ESG-based KPIs (covering a multi-year horizon) into the budget plans of its portfolio companies.

Moreover, DBAG enhanced its target system through the addition of ESG-related goals at the holding level from FY23. These include $CO_2$ footprint (scope 1–3, with scope 3 comprising business travel and commuting), employee satisfaction and payments from compliance breaches. DBAG achieved its targeted slight reduction in $CO_2$ footprint to 2.8 tonnes per full-time equivalent in FY24, from 2.9 tonnes in FY23. Management did not reiterate its previous FY25 ambition of 2.2 tonnes, and highlighted in the annual report that DBAG had reached a point where any further significant reductions depend on DBAG's advisers providing evidence of their own carbon footprints to inform DBAG's procurement decisions. DBAG's average employee satisfaction score improved to 69% in FY24, ahead of the initially targeted 66% and FY23's score of 65%. It aims for 70% in the abridged three-month financial year to end-December 2024. Finally, DBAG emphasises zero tolerance for any form of corruption and other unethical business practices, and therefore wants to avoid making any payments due to compliance breaches (which it again avoided in FY24).

## Capital structure

At end-September 2024, DBAG's share capital consisted of 18.8m ordinary shares of no par value, of which 18.3m were outstanding (with the rest held in treasury). DBAG shares are predominantly owned by private investors and family offices.

**Exhibit 17: Major shareholders**




Source: LSEG Data and Analytics

# Appendix 1: DBAG's MBO realisation track record

**Exhibit 18: DBAG's MBO transactions realised* between 1997 and end-September 2024**

| Company | Investment date | Divestment date | Holding period (years) | Exit route | Exit multiple (x) |
|---|---|---|---|---|---|
| More than Meals** | Apr-17 | Sep-24 | 7.4 | Trade sale | N/A |
| in-tech | Mar-22 | Jul-24 | 2.3 | Trade sale | 3.3 |
| GMM Pfaudler | Dec-14 | Dec-23 | 9.0 | Trade sale*** | 3.0 |
| Gienanth | Mar-15 | Nov-23 | 8.7 | Write-off | 0.0 |
| BTV Multimedia | Aug-18 | May-23 | 4.8 | Secondary buyout | 3.0 |
| Heytex | Nov-12 | Feb-23 | 10.3 | Secondary buyout | N/A |
| Frimo | Nov-16 | Feb-23 | 6.3 | Write-off | 0.0 |
| Pmflex | Sep-20 | Jan-23 | 2.3 | Trade sale | >2.0 |
| Sjølund | Jan-18 | Q422 | N/A (c 4.5) | Write-off**** | 0.0 |
| Infiana Group GmbH | Dec-14 | Sep-19 | 4.8 | Secondary buyout | 2.2 |
| Unser Heimatbäcker GmbH | May-14 | Jan-19 | 4.6 | Write-off | 0.0 |
| CleanPart Group GmbH | Apr-15 | Oct-18 | 3.5 | Trade sale | 2.4 |
| Formel D GmbH | May-13 | Jul-17 | 4.2 | Secondary buyout | 4.9 |
| ProXES GmbH | May-13 | Jul-17 | 4.2 | Secondary buyout | 5.4 |
| ZGS-Bildungs GmbH | Oct-13 | Jul-17 | 3.8 | Secondary buyout | 3.9 |
| Romaco GmbH | Apr-11 | Jun-17 | 6.2 | Trade sale | 2.4 |
| FDG S.A. | Jun-10 | Apr-17 | 6.8 | Secondary buyout | 2.4 |
| Broetje | Mar-12 | Oct-16 | 4.6 | Trade sale | 4.1 |
| Clyde Bergemann Power Group | May-05 | Apr-16 | 10.9 | Trade sale | 0.3 |
| Spheros GmbH | Dec-11 | Mar-16 | 4.3 | Trade sale | 2.5 |
| Homag Group AG | Feb-07 | Oct-14 | 7.7 | IPO / Trade sale | 2.8 |
| Coveright Surfaces GmbH | Jun-03 | Jan-13 | 9.6 | Trade sale | 1.2 |
| ICTS Europe B.V. | Mar-08 | Dec-12 | 4.8 | Write off | 0.0 |
| Preh GmbH | Oct-03 | Dec-12 | 9.2 | Trade sale | 3.1 |
| Coperion GmbH | Jul-07 | Nov-12 | 5.3 | Trade sale | 4.2 |
| Heim & Haus GmbH | Sep-06 | May-11 | 4.7 | Buy back | 1.9 |
| MCE AG | Apr-07 | Oct-09 | 2.5 | Trade sale | 4.1 |
| Lewa GmbH | Sep-05 | Aug-09 | 3.9 | Trade sale | 7.3 |
| AkSys GmbH | Nov-01 | Oct-08 | 6.9 | Trade sale | 0.1 |
| DS Technologie GmbH | Jul-98 | Oct-07 | 9.3 | Trade sale | 1.3 |
| HT Engineering GmbH | Jun-02 | Jun-06 | 4.0 | Trade sale | 6.2 |
| Zapf GmbH | Nov-99 | Apr-06 | 6.4 | Trade sale | 0.1 |
| Otto Sauer Achsenfabrik | Apr-04 | Mar-06 | 1.9 | Secondary buyout | 4.1 |
| Babcock Borsig Service | Nov-03 | Apr-05 | 1.4 | Trade sale | 5.8 |
| Andritz AG | Dec-99 | Aug-04 | 4.4 | IPO | 2.0 |
| Edscha AG | Oct-00 | Dec-02 | 2.2 | Secondary buyout | 1.8 |
| Libro AG | Feb-97 | Jul-01 | 3.4 | Trade sale | 1.6 |
| Sebaldus GmbH | Aug-97 | Nov-00 | 3.3 | Trade sale | 3.5 |
| Euvita KG | Jul-97 | Aug-00 | 3.1 | Trade sale | 0.9 |
| GAH AG | Jul-98 | Jul-00 | 2.0 | Trade sale | 3.7 |
| Schoeller & Hoesch KG | May-97 | Dec-98 | 1.6 | Trade sale | 2.6 |

Source: DBAG. Note: *Does not include partial disposals. **DBAG sold Abbelen from the More than Meals group, and subsequently classified the remaining stake in More than Meals as residual item. ***The final part (minority stake of 13.6%) was sold to a group of investors led by ChrysCapital. ****Sjølund was sold for a symbolic price of one Danish krone.

# Appendix 2: DBAG's growth financing realisations track record

**Exhibit 19: DBAG's growth financings realised between 1996 and end-September 2024**

| Company | Investment date | Divestment date | Holding period (years) | Exit route | Exit multiple (x) |
|---|---|---|---|---|---|
| R+S* | Mar-21 | Jul-23 | 2.3 | Trade sale | N/A* |
| DNS:NET Internet Service | Sep-13 | Jun-21 | 7.8 | Secondary buyout | 5.8** |
| Rheinhold & Mahla | Sep-16 | Mar-21 | 4.5 | Trade sale | 0.7 |
| Inexio | May-13 | Nov-19 | 6.5 | Secondary buyout | 7.6 |
| Novopress | Jun-15 | Jul-19 | 4.1 | Repayment | 15.7 |
| PSS | Dec-12 | Jan-19 | 6.1 | Trade sale | 0.5 |
| Homag | Jan-97 | Oct-14 | 17.8 | Trade sale | 3.4 |
| Bauer | Sep-96 | Jul-06 | 9.8 | IPO | 4.0 |
| Schlott | Jan-00 | Mar-05 | 5.2 | Secondary placement | 1.6 |
| Hoermann | May-97 | Oct-04 | 7.4 | Repayment | 2.5 |
| Sauer | May-97 | Apr-04 | 6.9 | Repayment | 1.9 |
| HKL Baumachinen | Feb-95 | Feb-04 | 9.0 | Repayment | 2.4 |
| Rheinhold & Mahla | Dec-99 | Sep-02 | 2.8 | Trade sale | 1.5 |
| Hawe | Jan-97 | Jun-02 | 5.4 | Trade sale | 2.6 |
| AVK/SEG | Sep-96 | Oct-01 | 5.1 | Trade sale | 1.5 |
| Frosch Touristik | Feb-96 | Dec-00 | 4.8 | Trade sale | 1.4 |
| Palfinger | Nov-96 | Jun-99 | 2.6 | IPO | 2.1 |

Source: DBAG. Note: *Following the transaction, DBAG holds a minority stake in the acquirer, NOKERA; DBAG realised a 40% internal rate or return on the transaction. **Attributable to equity investment. Total exit multiple, including debt financing, was 3.2x.

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