

Deutsche Beteiligungs

Convertible bond issue

Deutsche Beteiligungs (DBAG) completed an issue of €100m senior unsecured convertible bonds on 28 June, with proceeds to be used for co-investments alongside DBAG and ELF Capital funds, and for general corporate purposes. The bonds will bear interest at a fixed rate of 5.5% pa and mature in 2030. They are convertible into up to c 3.25m of new and/or existing DBAG shares, which is the equivalent of 17.3% of the currently outstanding number of shares.

Convertibles instead of equity amid discount to NAV

We view the issue as being part of DBAG's long-term plan of securing funding for the expansion of its investment portfolio. Its 2025/2026 ambition is to reach a net asset value of €840–980m, which implies a 10–16% CAGR based on end-FY23 NAV (when adjusted for dividends). The maturity of the bonds aligns well with the usual holding period of a private equity investment of around three to five years.

While DBAG's shares used to trade at a premium to NAV (which does not account for its fund services business) before 2022, they have more recently traded at a discount to NAV, which stood at 25% as of market close on 27 July. Therefore, rather than wait for a narrower discount to NAV to issue new shares (as it did for instance in 2021), DBAG opted for a convertible bonds issue, with the conversion price set at €30.7952, representing a conversion premium of 22.5% to the reference share price, and a c 14.3% discount to DBAG's end-March 2024 NAV per share.

Enhancing its firepower for new investments

We believe that DBAG already had a solid balance sheet position before the issue (as discussed in our [May 2024](#) update), with €32.5m in cash and equivalents and €86.7m in undrawn revolving credit facilities (which have a total value of €106.7m and which were recently extended to June 2027). This covered 44% of DBAG's €271.7m outstanding investment commitments at end-March 2024. DBAG's outstanding credit liabilities at end-March 2024 included c €20m of drawn credit lines, as well as €30m in promissory notes (maturing in 2027–31). Moreover, its recently agreed disposals of in-tech and Solvares will result in more than €70m combined gross proceeds. That said, we understand that the latest decision to raise new funding was driven by management's belief that there is currently a particularly good window of opportunity for new private equity and private debt investments.

Broadening its investor base

We note that the bonds were offered exclusively to institutional investors in certain jurisdictions outside of the US, and that pre-emptive rights of existing shareholders have been excluded (though Rossmann Beteiligungs, DBAG's major shareholder with a 25.01% stake, participated in the placement). Therefore, the issue should allow DBAG to broaden its investor base, most of which has so far been retail investors (43.2% at end-September 2023) and family offices (36.2%), primarily from Germany.

Investment companies Private equity

2 July 2024

Price €25.40
Market cap €477.6m
NAV* €673.1m

NAV per share* €35.95
Discount to NAV 29.3%

*As reported by DBAG as at end-March 2024.

Yield 3.9%
Shares in issue (including treasury shares) 18.8m
Code/ISIN DBAN/DE000A1TNUT7
Primary exchange Frankfurt
52-week high/low €33.35 €24.85
NAV high/low €36.04 €34.38

Gearing

Net gearing at end-March 2024 2.6%

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 2.5x gross money multiple and 35.3% gross IRR on 57 fully and partially realised transactions over 1995–2023.
- Emphasis on 'growth sectors', such as IT services and software, healthcare and broadband telecom, as well as on energy transition/sustainability themes.
- Recurring cash flow from fund services.

Bear points

- Significant exposure to cyclical sectors, which have been facing macroeconomic headwinds.
- 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.

Analyst

Milosz Papst +44 (0)20 3077 5700
investmenttrusts@edisongroup.com
[Edison profile page](#)

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

General disclaimer and copyright

This report has been commissioned by Deutsche Beteiligungs and prepared and issued by Edison, in consideration of a fee payable by Deutsche Beteiligungs. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright 2024 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.