EDISON

# Deutsche Beteiligungs

## Convertible bond issue

Investment companies
Private equity

**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.

**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.

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