



BOARD OF MANAGEMENT

DR ROLF SCHEFFELS

Born in 1966. Member of the Board of Management since January 2004; appointed until February 2021.

**Investment Business,
Investment Team Development,
Investor Relations (funds)**

TORSTEN GREDE

*Spokesman of the Board
of Management*

Born in 1964. Spokesman of the Board of Management since March 2013; member of the Board of Management since January 2001; appointed until December 2023.

Strategy and Business Development, Investment Business, Investor Relations (funds), Investment Controlling, Corporate Communication, Compliance, ESG

SUSANNE ZEIDLER

Chief Financial Officer

Born in 1961. Member of the Board of Management since November 2012; appointed until October 2020.

Finance and Accounting, Investor Relations (stock market), Legal and Fiscal, Portfolio Valuation, Risk Management and Internal Audit, Human Resources, Organisation and IT

Frankfurt am Main, 30 November 2018

Dear Shareholders,

A glance at the earnings figures shows that we failed to meet our expectations for the past financial year. The development of our share price was similarly disappointing – it performed below average in 2017/2018. We would like to explain to you in this letter why we are nevertheless satisfied with the past financial year overall, why shares in Deutscheeteiligungs AG are a good investment, and why we look ahead to the future with confidence. The seven new investments that we agreed in 2017/2018 play a key role in this.

Let's start with our net income: at 33.6 million euros, it gives us a return on equity of 7.8 percent. This means that we easily earned the cost of equity and increased the value of Deutscheeteiligungs AG. However, we measure any individual year's performance contribution by comparing it with our average performance over a ten-year period. In this regard, a return on equity of 7.8 percent is significantly lower than the 11.4 percent we have achieved on average over the past ten years. An analysis of the net result from our investment business reveals two main reasons for the deviation – one has to do with the portfolio, while the other is outside our sphere of influence.

Our business is governed by a small number of individual transactions: outstanding proceeds from a disposal can turn a good net income into a very good net income; a poor start to a new investment can have a negative impact on what are otherwise satisfactory figures. Secondly, our business is subject to influences over which we have no control and that we cannot avoid – valuation ratios on the capital market.

Six company disposals with well above-average success had made the previous financial year 2016/2017 one of the most profitable in the Company's history. We raised our forecast twice – partly thanks to the tailwind from the capital market. Both of these factors failed to materialize in the past financial year. As we mentioned in last year's letter, we had

already accounted in our plans for the fact that this time, we would not be able to offer so many mature companies in our portfolio. But one thing we cannot plan is how the share prices of peer group companies will develop on the stock markets. In 2017/2018, these prices fell again overall. This negatively impacted our net result of valuation in the amount of more than ten million euros: In relation to the return on equity, this represents a loss of around two percentage points.

While we had already anticipated fewer disposals from our portfolio for the reporting year, the second reason – the lower capital market valuations – significantly contributed to our failure to meet our forecast for the financial year 2017/2018. In addition, individual companies in our portfolio, which has now grown to 29 investments, are not progressing as quickly as we expected. We pointed this out early on. Value appreciation through higher revenues and earnings requires changes in the portfolio companies. 2017/2018 showed that, for various reasons, this will take longer for some companies. As an equity investor, dealing with unforeseen developments such as these is part of our business. This also includes adjusting the content or time frame of originally planned measures, providing additional capital or making changes to the management of the portfolio companies – all with the aim of increasing the value of our investment.

Our interests are the same as yours. The experienced members of our investment team have to take financial risks and support each DBAG investment using their own funds. If the equity investment is successful for DBAG's shareholders and the DBAG fund investors – something that can usually only be ascertained at the end of a fund's term – they receive carried interest, a share in this success that is disproportionate to their capital commitment. This not only results in an alignment of interests, but also provides long-term incentives and is a characteristic of the private equity industry. We had taken a different view to the German Federal Financial Supervisory Authority (BaFin) regarding how this carried interest should be recognised in the accounts. In June 2018, this disagreement was resolved: BaFin identified an error. It is important to bear in mind here that it was not a question of whether, but rather when, carried interest should be recognised in profit or loss. We have now made the appropriate changes to our accounting and also adjusted the figures for the previous year.

In contrast to previous years, our shares underperformed key benchmark indices in 2017/2018. This is particularly bad news for short-term shareholders. However, investors in our private equity funds only evaluate their success after a period of ten years. This perspective results in a different assessment of the past financial year: In a three-year comparison, our shares are in the middle of the rankings, and over five and ten year-periods they stand out positively.

As a shareholder, however, you are not only interested in share price performance. You know Deutsche Beteiligungs AG as a stock that pays high dividends, and this is something we do not plan to change. Our dividend policy translates our long-term business model, which can of course show short-term volatility in individual years, into a predictable and reliable payment. Our dividend should be stable and increase whenever possible. As a result, we are proposing to raise our dividend payment to 1.45 euros for 2017/2018. This once again results in an extremely attractive dividend yield.

Not only the high HGB retained profit of more than 170 million euros, but also our comfortable liquidity situation encourage us to promise you this kind of dividend over the next few years.

In the future, increases in the value of the new portfolio companies will contribute to our net income. Never before have we made as many investment decisions as we did in 2017/2018. We agreed seven management buyouts; in six of these cases, we have brought the company founders or family shareholders on board as our partners, which is something we consider a special sign of the confidence placed in us. These recent investments have allowed us to diversify the range of the business models in which we invest. We are guided in these activities by the changes in the economy and the opportunities we have identified in individual sectors. This is covered later on in this report. Funds were also used to make acquisitions at the level of our portfolio companies. The ratio of financial assets to financial resources in the consolidated statement of financial position improved due to the investment-related cash outflow. This has a positive impact on the return on the equity you provide. We were also able to draw on capital commitments made available to us by the investors of DBAG ECF for the second new investment period. Our assets under management and advisement are now higher than they were a year ago, and the Fund Investment Services segment is generating higher fee income.

Overall, 2017/2018 was an equally eventful and busy year with numerous transactions and the ensuing challenges. The employees of Deutsche Beteiligungs AG have helped to advance the Company with their high motivation and wealth of ideas.

The future outlook is – as always – fraught with uncertainty. There is no doubt that the challenges facing us today are greater than they were a year ago. Many observers believe that the share price fluctuations witnessed in recent months signal the emergence of a new overall climate. Political developments give us cause for concern, and the optimism seen in recent years has given way to mounting scepticism regarding economic trends.

We have to accept these overall conditions. The following pages describe how we are positioning ourselves. We are publishing this Annual Report two months after the reporting date to provide you with information on our plans for the new financial year and beyond as early as possible.

Our projections for 2018/2019 include a slight increase in equity per share and a significant increase in the two years thereafter. A young portfolio with promising potential, an experienced investment team and an organisation with tried-and-tested processes bolster our confident outlook.

Our special thanks this year go to Andrew Richards. He supported our company on the Supervisory Board for more than 14 years, including twelve years as its Chairman. Over this long period of time, he made a significant contribution to DBAG becoming a leading investor in the German mid-market sector by establishing an attractive platform for asset investors in the private equity sector.



Torsten Grede



Dr Rolf Scheffels



Susanne Zeidler