

BOARD OF MANAGEMENT

Dr Rolf Scheffels Susanne Zeidler Torsten Grede



Frankfurt/Main, 10 December 2019

Dear shareholders,

“Identifying opportunities. Driving developments.” In 2018/2019, we followed this motto with particular fervour, adding five new companies to our portfolio and working on additional promising investment projects. In all of these cases, family shareholders and founders have chosen us as a partner to further develop their companies. We also generated gross revenue of around 100 million euros from three successful disposals in recent months. Such was the performance of the portfolio companies that we were able to realise premiums, in some cases quite attractive ones.

A couple of weeks ago, the first round of subscriptions for another DBAG fund, DBAG Fund VIII, closed not far from our target figure of 1.1 billion euros. Experienced investors are confident in our ability to continue to seek out attractive investment opportunities in the coming years, thus supporting good companies in becoming even better. Some of these investors have been with us since DBAG Fund IV was launched back in 2002; others are subscribing to their second or third DBAG fund. This reflects a particularly high degree of trust.

This is the same level of trust that you, dear shareholders, also place in Deutsche Beteiligungs AG. With an (adjusted) increase of around five per cent in net asset value and net income of 45.9 million euros, we exceeded our forecast for the financial year under review. This is a very encouraging result.

We therefore assess the financial year under review as a success, not only on the basis of the result but for various other reasons too. First of all, expansion of the investment strategy bore fruit in the 2018/2019 financial year. In 2013 we started to target investments outside of our core sectors. This is because the market volume in these sectors is

limited: if we want to invest more in order to grow, we need to focus on a broader universe. The resulting diversification of our portfolio adds to risk mitigation and offers new opportunities. The companies from the telecommunications sector with a focus on high-speed internet, for example, have performed well, making a significant contribution to the net result of valuation. In another example, disposal of the investment in inexio, the provider of fibre optics-based high-speed internet connections, is one of the most successful in DBAG's long history.

Second, we have achieved rapid investment progress for the funds we advise. This allowed us to initiate DBAG Fund VIII, a successor fund to DBAG Fund VII after three and a half years – and to achieve a first close of subscriptions, with investors committing more than 794 million euros. DBAG itself will co-invest alongside the fund. Furthermore, it will raise its co-investment in DBAG Fund VII by 55 million euros to 255 million euros. This growth forms the basis for a further increase in the net asset value of the Private Equity Investments, and hence in DBAG's enterprise value. The start of the investment period of DBAG Fund VIII will then significantly increase the fee income from services rendered to DBAG funds – and hence, the net result of DBAG's funds business.

Expanding our offering to mid-market enterprises will also contribute to this increase – this is the third reason for our positive assessment of the financial year. We have created the prerequisites for DBAG to invest in the future, exclusively deploying its own financial resources. This relates to investment opportunities that do not fit the investment strategy that we apply to the funds we advise: for the most part, these are scenarios that arise in family-owned businesses in which long-term equity is required – beyond even the usual term of a private equity fund – to finance a variety of financing situations from ambitious growth projects to the acquisition of interests from co-shareholders. It became evident during the financial year under review just how attractive such non-controlling shareholdings in family-owned enterprises can be, with the successful sales of Novopress and inexio.

Unlike DBAG ECF – the vehicle we have used to date to structure such investments – our balance sheet does not have a limited term. Rather than managing DBAG ECF further, we will structure attractive smaller management buyouts (involving equity investments between 20 and 40 million euros – DBAG ECF's second product) through DBAG Fund VIII.

Last year we added two companies with digital business models to the portfolio: established software and IT service companies offer considerable potential for growth and value appreciation. We have worked intensively to access this focus sector in recent years, with our efforts including the development of a high-performance network in this sector. In the meantime we have added three focus sectors to our proven core sectors; you will be able to read more about the expansion of our investment strategy in the following pages of this annual report. It should be made clear here that we have sharpened our focus once again, especially with regard to the investments in what are allegedly less attractive sectors, such as automotive supply or mechanical engineering. We are confident in our ability to analyse future-oriented business models in our core sectors and identify attractive investment opportunities, even in times of serious structural changes.

Adjustments to our target system, about which we also inform you in this report, also serve to provide better analysis. These adjustments are designed to make it easier for the capital markets to appropriately evaluate DBAG.

Dear shareholders, one of our financial targets is – as always – to allow you to participate in the financial performance of DBAG. Our dividend proposal provides for distributions to increase for a third successive time. This, in turn, offers you a current yield of around four per cent on your investment in Deutsche Beteiligungs AG, based on the prevailing share price, alongside the appreciation gained through the share price development. It was a low two per cent last year, as measured by the long-term average. Nonetheless, appreciation of the DBAG share exceeded that of the German benchmark indices; this also applies to medium- to long-term periods in the past.

We are cautious vis-à-vis 2019/2020. Particularly for the industrial companies in our portfolio, we expect a rather muted development. They feel the uncertainty – especially from structural changes in the automotive industry, but also from international trade conflicts – weighing on their order books, forcing them to take adjustment measures. A financial investor's investment usually involves change processes being made to the strategic repositioning. Given the economic circumstances, the successes resulting from these changes – and hence the increased value of our shareholdings – will not materialise until later than initially planned. In addition, experience shows that the willingness to offer attractive company valuations to strategic buyers in times of recession is lower than usual. Companies will therefore tend to remain in our portfolio for longer, while disposal proceeds and the related cash inflow will be achieved at a later stage.

While all of this may well be unusual after the longest recovery in recent economic history, it represents part of our business as an equity investor. Performance can occasionally be volatile; investments and disposals are seldom made in unison. It is therefore very difficult to compare individual financial years: private equity is an asset class whose success cannot be reasonably measured at yearly intervals. DBAG funds have a minimum term of ten years.

In this letter, we have reported about changes – about the expansion of the investment strategy and the restructuring of our offers directed at mid-market enterprises, as well as about the adjustments made to our target system. We are now better positioned than before, which allows us to concentrate on supporting the portfolio companies in what is a challenging environment. Our experience shows that even under more difficult conditions a whole range of market opportunities present themselves – and we intend to exploit these for new, promising investments.



Torsten Grede



Dr Rolf Scheffels



Susanne Zeidler

BOARD OF MANAGEMENT

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 and Investment Process, Investor Relations (funds), Investment Controlling, Corporate Communications, Compliance and ESG, M&A/Legal

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 (capital markets), Legal (capital markets) and Tax, Portfolio Valuation, Risk Management and Internal Audit, Human Resources, Organisation and IT

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)

Closely associated with the Schirn Kunsthalle art gallery in Frankfurt/Main: Deutsche Beteiligungs AG has supported the Verein der Freunde der Schirn Kunsthalle e. V. (Friends of the Schirn) since 2002. They play an integral part in making the many different projects on offer at the Frankfurt exhibition venue possible. There are many things that cannot be financed by public funds alone. By providing donations, DBAG helps to ensure that exhibitions, accompanying programmes, publications as well as workshops for children and young people can be offered. We would like to thank the Schirn Kunsthalle for their hospitality during our photo shoots.