

CHAPTER

2

**MARKET VOLUME IS
GROWING RAPIDLY**

Both the number and volume of transactions in our new focus sectors have grown strongly in the last 15 years. While the market focused initially on healthcare companies in particular, a growing number of management buy-outs from the IT services/software sector has been observed over the last five years. The transaction size in this sector has also grown rapidly, now averaging more than 100 million euros, which is the usual transaction size for our business, taken as a whole.

37 COMPANIES companies from these sectors, with a total value of 3.8 billion euros, have changed ownership in the last five years.

“We see a growing number of transactions involving digital business models. We believe we have what it takes to recognise the potential of such enterprises, and to support management teams in realising that potential.”

Torsten Grede,
Spokesman of the Board
of Management
of Deutsche Beteiligungs AG

YOUNG, FAST-GROWING COMPANIES



Investment strategy: Our new focus sectors

Strategic sector selection

Current changes in the established economies are opening up opportunities for us to support business models outside our four core sectors. We are seizing these opportunities, concentrating on fast-growing enterprises that are often still young but which have already established themselves in their respective markets. We have invested in a total of 33 enterprises since 2013. Three new focus sectors have emerged from our activities: broadband/telecommunications, IT services/software and healthcare. There is a sufficient number of enterprises in these sectors that suit our approach and match our business model in terms of size, maturity and developmental potential.

Targeted development of know-how

In our new focus sectors, we have built up a network of industrial partners and our Executive Circle; this network has become quite extensive, providing entrepreneurial advice to our portfolio companies on a wide range of different situations. In addition, we have excellent access to transaction opportunities not readily available to other market participants, which has enabled us to explore attractive investment opportunities.

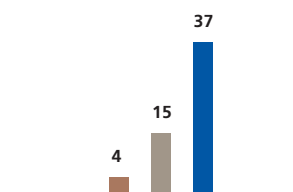
Win-win situation for all parties involved

Most of the markets in our new focus sectors are highly fragmented. Private equity investments can help companies to grow quickly and establish themselves as market leaders. In their endeavours to reach this goal, they create new jobs – often in more rural areas, whose attractiveness is enhanced as a result. Not least, they strengthen Germany's economic location and its competitive edge with new, innovative solutions. Moreover, market leaders are valued with much higher multiples than smaller niche providers. Our fund investors and shareholders benefit from this above-average value appreciation potential.

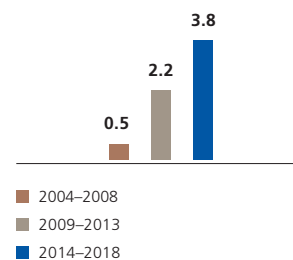
MANAGEMENT BUYOUTS

*in our focus sectors
IT services/software
and healthcare*

TRANSACTIONS number



TRANSACTION VOLUME €bn



Source: FINANCE research for
Deutsche Beteiligungs AG

APPLYING EXPERIENCE
FROM TRADITIONAL INDUSTRIES



IT services/ software – a growing market

Germany, with a quarter of the market volume, represents the largest software market in Europe. It grows, like the market for IT services, notably stronger – and its development during difficult economic periods is more stable than in other sectors.

Digitalising established business models

Due to innovations and technical advances, IT has become one of the greatest drivers for all industry sectors – including sectors in which we have acquired expertise over decades. Medium-sized companies dominate Germany's economic and industrial landscape, be it the mechanical and plant engineering industry, the automotive supply industry and – in general – manufacturing industry as a whole. Many of these companies are highly specialised and occupy a top position in their (often global) niche markets. They have to adapt their business models in connection with the digital transformation, thus representing an important client base to software companies and IT service providers. The greatest market potential awaits competent providers of sector-specific software products and services.

Focus on products and services critical to success

We focus on software companies and IT services providers offering products and services that are crucially important for their clients' success – in industries where we are especially well placed to assess business models. The market structure is advantageous for us. Besides the well-known so-called big players, there are numerous medium-sized software companies and IT service providers. They are often owner-managed, with the founder still present in the company.

Investment in, and experience with, growth processes

In recent years, we have observed more and more entrepreneurs with new business models in promising sectors looking for new shareholders. They have good products, and the market is attractive. The potential is not being exploited, due a lack of financial resources or M&A experience. We are used to this kind of situation. And clients place trust in us. It is this market we address in our focus sector IT Services/Software.

DIGITALISATION

or digital transformation, is the continuous change process towards digital processes, based on a modern IT infrastructure, digital applications and ideally linked systems and data. In this context, existing business models are represented in digital form and/or new digital products are created. Information, communications, processes and services are linked by digital platforms.

6.3 PER CENT is the growth rate for the software industry in Germany in 2019, compared with the previous year.

Source: Bitkom – ITK market figures, July 2019

*On the following pages we outline how we implement our investment strategy in the market for IT services/software, taking our two portfolio companies **FLS** and **CLOUDFLIGHT** as examples.*

HIGH-END CLOUD-BASED SAAS SOFTWARE



Solutions for business-critical planning tasks

Customers' expectations of the reliability and accuracy of ordering and delivery processes are constantly increasing. For businesses, schedule and route planning are a business-critical process that needs to consider manifold influencing factors and realtime data – especially when dealing with large teams of field-service staff or a sizeable fleet of delivery vehicles. This is the basis for **FLS's** business.

In its software solutions, FLS relies on a proprietary heuristic algorithm which provides proposals based on empirical values in a fast way – even when not all of the information ideally required is available. What distinguishes FLS from its competitors is that it offers additional functions tailored to the needs of individual customers, seamlessly integrated in the customer's existing software environment.

Product enhancements like accounting functions or applications for mobile phones are planned for the future. By offering this wide range of solutions, FLS wants to expand mainly in the DACH region, and globally at a later stage. First steps have been taken in this respect,

initiating the set-up of a partner network and strengthening existing cooperations in the United Kingdom and Scandinavia.

On this basis and on the basis of a highly scalable business model, FLS intends to grow rapidly. To this end, the entire corporate organisation will be professionalised; in addition, internal processes will be standardised.



FLS

REAL TIME SCHEDULING
AND ROUTE OPTIMISATION SOFTWARE,
HEIKENDORF, GERMANY

FLS develops and sells software that enables energy suppliers, industrial companies, financial services providers, retail and real-estate companies to coordinate and optimise their schedule and route planning for field service employees and delivery vehicles. The products of FLS are based on a heuristic algorithm that works using real-time data, making it possible to find solutions to planning tasks while taking into account a large number of influential factors. The market for optimisation software in such application environments is expanding at double-digit rates, substantially driven also by the growth in e-commerce. FLS stands out due to the services it offers, which are customised to the needs of its customers – enabling them to benefit from the competitive advantages of maximum resource utilisation, cost savings and notably superior service quality.

**REVENUES OF 10 MILLION EUROS
70 EMPLOYEES**



EUROPEAN GROWTH PROSPECTS



Integrated digital and cloud service provider

New perspectives for
the Crisp founders and
Cloudflight management
through the merger



More than 350 software developers, cloud architects and strategy consultants, covering of the whole value-added chain, 17 sites – including an innovation lab and two central sites for the running of cloud workflows, more than 600 successful software projects since 2005, a strong, visionary management, Catalysts revenues growing in excess of 30 per cent annually in recent years: all these are the convincing key parameters of Cloudflight.

“We have largely initiated the emergence of Cloudflight. Right from the start, we discussed with the founders – transparently and in detail – the plan to integrate Catalysts and Crisp Research under one roof.”

Lucas Herbert,
Managing Director
at DBAG who oversees
the Cloudflight
investment



CLOUDFLIGHT

ADVISORY SERVICES SOFTWARE
DEVELOPMENT AND CLOUD OPERATIONS,
MUNICH, GERMANY

Today, digital transformation represents one of the key tasks for companies. This is not only a view held by just a few visionary managers – nowadays this is a widely-accepted conviction, especially in the executive suites of traditional industry sectors. Digitalisation has thus reached business-critical processes: for companies to be successful in the digital economy, merely implementing a new software solution will no longer suffice. Rather, a cultural change towards agility and automation is necessary. In this field, there are significant and sustainable growth opportunities for Cloudflight, with its extensive experience as well as consulting skills and solutions.

Cloudflight's particular strength lies in the processing of large quantities of data. This includes, for example, the optimal integration of satellite data or inspection and mesh processing of 3D point clouds – also using artificial intelligence. In this way, insurers can better assess potential damages. Another specific application is the development of a justice portal for the Austrian Federal Ministry of Justice,

which will accompany users through all stages of legal proceedings. Existing solutions were integrated, new functionalities added and the entire suite was equipped with a uniform customer interface. Cloudflight has an extensive list of renowned clients, extended in recent years by winning global players such as Bayer, Bosch and Siemens.

Cloudflight is receptive for acquisitions. Growth potential for the expansion of the value-added chain concerns for example the ongoing operation of solutions, namely the hosting and the monitoring of digital processes. Moreover, the company intends to pursue growth opportunities in Europe, to tap additional client potential and also being able to offer its employees attractive working locations. Cloudflight is already especially innovative and successful in its recruitment: some 8,000 developers from all over Europe take part in its annual programming contest.

The combination of software specialist Catalysts with Crisp Research – an IT research and consultancy firm specialised in cloud computing – has created **CLOUDFLIGHT**, a provider of digital and cloud services with a truly special profile. The company leverages the skills and experience of approximately 350 cloud computing experts to provide a comprehensive service to its clients – encompassing strategic advice on all things digital, platform and architecture design, software development, as well as 24/7 cloud operations. The company supports SMEs, corporate groups and public-sector clients with the implementation and acceleration of their digital transformation. Catalysts contributes its software development expertise to the new Group, whilst Crisp's team of experienced digital strategists and cloud computing architects will be advising clients – independent of which technology they are using. Both companies benefit from long-standing client relationships in their respective fields of activity, as well as possessing extensive expertise in “hot spots” such as cloud computing, Internet of Things, and artificial intelligence. “What convinced us was, above all, the team's entrepreneurial vision, together with strong growth momentum in the markets served by Cloudflight.”

**REVENUES OF 34 MILLION EUROS
350 EMPLOYEES**

GERMANY'S UNDISPUTED
PENT-UP DEMAND

Existing potential in broadband telecommunications

The demand for fast data transmission continues to grow. This applies both to applications in the private sector and in particular to professional solutions. Germany is taking measures: between now and 2021, the federal government will provide 12 billion euros towards expansion of the telecommunication networks.

Extensive needs and high demand – good conditions for growth

In our lives, almost everything is affected by the digital transformation. But without the corresponding high-performance infrastructure, we cannot exploit the opportunities of digitalisation. In European comparison, Germany lags significantly, especially when it comes to providing fast fibre-optic internet connections. Accordingly, there are now various subsidy programmes in place to accelerate the nationwide broadband expansion.

Attractive investment opportunities: regional, mid-sized companies

Growing demand for fast internet connections and – not least – the subsidies for broadband expansion offer companies with products or services in this area good conditions for growth. Apart from large network operators, medium-sized companies are involved in the broadband expansion process – especially in less densely populated areas and with a regional focus. By providing financial resources for required investments and, in particular, their expertise, Private Equity entities can support these companies in fully exploiting their market potential.

Involvement in different stages of the value chain

Companies in the DBAG portfolio offer fast internet connections, provide services around the expansion of fibre-optic networks, and deliver the required equipment. Thanks to our industry knowledge, we are familiar with the growth drivers of the market. Through numerous bolt-on acquisitions, our investments are contributing to the consolidation of this highly fragmented market and form high-performance suppliers. We profit from regionally oriented companies becoming national market leaders, as such companies are more highly valued.

OBSTRUCTIONS TO PROGRESS

One in three of Germany's 60,000 industrial zones does not even have a connection to broadband internet with at least 50 Mbit/s – this was the response of the federal government to a June 2019 parliamentary question put forward by the Liberals (FDP) parliamentary group in the German Bundestag.

Source: German Bundestag, printed matter no. 19/11357

THE DIGITAL GAP GROWS

Fast connections get even faster, but at the lower end there is only slow progress. The fastest connections in Germany (95th percentile) have become three times faster between 2013 and 2019, while the speed of the slowest (5th percentile) has only increased by a quarter.

Source: Speedcheck database, July 2019

1.3 PER CENT of German citizens profit from a high-performance broadband connection to a fibre-optic cable. In Denmark this number is 10 times higher; in Sweden it's 20 times higher and in South Korea it's 25 times higher.

Source: OECD Broadband Statistics, December 2018

On the following pages we outline how we implement our investment strategy in the broadband communications sector, taking our two portfolio companies **NETZKONTOR NORD** and **INEXIO** as examples.

HIGH-END PROJECT MANAGEMENT



Becoming one of the
leading German providers
for broadband
infrastructure projects

netzkontor nord wants to become one of the largest project managers for the deployment of fibre-optic networks. Two years ago, when the company shared this vision with DBAG, the deciding factor for this step was our comprehensive understanding of the sector. We support the company in implementing its buy-and-build strategy.

The management of netzkontor nord was able to realise strong growth rates and earnings increases within a short period of time. Since the company has been part of DBAG's investment portfolio, two acquisitions have been completed and another agreed. With this, netzkontor nord not only increased their human resources and regional coverage, but also broadened their strategic focus.

With the acquisition of BIB TECH, for the first time netzkontor nord now has access to large, nationwide telecommunications providers who strongly invest in the expansion of their fibre-optic networks; the result is larger project volumes

and thus faster growth. Furthermore, by launching specific projects with these customers, netzkontor nord aims to gain access to nationwide projects – a milestone in the implementation of their corporate vision.

With BFE Nachrichtentechnik, the second acquired company, netzkontor nord has explored a new business segment: BFE is one of the largest German service providers for constructing and operating overground telecommunications services, also working on projects in the highly attractive and pioneering Fibre-to-the-Home segment, for both business and private customers.



NETZKONTOR NORD

SERVICE FOR THE
TELECOMMUNICATIONS SECTOR,
FLENSBURG, GERMANY

NETZKONTOR NORD, established in 2008, operates in two different business segments with around 280 employees. Under the brand name "netzkontor", the company provides planning and monitoring services related to the deployment of fibre-optic networks. Its subsidiary OpenXS handles network management for operators of fibre-optic networks. The former regional focus on the German federal state of Schleswig-Holstein has been expanded to Mecklenburg-Western Pomerania, Saxony-Anhalt and North Rhine-Westphalia.

**REVENUES OF 30 MILLION EUROS
280 EMPLOYEES**

BLUEPRINT FOR A
SUCCESSFUL INVESTMENT



One of the leading
independent
providers of fibre-
optic connections
in Germany

For DBAG, **inexio** has been a prime example of a successful private equity investment, where we support a talented management team, promoting a very promising business model. Back in 2013, when we acquired a minority stake in the previously family-owned business during the course of a capital increase, providing additional profit-participation capital, broadband communications was still the domain of pioneers – covering a segment with strong growth potential.

We closely supported **inexio** over a six-year period – providing additional capital as well as know-how. Especially in such a fast-growing business, the management team keeps facing new challenges: with an experienced partner at their side, they can tackle such situations in a more targeted manner, and with less risks involved.

Between 2013 and 2015, DBAG co-invested with the DBAG ECF fund, acquiring further shares in **inexio** from co-shareholders. And when financial investor Warburg Pincus supported a management buyout in 2016, DBAG and DBAG ECF did not sell their stakes – instead, they participated in the capital increase conducted upon the entry of the new majority shareholder, thus investing further funds. What convinced us, time and again, was the clear focus and determination of the management team as they worked on developing the business, taking the right strategic decisions at every development stage. Today, founders David Zimmer and Christoph Staudt and their team can boast a flawless track record: they have successfully implemented their business concept



“Looking for capital, we quickly realised that DBAG is an investor that really understands the success factors of family-owned businesses – moreover, an investor not looking for a short-term bet, but looking to provide long-term support, aiming to create value. This has worked out very well here.”

David Zimmer, founder and Managing Partner of **inexio**, recalls the very beginning of the company's cooperation with DBAG

both through organic growth as well as through acquisitions.

Launched as a start-up just over a decade ago, nowadays **inexio** is one of the fast-growing, leading independent providers of fibre-optic connections in Germany. Together with its private equity investors, the company has established a fibre-optic network in rural and suburban areas across southern Germany, thus significantly contributing to the build-up of local infrastructure there – allowing businesses to stay in their home region, creating local jobs.

In this way, **inexio** has attracted the interest of large infrastructure investment funds. The sector is about to embark upon a fundamental change: while the company has so far pushed the fiber optic expansion into the villages and the last

mile into the households, realised with VDSL technology via the copper cables of Deutsche Telekom, fiber optic connections are now being laid directly into the buildings. However, this expanded infrastructure requires around three times the investment volume. **inexio** will realise this new development phase in its corporate history together with the EQT Infrastructure IV fund.



INEXIO

TELECOMMUNICATIONS
AND IT SERVICES,
SAARLOUIS, GERMANY

INEXIO is investing in building and expanding high-performance telecommunications infrastructure in several German federal states, focusing on the Saarland and Rhineland-Palatinate, plus Bavaria, Baden-Württemberg, Lower Saxony and the East German states. **inexio** runs its own, constantly growing fiber optic and municipal network, currently covering more than 9,900 kilometres, as well as six company-owned data centres. The company offers the full spectrum of telecommunications and IT services, from pure carrier services right up to complete telecommunications, IT and data centre services. Although the company's original focus was on business customers, revenues from high-speed internet connections for private customers are now growing at double-digit annual rates, faster than those for business customers.

**REVENUES OF 68 MILLION EUROS
320 EMPLOYEES**