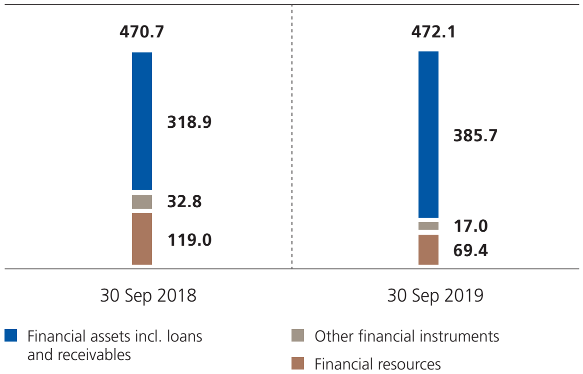
PRIVATE EQUITY INVESTMENTS

The Private Equity Investments business line comprises the investments in mid-market companies undertaken by Deutsche Beteiligungs AG alongside the DBAG funds. Following an extension to DBAG's strategy, investments that are financed solely from DBAG's balance sheet will also be included. This Principal Investments business line will dominate DBAG's enterprise value. Net gain or loss from investment activity maps the change in the net asset value, and is the key factor influencing DBAG's net income; it is determined by the development of the portfolio and gains from the disposal of investments.

NET ASSET VALUE
€mn



VALUE APPRECIATION POTENTIAL OF THE PORTFOLIO

We valued the portfolio of 27 investments in mid-market companies at 409 million euros as at the reporting date. This equates to 1.4 times the acquisition costs. With past disposals, we achieved 2.7 times costs (management buyouts, gross proceeds of disposals 1998–2019) or 3.3 times (growth financing, gross proceeds of disposals 1999–2019). With every disposal, we have realised at least the most recent valuation, except for one case.

LATEST VALUATION: 7.8 TIMES EBITDA

Our portfolio is valued at 7.8 times expected EBITDA for the current year. The average covers 21 out of 27 portfolio companies – new investments, as well as those disposed of, were not included.

DEVELOPMENT 2018/2019

- Net asset value increased by 1.4 million euros; taking into account the dividends of 21.8 million euros distributed to our shareholders, this represents a 5.2 per cent increase in the net asset value over the adjusted value of the previous year.
- The changes in value of the current portfolio of 49.3 million euros contributed to this increase.
- Financial resources declined by 42 per cent in the course of the investment activity; this decline was more than offset by the increase in the portfolio value.

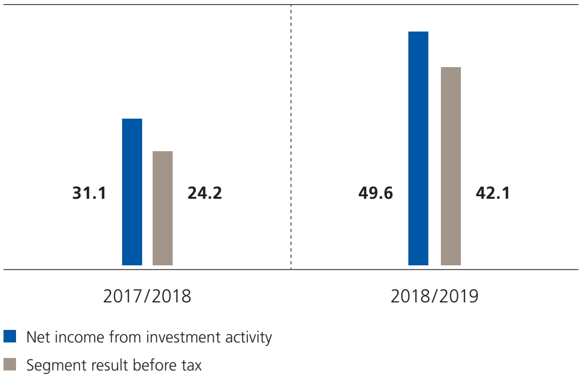
PERSPECTIVE

In light of economic developments and having weighed up the opportunities and risks, we anticipate a below-average increase in the portfolio value in 2019/2020. Taking into account the distribution in February 2020 – 22.6 million euros are proposed – the net asset value as at the reporting date will be down slightly on recent levels. Given the overall quality of the portfolio and the planned investments, we expect this value to rise again in the two following years. We have taken our dividend policy and the corresponding cash outflows into consideration for this estimate. A drastic slump in portfolio valuation parameters – driven, for example, by a corresponding change in the valuation levels on the capital market – could have an adverse effect on net asset value.

PRIVATE-EQUITY-INVESTMENTS

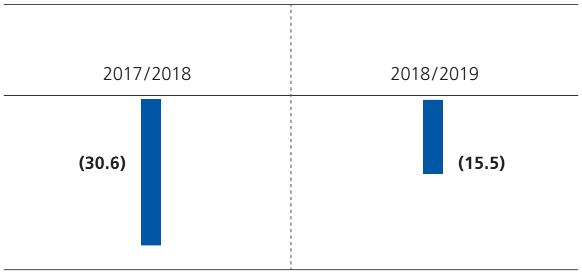
NET INCOME AND NET GAIN OR LOSS FROM PRIVATE EQUITY INVESTMENTS

€mn



CASHFLOW FROM INVESTMENT ACTIVITY

€mn



DEVELOPMENT 2018/2019

- Net income from investment activity and results in the Private Equity Investments segment were higher year-on-year and also exceeded expectations, thanks to several successful disposals.
- This means that, all in all, the value contribution made by the operating performance of the portfolio companies – changes in earnings and debt – was more than twice that of last year. The operating performance of twelve investments made a positive value contribution, while ten made a negative contribution.
- Unlike the previous financial year, developments on the capital market reduced (rather than increased) the overall value of the portfolio companies.
- Carried interest claims of the investment team, mainly from investments made by DBAG Fund VI and DBAG ECF, resulted in a 12.4 million euros charge on net income from investment activity.

PERSPECTIVE

As is typical for the business, net income from investment activity may fluctuate strongly from year to year. Over the last five years, this has amounted to values of between 29.2 and 85.8 million euros, averaging 51.9 million euros. In the current financial year 2019/2020, we expect significantly lower net income from investment activity than the stated average value. In line with our planning, earnings before tax in 2019/2020 will also be considerably lower than the five-year average. However, they will rise sharply in the two following years above the level forecast for the current financial year. Our planning is generally based on the assumption of stable capital market conditions.

DEVELOPMENT 2018/2019

- In the year under review, we invested more than we raised from disposals – the cash flow from investment activity was thus negative.
- Cash outflows of 15.5 million euros resulted from total proceeds and payments relating to financial assets, and loans and receivables in a net amount of -31.2 million euros, and of total proceeds and payments relating to other financial instruments in a net amount of 15.8 million euros.
- At 93.4 million euros, payments for investments in financial assets and loans and receivables significantly exceeded the previous year's level (63.8 million euros).
- The volatility of the cash flows relating to investment activity is due in part to reporting-date factors and also due to cash flows being concentrated on a few – yet sizeable – amounts in the transaction business. This is typical for our business model.

PERSPECTIVE

On the basis of the co-investment agreements with DBAG funds and our latest strategic developments to include Principal Investments, we are planning investments for 2019/2020 slightly above the previous year. At the same time, we expect inflows from disposals, recapitalisations and dividend distributions from portfolio companies to be down moderately (in other words between 10 and 20 per cent) on recent levels. Even though disposal gains may be substantial, we generally do not plan for such gains, but assume a sale at fair value. On balance, these expected changes will result in a considerably lower (negative) cash flow from investing activities for 2019/2020.