The DBAG Board of Management talks about growth prospects, value enhancement and strategies to ensure sustainable economic success in times of transformation.

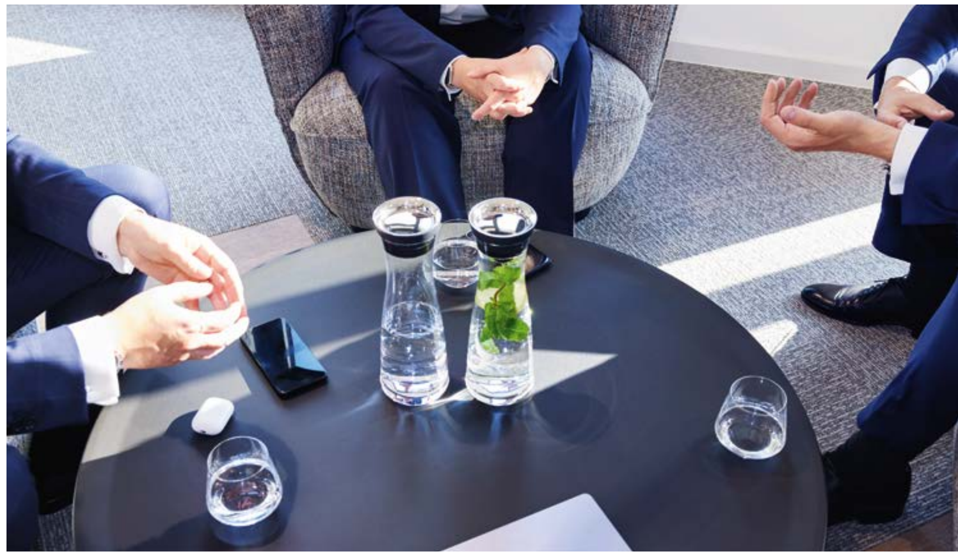
"Continuity through change"

Mr Alzin, when DBAG gets involved, succession is often on the cards. The companies might be handing over to the next generation. This was a task you also had to address within your own company. What has changed?

Tom Alzin: A lot and not very much at the same time. You could say that we stand for continuity through change. And that's always been the case. After all, we have been around – or at least the core of our organisation has – for almost 60 years now. And that's something of an exception in our business, to put it cautiously. What is more, this feat would have been impossible to achieve if we had not developed strategies to constantly adapt to changing market conditions.

Ms Wiese, you have only been on board since the beginning of the year and you've brought your outside perspective along with you. How adaptable do you think DBAG is?

Melanie Wiese: Change is indeed the order of the day here, but it's always something running quietly in the background, a matter of routine, one might say. This applies to our external orientation, for example when it comes to the composition of our portfolio. If you compare what our portfolio looked like in 2020 and what it looks like today, you can see significant increases in the IT sector and digital technology in general. Back then, IT services & software accounted for five per cent of our portfolio value. Today, that figure stands at 20 per cent. So things are always on the move here. But this is almost all the more true for our internal set-up. When I joined, I noticed right away that teamwork is a top priority at DBAG. The analysis and valuation of the portfolio companies take a wide range of perspectives and experience, as well as future trends, into account.



Jannick Hunecke: We have moved towards a culture where everyone is on first name terms. We've also got rid of outdated silo structures. And because word gets around, this open and cooperative DBAG culture also helps us to attract new employees.

Tom Alzin: Another reason why this is so hugely important is because our work also involves a much greater division of labour than it did in the past. I can recall times when everyone negotiated their own contracts, armed with mountains of files.

Melanie Wiese: From this angle, our procedures fit seamlessly together and our processes are well structured.

Tom Alzin: You could also describe it as an ecosystem of specialised consultants, making for a much swifter transaction execution process. We are constantly getting faster and more confident at assessing and making decisions on attractive investment opportunities. In the first half of 2023 alone, the number of investment opportunities that we reviewed increased by nine per cent year-on-year. We are able to handle several transactions at once and also support various portfolio companies with very large add-on acquisitions in parallel – i.e. when the companies we have invested in want to use acquisitions for their own further growth.

For DBAG, change has always been the order of the day

Jannick Hunecke: But this would be impossible if we were not so systematic in investing in our in-house continuing professional development (CPD), and in functional and robust standards and processes. Everyone in our team has a clear remit and receives regular evaluations and feedback.

Mr Alzin, Mr Hunecke, you have been with DBAG for 20 years. Don't you need more fresh ideas from outside to ensure you keep up in times of transformation?

Our business model was already sustainable before the word had even been coined

Tom Alzin: Yes, we actually started here as interns. And to be honest, that is still a very good recipe today for ensuring that our team remains successful in the long run. We love being approached by young people, with applications that show that the applicant not only meets the professional requirements, but is also enthusiastic about our business and wants to get on board. We often offer these applicants internships to familiarise them with our DBAG culture bit by bit.

Melanie Wiese: I'm not supposed to take that personally, am I? (laughing)

Tom Alzin (laughs): No, of course not. After all, every good rule has an even better exception!

Jannick Hunecke: The fact of the matter is that we have a very particular focus compared with our peers in the industry with our emphasis on owner-managed mid-market family businesses. This allows us to set ourselves apart from our competitors with our long tradition, our transparency – not least thanks to our stock exchange listing – and our track record.

Tom Alzin: A lot of the private equity firms that were big players in our industry 20 years ago no longer exist. We, on the other hand, pursued a long-term business model from the outset, one that was sustainable before the word had even been coined.

Jannick Hunecke: Our goal has always been to reconcile the interests of shareholders and the company. This is what makes us stand out and what shapes everything we do when we invest in a company. The aim is always to enhance the company's value in the long term. I can remember several examples where, before our exit, we supported add-on acquisitions by our portfolio companies that were having a negative impact on earnings, but we knew that they would pay off in the long run. These are cases in which the management is still benefiting from the investment decision years down the line.

Melanie Wiese: And that is precisely what gives DBAG its reputation. When I decided to move here and was talking to friends and people I know in the industry about my decision, the company's good reputation and track record kept coming up. It's an entrepreneurial strategy that involves thinking ahead and focusing on long-term value enhancement. With this strategy behind it, DBAG has been achieving above-average success for its portfolio companies for years now. And it has been doing the same for its shareholders and the investors in the funds we advise. The bottom line is that since 1997, there have been 41 investments and 16 growth financing arrangements that we have realised in full or for the most part. The disposals we have realised in full have allowed us to more than double the capital invested on average. That's quite an achievement.

Tom Alzin: Yes, you just need to look at the fact that, in terms of the number of transactions in Germany and based on the period from 2013 to 2022, we are the market leader in the segment for transaction volumes of 50 to 250 million euros. When we analyse the potential for value appreciation, it is important to be familiar with the market dynamics and competitive standing of the specific company concerned as opposed to simply applying an "off-the-shelf" concept. That is also what makes our work so interesting. The process involves a large number of financial performance indicators that we use to monitor a portfolio company's development and support the management team in implementing their strategy. But there are other aspects, too: how is the company positioned in terms of research and development? Are its processes clearly defined? Is the corporate culture stable? And what about sustainability? Considerable strides have been made in this area over the last few years.

Jannick Hunecke: Yes, but that doesn't mean that we see the issue as a trend or fad. We don't consider it a pesky legal obligation either. Rather, economic and social sustainability have been part of our DNA for the reasons mentioned earlier. We think in terms of generations. One comparatively new area is the environmental aspect of sustainability with a clear focus on reducing carbon emissions. But this is yet another area in which we have built up experience and expertise to help our portfolio companies implement the management systems that are the best fit for them.

Melanie Wiese: And we are increasingly reflecting this topic in our portfolio. The new investments we made in July this year include, for example, the investment in the biogas platform Avrio Energie or the investment in TBD Technische Bau Dienstleistungen, which specialises in renewable energies.

Tom Alzin: That's right. And we are in no doubt that many more opportunities will arise in this field in the future. Renewable energies and the related technologies offer enormous growth potential for German mid-market companies. I expect the number of investments in this area to increase even further.

Speaking of growth, what do you have planned for the years that lie ahead?

To assess and understand each and every one of our portfolio companies is highly important to us

Melanie Wiese: First of all, we are delighted to see how well things are going at the moment. I keep hearing that things are currently relatively quiet in our market. But our figures tell a different story entirely. We currently advise or manage assets worth around 2.5 billion euros. This is the highest level witnessed in DBAG's history. We have also revised our forecasts upwards several times in the current year, and even the most recent forecast values were fully achieved. DBAG's net asset value rose by 18.1 per cent to 669.4 million euros in the past financial year; Earnings from Fund Investment Services reached 14 million euros for the same period.

At the same time, we can report an excellent equity ratio of around 95 per cent, as well as available liquidity of around 20 million euros and undrawn credit lines in excess of 100 million euros. This means that we have considerable leeway to take action and our effective team will help ensure that we make the most of this potential.

Around 2.5 billion euros in assets under management or advisory – this is close to our all-time high

Tom Alzin: It's all thanks to our team and our unique network. We have access to a large number of bilateral negotiation opportunities with founders and family entrepreneurs alike. So we currently have some very attractive individual situations on the horizon. And fortunately, this does not only apply to the Germany, Austria and Switzerland region. Our Italian business is showing excellent development. The ownership structure and corporate culture in Italy is fairly similar to the situation in Germany: founder-led family businesses, with hidden champions often spearheading technological development.

Could you give us an example?

Tom Alzin: Yes, our investment in MTWH – our third in Italy and one that we entered into in summer 2022 – is showing excellent development. The group, consisting of three companies that complement each other in terms of product range and client relationships, produces high-quality fashion accessories. Typical products include belt buckles, clasps and fittings for handbags, shoes and clothing, alongside jewellery or logos for iconic – and predominantly global – brands. This is a real recipe for success, which the management is now expanding even further as part of a major transformational acquisition: the company has taken over the Metalstudio Group, doubling its revenues and headcount in the process. The transaction will also give MTWH broader access to clients and make it a true centre of excellence for the luxury industry. This is a very typical example of what we mean by sustainable value enhancement.

Melanie Wiese: And of what we are now extending to companies that are seeking neither a management buyout nor the sort of long-term investment that we also offer using funds from our own balance sheet. Rather, companies that are looking for an alternative to conventional credit solutions so that they can achieve swift further growth. We now also offer these companies access to private debt funds – something that has been made possible thanks to our new partnership with ELF Capital.

Jannick Hunecke: Exactly. This sees us expand our range of flexible financing solutions to include private debt capital for German and European mid-market companies – a perfect fit.

If it's such a good fit, why is the move only being made now?

Jannick Hunecke: That has to do with the overall conditions. On the one hand, a certain interest rate level is, of course, necessary to be able to achieve a risk-commensurate return in the lending business. On the other hand, however – and this is the structural background – conventional lenders, i.e. primarily banks, are faced with mounting regulatory restrictions, meaning that they often can no longer really respond to companies' individual needs. Companies might end up being turned away because the risk assessment is unfavourable for their industry – even if their specific business is likely to be unaffected by these risks. Companies like these rely on private loans. And they are happy if they can get them based on flexible conditions from a partner who understands their business.

Tom Alzin: Absolutely. In Germany alone, there are around 80,000 mid-market companies in the size segment that is relevant to DBAG – from mechanical engineering companies with long traditions behind them to fledgling start-ups or platform companies. Experts predict that between 2022 and 2026, around 11,000 family businesses will be ready to be handed over. If we want to remain successful, we at DBAG have to identify around a dozen companies from this group that we believe offer particular potential for development every year. And we are in a position to do exactly that. After all, we have a unique network with very close relationships to help us do so. Apart from anything else, this network is characterised first and foremost by mutual respect and, on our part, an in-depth understanding of the needs of and opportunities open to mid-market companies, but also the challenges they face. This is something that we, but most importantly our portfolio companies and our shareholders, can build on going forward, too!

Together with ELF Capital, we will also offer private debt in the future

Ms Wiese, Mr Alzin, Mr Hunecke – thank you very much for the interview.