



QUARTERLY  
STATEMENT  
AT  
30 JUNE 2018

1<sup>ST</sup> TO 3<sup>RD</sup> QUARTER 2017/2018

ANALYSTS' CONFERENCE, 7 AUGUST 2018



# SPEAKERS



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# CHANGE IN ACCOUNTING METHOD FOR CARRIED INTEREST FOLLOWING ENFORCEMENT PROCEDURE

## First stage: Financial Reporting Enforcement Panel (FREP)

- Commencement of the random sample examination of the consolidated financial statements at 30 Sept. 2015 on 4 Jan. 2016
- Six areas of examination (consolidation, measurement of financial assets, carried interest, disclosures on related parties, Group management reporting, materiality)
- Identification of an error in the area of carried interest (inclusion in valuation and disclosures in the notes to the consolidated financial statements) on 16 Nov. 2016
- DBAG refutes identification of error on 14 Dec. 2016

## Second stage: Federal Financial Supervisory Authority (BaFin)

- Commencement of the second stage of the procedure on 24 Jan. 2017
- Hearing letter of 18 June 2018 with the announcement of the identification of an error
  - Effects on accounting method in the current financial year and therefore on earnings
  - Ad-hoc disclosure, as the forecast had to be adjusted due to the effects on earnings
- Receipt of identification of an error on 26 July 2018
- Receipt of order regarding the publication of the error on 27 July 2018; publication on the same day

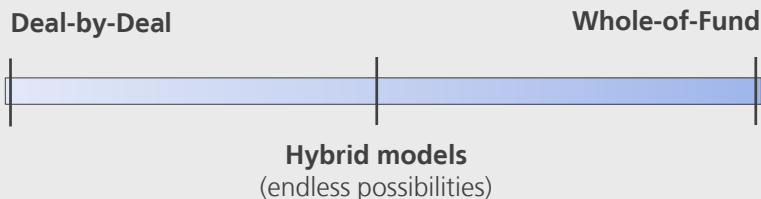
**Reporting on the procedure in the capital market since 15 December 2016  
(publication of Annual Report 2015/2016)**

**Definition:** Carried interest is a share of the profits of a private equity fund paid to the investment managers in excess of the amount that the investment managers contribute to the fund after certain agreed-upon hurdles are cleared. It provides an incentive to investment managers and creates an alignment of interest between them and the fund investors.

## Carried interest models worldwide

**Deal-by-deal** – very aggressive, used to be very common in the US

**Whole-fund** – more conservative, used to only be common in Europe, approved by the ILPA (Institutional Limited Partners Association), meaning that it is now widespread worldwide



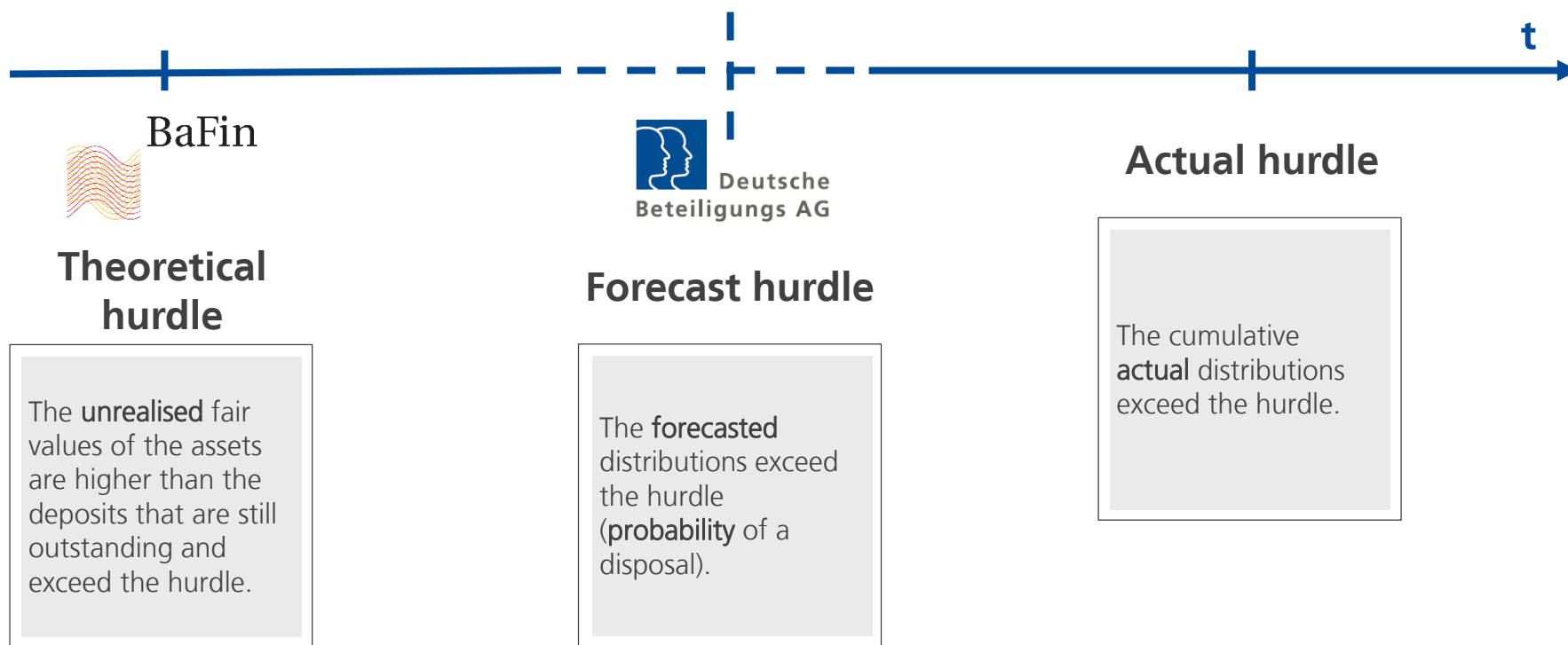
## Carried Interest in DBAG funds

- With private co-investment by the investment managers
- Whole-of-fund concept
- “European waterfall”

Source: Mariya Stefanova, *Private Equity Accounting, Investor Reporting, and Beyond* (in cooperation with PwC, Deloitte and KPMG, among others), 2015

# OBSERVABLE RANGE IN ACCOUNTING PRACTICE

In accordance with the different carried interest models and depending on the relevant accounting standards, the hurdle as of which carried interest is recognised as an asset burden for the first time varies considerably worldwide:

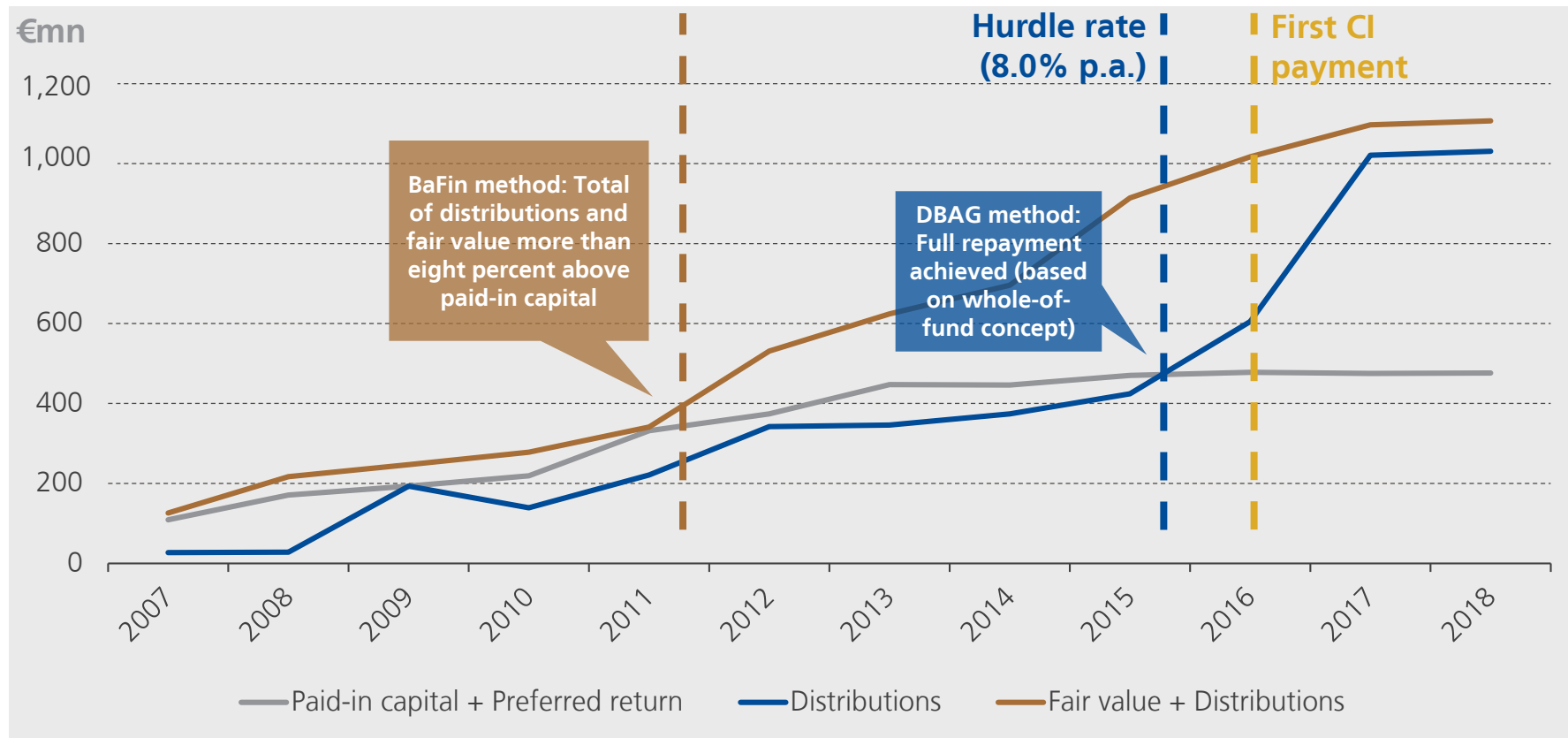


Source: Mariya Stefanova, *Private Equity Accounting, Investor Reporting, and Beyond* (in cooperation with PwC, Deloitte and KPMG, among others), 2015

# RECOGNITION OF CARRIED INTEREST: DBAG VS. BAFIN METHOD

Investment phase

Disinvestment phase



# CHANGE IN ACCOUNTING METHOD: DBAG METHOD VS. BAFIN METHOD – COMMONALITIES AND DIFFERENCES

## **DBAG method**

- Basic assumption: continuation of a fund as planned, inclusion of exit maturity of portfolio companies
- First-time inclusion of the calculated carried interest if it has become likely that the hurdle will be exceeded when the next exit occurs
- Result:
  - Relatively late inclusion
  - Relatively high amount in one period

## **BaFin method**

- Basic assumption: total liquidation of the portfolio on each reporting date, regardless of exit maturity of the portfolio companies
- First-time inclusion of the calculated carried interest if the sum of the repayments and fair value of portfolio is more than eight percent higher than the acquisition cost
- Result:
  - Relatively early inclusion
  - Proportional accumulation
  - Reversal in case of reduction in value

## **Commonalities**

- Fair value of the co-investment vehicle for DBAG Fund V identical at 30 September 2015
- Differences in accumulation, but both methods result in the same total carried interest amount

# CHANGE IN ACCOUNTING METHOD: EFFECT ON EARLIER FINANCIAL STATEMENTS AND CURRENT FIGURES

Consolidated financial statements at 30 Sept. 2015 (subject of enforcement procedure)

- ▶ **Net result of investment activity 14.6 million euros too low; previous years too high (carried interest DBAG Fund V)**
- ▶ **IFRS regulation on correcting errors (IAS 8): Incorrect financial statements not to be corrected; effect on earnings recorded in equity in the opening balance at 1 October 2016**

Ad hoc release from 21 June 2018

- ▶ **Based on hearing letter from 18 June 2018: Understanding that the error is to be corrected in full in the current calculation**
- ▶ **Ultimate identification of error: Clarification that error correction must be implemented retrospectively**
- ▶ **Impact on forecast identical**

Quarterly statement at 30 June 2018

- ▶ **Change in methodology: Application of BaFin method from Q3 2018**
- ▶ **First-time inclusion of the carried interest of DBAG Fund VI and adjustment of the comparative figures of the consolidated financial statements at 30 September 2017**



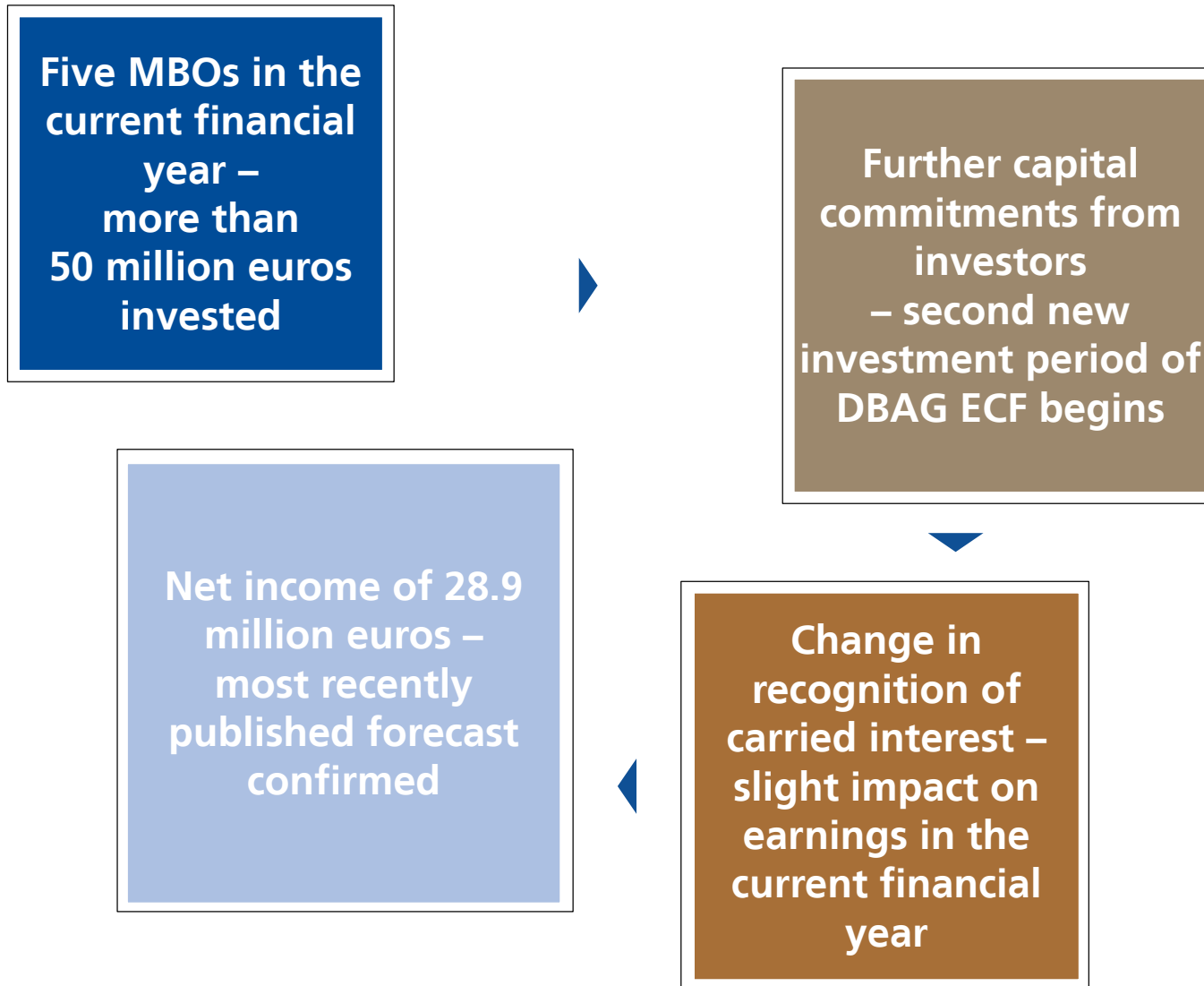
# CHANGE IN ACCOUNTING POLICIES IN Q3: COMPARABILITY OF THE FIGURES IS LIMITED

	Q1-Q3 2017/18 new method	Q1-Q3 2017/18 old method	Q1-Q3 2016/17 resp. 30.9.2017 adjusted	Q1-Q3 2016/17 resp. 30.9.2017 previously
Net result of investment activity (€mn)	29.3	31.4	75.6	82.8
Net income (€mn)	28.9	31.0	71.4	78.6
Earnings per share (€)	1.92	2.06	4.74	5.22
Financial assets (€mn)	322.1	332.6	252.8	261.3
Equity (€mn)	443.8	454.3	436.4	444.9
Return on equity per share (in %)	6.8	7.2	24.1	26.5

**Adjustments exclusively refer to DBAG Fund VI**

**Retrospective adjustments lead to first-time earnings effect in Q1 2016/2017**

# OVERVIEW OF THE FIRST NINE MONTHS



# KEY FIGURES AT A GLANCE

## DEUTSCHE BETEILIGUNGS AG

NET INCOME:

**28.9**

MILLION EUROS

RETURN ON EQUITY  
PER SHARE:

**6.8**

PERCENT

EQUITY PER SHARE:

**29.50**

EUROS

FINANCIAL  
RESSOURCES:

**94.4**

MILLION EUROS

## FUND INVESTMENT SERVIES

NET INCOME  
BEFORE TAXES:

**4.7**

MILLION EUROS

ASSETS UNDER  
MANAGEMENT:

**1,810**

MILLION EUROS

## PRIVATE EQUITY INVESTMENTS

NET INCOME  
BEFORE TAXES:

**24.3**

MILLION EUROS

NET ASSET VALUE:

**449.2**

MILLION EUROS

# FURTHER CAPITAL COMMITMENTS FROM INVESTORS – SECOND NEW INVESTMENT PERIOD OF DBAG ECF (ECF II) BEGINS

Capital commitments

**97.0 million euros, of which 39.7 million euros (41 percent) from DBAG**

**Two new investors, > 90 percent of funds (excluding DBAG share) from existing investors**

**Investment period will last until 31 December 2020 at the latest**

Remuneration

**1.75 percent of the invested capital (as with DBAG ECF I; DBAG ECF: 0.875 percent), plus two percent of the capital invested in each case as a transaction fee when the capital is called**

Investment range

**Successful expansion to include smaller buyouts (equity investment 10 to 30 million euros) – significantly more transactions**

# GOOD INVESTMENT PROGRESS IN DBAG FUND VII AND DBAG ECF

Q2  
2017/2018

Q3  
2017/2018

## DBAG Fund VII:

### Merger of duagon and MEN

- Capital increase
- Co-investment DBAG: 8.9 million euros



agreed



completed

## DBAG Fund VII: Investment in KEF

- Approximately one third of the fund's investment commitments have been called
- Co-investment DBAG: 22.7 million euros



agreed  
and  
completed

## DBAG ECF I: Investment in von Poll

- Approximately 80 percent of the fund's investment commitments have been called
- Co-investment DBAG: 11.7 million euros



agreed

## DBAG ECF II: Investment in BTV

- Second investment period of DBAG ECF starts early after twelve months
- Co-investment DBAG: up to 4.8 million euros



agreed

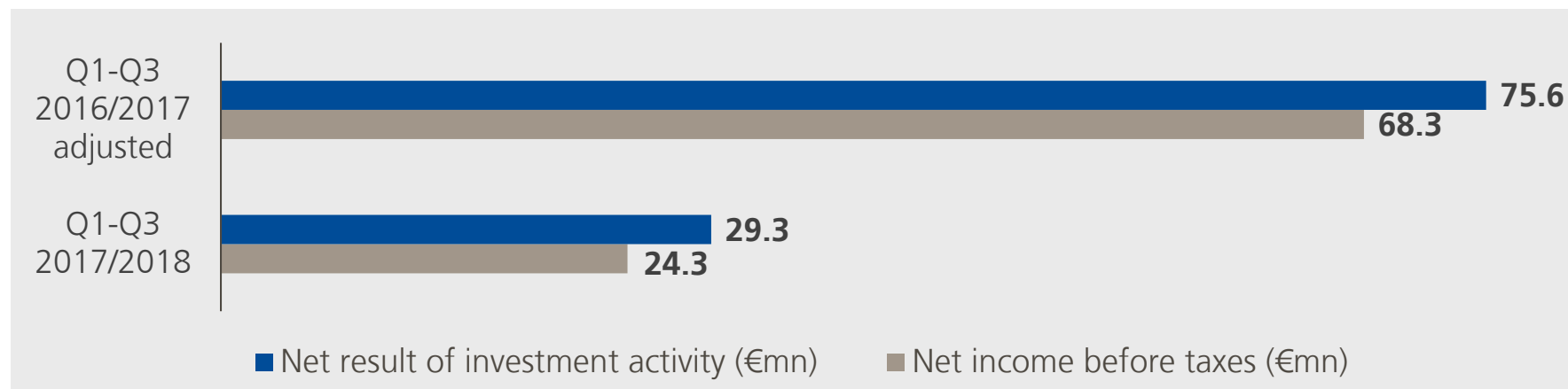
# PRIVATE EQUITY INVESTMENTS: NET RESULT NOT COMPARABLE WITH PREVIOUS YEAR

## **Net result of investment activity: 29.3 million euros (previous year adjusted: 75.6 million euros)**

- Successful disposals in the previous year; no comparable contribution to earnings from the disposal of a portfolio company in this financial year
- Influenced by change in methodology in the amount of -2.1 million euros (previous year -7.2 million euros)

## **Total other income/expenses: -5.0 million euros (previous year -7.3 million euros)**

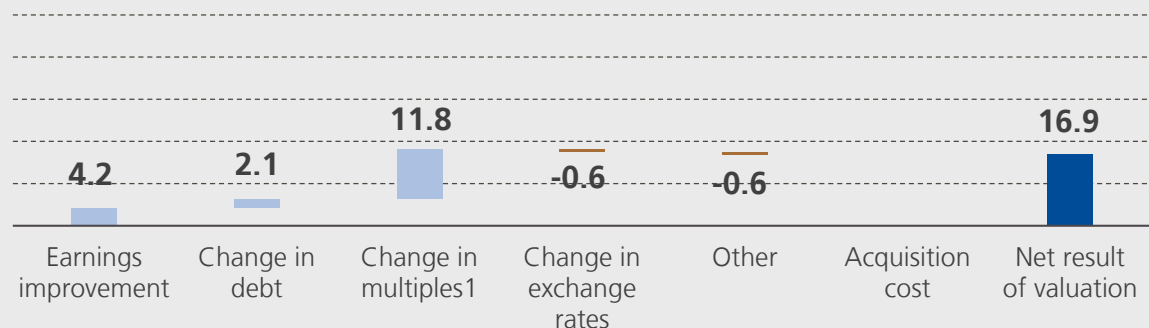
- Performance-based remuneration from Grohmann sale in the previous year (1.6 million euros)



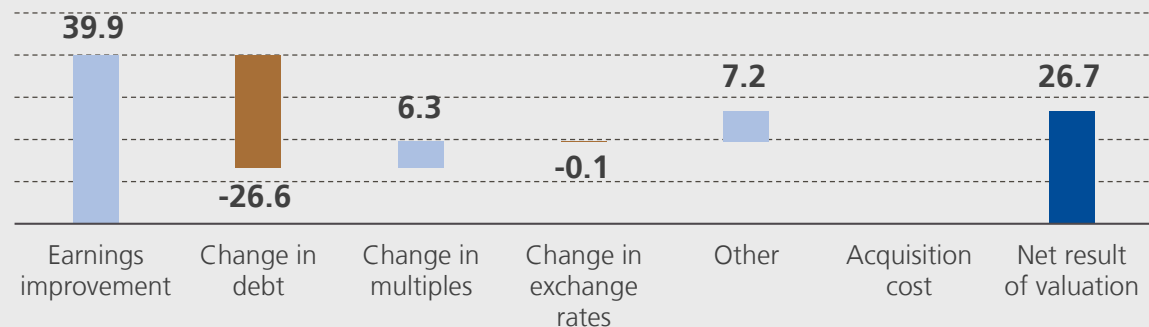
# PRIVATE EQUITY INVESTMENTS: VALUE CONTRIBUTION FROM THE PORTFOLIO SIGNIFICANTLY HIGHER

## Net result of valuation (€mn)

### Q1-Q3 2016/2017



### Q1-Q3 2017/2018



**Special effects resulting from a debt-financed acquisition and refinancing of a portfolio company**

- Change in earnings: 19,6 million euros
- Change in debt: 16,7 million euros

**All in all, the operating performance of the portfolio companies made a significantly higher value contribution: 10.4 million euros (adjusted)**

**Other: higher fair value of a portfolio company valued using DCF method**

<sup>1</sup> Not taken into account: contributions to earnings from agreed disposals (unrealised disposal gains on imminent sales basis)

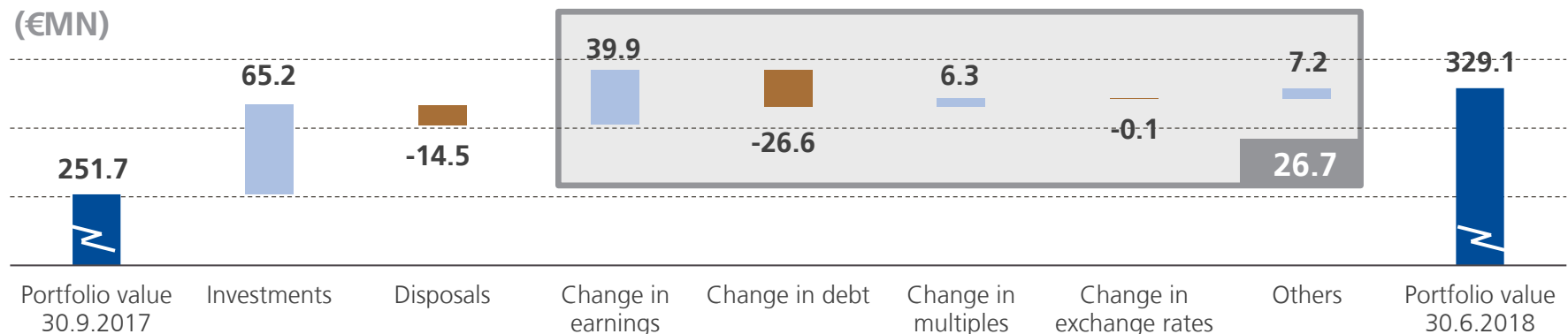
# PRIVATE EQUITY INVESTMENTS: PORTFOLIO VALUE INCREASES THROUGH INVESTMENTS AND EARNINGS

**Investments:** new investments (KEF, netzkontor, Sjølund), conversion of short-term loans (More than Meals) and follow-up investments (e.g. duagon, vitronet, UHB)

**Disposals:** primarily due to the refinancing of vitronet, Cleanpart selling a line of business, the partial disposal of Silbitz and the repayment of shareholder loans by Coperion

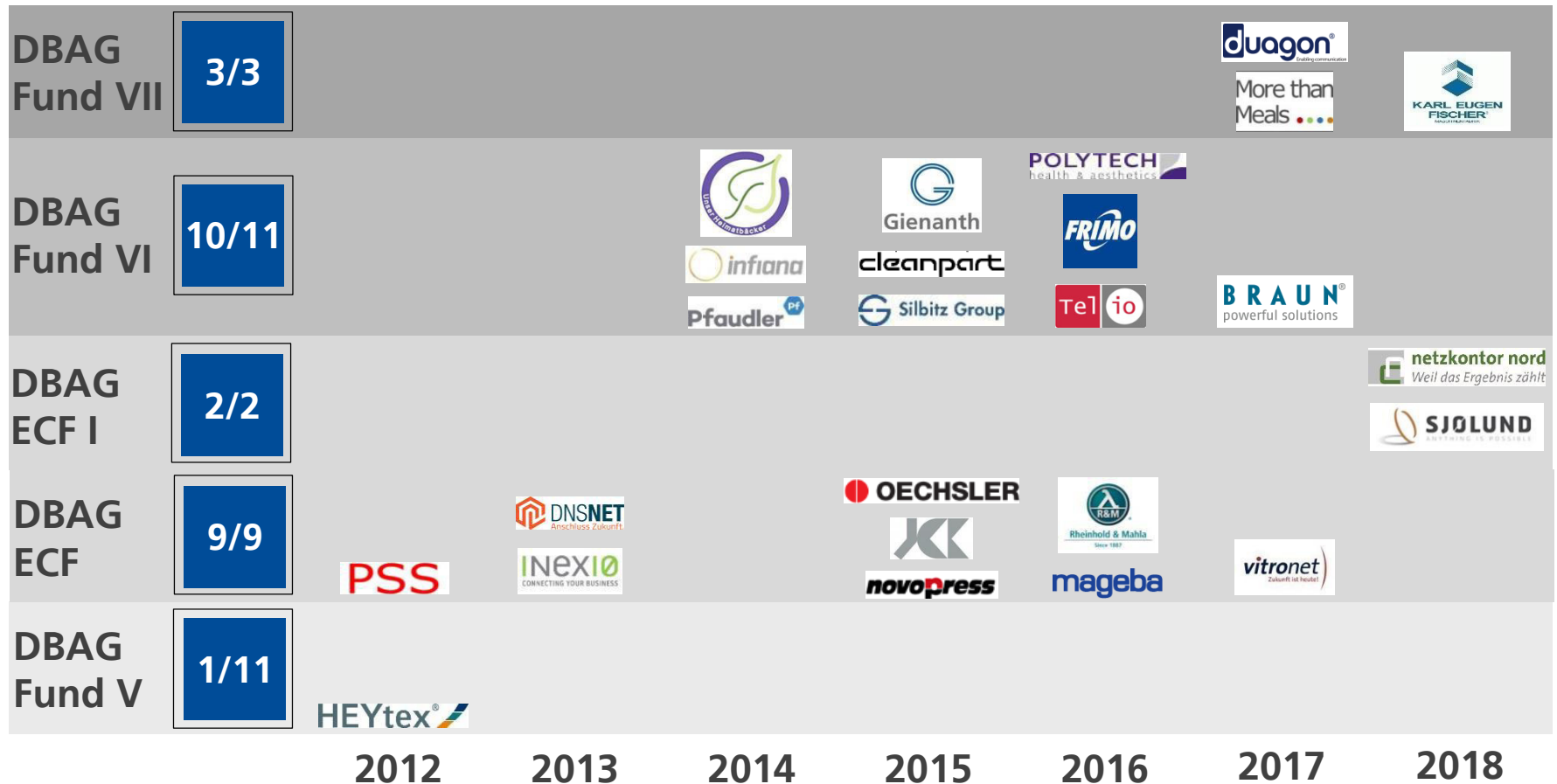
**Changes in earnings:** positive contribution from 14 out of 25 portfolio companies

## DEVELOPMENT IN PORTFOLIO VALUE (€MN)





# PRIVATE EQUITY INVESTMENTS: THE PORTFOLIO COMPRISES 25 COMPANIES IN FOUR FUNDS, ...



Not yet completed at the reporting date: Investments in a radiology group (DBAG Fund VII), von Poll Immobilien (DBAG ECF I), BTV (DBAG ECF II)  
Not included: investments in two externally managed international buyout funds

# ... ITS BROAD INDUSTRY DIVERSIFICATION HELPS TO MINIMISE RISK ...

## Four DBAG core sectors



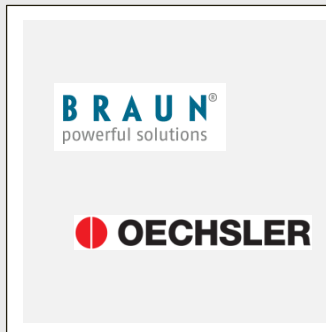
**Mechanical and plant engineering:**  
21% of the portfolio value



**Industrial components:**  
30% of the portfolio value



**Industrial services:**  
10% of the portfolio value



**Automotive suppliers:**  
10% of the portfolio value

## Other sectors



... to which the DBAG platform permits special access:  
25% of the portfolio value

Not included: other investments, including investments in externally managed international buyout funds (4 percent of the portfolio value)

# ... AND IT IS BALANCED IN TERMS OF SIZE CATEGORIES

Young portfolio: High share of portfolio companies at the beginning of their development phase

Portfolio value of 329.1 million euros corresponds to 1.4 times the original transaction value



Top 1-5: 36%

Top 6-10: 24%

Top 11-15: 19%

Top 16-25: 17%

Not included: other investments, including investments in externally managed international buyout funds (4 percent of the portfolio value)

# PRIVATE EQUITY INVESTMENTS: NET ASSET VALUE NEARLY UNCHANGED

## Net assets equate to gross assets

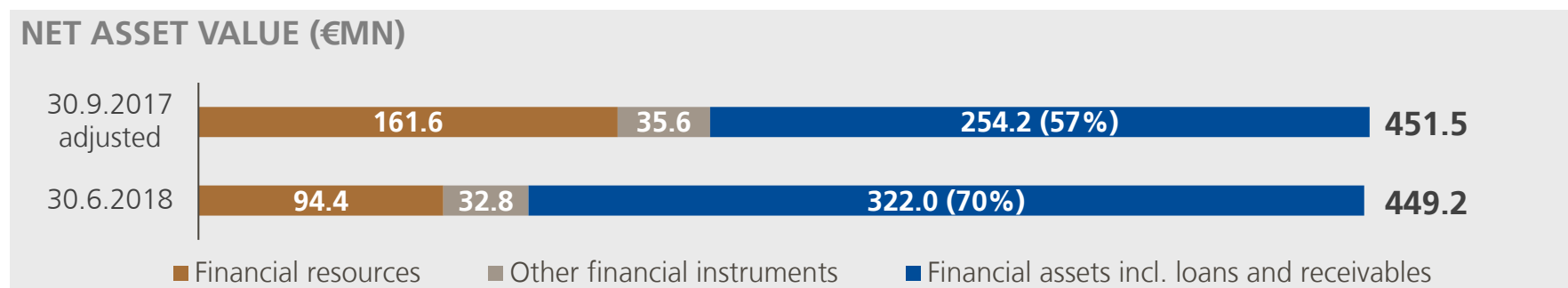
- Strategy: financing of DBAG via the capital market
- Credit line (50 million euros) to offset irregular cash flows not drawn down on the reporting date, extended until 2023 in the third quarter

## Net asset value influenced by change in methodology:

**30 June 2018: -2.1 million euros; 30 September 2017: -8.4 million euros**

## Other financial instruments:

- Interim financing of new investments
- 30 June 2018: KEF and MEN (follow-up investment in duagon)
- 30 September 2017: More than Meals and duagon

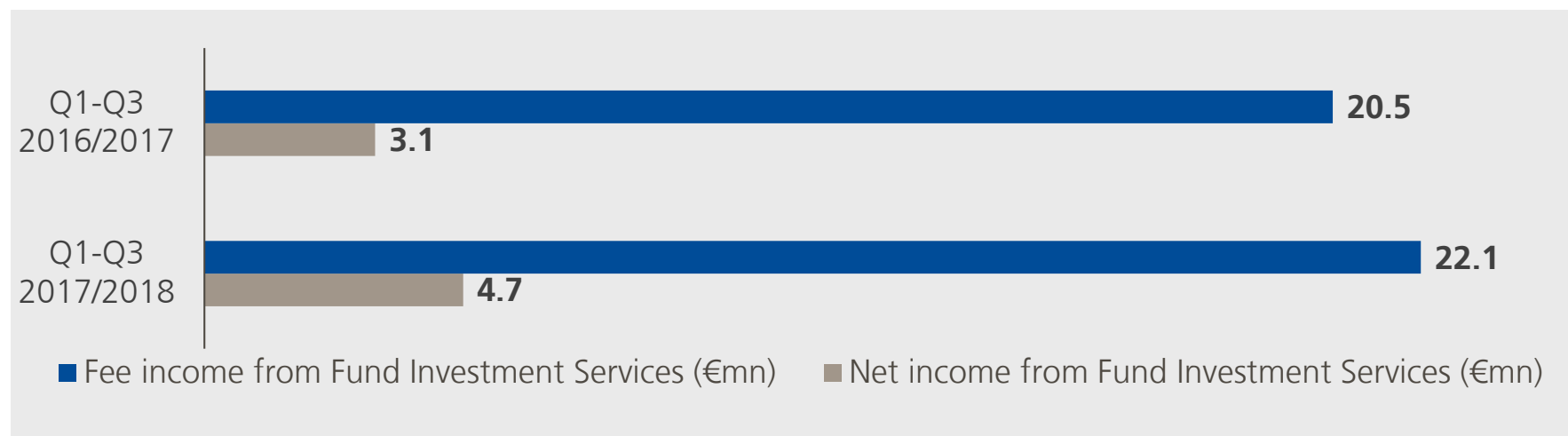


# FUND INVESTMENT SERVICES SEGMENT DEVELOPING ACCORDING TO PLAN

**Lower basis of calculation for remuneration from DBAG Fund V following disposals (now only a single investment)...**

**...more than compensated for by income from DBAG Fund VII (12.1 million euros)**

**Additional, transaction-related remuneration after investments of DBAG ECF I (1.2 million euros)**



# OUTLOOK: FORECAST OF NET RESULT FOR FINANCIAL YEAR 2017/2018

BASIS FOR THE FORECAST:

**€43.0MN**

(average value for the last five financial years)

ADJUSTED FORECAST  
2017/2018:

**SIGNIFICANTLY  
LOWER**

(“significantly”:  
at least +/- 20%)

NET RESULT  
AFTER NINE MONTHS:

**€28.9MN**

**Net result after nine months confirms forecast adjusted in June**

**Forecast takes into account change in accounting**

**Fund Investment Services segment is developing according to plan in 2017/2018**

# FORWARD-LOOKING STATEMENTS INVOLVE RISKS

This presentation contains forward-looking statements. Forward-looking statements are statements that do not describe facts or past events; they also include statements about our assumptions and expectations.

Any statement in this report that states our intentions, assumptions, expectations or predictions and the underlying assumptions is a forward-looking statement. These statements are based on plans, estimates and projections currently available to the Board of Management of Deutsche Beteiligungs AG. Therefore, forward-looking statements only relate to the date on which they are made. We do not assume any obligation to update such statements in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors may cause actual events to differ significantly from those in forward-looking statements. Such factors include the conditions in the financial markets in Germany, in Europe, in the United States and elsewhere – the key regions for our investment activities.