Deutsche Beteiligungs AG

Speech by
Torsten Grede, Spokesman of the Board of Management
of Deutsche Beteiligungs AG, Frankfurt/Main,
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Dear Shareholders,
Ladies, gentlemen, and honoured guests,

Welcome to our 2022 Annual General Meeting!

Unfortunately, once again, we aren't able to meet in person this year.

We had all of the arrangements in place to welcome you back here in Frankfurt, and regret that, once again, that is impossible. We do hope, however, to reach you all with the digital format, too.

Thank you very much for your interest and your questions. As always, we have taken a close look at your input. I will answer your questions today together with my colleagues on the Board of Management Tom Alzin and Jannick Hunecke.

As you will be aware from our January press release, there was a change in our Company's Board of Management: Susanne Zeidler has left DBAG a few weeks back. She successfully served on the Board of Management for almost ten years and contributed to the Company's success through many projects. I would like to thank Susanne for her dedication and commitment, and wish her all the best for her future.

My two colleagues on the Board of Management and myself have taken over Susanne's duties. I will be responsible for Finance until the Supervisory Board fills the position of CFO.

Ladies and gentlemen,

There are three key massages of particular importance to us today:

Firstly:

The year under review was another successful one for us as an investment partner to the mid-market segment. We agreed on three new investments that we believe to have promising potential. Four disposals, some of them yielding above-average returns, serve as testimony to our success in repeatedly and successfully accompanying mid-market companies in their development and putting them in new hands, for an attractive price.

Secondly:

We want to continue to consistently implement and develop our investment strategy in the new financial year, securing value-oriented growth beyond 2022. Our solid capital resources, which, with your support, we were able to expand by means of a capital increase in the past year, will benefit us in this quest as will additional funds from the mentioned disposals.

Thirdly:

The year we are reporting on today was another exceptional one. Whereas in 2021 we explained the negative implications of the pandemic to you, today sees us unveil record financial statements. We achieved a 40 per cent increase in our net asset value and nearly doubled our Fund Investment Services earnings. Our net income of 185 million euros is, by a wide margin, the highest since we introduced IFRS accounting 16 years ago. Such outstanding results do not occur every year. Indeed, we expect the situation to normalise in the current financial year.

So what will I be focusing on today?

Firstly, I would like to invite you to take a look at the past financial year with me – including our proposed appropriation of profit.

We will then talk about what the future holds for DBAG. We will be taking turns to comment on this issue, once again using technology to help us along the way: My colleagues Tom Alzin and Jannick Hunecke recorded their presentations for today's Annual General Meeting, and we will be playing them later.

We have set three thematic focus areas:

1. Tom will concentrate on our expansion into Italy.

2. Jannick will explain how we have expanded our organisation in recent years to facilitate growth.

3. And I will report on the progress of our sustainability strategy.

Lastly, I will give an outlook for the current financial year and beyond.

Now to the figures for the last financial year, which are, as I had already said, particularly good.

2020/2021 proved to be a very successful year, not least because we achieved higher-than-expected proceeds from four company disposals. Furthermore, the portfolio value has increased. This was due to capital market tailwinds, mainly driven by the higher valuation multiples of listed peers. This certainly helped to offset the losses we incurred as a result of the pandemic in the previous year.

Our portfolio performed well, with companies placing a particular focus on acquisitions.

We have broadened our focus over the last ten years to include sectors beyond the manufacturing industry, and this is paying off. In particular, a number of companies from our growth sectors are performing better from an operating perspective. Our industrial portfolio, on the other hand, still has potential to catch up.

All in all, the net asset value of our Private Equity Investments business segment has increased by 40 per cent. When calculating this figure, we obviously did not take into account the inflow from the capital increase, nor the distribution you received in February 2021.

In our Fund Investment Services segment, we are reaping the rewards of the previous business year – the successful placement of DBAG Fund VIII. Earnings from Fund Investment Services totalled 18 million euros, almost twice as much as in the previous year. This stable and highly reliable income contributes to the financing of our business operations and our ability to pay dividends.

Let us turn to the details of the Private Equity Investments business segment.

We manage this segment via the net asset value. This consists of three components: financial assets, other financial instruments and financial resources.

Financial assets make up what is by far the lion's share of our net asset value. These financial assets are, in turn, heavily influenced by the performance of our portfolio companies.

Our portfolio value is expressed in gross terms. It also includes the imputed interests of other shareholders, largely carried interest. The portfolio value has increased mainly as a result of changes in value. Additions in the form of new investments and disposals of existing investments resulted in a net decrease of 20 million euros.

Additions comprise the new congatec investment, entered into alongside DBAG Fund VIII, and R+S, the second Long-Term Investment. The additions also include acquisitions by portfolio companies in cases where we supported them with additional equity.

The disposals mainly relate to the sale of DNS:Net, Pfaudler and Rheinhold & Mahla and the partial disposal of netzkontor relating to a refinancing. blikk is included in the change in portfolio value with the disposal of the original investment and the addition of the re-investment.

The interests of other shareholders increased by 21 million euros, in line with our portfolio performance, and amounted to 52 million euros at the end of the reporting period.

What were the main factors driving the value of the portfolio?

Changes in the earnings reported by the companies in our portfolio made the biggest contribution. 16 companies made a positive contribution, while six made a negative contribution. The previous year told precisely the opposite story.

Our portfolio companies in the fast-growing sectors of broadband telecommunications and IT services/software stand out in particular, accounting for particularly high positive value contributions.

Our industrial portfolio also made a positive value contribution which would have been even higher, had it not been for supply bottlenecks caused by a shortage of components, increases in raw material and energy prices, and higher freight rates, all of which will continue to put pressure on our portfolio companies in this year.

Our portfolio's leverage can be another factor driving value.

Why is that? Acquisition-driven growth of our portfolio companies is a core element of our investment strategy. Such acquisitions can often only be financed through debt. If the integration is successful and synergies can be realised, profits will increase. The resulting increase in the company's value then outweighs the negative contribution that results from higher debt. Thus, the equity value increases.

The development of valuation multiples and the prices realised through disposals are another value driver.

As at the most recent reporting date, valuation multiples were mostly higher than one year before.

Net gains and losses on disposal are being particularly influenced by the disposals of DNS:Net and Rheinhold & Mahla. The repayment of equity and shareholder loans in connection with a refinancing arrangement at netzkontor also made a positive contribution. Value contributions from the partial disposal of the stake in Pfaudler, as well as subsequent gains from the disposal of a stake in the remaining externally-managed foreign buyout fund, are also included.

I have already mentioned earnings from Fund Investment Services, our second business segment, which nearly doubled in a year-on-year comparison.

Income benefited from the new DBAG Fund VIII. The reporting year marks the first full financial year for which we have earned fees from this new fund.

Expenses also exceeded the previous year's level, mainly due to higher provisions for performance-related remuneration to allow our employees to share in the success achieved last year. The increase also reflects moves to further expand our team.

Ladies and gentlemen,

It is not unusual for investments to prevail in some financial years and disposals to prevail in others.

Our growth strategy is now driving our financing requirements.

We plan to invest around 340 million euros in the current year and in the next two years to come – much more than we have invested in the past.

The investments we have planned are firmly secured. The funds from the capital increase last May – 100 million euros in total – play a major role in this. We are pleased that the capital increase was so well received.

This measure means that the authorisation granted by the 2017 Annual General Meeting to increase the share capital by issuing new shares has been fully utilised.

That is why we propose to you today to grant an authorisation for another capital increase that will ensure our capacity to act. The parameters we are proposing are designed with the expectations of institutional investors and their proxy advisors in mind to a very large extent. For an extensive substantiation of these two agenda items, let me refer you to the invitation to this Annual General Meeting.

Dear shareholders,

The record figures achieved in the past year would not have been possible without the hard work of our staff.

However, the circumstances surrounding this success story have to be considered, too.

Our employees once again spent most of the year working from home – as they are again at the moment. In addition to the personal distress this caused, this was – and indeed still is – particularly challenging for our business, which thrives on exchange, communication and face-to-face meetings.

My colleagues on the Board of Management and I would like to thank all of our colleagues for the considerable commitment they have shown.

Let me now turn to our proposed dividend.

You are all more than familiar with our dividend policy: it is our aim to have you participate in the Company's success through dividends that are stable and increase whenever possible. This is also one of our three financial objectives.

We defined this dividend policy back in 2016. Every year since then, we have been able to offer our shareholders – that is, currently approximately 15,000 private individuals, numerous family offices and foundations, and many other active and passive institutional investors – an attractive dividend yield.

We are committed to continuing with this dividend policy after having suspended it in the 2019/20 financial year owing to the pandemic.

For the 2020/21 financial year, we are proposing 1.60 euros per share. Based on the average price of the financial year, this translates into a dividend yield of 4.5 per cent – a more than respectable figure in the current capital market environment.

The proposed distribution per share takes the aspects relevant to our decision into account: these include the expected inflow of funds from the two business segments, liquidity requirements for investments, and securing our dividend capacity for the long run.

We have incorporated a dividend of the same amount into our planning for the current financial year and beyond.

That concludes my comments on the past financial year.

How is the new financial year coming along?

The portfolio companies are doing a good job of responding to the various challenges they are facing, and they are investing heavily, with eleven acquisitions completed during the first quarter and another three agreed. The DBAG investment team supported them in this process, with DBAG providing additional equity in some cases. The new financial year has got off to a good start.

However, lower multiples of peer group companies, which we use in the valuation of our portfolio companies, have taken their toll. As usual, the valuation is prepared as at the first quarterly reporting date of each financial year, based on the valuation parameters for the new year.

It was hardly a surprise that analysts expected higher corporate results for the new year. With share prices remaining largely stable over the quarter, compared with price levels as at 30 September 2021, valuation multiples declined, in some cases to a significant extent. Together with the discounts we usually have to apply to the expected results of our portfolio companies at this early stage of the year, this has yielded negative gross gains and losses on measurement and disposal of 10.9 million euros.

The fact that the net asset value of Private Equity Investments still increased by almost four per cent is mainly attributable to technical reasons. We recognised around 28 million euros in fee income from Fund Investment Services in the first quarter which had previously been deferred. As at the previous reporting date, they had been recognised as a receivable that was not included in the net asset value. Now, these 28 million euros are recognised in financial resources and as such also included in net asset value.

We have generated earnings before tax of 3.7 million euros in our Fund Investment Services segment, which is slightly less than in the first quarter of the previous year. The expansion of our team that was mentioned earlier is reflected in personnel expenses, the expenses for our office in Milan show in other operating expenses,

As you know, our business model means that we cannot extrapolate the results of individual quarters to project the results of a full financial year. I will come to the outlook for the entire financial year a little later.

Ladies and gentlemen,

This brings us to DBAG’s future and the three focus areas.

First of all, my colleague on the Board of Management Tom Alzin will elaborate on our expansion into Italy:

[Video Tom Alzin]
I will report on a decisive next strategic step in our investment strategy: our expansion into Italy,

where we have established DBAG Italia and recruited the first few staff members for this subsidiary. Over the next few weeks, further investment managers will be joining our small team in Milan. And in April, our colleagues will be able to move into a dedicated office in the city's financial hub.

Our colleagues in Milan are already exploring transaction opportunities. DBAG has arrived onto the Italian private equity market as a provider. We have more than 50 years of investment experience in the German Mittelstand that we can apply to our business activities in Italy.

"Why Italy?", you might well ask. Similar to Germany, Italy's business landscape is mainly dominated by the many medium-sized, family-owned companies that have often managed to establish themselves as niche players in international markets, as a quick look at a few data shows.

Succession solutions in family businesses are one of the drivers for private equity in Italy. This is an area in which we have particular experience because more than half of our transactions have always arisen from precisely this sort of situation: company founders and family entrepreneurs entrust their companies to us because they believe that DBAG is the best partner for their further development.

In addition, many Italian companies are undercapitalised and in need of capital to finance growth or the exploration of international markets; this also applies to investments in technology or innovations.

This creates the same sort of demand for private equity in Italy as we have in Germany. On average, Italy accounts for seven to eight per cent of the European buyout investment volume, making the country one of the most mature private equity markets in Europe: annual private equity investments correspond to a five-year average of 0.36 per cent of Italian GDP. Whilst this is the same as in Germany, it is significantly below the levels seen in the United Kingdom, in the Netherlands, or in France.

These differences are partly due to the different company ownership structures in the various countries. Nonetheless, and as the market growth seen in recent years shows, both Italy and Germany need to catch up, unleashing potential for the equity DBAG and its funds have on offer.

Over the past four years, the volume of private equity investments in Italy has ranged between 6.5 and 9.8 billion euros, around 60 per cent of the German market volume. The same ratio applies to the number of transactions in the market segment in which DBAG operates.

The most important target sectors for Italian private equity investments have included IT/communications and industrial goods: two areas in which DBAG is also active. We have been watching the market very closely for some time now and expect investment activity there to increase in the future. A large number of attractive privately held companies are located in the north of Italy in particular, requiring external capital to achieve further growth. We aim to invest up to a quarter of our current fund in this market.

Our first two Italian investments are showing very encouraging development.

[Back to Torsten Grede]

Ladies and gentlemen,

Recent years have seen us not only broaden our investment strategy, but also make considerable progress as an organisation, providing a foundation on which we could start to look into expanding geographically and broadening our investment strategy horizons. Jannick Hunecke, who is responsible for human resources on the Board of Management, will give you the details:

[Video Jannick Hunecke]

We have already touched on the issue of growth, and the growth that we were aiming to achieve. But we have also spoken about how things have developed in recent years.

Looking back, we can see how far we have come: our assets under management or advisory have more than trebled since 2011.

Our income from Fund Services has grown at an even faster rate, almost quadrupling. This provides the funds we need to finance our business processes and continue to improve them.

I'd like to draw your attention to two process steps.

Let's start with deal sourcing. A few days ago, we were once again able to report a good market position. We concluded three transactions in Germany in 2021, plus one in Denmark and one in Italy.

These transactions were the result of careful preparation and intensive initiation activities. We have a large number of competitors, and loose monetary policy means that more investors are competing for attractive investments.

One of the things that makes DBAG stand out is its long-standing experience and good reputation as an investor in the mid-market segment. Nevertheless, we need to keep improving to ensure that we pick up on interesting transaction opportunities in a timely manner. We want to get a head start so that we can analyse the business model as early on as possible.

That is why we have taken steps in recent years to make our deal sourcing even more professional, for example by expanding our research team. The focus in 2021 was on broadening our network of industry experts. This will also help us – either because it will enable us to develop solid value appreciation strategies for new portfolio companies at an early stage, or because it will give us the access we need to shareholders who are looking to sell. Our approach paid off only recently: we were able to agree on investments in Dantherm and freiheit.com without having to engage in a highly competitive bidding process.

This brings me to the investment team, which is the key to our success. It has ranked among the largest and the most experienced investment teams in our market for some time now. We have been steadily expanding the team in recent years and plan to continue to do so this year, too – not only in Italy, but also here in Frankfurt. The team will soon consist of 31 members – six more than at the end of the 2021 financial year. We are looking forward to welcoming our new colleagues on board.

We attract both young graduates and experienced private equity professionals to DBAG, thanks in part to our enhanced recruitment processes.

We have reached a new level of HR development at DBAG as well. This allows us to provide better support tailored to each and every employee – not only in the investment team but throughout the Company as a whole. After all, the investment team can only hit the ground running if the supporting processes are also improved on an ongoing basis. This is yet another area in which we took things to the next level last year, for example in investment controlling and in IT. All of these measures will enhance the Company's performance.

[Back to Torsten Grede again]

Ladies and gentlemen,

A year ago, I told you about our sustainability strategy. We are responding to social and political change, and we are meeting our fund investors' and shareholders' increased demands. We want to anchor environmental, social and governance aspects even more firmly into our business. You will be familiar with the acronym ESG, which stands for Environmental, Social and Governance.

These criteria are becoming more and more important for the availability of capital. Fund investors are increasingly tying their capital commitments to compliance with ESG criteria as part of our investment process. They are increasingly expecting a high level of commitment. The same applies to investors on the equity market. With its Taxonomy Regulation, the European Union crowns certain endeavours as "green investments". Finally, banks offer interest rate benefits for debt financings if certain ESG-related criteria are met. As such, this development is affecting us on several levels.

We believe that the consideration of environmental, social and governance aspects can have a positive impact on the success of our investment decisions. That is why ESG criteria have been part of our due diligence process – the thorough examination of companies that comes before any participation – for many years. Much of what is now being advocated under the heading ESG corresponds to the ethical standards that have always been part of our corporate culture; a corporate culture that values each and every member of staff, a corporate culture for which cooperation with portfolio companies ruled by fairness is key.

With this in mind, our commitment in the last year to complying with the "Principles for Responsible Investment", developed by investors working in partnership with the United Nations, was a logical step for us. As a signatory to these six Principles for Responsible Investment, we will in future report annually on our investment activities in accordance with a fixed scheme – showing you and our fund investors how we incorporate ESG aspects into our investment decisions and business operations. We will prepare an initial report in spring 2023.

But this is not only about reporting and benchmarking our activities against those of other players in the financial markets. We also want to take advantage of the opportunities. Becoming more sustainable is not part our risk management, but a path towards value creation. In order to do so, we have to identify and record the value drivers based on ecological or social issues.

That is why, as part of an extensive project undertaken together with our portfolio companies over the past year, we defined fields of action to improve our sustainable development and developed key performance indicators, which we will now integrate into our reporting.

Fields of action for a sustainable development include general goals such as reducing or avoiding harmful greenhouse gas emissions and promoting gender equality. As employees are so crucial to a company's success, employee satisfaction and occupational health and safety are other action areas that apply across the board. Preventing compliance breaches is another issue that is still a top priority for us.

Reducing emissions of gases that are harmful to our environment is currently an overriding political and economic issue.

Our portfolio currently comprises 35 companies with very different business models: from a foundry group and its energy-intensive production process, to the assembly of machines, through to software development. Such a wide range in activities explains the range in carbon intensity, that is harmful carbon emissions per one million euros in revenues. The carbon intensity of our portfolio companies ranges from 2.3 tonnes to more than a hundred times that, at 256 tonnes.

As you can see, there is a huge variation. When interpreting these figures, it is important to remember that the portfolio companies do not yet report on which emissions are associated with the primary products they purchase. Carbon emissions associated with the use of the goods produced are not yet included in the analysis either.

Let me give you a specific example. One of our portfolio companies is the Silbitz Group, which comprises five foundries. Foundries have a very energy-intensive production process and therefore generally a high carbon intensity.

So does that mean we've invested in a company that is harmful to our climate? No! Silbitz already generates more than half of its revenues by selling components for wind turbines – and the share is increasing. Wind turbines produce electricity without emitting greenhouse gases – they produce green electricity. So if you take that into account when calculating the total emissions, Silbitz's carbon footprint starts to look quite different.

You can read on our website what we mean by saying that "Climate protection starts on the foundry floor."

What does that mean for new investments? Should we only invest in "green" business models? We don't think so!

It can still make sense to invest in companies with comparatively high levels of carbon emissions. That way, we can support these companies in their pursuit of carbon neutrality. And if we are successful in doing so, value appreciation will surely be the result.

We have laid the groundwork for determining value drivers such as carbon intensity. The next step will involve taking these factors into account in the support we provide to our portfolio companies. Going forward, management teams will not only manage their companies in terms of revenue and earnings development, but also based on carbon intensity or other non-financial indicators that will be crucial to company performance.

At DBAG itself, more than half of the Company's carbon emissions are generated by business travel. We want to reduce the emissions generated through our business activities – not only in relation to individuals, but also in absolute terms. We plan to adequately offset those emissions that cannot be prevented. We will be selecting a project over the next few months.

Ladies and gentlemen,

We have yet to discuss an important topic: What do we expect for the current financial year and beyond?

I mentioned earlier that we now expect things to return to normal after an exceptional year.

The macroeconomic environment continues to be marked by great uncertainty, in particular because of a sluggish production due to supply bottlenecks and price increases for energy, commodities and primary products. We expect the process involved in overcoming these problems to be a gradual one. The supply bottlenecks have also led to uncertainty among many market participants who built up their inventories and placed multiple orders, paving the way for future demand volatility.

We therefore anticipate subdued value appreciation for our industrial portfolio in the short term.

As a result, the net asset value forecast for our Private Equity Investments segment as at 30 September 2022 indicates an increase of ten per cent, if you take the middle of the range and include the proposed dividend.

Over the next three years, our growth strategy is to make investments alongside DBAG funds and Long-Term Investments of more than 100 million euros a year in each case. As previously mentioned, all in all we are planning to invest around

340 million euros in promising mid-market business models that offer potential for value appreciation.

Our goals for growth in the net asset value of Private Equity Investments for the three-year period are even more ambitious than the ten per cent indicated for the current year. We want to match the growth interrupted by the pandemic. Historically, after adjustments to reflect dividend payments and the two capital increases in 2016 and 2021, we have been able to achieve annual growth of eleven per cent. This is a level that we plan to at least maintain. We expect to be able to increase the net asset value by an average of between 10 and 14 per cent per year – therefore at a slightly faster rate than in the past.

Earnings from Fund Investment Services skyrocketed in the past year. This will no repeat in the near future. The measures to expand the investment team are our way of investing in the future. These expenses will have a negative impact on our earnings to begin with. While our income will remain largely unchanged, earnings from Fund Investment Services will be down year-on-year in the current financial year as a result.

Our assets under management or advisory increase considerably when new fund investment periods start and then gradually decline due to disposals. The launch of a successor fund then pushes them back up again.

In the past, the volume of our assets under management or advisory has grown by an average of 15 per cent per year. We expect to see double-digit growth in the medium term, too, aiming for a figure of between ten and 12 per cent. This increase is to be achieved in particular by the launch of a successor fund for DBAG Fund VIII. The associated higher revenues will then allow a return to higher earnings from Fund Investment Services. We also remain open to establishing select new investment strategies by launching new funds.

Dear shareholders,

You have entrusted us with further resources over the past year. You can rest assured that my colleagues and I will be doing everything in our power to show that we deserve this gesture of trust. We will continue our ongoing efforts to improve our performance – particularly with regard to investment progress, portfolio development and our team.

I hope that we will be able to meet you all again in person next year here in Frankfurt.

Until then, I wish you all the best – and especially sound health. I am looking forward to soon getting back to some kind of normality.