Deutsche Beteiligungs AG

Speech by
Torsten Grede, Spokesman of the Board of Management
of Deutsche Beteiligungs AG, Frankfurt am Main,
and by **Susanne Zeidler**, Chief Financial Officer
of Deutsche Beteiligungs AG, Frankfurt am Main,
given at the Annual Meeting on 21 February 2019

Translation – The German version of this speech is authoritative.

Dear shareholders and
Shareholders' Representatives,
Ladies and Gentlemen,

Welcome to our Annual Meeting!

I am glad that you have been able to attend today. This gives us the opportunity to report to you personally on the progress made by the Company in the past year –

a year marked by mixed results.

Whilst 2017 was the year of successful disposals, the focus in 2018 shifted to making new investment decisions. We invested in exciting companies, therefore laying the foundation for valuation gains and growth at DBAG.

Our financial expectations, however, were not fulfilled: in last year's forecast I said that, due to the length of the current macroeconomic cycle alone, it was quite possible that it would end sooner rather than later. Unfortunately, that prediction now looks to have been quite accurate. Expectations for economic growth have dampened considerably – a development which has been perceptible on exchanges as well as in our first-quarter results.

What does that mean for DBAG? What can you, our esteemed shareholders, expect? We would like to inform you about all of this today.

As in previous years, the members of the Board of Management will jointly report to you; in other words:

Susanne Zeidler will comment on the financial year under review, looking at the financial targets, and also with regard to the figures of the first quarter and our outlook for the current financial year.

Subsequently, I will look ahead and explain to you how we are tackling challenges. In this context, I will take a look at our portfolio, outline our market position and illustrate strategic development at DBAG.

Ladies and Gentlemen,

"Long-term planning. Patience in development.
Writing success stories in eventful times."

That is the title of our Annual Report. As you listen to this speech, you will see why we chose this title.

One year ago I had said right here:

"I am confident that with our excellent team we will be able to invest positively, even in case of possibly weaker future underlying conditions, and to responsibly support our portfolio companies."

We worked at this in the past year.

Let me begin with the investments. In the past twelve months, our investment team structured six management buyouts; three alongside DBAG Fund VII, three alongside DBAG ECF. DBAG Fund VII is now more than 50 per cent invested, despite being established only two years ago. Overall, we triggered investments exceeding 300 million euros in the past financial year. DBAG's investment share was above 85 million euros.

Good investment progress is crucial. Fund investors expect us to invest their capital within the agreed period of time. And new investments are an important basis for DBAG's net asset value to increase.

Six new investments in twelve months, numerous company acquisitions by our portfolio companies, and – not to forget – a successful disposal: all of this is only possible with a competent team and a high level of commitment from all employees. I would like to once again thank the entire team for its impressive dedication – also on behalf of Susanne Zeidler and Rolf Scheffels.

Let me turn to the support of our portfolio companies: whilst we cannot influence capital market developments, we are very capable of steering the development of our portfolio companies.

In the case of some individual companies, progress was not as fast as we had expected. Sustainable valuation gains through higher revenues and results is only feasible if companies develop. To develop means they must change. Initiating and organising transformation processes in companies is one of the biggest challenges management teams face. In 2018, this was visible in the case of some companies in our portfolio.

What do we do if things do not turn out as we had hoped?

The respective company's business strategy is undoubtedly going to be reviewed. Sometimes, however, it is also necessary to strengthen the portfolio company's management. The advisory councils of the companies in our portfolio play an important role in accompanying changes. From time to time, we as shareholders also have to act and support the required measures with additional capital.

We have numerous success stories to tell.

If, in individual cases, success failed to materialise, this was basically always due to a combination of an unfavourable market environment and poor management decisions.

This also describes the situation of our portfolio company *Unser Heimatbäcker*. The bakery chain surely finds itself in a challenging, highly competitive market environment. Quite some time ago, we mentioned restructuring efforts in our reports, including not only management changes, but also additional capital employed.

We regret that we were unable to prevent an insolvency, despite intense efforts. Insolvency proceedings under the company's own administration however will now give *Unser Heimatbäcker* the opportunity to consistently pursue the measures that it has embarked upon, and to accelerate implementation – for the good of the company and all its employees.

We also learn from developments like this. We strive to improve our portfolio support – every day.

But what does that mean, to improve?

As early as during the analysis of a new investment opportunity, we prepare the establishment of our corporate governance at the potential portfolio company. For this purpose, we search for experienced business figures as advisory council members, who then accompany the management responsible for the day-to-day business, acting as strategic sparring partners.

Inorganic growth at our portfolio companies is an integral part of our value enhancement strategy, This way, the companies accelerate their development. The companies purchased are often smaller, and smaller companies are often available at lower valuations – this allows us to invest at reduced initial valuations in some cases. Last year, we supported more of our portfolio companies in company acquisitions than ever before.

This concludes my comments on the operating challenges presented during the last financial year. Susanne Zeidler will now report how we fared with regard to our financial targets in 2018.

[Second part, Susanne Zeidler]

Ladies and Gentlemen,

In my position as Chief Financial Officer, I have three positive messages for you today on the one hand; on the other hand, I have some information as to how our – and most probably also your – expectations were not met in the past financial year.

Let me begin with the positive messages:

- 2018 was a record year in view of investments.
- Fund Investment Services developed positively.
- We are proposing a dividend increase.

Now to the less positive messages: we were unable to meet our financial targets, and our share price underperformed.

This leads us to the following agenda:

firstly, our goals and results in the past financial year;
secondly, a look at the start of the new financial year; and
thirdly, a financial outlook for the entire financial year 2018/2019 and beyond.

Before delving into the numbers, a note on the comparison of figures:

Our accounting methodology and policies as at 30 September 2018 changed from previous reporting dates: thus we have also adjusted comparative figures to reflect the previous year's comparative figures.

The change in accounting was prompted by the identification of an error during the enforcement procedure in connection with a spot check on the consolidated financial statements at 30 September 2015 by the Financial Reporting Enforcement Panel (FREP). The audit had been initiated at the beginning of 2016. In December 2016, the FREP informed us that they did not concur in our assessment of a matter. Specifically, this regarded the question as to when and how carried interest entitlements from DBAG Fund V were to be recognised. Since we wanted to generally clarify this issue, the audit was passed on to the German Federal Financial Supervisory Authority (BaFin) in January 2017. I gave detailed reports on this process in the last two years – here at the Annual Meeting and in our Annual Reports.

BaFin finally informed us in July 2018 that it did not approve our method and therefore determined a breach of accounting rules for the consolidated financial statements as at 30 September 2015. We forewent the possibility of seeking legal remedy, and changed the accounting method used for the recognition of carried interest. We reported on this basis for the first time in our quarterly statement as at 30 June 2018.

We no longer recognise carried interest based on the going-concern assumption for the respective DBAG funds, but rather – in line with BaFin's view – based on the assumption of the full

liquidation of a fund's portfolio as at each reporting date, irrespective of whether the portfolio companies are ready for sale or not. This way, carried interest is generally recognised at an earlier reporting date. The only difference between the previous and the new method relates to how the amount is distributed in profit or loss over the periods; the two methods result in the same carried interest amount over the entire term of a fund. This is also the reason why the change in accounting has only affected DBAG Fund VI, whereas the previous and the new accounting method lead to the same result for all the other funds.

Let us now turn to our targets and results in the past financial year.

Those of you who were here in the last years know this image.

It depicts our financial and non-financial targets, all of which contribute to our core economic target: increasing the value of your Company, Deutsche Beteiligungs AG, in the long term.

As I already said last year:

We are listed in Deutsche Börse's Prime Standard segment because we fulfil particularly stringent transparency requirements, including quarterly reporting. However, what we really want to be judged by is whether we have enhanced the value of Deutsche Beteiligungs AG in the long term – meaning over a period of ten years.

That is the normal term of a fund: only at the end can one truly assess how successful it was. Proceeds generated with the disposal of the portfolio companies determine that success. Valuation gains along the way are welcome; however, they will only be sustainable if we can actually realise them in the event of a disposal.

The closed-end DBAG funds are at the heart of our business model, and a decisive factor in determining the financial development of both our business segments. Thus, we are convinced that the same applies to DBAG: only when viewed over an appropriately long period in time, will one be able to assess as to whether we have achieved the core economic target of our business activities.

We ultimately measure an individual year's performance contribution in terms of how it has contributed to this long-term success.

In these terms, the 2017/2018 financial year was below average.

Net income of 33.6 million euros translates into return on equity per share of 7.8 per cent, which is below the average of the past ten years (11.4 per cent), but above cost of equity.

The negative share price performance of 19.8 per cent is not satisfactory. Our share also lagged major benchmark indices in 2017/2018.

Whilst this is displeasing for short-term investors, taking a long-term stance – as our business model per se requires – our share boasts a striking overperformance of 16.2 per cent over ten years in comparison to benchmark indices such as the DAX or SDAX.

The value contribution from Fund Investment Services, our first financial target, has evolved positively. Here, our financial forecasts were fulfilled and partially even exceeded.
As such, income from Fund Investment Services continued to increase, reaching a record of 29.4 million euros. The further increase had two reasons: for the first time, we generated income from DBAG Fund VII for twelve months, whilst in the previous year, it had only been for around nine months; we also received transaction-based remuneration from DBAG ECF for the first time, in the amount of 1.1 million euros. The increase in income translated exactly into improved earnings at the Fund Investment Services segment.

Accordingly, the Fund Investment Services segment created value again.

The development of our Private Equity Investments segment is the main driver behind the failure to achieve our financial forecast for the 2017/2018 financial year.

You will recall: six disposals with significantly above-average success had made the financial year 2017 one of the most profitable in the Company's history. We raised the forecast twice – also thanks to tailwinds on the capital market.

So, one year ago, I stood here and told you: net income as high as in 2016/2017 will not be replicable, since we cannot offer as many mature companies for sale every year. Years may come in which the volume of investments exceeds that of disposals.

Accordingly, we had phrased our expectations for 2017/2018 in such a way that they were below the record figure of the previous year, but above the average of the last five years. We did not achieve what we expected to.

Why not? The main reason were the prices of peer-group companies on the stock exchanges. We cannot plan said prices. They burdened the result of the Private Equity Investments segment with more than 10 million euros, i.e. the equivalent of a loss of around 2 percentage points in return on equity.

Some of you may be asking yourselves now: how do market valuations of peer-group companies relate to our net income?

The short answer is: capital market fluctuations directly impact upon our profit and loss statement via the valuation of our portfolio companies, thus determining our net income: sometimes they have a strong, other times a weaker impact – sometimes a positive, other times a negative effect, as last seen in 2011.

The longer, more detailed answer is: as an investment company, we must measure our investments on a quarterly basis at fair value. For most of our portfolio companies, we use a process typical for the private equity sector, the so-called multiples approach.

Within this process, we determine the total unleveraged company value by applying a multiple for one key financial indicator of the company to be valued. As a general rule, the parameter used is earnings before interest, taxes, depreciation and amortisation (EBITDA). The multiple is derived from the market capitalisation of a comparison group of listed companies, the so-called peer group. In order to calculate the equity value, the level of debt is finally subtracted from the total value.

A portfolio company's fair value is thus largely determined by its key financial indicators, i.e. earnings and level of debt, as well as the market valuation of peer-group companies.

Even though we cannot consider value contributions from capital market developments or from the peer group's market valuation in our planning, they can significantly influence our results. In 2018, this effect was to the detriment of the result, after we had benefited from it in some of the preceding years.

In 1997, we financed the first of a total of 48 management buyouts. We realised 29 of these exposures until 30 September 2018, fully or largely, achieving 2.9 times the capital employed with the disposals. The pale blue line shows an ideal-typical linear valuation gain over the average five-year holding period.

The dark blue line, in contrast, shows the actual valuation gain of a portfolio company we sold in 2016 after just five years. In this case, we generated an above-average result: we were able to multiply capital employed by a factor of 4.2.

The chart provides two important insights:

1. The performance of a private equity investment is not linear. Often changes are set into motion when making an investment. These changes, however, require time to take effect. Promoting the internationalisation of a company, expanding the product range, or achieving operating improvements: these things are not done within a day. Value-enhancing measures will initially burden the results, until, at a later stage, these measures bear fruit in the form of higher results and a lower level of debt.

2. Actual disposal success is unpredictable. In individual instances – as is the case for the example on this slide – success may be materially higher than the average long-term success. In other instances, it might be considerably lower.

The chart also helps us understand why the result of the past financial year did not meet our expectations.

In the last financial year, individual companies generated a weaker value contribution than expected. The reasons were manifold, as Torsten Grede already explained.

It should be noted that, as at the current reporting date, the portfolio was younger than a year ago due to the high level of investments. Therefore, the initially rather flat valuation gain curve has a particularly strong impact.

Our net asset value increased by 5.2 per cent to 475.1 million euros in the past financial year. Excluding the dividend which we distributed to our shareholders one year ago, the increase would have amounted to 10.4 per cent.

The portfolio value included in the financial assets surged by nearly 40 per cent in the financial year under review, reaching the highest level in a decade (approx. 349 million euros).

Investments of 85.1 million euros and the valuation gain of the continued portfolios of 29.2 million euros contributed to this increase.

Financial resources decreased materially as a result of the high investment level, by 26.4 per cent. The ratio of capital employed to funding has significantly improved again, whilst the still quite high level of financial resources partially dilutes the return.

The portfolio generated returns of almost 200 million euros two years ago, as much as ever in one year. Financial resources had therefore reached a level higher than required within one financial year – in line with what our financing strategy generally envisages.

One year ago I said right here: “We will need these resources. We intend to grow and invest more than previously.”

And this is exactly what we did in the past financial year: we invested more. Significantly more, in fact. By investing, we are laying the foundation for future growth. This is one of the positive messages I was referring to at the beginning of my speech.

We need the financial resources available as at the reporting date. Our co-investment commitments were reduced within the course of our investment activities, but they are still above the amount of funds available (by 29.4 million euros), including the credit line, which we extended in 2018.

We expect returns from the portfolio after disposals to close this gap in the coming years.

Ladies and Gentlemen,

Our third financial target is for our shareholders to participate in our success, by receiving dividends which are as regular as possible.

I am delighted that, this year, we are able to propose an attractive dividend to you once again which does justice to every aspect of our dividend policy:
a distribution of 1.45 euros per share. In the third year after introducing our current dividend policy, this equals another dividend raise.

What are the key aspects of our dividend policy?

1. We do not want our dividend to depend on particular successes resulting from disposals, making it easier for us to deal with market abuse regulations, strengthening our position in sales processes, and helping expectations to take shape on the capital markets.
2. We want the payout ratio to reflect the growth in the Private Equity Investments segment,
3. Our aim is for a larger portfolio – from which we can expect more regular returns than in the past – as well as for materially higher income in the Fund Investment Services segment to form the basis for a stable dividend.

I would now like to provide you with some additional information on our dividend proposal:

We promised to raise the dividend whenever possible.

Whilst the most recent financial year was not characterised by returns after disposals (as was the preceding year), resulting in a significantly lower net income, net retained profit in accordance with the German Commercial Code (HGB) of approximately 170 million euros nevertheless allows us to propose a dividend raise of 5 euro cents per share. This is equivalent to a dividend yield of just over four per cent. Compared to other SDAX constituents, but also compared to other listed private equity companies, this is an attractive sum.

The level of net retained profit will continue to allow us to remain true to our dividend policy in future years and to at least keep the dividend at a stable level. We have also incorporated this in our mid-term planning.

Overall, our dividend proposal is in line with our financial resources and our financial planning, since we intend to grow, investing more in this growth than in the past – without having to borrow funds for this purpose.

That concludes my comments on the past financial year.

Two weeks ago we spoke about our start into the new financial year.

The first quarter results are highly unusual. You are not accustomed to very negative results from us: in the last five years, we reported negative net income for only two quarters.

What happened?

Between October and December, our portfolio – comprising 31 equity investments – was burdened by similar factors as equity funds: the valuation of the respective investments went down significantly. Many of you will also have had painful experience of this in your personal equity portfolios.

I have just explained how the prices of listed peer-group companies impact the valuations of our portfolio companies. Seeing as the multiples were significantly lower in nearly all cases as at 31 December, the most recent reporting date, than three months earlier, the valuations of our portfolio companies are also significantly lower – regardless of their commercial development.

The sharp share price decline of the listed peer-group companies in the first quarter cost us approximately 48 million euros in valuation. However, since most of the portfolio companies are adopting a positive stance on their further business development, this negative capital markets value contribution is faced by a plus of more than 21 million euros from operating performance (which is slightly more than we achieved in the first quarter of the previous year, and in line with our expectations).

We continued to invest: our investment team worked at new transactions and supported our portfolio companies in acquiring further assets. These investments are the foundation for further growth, too.

This brings me to my third topic, the financial outlook for the entire financial year 2018/2019 and beyond.

We published our forecasts for 2018/2019 and our ambitions until 2020/2021 in November 2018, within which we said that forecasts are becoming much more uncertain in view of the environment. You are familiar with the issues: trade dispute between the United States and China, Brexit outcome, budget dispute between the EU and Italy, and – last but not least – the changes in the automotive industry.

Against this background, we had forecast a moderate decline for our net income 2018/2019 compared to the reference point of our forecast. Compared to the level achieved in 2017/2018, this still equals a slight increase.

Looking ahead to the 2019/2020 and 2020/2021 financial years, we had anticipated significantly better results for both periods.

Uncertainty has already taken its toll in the first quarter of the current financial year, reflecting lower valuation multiples of listed peer-group companies. Should the multiples underlying the most recent quarterly results remain on the same level until 30 September 2019, our net income would actually deteriorate accordingly in comparison to the forecast. The logic of the multiples approach dictates this. In other words, capital market developments question our forecast for 2019. But: we re-assess the situation at each quarterly reporting date.

Ladies and Gentlemen,

I hope that I have been able to explain the not-quite-so-simple cross-relationships from my view as Chief Financial Officer.

And with this, back to my colleague Torsten Grede.

[Third part, Torsten Grede]

I would now like to take a look ahead.

How do I assess the further development of our portfolio? Which opportunities do the market development – and our own market position – offer? What will DBAG's strategic development look like?

I will now answer these questions.

Let me first turn to the development of our portfolio going forward.

For this, we need to go back ten years to the end of 2008: at the height of the financial crisis and the beginning of a deep recession, DBAG's portfolio was characterised by companies from sectors with cyclical market demand. Five of the ten biggest investments at the time were in the machinery and plant engineering sectors. Almost the entire portfolio consisted of investments which were highly affected by falling demand for industrial goods (which in some cases was dramatic).

Today, the investment landscape paints a completely different picture.

Companies whose business is characterised by cyclical market demand are the clear minority among the 15 currently largest investments, which account for approximately three-quarters of the portfolio value. Overall, just over one-third of capital invested involve cyclical business models.

Less cyclical companies, or companies for which we expect structural increases in market demand, account for more than 50% of the portfolio value.

But good companies can also be found in difficult sectors. I would like to explain this by taking the automotive suppliers in our portfolio as an example.

Currently, they are not very popular on the capital markets, which – taking into account the challenges the automotive industry is facing – is not very surprising. However, the sector also offers companies with growth potential.

Our investment *Dieter Braun* is a specialist for cable systems and vehicle interior lighting. *Sero*, the youngest family member in our portfolio, is a development and manufacturing service provider for electronic components. The increasing share of electric and electronic components in vehicles

is a growth driver for both investments. Hence, structural changes resulting from the electrification of vehicles impact them, if at all, positively.

Let me turn to our market and the opportunities we see: a few weeks ago, we reported on the development of the market for management buyouts in the German 'Mittelstand'.

This market analysis is limited to transactions in Germany with an enterprise value of between 50 and 250 million euros. Hence, it fails to take smaller transactions into account. This is the reason for which the overview enumerates merely 27 management buyouts by DBAG and its funds since 2004.

At first glance, nothing much changed in 2018. Once again, DBAG was one of the most active private equity companies. However, the distance between us and our competitors is significant.

The real change is obvious when taking a look at the sellers. 40 per cent of sellers to private equity were families and company founders.

That is a positive development, since Germany's enterprise landscape offers many interesting and well-positioned companies.

We have a good standing among families and company founders, who have a common goal: they wish to find a new owner who will develop "their" company in the best possible way. And we have numerous examples to show for a healthy and successful development of former family-owned companies in our portfolio.

We also often dealt with company founders in the past financial year – three quarters of our management buyouts in 2018 fell into this category.

Ladies and Gentlemen,

We do not rest on the laurels of our excellent market position. In recent years we have advanced DBAG by refining the investment strategy.

I would thus now like to turn to the strategic development of DBAG.

The focus of our portfolio remains on investments in companies from the industrial sector, which characterise the German economy, and which we call our core sectors.

What is the advantage of a focus on specific sectors? Our employees establish their own sector knowledge and a sector-specific network, which helps us to find those business models within a sector that represent a match for our investment strategy. Our own sector knowledge helps us in assessing companies and their potential for further development. In addition, we are also a better sparring partner for the management team of a portfolio company with our own sector knowledge,

when it comes to implementing measures to realise growth potential. All of this enhances our competitive edge.

However, for several years now, we have not been restricting ourselves to manufacturing industry alone.

Our success over the past fifteen years has markedly increased the size of funds we advise. Nevertheless, the market for company investments is not unlimited, which is why we also concentrate on companies outside our core sectors in a targeted manner.

But how can we also invest successfully here?

We identify interesting sectors, assigning them to individual employees in our team. They then take care of establishing a network of managers with experience in the sector, and focus on executing transactions therein.

Our investments in the broadband area are a very good example.

Nationwide digitalisation is only possible with a corresponding infrastructure. You are all aware of the political discussion on this topic.

In 2013, we invested in two infrastructure providers for high-speed internet in rural regions. Both companies were able to generate strong growth, after we equipped them with additional equity as real growth capital.

Supported by these two investments, we consistently expanded our network in the broadband sector, gaining access to further interesting investment opportunities. Thus, we were able to structure three further management buyouts of broadband service providers in Germany within the last two years. In addition, these new portfolio companies have already acquired five companies in the same period of time. Overall, we have already triggered 92 million euros of investment in this area, 42 million euros of which is attributable to DBAG.

Taking a look at investments outside our core sectors is thus not something that just developed during the last financial year.

DBAG Fund V's eleven management buyouts were all within the long-established core sectors, whilst this only applies to seven out of eleven DBAG Fund VI investments. And five out of six of DBAG ECF's most recent transactions involved company investments outside the core sectors.

I am certain that this will continue.

Most recently, companies with a digital business model –such as software, IT services or e-commerce – have been visible in our market.

These companies were often sold at high prices. However, they also offer significant growth potential, resulting, for example, from the digitalisation of traditional business models or from the relocation of own server and data centre capacities into the cloud. In this context, they can no longer be classified as start-ups. However, since the German market is still quite fragmented, this ensues in inorganic growth potential. We have found IT services and software to be especially attractive sub-segments, and invested in a software company (FLS) for the first time in 2018.

Ladies and Gentlemen,

Even a broadly diversified and balanced (as to size criteria) portfolio does not 'immunise' us to economic influence or to negative interactions on the capital market.

Nevertheless, I hope that you share my optimism with regard to DBAG.

Our current portfolio is young: more than 50% of acquisition costs are attributable to investments of the last two years. That is a historical high. These investments form the basis for a further increase in the portfolio value (and hence of DBAG's enterprise value) – regardless of potential turbulence on the capital market.

At the same time, our Company has comprehensively developed internally. Our processes have become even more efficient, our team has gained lots of experience in the last five years by entering into 28 investments and acquiring 30 companies, and we have intensively worked at our market presence.

Altogether this provides us with a solid basis from which to continue investing, in order to achieve valuation gains and additional growth.

At the beginning of my speech, I referred to the title of our Annual Report.

Long-term planning: in the past years, we focused on new sectors in a targeted manner.

Patience in development: important stimuli with the aim of increasing the value of a portfolio company are provided when making an investment. However, the valuation gain curve is not linear, a fact which especially affects our relatively young portfolio.

Writing success stories in eventful times: we – Rolf Scheffels, Susanne Zeidler and I – will strive to continue to create value for you and your Company, year after year. We will consistently work at increasing performance in the areas bearing relevance for our success, i.e. investment progress, portfolio development, and our investment team.

Ladies and Gentlemen,

Thank you for granting us your confidence and support!