Report on expected developments

Period covered by this report: short-term predictions do not do justice to business model

Our business lends itself to a medium to long-term planning and forecast horizon. That applies both to the co-investment activity and to fund investment services.

Events or trends that were not predictable at the beginning of a financial year frequently have a significant impact on the net income of a period. Not least, the information on the target achievement level in the last financial year bears impressive testimony to this. The unforeseeable developments include realisations that, at times, achieve prices clearly in excess of their most recent valuation, as well as unexpected developments in portfolio companies' consumer markets or in the stock market. The broad spread in which the return on equity has fluctuated over the past ten years is proof of this: the return ranged from -17.5 percent to 26.5 percent, but averaged 9.1 percent.

The DBAG funds have a term of ten years. The fees we receive for management or advisory services are methodically fixed over that term. That is why fee income is readily projectable over the short term, but at the same time it is also capped. Increases can only result from a follow-on fund in principle. Its size and, consequently, its potential fee income, is oriented around the former fund's investment performance, meaning that the potential fee income can only be judged conclusively at the end of the term. This, too, is indicative of the long-term orientation of our business.

As a result, we will be forecasting key figures not only for the ongoing, new financial year 2017/2018. We will also take the forecast for 2017/2018 as a basis in order to set out our expectations regarding further development over the next two financial years. Within this context, we have increased the number of projected performance indicators compared with the previous year.

The forecast is based on our integrated medium-term planning for 2020, which consists of a projected profit and loss statement, a projected statement of financial position and a projected statement of cash flows. For the Private Equity Investments segment, it is based on detailed assumptions on future investments alongside the DBAG funds that are currently investing, as well as on the holding period and the expected capital multiplier for each individual portfolio company. We use this information to predict the development of the cost and fair values of the portfolio and, based on these figures, the net result of valuation and disposal based on the IFRS, the net result of disposal based on the German Commercial Code and – at the level of the individual DBAG fund via which the Company made investments in the companies – the development of carried interest. In the Fund Investment Services segment, we take into account the development in fee income from Fund Investment Services and other income/expenses, i.e. mainly personnel costs, variable remuneration and consultancy expenses. We prepare detailed plans for expenses in the first planning year; thereafter, the various expense items are projected based on aggregate assumptions. As far as the dividend is concerned, we do not project any increases from the second planning year onwards, in line with the current dividend policy. All plan assumptions that have an impact on cash are included in the projection of financial resources.

Type of forecast: qualified and comparative based on individual points of reference for the forecast

The net income in the Private Equity Investments segment, net income and the return on equity per share are determined to a considerable degree by the net result of investment activity, which can fluctuate considerably from year to year, as is typical given the nature of our business. Over the last five years, this has amounted to values of between 29.2 and 94.3 million euros. We also expect these key financial indicators to show marked volatility over the current medium-term planning period. As a result, neither an interval forecast nor a point forecast of these indicators is feasible. We have therefore limited ourselves as before to making a qualified comparative forecast[19] on expected developments.

In the past, we based our forecast for all key financial indicators on the prior-year values based on the carried portfolio, making adjustments for factors that would not recur on a regular basis. We now no longer believe that this is the best approach for all indicators. 2016/2017 is one of the particularly successful financial years in the history of our Company. The net income of 90.4 million euros is the second-highest since we switched our accounting standards over to the International Financial Reporting Standards in 2003/2004, i.e. in the last 14 financial years; the associated return on equity was at its third-highest in the last 14 years. The net income for the year of 144.3 million euros calculated in accordance with the German Commercial Code is actually the highest net income generated since Deutsche Beteiligungs AG was established more than 30 years ago. This is testimony to the outstanding nature of the last financial year.

A comparison of actual business developments in 2016/2017 with the forecast published a year ago shows that evaluating the target achievement level does not make sense. A qualitative and comparative forecast based on the values for 2016/2017 also makes little sense for the income from, and net result of, investment activity, net income and the return on equity per share. As a result, we have based our forecasts for these indicators not on the actual values for 2016/2017, but on the average value for the last five years.

Changes of up to 10 percent are still considered “slight”, and changes of more than 10 percent but less than 20 percent are termed “moderate”. Changes of 20 percent and more are called “significant”.

19 *German Accounting Standard No. 20 (GAS 20) provides for three types of forecasts: the disclosure of a numerical value (“point forecast”), a range between two numerical values (“interval forecast”) and a change in relation to the actual value of the reporting period stating the direction and intensity of that change (“qualified comparative forecast”).*

Comparison of actual and projected business performance page 100f.

Expected development of underlying conditions

Market: no change anticipated

The number of investment opportunities that have come to our attention has been moving in a narrow corridor over a five-year period. The same applies to the number of transactions observed on our market. As far as the current and the next two financial years are concerned, we expect to see a constant supply – in terms of number and volume – of investment opportunities on our market.

Borrowings: availability stable at high level

The debt market for acquisition finance is diverse. So-called debt funds, as new providers in the market, offer leveraged finance through unitranches or mezzanine. The gap created by the withdrawal of some banks in the course of the financial crisis has now been closed. The business in leveraged finance for transactions in the private equity field is attractive. As a result, we expect to see a sufficient supply of this sort of financing over our forecast horizon; as far as the 2017/2018 financial year is concerned, we expect to see a constant supply at conditions that are largely unchanged.

Asset class of private equity: interest rate turnaround could reduce fund inflows

Private equity is firmly rooted as an asset class worldwide. It is an integral part of the investment strategy of many institutional investors. The proportion of private equity in the dissemination of assets is not constant and may even decrease. We believe that an interest rate turnaround is likely during our forecast period. This could, however, result in changes in asset allocation among investors, with a negative impact on private equity, and reduce the availability of capital commitments for private equity funds. The recent successes (DBAG ECF I 2016/2017, DBAG Fund VII 2015/2016) nonetheless confirmed that, in view of its above-average track record and under current market conditions, DBAG can at least expect to be able to raise follow-on funds in due time prior to the end of the investment periods of the presently investing funds and solicit sufficient capital commitments.

Macroeconomic environment: underlying conditions favourable in general, higher risks in the medium term

At the time this forecast was issued, the German economy continued to experience a robust upswing. Its pace of growth picked up considerably in the first half of 2017, with the growth rates for the first two quarters of 2017 outstripping the two comparable prior-year quarters.[20] A look at developments in the global economy tells a similar story: at 3.5 percent, the growth forecast for 2017 is ahead of the growth seen in 2016 (3.2 percent), with another marked expansion of 3.6 percent expected in 2018.[21] Differences have recently been identified in some regions of the world: whereas the growth forecasts for the eurozone, in particular, but also for Japan and China, have been lifted, economists have revised their expectations for US economic growth downwards. In the medium term, however, i.e. beyond 2018, economists believe that there is a risk of a downward trend. This is attributed, among other things, to an uncoordinated and overly hasty interest rate turnaround, protectionist tendencies and geopolitical tension.

20 *"Schlaglichter der Wirtschaftspolitik – Monatsbericht September 2017", Federal Ministry for Economic Affairs and Energy, Berlin, September 2017*

21 *"A Firming Recovery", IMF World Economic Outlook Update, Washington, D.C. (USA), July 2017*

Our portfolio companies operate in numerous markets and geographical regions. This means that they are subject to very different cyclical influences: for companies such as More than Meals or Unser Heimatbäcker, domestic demand in Germany is of much greater influence than for Infiana or Frimo, which offer their goods and services on a global scale. Again others – such as Gienanth or Pfaudler – are strongly affected by developments in certain commodity prices. We disregard changes in these parameters, just as we disregard the impact of changes in exchange rates.

Compared with the end of the financial year 2015/2016, we are now faced with an improved macroeconomic environment with solid economic growth. Therefore, we assume that the underlying conditions will basically be favourable for our portfolio companies in the new 2017/2018 financial year. We are not in a position to judge whether these risks will not materialise until the medium term, or whether they will arise sooner.

Information on cyclical risks page 119f.

Expected business development

In the table below, either the actual values for 2016/2017 or deviating values are shown as the basis for the forecast. Where deviating values are used, these are the average value for the performance indicator in question over the last five years. See the comments on the type of forecast.

FORECAST FOR FURTHER BUSINESS DEVELOPMENT

	Actual values for 2016/2017	Basis for the forecast	Expectations for 2017/2018	Ambition for the period leading up to 2019/2020
Key financial indicators				
Private Equity Investments segment				
Net result of investment activity	€94.3mn	€46.7mn	Much higher	Much higher than in 2017/2018
Pre-tax net income	€85.7mn	€49.6mn[1]	Slightly higher	Much higher than in 2017/2018
Cash flow from investing activities (excl. securities)	€108.9mn	€108.9mn	Much lower	Much higher than in 2017/2018
thereof investments (excl. securities)	€(90.3)mn	€(90.3)mn	Slightly higher	Much lower than in 2017/2018
Net asset value (reporting date)	€459.9mn	€459.9mn	Slightly higher	Slightly higher than in 2017/2018
thereof financial resources (reporting date)	€161.6mn	€161.6mn	Much lower	Much lower than in 2017/2018
No. of investments (reporting date)	24	24	Moderately higher	Much higher than in 2017/2018
Fund Investment Services segment				
Fee income from fund management and advisory services	€28.1mn	€28.1mn	Slightly higher	Slightly lower than in 2017/2018
Pre-tax net income	€4.7mn	€4.7mn	Moderately higher	Much lower than in 2017/2018
Assets under management or advisement	€1,806mn	€1,806mn	Slightly lower	Slightly lower than in 2017/2018
Net income	€90.4mn	€43.0mn	Much higher	Moderately higher than in 2017/2018
Shareholders' equity (reporting date)	€444.9mn	€444.9mn	Slightly higher	Much higher than in 2017/2018
Earnings per share	€6.01	€3.43	Much higher	Moderately higher than in 2017/2018
Equity per share	€29.57	€29.57	Slightly higher	Much higher than in 2017/2018
Return on Group equity per share	26.5%	15.7%	Much lower	Much higher than in 2017/2018
Net income in accordance with HGB	€144.3mn	€144.3mn	Much lower	
Dividend	€1.40	€1.40	Unchanged	Unchanged as against 2017/2018
Non-financial performance indicators				
No. of employees (reporting date, including apprentices)	67	67	Slightly higher	Slightly higher than in 2017/2018
Investment opportunities	321	321	Unchanged	Unchanged

1 Average value for the last four financial years since the introduction of segment reporting

The **NET RESULT OF INVESTMENT ACTIVITY** is the item that has the biggest impact on the *Private Equity Investments segment* and on net income. It is also the item with the greatest budgetary and forecast uncertainty. The item is determined to a considerable degree by the net result of valuation and disposal; current income from financial assets and loans and receivables is of lesser significance.

Projections of the contribution to income for the portfolio are based on current assumptions regarding the holding period and the average annual value appreciation of the investments during that holding period, irrespective of the fact that value growth is not linear every year to the same assumed extent.

The net result of valuation represents the net amount of positive and negative value movements of the portfolio companies. These value movements derive from the change in the fair value of an investment in comparison to the preceding valuation date. In the past, there were instances when sizeable capital gains were realised on disposal of investments, for example because industrial buyers were willing to pay premiums on the estimated fair value for strategic reasons or because – as in 2016/2017 – financial investors paid such premiums after intense competition among bidders. Such events are not predictable. This is why we have assumed that the sale price corresponds to the fair value calculated in each case. Current income from financial assets and loans and receivables is also not forecast individually; we assume that earnings generated from the portfolio companies are ploughed back and therefore flow into the achievable market price to the same extent.

Based on our assumptions, we expect a net result of investment activity that is significantly above the forecast. In the next two years (2018/2019 and 2019/2020), we then expect to see values that are considerably higher than the values expected in the coming financial year.

Consequently, **EARNINGS BEFORE TAX** in the *Private Equity Investments segment* will initially be slightly above the prior-year value before considerably exceeding the earnings before tax for 2017/2018 in the next two years.

Based on the co-investment agreements with the DBAG funds, we predict that **INVESTMENTS** will be slightly higher than in the last financial year in 2017/2018. We expect to see fewer divestments than in the most recent financial year (2016/2017: six) and we have not predicted any gains on disposals. This produces a much lower **CASH FLOW FROM THE PORTFOLIO** in 2017/2018.

We want to continue to invest in 2017/2018 and expect to see positive development in the value of the portfolio that will exceed the dividend distributed. As a result, the **NET ASSET VALUE** on the next reporting date will be slightly higher than the value currently being reported. We then expect to see moderate growth in this value for the next two years. Total **FINANCIAL RESOURCES**, which form part of the net asset value, will drop considerably, also because the planned investments and the distribution will be higher than the returns from planned divestments.

The **FEE INCOME FROM FUND MANAGEMENT AND ADVISORY SERVICES** is determined largely by the fund volume. The conditions under which fees are paid for our management and advisory services are customarily fixed for a fund's entire term. This makes it easy for us to budget for this income. In 2017/2018, we will generate income from advisory services provided to DBAG Fund VII for the first full financial year. As a result, the fee income from fund management and advisory services will be slightly higher than in the financial year under review. Further divestments will then make the basis for calculating this income smaller until a new fund is launched; this is why, in the two ensuing years, income will be down slightly on the level seen in 2017/2018. In the *Fund Investment Services* segment, we therefore expect to see moderately higher **EARNINGS BEFORE TAX** than in the past financial year to begin with, followed by a marked decline from this higher level by more than 20 percent per year. Due to divestments in the coming year and in the next two years, the **ASSETS UNDER MANAGEMENT OR ADVISEMENT** will be down slightly in a year-on-year comparison in each case.

General forecast

Net income for 2017/2018 much higher than the point of reference used for the forecast, with a moderate further increase predicted in the ensuing years

As far as the **NET INCOME FOR 2017/2018** is concerned, we expect to see a marked increase compared with the point of reference used for the forecast. In the next two years (2018/2019 and 2019/2020), we also expect to see values that are respectively considerably higher and moderately higher than the values expected in the coming financial year. The **RETURN ON EQUITY** will be much higher than the cost of equity, which we expect to be unchanged as against 2016/2017, in both years. We expect to see **EQUITY PER SHARE** to increase slightly in the current, new financial year 2017/2018 before rising considerably in the two years that follow.

Profit for 2017/2018 according to the German Commercial Code also down considerably year-on-year

We are planning to dispose of investments in our portfolio in 2017/2018, too, albeit not as many as in 2016/2017. We expect, however, that these disposals may be made based on the fair value at 30 September 2017. This would not impact net income, but would translate into gains on disposals for DBAG in accordance with the German Commercial Code and would result in a corresponding inflow of liquidity. This means that the net result of valuation and disposal (in accordance with the German Commercial Code) will be much lower than the figure that was most recently reported. Operating expenses (total other income/expenses) will also be slightly higher than in the previous year. This produces an annual profit for Deutsche Beteiligungs AG (annual financial statements in accordance with the German Commercial Code) that is down considerably on the record result achieved in the financial year under review.

Deutsche Beteiligungs AG is reporting a retained profit in accordance with the German Commercial Code of 181.9 million euros at 30 September 2017. 21.1 million euros of this amount is to be distributed in February 2018. Our dividend policy provides for a dividend that remains stable and increases whenever this is possible. Over the medium-term planning period, we have assumed that our dividend will remain unchanged. We expect that our retained profit for the coming year and the next two years will allow us to make a distribution in this amount.

Frankfurt am Main, 21 November 2017

The Board of Management