

FinLab

Financials

9 September 2019

Adding value to the fintech portfolio

Following the high transaction activity in H218, FinLab has focused on value creation within its existing fintech companies. This includes initiating the transformation of Kapilendo into a banking partner for SMEs after the acquisition of wevest Digital in September 2019 and two follow-on funding rounds at Iconic Holding. Despite the c 25% decline in Heliad Equity Partner's share price in H119, the NAV per share remained broadly stable (€20.21 vs €20.44 at end-2018) due to the positive impact from revaluations in the period. However, we note that Heliad's share price has rebounded 28% since end-June 2019, presumably driven by stock catalysts at its largest portfolio holding, flatex.

Heliad weakness offset by fintech holdings

FinLab's diluted EPS increased to €0.84 from €0.31 in H119. This was despite the lack of dividends and performance fees from Heliad Equity Partners, which were more than offset by other income streams, including an undisclosed amount of management fees from the EOS VC Fund launched in March 2018. Importantly, write-ups in unlisted holdings were €3.4m vs €0.9m in H118, driven by the revaluation of Kapilendo and Iconic Holding. The overall result improved to -€0.6m vs -€7.3m albeit once again affected by Heliad's negative share price development.

Development at portfolio holdings continues

Following the acquisition of ONPEX in February 2019, FinLab's portfolio consists of 10 holdings vs the maximum targeted size of 12–14. The company continues its value creation efforts across the fintech portfolio as illustrated by the development of its product offering (eg Cashlink), customer base (eg Authada) and partnership network (ONPEX), as well as the completion of new funding rounds (Iconic Holding). In addition, Kapilendo, FinLab's third largest holding, announced the strategic acquisition of wevest Digital in September 2019 to become a digital banking partner for medium-sized businesses.

Valuation: Trading at a discount to NAV

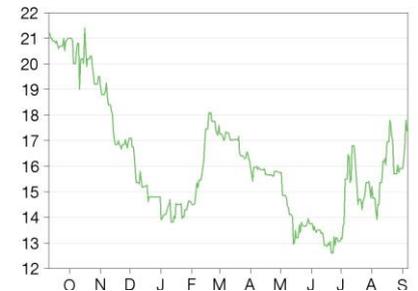
FinLab's last reported NAV at end-June 2019 was €20.21 relative to which the shares are trading at a discount of 15%. Heliad Equity Partners is also trading at a discount (c 42% relative to its end-June 2019 NAV). While it is typical for investment companies to trade at a discount, if we valued Heliad at par with its end June NAV, this would translate into FinLab's current discount of c 23%.

Historical financials						
Year end	Total Income (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	6.5	7.1	1.44	0.00	12.0	N/A
12/16	4.9	14.0	2.98	0.00	5.8	N/A
12/17	4.4	14.5	2.85	0.00	6.1	N/A
12/18	4.7	17.1	3.14	0.00	5.5	N/A

Source: FinLab accounts

Price **€17.25**
Market cap **€90m**

Share price graph



Share details

Code A7A
Listing Deutsche Börse Scale
Shares in issue 5.2m
Last reported net cash as at 30 June 2019 €8.2m

Business description

FinLab is an incubator and builder of fintech companies based in Germany. It also has holdings in two relatively mature asset management businesses, Heliad and Patriarch, which gives it stable cash flows and a strong balance sheet. In March 2018, the company expanded its asset management portfolio with EOS VC Fund. It currently has 10 fintech investments.

Bull

- Strong balance sheet and stable cash flows.
- Exposure to various fintech segments.
- FinLab may benefit from current development at Heliad's largest portfolio company, flatex.

Bear

- Small free float and low liquidity.
- Fintech investments are inherently high risk and the portfolio is relatively concentrated.
- Uncertainties around Heliad future performance.

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H119 EPS up amid higher revaluation gains

FinLab recorded a diluted H119 EPS of €0.84 compared with €0.31 in H118 (Exhibit 1). As a consequence of Heliad Equity Partners' weak FY18 results, FinLab did not receive a performance fee or dividend from Heliad in H119 (vs €0.5m and €0.9m in H118, respectively). However, this was more than offset by other income streams from its asset management companies (Heliad Management, Patriarch and EOS VC Fund). As a result, total income increased 4.3% y-o-y to €2.9m. With broadly stable operating expenses, EBIT was €1.2m from €1.0m in H118.

FinLab's bottom line was assisted by an improved financial result (€3.55m in H119 vs €0.9m in H118), on the back of higher write-ups on the unlisted holdings of €3.4m compared with €0.9m in H118. Based on our discussions with management, we understand that this was due to 1) the revaluation of Kapilendo, triggered by the conversion of its loans at a higher valuation as part of the wevest Digital acquisition; and 2) a new funding round completed by Iconic Holding in January 2019 which resulted in a higher valuation (we outline the transactions below).

As a result, net income was €4.6m compared with €1.6m in H118. At the same time, the c 25% decline in Heliad's share price in H119 led to a lower revaluation reserve, which was down by €5.2m (after a decrease of €8.9m in H118). Consequently, the overall result was -€0.6m vs -€7.3m in H118.

Exhibit 1: Financial highlights H119			
in €000s, unless otherwise stated	H119	H118	change y-o-y
Revenue	723	1,221	-40.8%
Income from investments	1,770	1,210	46.3%
Other operating income	417	360	15.8%
Total income	2,910	2,791	4.3%
Personnel expenses	(1,134)	(1,059)	7.1%
Non-personnel expenses	(621)	(709)	-12.4%
EBIT	1,155	1,022	13.0%
Financial result, of which:	3,546	944	275.6%
Income from the sale of securities and financial assets	274	144	90.3%
Retirement of securities and financial assets	(126)	(128)	-1.6%
Write-ups and write-downs of securities and financial assets	3,360	917	266.4%
Interest and similar income	57	15	280.0%
Interest and similar expenses	(19)	(3)	N/M
EBT	4,701	1,966	139.1%
Taxes on income	(101)	(340)	-70.3%
Net result for the period	4,600	1,626	182.9%
EPS (€)	0.84	0.31	173.3%
Overall result (including change in revaluation reserve)	(621)	(7,278)	-91.5%

Source: FinLab accounts

NAV per share remained broadly stable at €20.21 at end-June 2019 compared to €20.51 at end-March 2019 (down c -1.5%) as the positive impact from the write-ups of non-listed holdings was more than offset by the c 24% share price depreciation of Heliad Equity Partners between March and June this year (the company represented c 15.3% of FinLab's NAV as of end-June 2019 vs c 19.8% as of end-March 2019). FinLab has achieved an NAV total return (TR) of c 20% pa at end-June 2019 since its establishment (end-2014) while its last 12 months (LTM) NAV TR was 3.6%.

That said, Heliad's share price rebounded to €4.76 (6 September 2019), close to the end-December 2018 level of €4.79. We believe this is attributable to the c 42% share price appreciation of flatex (formerly FinTech Group) since end-June 2019. The company is Heliad's main portfolio holding, representing c 61% share of its NAV at end-June 2019 (vs 54% at end-December 2019), according to our calculations. We note that flatex recently initiated a review of strategic options, including the possible sale of the business and the onboarding of new investors. This could

potentially represent an exit route for Heliad and (depending on the attractiveness of the actual exit price) translate into a significant disposal gain, which could result in a performance fee and dividend payment to FinLab.

In parallel, Heliad continues the restructuring of its portfolio, which it initiated after management changes in April 2019. In H119, Heliad recorded net income of €0.4m compared with a net loss of €15.8m in H118, largely due to a swing from a net revaluation loss of €12.3m in H118 to net revaluation income of €1.6m. We believe the main contributor was flatex, whose share price increased c 14% in H119.

Fintech holdings scale up

Following the acquisition of **ONPEX** in February 2019 (see more details in [our last update](#)), FinLab's fintech portfolio consists of 10 holdings. This compares with management's target of around 12–14 fintech portfolio investments, which is the maximum number of companies FinLab can actively manage at a time. Consequently, even though there is still scope for further transactions (the company had €8.2m in cash on its balance sheet at end-June 2019), the emphasis may gradually shift to value creation in existing holdings rather than portfolio expansion.

In terms of follow-on investments, **Iconic Holding** closed a seven-digit financing round in January this year in order to further develop and launch its Asset-Management-as-a-Service (AMaaS) platform (see our last update note for more details). Importantly, in July 2019, Cryptology Asset Group provided a further seven-digit million-euro equity amount, which will be used to 1) finance the launch of the AMaaS platform for external crypto asset managers in Q319; 2) introduce Iconic Funds' offering to institutional and accredited investors in Q319 (the company received regulatory in-principle approvals in July 2019); and 3) bring crypto asset exchange traded products (ETPs) to the European market in Q419.

We note that FinLab's largest portfolio holdings started to scale up their operations either through geographic expansion or M&A, which remains in line with broader trends observed in more mature fintech market segments, payments/banking and non-banking lending in particular. **Deposit Solutions** (which represented c 29% of FinLab's NAV as of end-August 2019) launched Savedo in the first non-EU market (Switzerland) in February 2019 after announcing in November 2018 its plans to enter the US. Moreover, the company strengthened its strategic focus on the core business related to open banking by the disposal of its rental deposit management division Deutsche Kautionspartner to Aareal Bank for an undisclosed amount in June 2019.

Kapilendo expanded its product portfolio after the acquisition of a 100% stake in the banking platform wevest Digital announced in September 2019. Its current SME lending offering will now be extended with issuance of blockchain-based securities as well as digital asset management, including exchange traded funds (ETFs), active portfolio management products, crowdinvesting in German SMEs and real estate, as well as direct corporate investments. Consequently, Kapilendo will transform into a digital banking partner for medium-sized businesses. We note that the issuance of blockchain-based securities is also a core product of another FinLab portfolio holding, Cashlink.

The remaining portfolio holdings continue to market new products, expand their customer base and enter into partnerships. In May 2019, **Authada** announced that it has launched its onsite customer identification and legitimation application in several German savings banks (Sparkassen) in partnership with S-Markt & Mehrwert. Moreover, as announced in July 2019, the AUTHADA-app will also run on iPhones and be available not only in the Google Play Store but also in the App Store from September 2019 (following the release of the iOS 13 update). Authada states this opens a new market for the company, as iOS users obtain open access to the NFC interface that so far has been available only for a fee. Moreover, Authada expanded its cooperation with comdirect in August 2019, allowing its customers to open current accounts with Authada's identification solution.

In order to prove the functionality of its offering, **Cashlink** issued its own blockchain-based digital securities in May 2019 by means of a private placement to professional investors as well as its four existing shareholders: FinLab, Panta Rhei, seed & speed and Deplanis. In March 2019, **Vaultoro** launched its second product, an online savings account, Bar9, which enables its users to save money in the form of gold. **ONPEX** has entered into several partnerships with international financial institutions since December 2018.

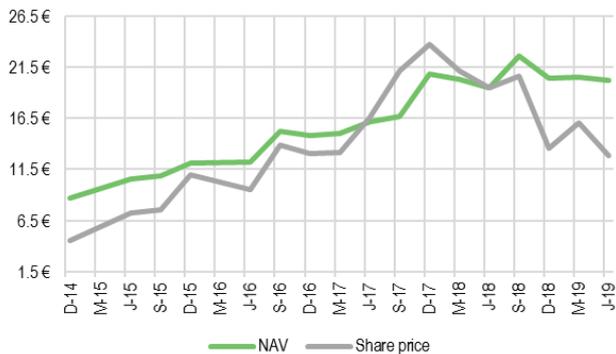
Valuation

FinLab's development is driven by its ability to grow its NAV over time. Earnings in any given year can be volatile, being dependent on the timing of revaluations and exits, which are reflected in the income statement on recognition.

The company's NAV per share remained broadly stable at €20.21 at end-June 2019 vs €20.44 at end-December 2018, while the share price declined c 6% over the six months. FinLab currently trades at a c 15% discount to the end-June NAV. Heliad Equity Partners comprised c 15.3% of FinLab's NAV as of end-June 2019 and at that date, it traded at a c 42% discount to its end-June (last reported) NAV per share of €6.25. While it is typical for investment companies to trade at a discount, it is instructive to consider the impact on FinLab's NAV if Heliad's assets were reflected at NAV. If the discount was removed, FinLab's NAV (at end-June 2019) would increase to €22.46 per share, which implies the current share price represents a discount to the last reported NAV of c 23%.

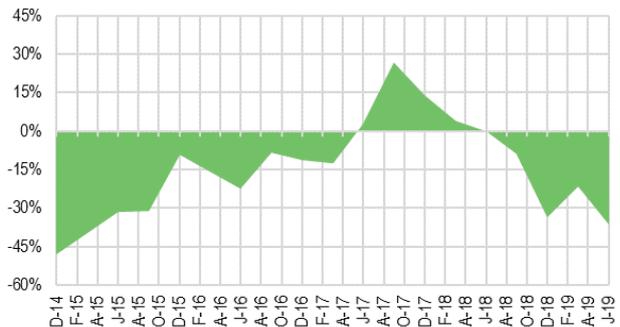
If we reflect the share price movements of major listed holdings within Heliad's portfolio (flatex, MagForce and Elumeo) since end-June 2019 and subsequently remove Heliad's discount to its end June NAV (ie apply par value), Finlab's discount is 24%. This is largely a function of the 42% appreciation in the flatex share price since end-June 2019.

Exhibit 2: FinLab's share price and NAV performance



Source: FinLab, Edison Investment Research

Exhibit 3: FinLab's discount/premium to NAV



Source: FinLab, Edison Investment Research

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