

FinLab

Benefiting from its fintech focus

FinLab delivered a NAV total return of c 18% in FY20, primarily assisted by the share price of Heliad Equity Partners (HEP), in which FinLab holds a c 45% stake, more than doubling. HEP's share price was mostly driven by the acquisition of DEGIRO by flatex (HEP's main portfolio holding) with the favourable market conditions for online brokers in 2020 further supporting the share price performance of the combined entity (flatexDEGIRO). We note that recently, Bernd Förtsch acquired Christian Angermayer's stake in FinLab, which makes him the controlling shareholder.

Positive contribution from unlisted holdings

FinLab's unlisted holdings were written up slightly by c €5.9m in FY20. Based on a discussion with the management, we understand that key drivers were Deposit Solutions, Heliad Management and Vaultoro. In March 2021, nextmarkets completed a US\$30m Series B funding round led by existing investors, including Alan Howard and Christian Angermayer with his Cryptology Asset Group. FinLab's new investments in 2020 were exclusively made through the Finlab EOS VC Fund.

Strong dividend from Heliad Management in H121

HEP performed a partial exit from flatex (announced on 2 July 2020), generating gross proceeds of c €21.5m and a sizeable gain on the average acquisition costs (c €17.9m according to our estimates). We note that the transaction and subsequent increase in value of HEP's remaining 5.2% stake in flatexDEGIRO means that FinLab is likely to receive a sizeable dividend from Heliad Management (HEP's investment manager, fully owned by FinLab), which should be paid in H121. Heliad Management generated a higher management fee in FY20 (based on HEP's year-end NAV) and also charged a performance fee on HEP's realised gains, which (based on our discussion with management) stood at c €3.0m.

Valuation: 25% discount to last reported NAV

Following solid share price growth in 2020 (up c 42%) and 2021 ytd (up c 14%), FinLab's discount to NAV narrowed from c 45% at end-2019 to c 25% currently (versus the five-year average of c 17%). HEP now trades at a 22% discount to NAV at end-2020 despite c 87% of its assets being attributable to listed flatexDEGIRO and cash. HEP's discount may be at least partially attributable to lack of clarity in terms of its prospective investment strategy and the management fee paid to Heliad Management. Having said that, if FinLab's stake in HEP was accounted for at HEP's NAV, FinLab's discount would stand at c 33%.

Historical financials

Year end	Total income (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	4.4	14.5	2.85	0.00	8.4	N/A
12/18	4.7	17.1	3.14	0.00	7.6	N/A
12/19	4.6	40.3	7.33	0.00	3.3	N/A
12/20	4.1	6.3	1.11	0.00	21.6	N/A

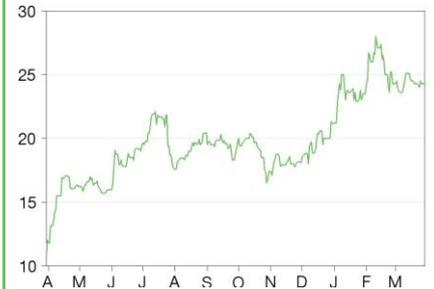
Source: FinLab accounts

Financials

30 March 2021

Price €24.0
Market cap €127.8m

Share price graph



Share details

Code	A7A
Listing	Deutsche Börse Scale
Shares in issue	5.3m
Last reported net cash as at end-2020	€6.1m

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, FinLab expanded its asset management portfolio with the Finlab EOS VC Fund.

Bull

- HEP's 2020 performance will trigger a sizeable dividend from Heliad Management to FinLab.
- Exposure to various fintech themes.
- Beneficial positioning of selected companies amid COVID-19 (eg nextmarkets, Authada).

Bear

- Limited visibility on HEP's strategy going forward.
- Small free float and low liquidity.
- Fintech investments are inherently high risk and the portfolio is relatively concentrated.

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FY20 results: NAV increases by c 18%

FinLab reported an 18% increase in NAV per share to €32.02 in FY20, assisted primarily by the 108% share price appreciation of its only listed holding, Heliad Equity Partners (HEP), which represented 22% of FinLab's total assets at end-2020. This was driven by HEP's partial exit from the listed online broker flatex completed last year (discussed in detail in our [update note](#) on HEP published in September 2020) and the increase in value of its remaining 5.2% stake in the combined flatexDEGIRO business. This led to an uplift in HEP's NAV to €13.28 at end-2020 from €7.39 at end-2019 (HEP published its FY20 results on the same day as FinLab). We estimate that at end-2020, the flatexDEGIRO stake made up c 68% of HEP's total asset value (with a further 19% in cash and equivalents).

FinLab's revenues from services provided to its subsidiaries and unlisted holdings went up by 6.9% y-o-y to €1.5m in FY20, while income from investments reached €2.0m compared to €2.7m in FY19. The company recorded a lower dividend from Heliad Management (HM), the fully owned investment manager of HEP. This was due to HM's lower management fees amid HEP's declining NAV in FY19 vs FY18, as FinLab normally receives distributions from HM in the first half of the following year. In line with FY19, FinLab did not receive any dividends from HEP. The company has also received a c €0.5m distribution from the fully owned, multi-asset manager Patriarch (which has a profit and loss transfer agreement with FinLab) and generated a management fee from the Finlab EOS VC Fund (which stands at around €1.0m pa).

We note that on the back of HEP's flatexDEGIRO realisation, HM had to charge a higher management fee for FY20 (we estimate it to be c €3.2m), as well as a c €3.0m performance fee on HEP's realised profits (driven primarily by this partial exit). This should support FinLab's results in H121 through a dividend from HM (although we note that FinLab also charges HM on a monthly basis for certain operating costs incurred on behalf of HM). Heliad Management (HEP's investment manager) has recently recommended not to pay a dividend from HEP's FY20 earnings.

FinLab's NAV was further supported by net write-ups on unlisted securities and financial assets of €5.9m (which on a pre-tax basis added c 4pp to FinLab's NAV TR in FY20). Key contributors include Deposit Solutions, Heliad Management and Vaultoro. While this is visibly below FY19 (€37.8m), the latter was largely the result of the revaluation of Deposit Solutions following the funding round with Deutsche Bank in September 2019 (see our [flash note](#) published in September 2019). Nevertheless, COVID-19 has likely made it harder for early-stage businesses to conduct new funding rounds, which may also have had an impact on the extent of write-ups in FinLab's portfolio last year. It is worth noting that FinLab's unlisted holdings are revalued based on recent funding rounds rather than on the multiples of comparable listed businesses. Consequently, FinLab's short-term NAV TR comparability to the performance of public equity markets is relatively limited.

FinLab's personnel expenses stood at €2.2m in FY20 vs €0.9m, with the rise largely attributable to valuation changes from the stock option programme (which had a negative earnings impact in FY20 but a positive effect in FY19). Non-personnel expenses increased by 9.3% y-o-y to €1.7m on the back of higher consulting and audit costs, among other things. Consequently, net income came in at €6.1m vs €39.5m in FY19 and does not account for HEP's revaluation, which is recognised directly in equity through changes to revaluation reserve (€19.8m increase vs a €2.9m reduction in FY19). At end-2020, FinLab had cash and cash equivalents of €6.1m (vs €6.8m at end-2019) and we understand that further cash reserves may be held across its fully owned subsidiaries.

Exhibit 1: FinLab's FY20 results highlights

€000s	FY20	FY19	y-o-y change
Revenue	1,542	1,443	6.9%
Income from investments	2,001	2,678	(25.3%)
Other operating income	601	499	20.4%
Total income	4,144	4,620	(10.3%)
Personnel expenses	(2,204)	(892)	147.1%
Non-personnel expenses	(1,686)	(1,542)	9.3%
EBIT	254	2,186	(88.4%)
Financial result, of which:	6,023	38,082	(84.2%)
Income from the sale of securities and financial assets	260	318	(18.2%)
Retirement of securities and financial assets	(203)	(149)	36.2%
Write-ups and write-downs of securities and financial assets	5,864	37,800	(84.5%)
Interest and similar income	130	152	(14.5%)
Interest and similar expenses	(27)	(38)	(28.9%)
Pre-tax profit	6,277	40,268	(84.4%)
Taxes on income	(183)	(744)	(75.4%)
Net result for the period	6,095	39,525	(84.6%)
EPS (diluted, €)	1.11	7.33	(84.8%)
Overall result (including change in revaluation reserve)	25,848	36,636	(29.4%)

Source: Company data, Edison Investment Research

Christian Angermayer selling his stake in FinLab

In early January 2021, FinLab published an ad hoc release disclosing that Bernd Förtsch, one of the company's main shareholders, had further increased his share in the company to more than 50% by acquiring the entire stake held by FinLab's second key shareholder, Christian Angermayer (which he held directly and through his family office, Apeiron Investment). It remains to be seen whether this triggers any change in FinLab's strategy. Irrespective of this, it is likely to result in a more streamlined and smooth strategic decision-making process going forward. At the same time, we note that Christian Angermayer continues to be involved as an investor in several companies in FinLab's portfolio.

Nextmarkets completes new Series B funding round

In March 2021, the commission-free online broker, nextmarkets (one of FinLab's holdings in which it had a 31.4% stake at end-2020), raised US\$30m in a Series B funding round led by existing investors, including Alan Howard and Christian Angermayer with his Cryptology Asset Group. No details on FinLab's participation or the valuation of nextmarkets implied by the funding round were disclosed.

The company will use the proceeds for European expansion and broadening its product offering (which at present consists of around 7,000 stocks and 1,000 ETFs). Nextmarkets is currently active in eight European countries which, apart from Germany and Austria, include six markets that the company entered at the end of 2020 (the UK, Portugal, the Netherlands, France, Spain and Italy). The company went live with its platform in June 2018 and in 2020 was able to increase the number of transactions several times (to more than one million processed during the year), as well as managed client funds and the number of customers. This has likely been supported by strong market volatility and increased retail investor activity in 2020. In FY19 (last available data), nextmarkets posted a net loss of €2.8m.

Other recent relevant FinLab's portfolio developments include:

- Authada, a provider of digital identity solutions, attracted a new investor, the Italy-based TMT company Tinexta (discussed in detail in our previous [update note](#)).
- Deposit Solutions launched savings portal savebetter.com in the US in September 2020 and exceeded the US\$30bn mark for brokered deposit volumes.

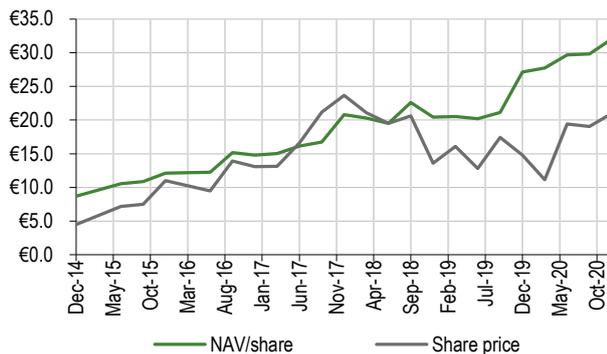
- Patriarch introduced the Liontrust Managed Portfolio Service in Germany with 22 growth, income and dynamic beta strategies and the Fondsdepot Bank acting as liable asset manager. The company was also commissioned as a sales partner in Germany by Mediolanum International Funds.
- The Finlab EOS VC fund completed a number of new investments, including most recently a seven-digit million amount in AlgoTrader (in December 2020), which offers a platform for algorithmic trading in both traditional and digital assets, as well as an investment in Spark Change, a provider of investment products allowing for direct exposure to the value of physical carbon emission allowances (as part of a US\$4.5m seed funding round led by Barclays in November 2020).

Valuation

FinLab's performance is driven by its ability to increase its NAV. Earnings in any given year can be volatile and depend on the timing of revaluations and exits, which are reflected in the income statement on recognition. FinLab's NAV per share was up 18.1% in FY20, largely driven by the revaluation of its stake in the listed HEP, as discussed above. This was coupled with a 42% increase in FinLab's share price during the period. Following a further c 14% share price increase since end-2020 to 29 March 2020, FinLab's discount to NAV at end-2020 stands at c 25%.

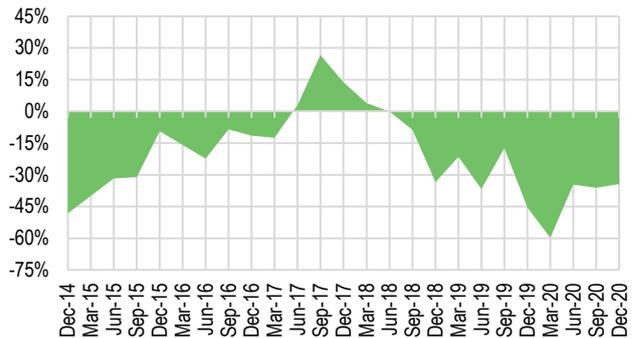
While it is typical for investment companies to trade at a discount, it is instructive to consider the impact on FinLab's NAV if its investment in HEP was valued in line with HEP's NAV (especially given a large part of its portfolio represents the listed shares in flatex) instead of the stock market pricing of HEP. If HEP's discount (which now stands at c 22%) were removed, FinLab's NAV (at end-December 2020) would increase to €35.97 per share and the current share price would represent a discount to the last reported NAV of c 33%.

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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