

## FinLab

### A German fintech incubator

FinLab is an early stage investor and incubator of German fintech companies with a strong balance sheet and recurring cash flows. Established in late 2014, it has already demonstrated its ability to select promising fintech companies that have secured follow-up participation from highly reputable investors. 2016 net income more than doubled, driven by significant write-ups of two of its four investments, while NAV grew 21%. Since end 2014, FinLab's NAV and share price have risen 68% and 285%, respectively. Investors looking to participate in German fintech opportunities may find FinLab of interest.

### Cash cow businesses support fintech investing

Established in 2014, FinLab is an early stage investor and incubator of German fintech companies with four fintech investments. It also has investments in two relatively mature, cash-generative asset management businesses: Heliad Equity Partners and Patriarch. These investments give FinLab the advantages of a strong balance sheet and stable cash flows, supporting its fintech investing activities.

### Significant write-ups drive earnings

2016 net income more than doubled to €14m (€6.5m in 2015) due to significant write-ups of two of its investments. Post year end, a third investment has been positively revalued. These results attest to FinLab's ability to select and build promising fintech companies. Furthermore, its investments have secured follow-on participation from several highly respected investors, including PayPal co-founder Peter Thiel and US-based Greycroft Partners.

### NAV growth supports valuation

FinLab currently trades at a c 10% discount to its end 2016 NAV of €66.4m. This is likely understated as it does not capture a post year end revaluation. Furthermore, the largest component of its NAV, Heliad Equity Partners, is valued at a 30% share price discount to its own NAV. If the discount is removed, FinLab's NAV would rise to over €80m, suggesting a discount to NAV of 25%. FinLab's NAV and share price have risen 68% and 285%, respectively, since end 2014. There continues to be significant NAV growth potential as its existing fintech investments are still in early stages, and FinLab intends to increase its portfolio to seven to 10 companies.

#### Historical financials

Year end	Revenue (€'000s)	PBT (€'000s)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/13	2,097	(1,241)	(0.27)	0.00	N/A	N/A
12/14	4,755	1,661	0.36	0.00	36.4	N/A
12/15	6,460	7,137	1.44	0.00	9.1	N/A
12/16	4,939	14,044	2.98	0.00	4.4	N/A

Source: Bloomberg

#### Financials

9 May 2017

Price €13.1  
Market cap €60m

#### Share price graph



#### Share details

Code ATA  
Listing Deutsche Börse Scale  
Shares in issue 4.54m  
Last reported net cash as at 31 December 2016 €970,000

#### 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. It currently has four fintech investments.

#### Bull

- NAV likely understated, growth potential is high.
- Strong balance sheet and stable cash flows.
- Listed exposure to a growing portfolio of fintech companies in Germany.

#### Bear

- Small free float and low liquidity.
- Fintech investments are inherently high risk and the portfolio is concentrated.
- FinLab may raise capital to fund future investments.

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## Company description: Specialist German fintech incubator

Established in 2014, FinLab is primarily focused on investing in and incubating early stage fintech companies in Germany. It currently has five fintech investments and intends to increase this to seven to 10 over the next two years. The company also holds two asset management businesses, Heliad Equity Partners and Patriarch. These are relatively mature and cash-generative businesses that provide FinLab with financial resources to pursue fintech opportunities. The company is based in Frankfurt and employs 15 people at the holding level and over 50 people through its subsidiaries.

The company was created from the restructuring of listed asset management company Altira Aktiengesellschaft and renamed FinLab in December 2014. Heliad Equity Partners and Patriarch were both previously part of Altira's portfolio.

### Strategy

The FinLab portfolio consists of two components: more mature, cash cow investments in asset management companies that it inherited from Altira; and more recent stakes in German fintech businesses in incubation phase. Its business model is to leverage off the asset management businesses, which provide balance sheet strength and cash flow, allowing it to focus on building its fintech investment portfolio.

The asset management companies Heliad Equity Partners, Heliad Management and Patriarch contributed €4.9m to FinLab's income in 2016, more than sufficient to cover FinLab's €2.6m operating costs.

FinLab looks for innovative and disruptive fintech companies in which to take a significant stake of at least 20%. This allows it to have influence in the company and also to have representation on the supervisory board. Unlike venture capital companies that typically take small, passive positions in a large number of holdings, FinLab's goal is to build a portfolio of between seven to 10 investments and add value to its companies in the following ways:

- Financing – primarily equity and with an 'evergreen' approach, which allows it to participate in seed and follow-on rounds.
- Know-how – including human resources support, legal support and international expansion experience.
- Network – the FinLab team and supervisory board have an extensive network of entrepreneurs, investors and business partners.

### Asset management companies

**Exhibit 1: Asset management companies as at end 2016**

Investment	Established	Interest held since	% holding	Equity (€000s)
Heliad Equity Partners	2000	2000	47	52,651
Heliad Management	2000	2000	100	1,346
Patriarch Multi-Manager	2004	2004	100	367

Source: FinLab AG

#### Heliad Equity Partners and Heliad Management

Heliad Equity Partners is a listed private equity investment company focused on German special situation investments, both listed and unlisted. It has three focus sectors: internet and technology; lifestyle (entertainment); and e-commerce. The largest holding is listed company Fintech Group AG,

which accounts for more than 50% of Heliad's NAV. For more information, see Edison's [QuickView note](#) on Heliad Equity Partners,<sup>1</sup> published 16 November 2016.

FinLab has been a shareholder of Heliad Equity Partners since its inception in 2000. Its 47% stake is currently worth around €24m and it receives dividends and distributions from the company. The recently announced 2016 dividend of €0.15 per share represents around €670,000 for FinLab in 2017.

Heliad Management performs the investment management function for Heliad Equity Partners for a fixed fee of 2.5% of reported shareholders' equity, which generates annual income of around €1.5m for FinLab. It also receives a 20% performance fee of the company's realised profits, which, by nature, is more volatile. In 2016, performance fees were approximately €200,000, down from around €2.2m in 2015.

### **Patriarch Multi-Manager**

Patriarch Multi-Manager develops fund-of-fund solutions and asset management strategies for independent financial advisors, selecting managers for each mandate. In so doing, Patriarch provides investors with access to expertise that is normally only available to wealthier families and institutions. It also creates products for larger partners to rebrand. In February this year, Patriarch launched an online robo-advisor product, truevest, which it hopes will extend its retail investor reach. Assets under management are currently around €245m. FinLab has indicated it expects to receive annual dividends of around €250,000-300,000 from Patriarch.

## **Fintech investments**

<b>Exhibit 2: Fintech investments as at end 2016</b>						
<b>Investment</b>	<b>Established</b>	<b>Interest held since</b>	<b>% holding</b>	<b>Recent valuation €m</b>	<b>Revenue potential pa €m</b>	
nextmarkets	2014	2015	49.9	15	20	
Deposit Solutions*	2011	2015	12.9	100	750	
Kapilendo**	2016	2016	28.7	22	15	
AUTHADA	2015	2016	20.0	5	110	

Source: FinLab. Note: \*Major shareholder Apeiron Investments holds 7.5% stake. \*\*Valuation established after end 2016.

### **nextmarkets**

nextmarkets was FinLab's first investment in February 2015. Founded in April 2014 by the entrepreneurs behind social trading platform ayondo, nextmarkets is an e-learning platform for private investors active in traded markets. Experienced professional traders serve as coaches to provide a real time narrative on their investment ideas and decisions, which it describes as "curated investing". The service was formally launched in December 2015, and in July 2016 nextmarkets successfully completed a seven-figure funding round in which Peter Thiel, among, others participated. FinLab estimates the value of the company at around €15m.

Peter Thiel's participation in the follow-on funding round of nextmarkets (and also Deposit Solutions) is significant because of his profile and track record. As the co-founder of PayPal and the first external investor in Facebook, his participation in an investment may be seen by some as an endorsement of a start-up's potential. He potentially lends credibility to FinLab among the start-ups community and could bring access to a significantly broader and higher-calibre network.

### **Deposit Solutions**

Founded in 2011, Deposit Solutions developed a platform (COMONEA) to allow banks to gain access to savers across borders in Europe without the cost of operating local infrastructure. With its proprietary technology, Deposit Solutions allows banks seeking deposits to list their savings offers

<sup>1</sup> Edison client.

on an open architecture platform and be available to customers of all participating banks. Thus any customer can access products of all participating banks through their existing account without the need to open multiple bank accounts. This allows retail banks to offer the best available rates without losing their customers. Meanwhile banks get low-cost access to a much larger pool of depositors.

COMONEA's model creates efficiencies and opportunities for retail banking while benefitting customers. With a deposit market size of approximately €9tn in Europe, the model is highly scalable. Meanwhile, Deposit Solutions has the benefit of early mover advantage and proprietary technology. To date, Deposit Solutions has mediated deposits of over €1.5bn and has attracted blue-chip names onto its platform, including Deutsche Bank and FFB, the German subsidiary of Fidelity.

FinLab invested €3m for a 12.9% stake in the company in 2015 alongside one of its major shareholders Apeiron Investments (7.5%), thus combined they own 20.4%. Peter Thiel became an investor in Deposit Solutions in January 2016 and a further funding round successfully raised €15m in July, valuing the company at over €100m (over four times FinLab's entry valuation).

### **Kapilendo**

Kapilendo was formed from a merger in April 2016 of FinLab's existing crowd-funding company Venturate and crowd-lender Kapilendo. In its current form, it is a platform to provide both traditional loans to small and medium-sized enterprises, as well as investments in start-ups and companies looking for growth capital. It had high-profile success last year when it raised €1m for Berlin football club Hertha BSC in a matter of minutes. More recently, Kapilendo announced a joint venture with Engel & Volckers Capital to launch a crowd-funding platform for real estate. The last financing round, completed in January 2017 valued Kapilendo at around €22m.

### **AUTHADA**

Founded in 2015, AUTHADA provides real-time mobile authentication of a customer's identity via a smartphone's NFC interface. The applications are broad across all aspects of digital life including e-commerce, mobile banking and services. The technology is patented and its procedure already meets legal and regulatory requirements of the second European Payment Services Directive (PSD2). FinLab's 20% stake was acquired in April 2016.

## **Recent news and upcoming catalysts**

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FinLab recently announced strong 2016 results with net income more than doubling to €14m (€6.5m in 2015). This was largely due to significant write-ups of Deposit Solutions and nextmarkets. Post year end, FinLab concluded a capital increase of Kapilendo, which also resulted in a valuation increase.

Starting this year, the company will publish its NAV quarterly to improve transparency. The first-quarter NAV, due to be published shortly, will capture the write-up of Kapilendo.

Management indicated the company has identified potential new investments, which may serve to highlight the opportunities available to the company and help grow its NAV.

On 2 May, FinLab announced it will make an investment in FastBill alongside venture capital company coparion GmbH. FastBill is an online financial management tool for small businesses and the self-employed. It is a 'software as a service' (SaaS) solution that allows small businesses and the self-employed to access professional business software that can relieve the users of time-consuming, clerical work and help eliminate accounting errors. FastBill has over 40,000 users. It was founded in 2011 and employs 22 staff.

Presently, the company does not expect any of its companies to be ready for exit for another one to two years. However, successful follow-on funding rounds and participations from respected investors could serve to highlight value creation within its portfolio.

## Market overview

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The financial services sector is one of the largest in the world, accounting for around 8% of global GDP or around €4.5tn. Digitalisation is proving a hugely disruptive force to incumbent service providers and, at the same time, providing enormous opportunities for newcomers and innovation. Traditionally, customers faced high costs, high dependency upon their bank, limited choices and little transparency. Customers are now less loyal and increasingly demanding of more choice, convenience and transparency at lower cost.

The investment potential for the fintech sector is therefore, in FinLab's view, very attractive. There are around 60m online bank accounts in Germany and nearly half the population use online banking. In 2015, capital invested in the German fintech sector amounted to around US\$770m, a growth of 840% over the previous year. FinLab believes it is well placed to capitalise on these trends given its financial strength, network and reputation.

## Management, organisation and corporate governance

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### Supervisory board and management board

German corporate law requires public companies to have two boards: a management board and a supervisory board. The board of management is executive and responsible for the management of the company. The supervisory board is made of non-executives whose role is to oversee the board of management and appoint its members.

The management board consists of three members:

- Stefan Schütze has responsibility for legal, compliance and regulatory matters. He joined FinLab in 2004 and became a board member in 2013. He has over 15 years' experience in private equity, venture capital and capital markets.
- Juan Rodriguez is the CFO and joined FinLab in 2007, becoming a board member in 2013. He has over 20 years' experience and has held senior finance positions in the asset management, telecommunications and energy industries.
- Kai Panitzki is responsible for strategy, marketing and communications. He joined the board in 2015. He was previously MD and acting partner at Sholz and Friends (WPP Group).

Axel Benkner has been chairman of the supervisory board since 2011. He was global head of retail and head of DeAM Europe at Deutsche Asset Management and a member of the Management Committee Germany at Deutsche Bank.

### Shareholders and free float

Name	Ownership (%)
BF Holding GmbH	49
Apeiron Investment Group	31
Free float	20

Source: Bloomberg

FinLab has two major shareholders, BF Holding GmbH with 49% and Apeiron Investment Group with 31%, leaving a free float of 20% (Exhibit 3). Both were pre-existing Altira shareholders when it restructured to become FinLab and are regarded by management as constructive, long-term

shareholders. Apeiron Investment is the partner investor with FinLab in Deposit Solutions and introduced Peter Thiel, who subsequently participated in two FinLab investments: Deposit Solutions and nextmarkets.

## Financials

FinLab was created out of the restructuring of Altira, a listed company that held a number of investments in asset management companies. The company refocused its business model to one investing in and incubating early stage fintech companies in Germany and, as part of that restructuring, sold its previous investments with the exceptions of Heliad Equity Partners and Patriarch. The company was renamed FinLab in December 2014. As a result, the historical financials of the company do not reflect the current business model.

<b>Exhibit 4: Financial summary</b>					
€000s	2012	2013	2014	2015	2016
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
<b>Income statement</b>					
Total income	5,578	2,097	4,755	6,460	4,939
Operating income	(6,885)	(4,314)	490	4,024	2,272
Income Before Tax (as reported)	(8,783)	(1,241)	1,661	7,137	14,044
Net income (as reported)	(8,967)	(1,247)	1,644	6,542	14,001
EPS (as reported) (€)	(1.98)	(0.27)	0.36	1.44	2.98
Dividend per share (€)	0.00	0.00	0.00	0.00	0.00
<b>Balance sheet</b>					
Total non-current assets	22,051	27,213	36,230	52,525	66,673
Total current assets	14,647	7,661	6,664	4,743	4,705
Total assets	36,698	34,874	42,894	57,268	71,378
Total non-current liabilities	1,382	1,426	1,396	543	549
Total current liabilities	5,403	4,473	2,010	1,694	3,686
Total liabilities	6,785	5,899	3,406	2,237	4,235
Net Assets	29,913	28,975	39,488	55,031	67,143
Shareholder equity	29,913	28,975	39,488	55,031	67,143
<b>Cash flow</b>					
Net cash from operating activities	(2,704)	(3,963)	(61)	2,621	889
Net cash from investing activities	2,885	1,801	2,613	(3,619)	(1,212)
Net Cash from financing activities	2,941	(200)	(1,402)	(1,000)	0
Net Cash Flow	3,123	(2,362)	1,150	(1,998)	(323)
Cash & cash equivalent end of year	4,502	2,141	3,291	1,293	970

Source: FinLab

### Income statement

FinLab recently reported 2016 IFRS earnings of €14m, more than double that of 2015 (€6.5m). This was mainly attributable to an €11.8m increase in financial income due to write-ups of two of its fintech companies, Deposit Solutions and nextmarkets, following successful capital increases in July 2016.

FinLab also receives income in the form of management fees, dividends and distributions from Heliad Equity Partners, Heliad Management and Patriarch. These are reflected in total income (see Exhibit 4), which fell to €4.9m in 2016, from €6.5m in 2015. Management fees (2.5% of assets under management at Heliad Equity Partners) and dividends are relatively stable at around €2-3m per annum. The company also receives performance fees from both Heliad Management and Patriarch, which are more variable. These fell by around €2m in 2016 and account for lower total income.

### Balance sheet and cash flow

FinLab's balance sheet expanded to €71.4m (€57.3m in 2015), largely due to a €9.8m increase in retained earnings. The company had net cash of €970,000 at the end of the year, which

management believes is sufficient for its investment needs this year when combined with cash held in its subsidiaries (undisclosed). With a strong pipeline of potential investments being presented, it would consider raising capital in the future. At the present 10% share price discount to NAV, this would be dilutive for existing shareholders. FinLab also has the flexibility to reduce its 47% stake in Heliad Equity Partners, however, at its current 30% discount to NAV FinLab does not view this as an attractive level to sell shares.

## Valuation

FinLab's growth is driven by its fintech activities and shareholder value should be driven by its ability to grow the NAV over time. Earnings in any given year can be less informative as the timing of revaluations and exits, which are reflected in the income statement upon recognition, can be volatile.

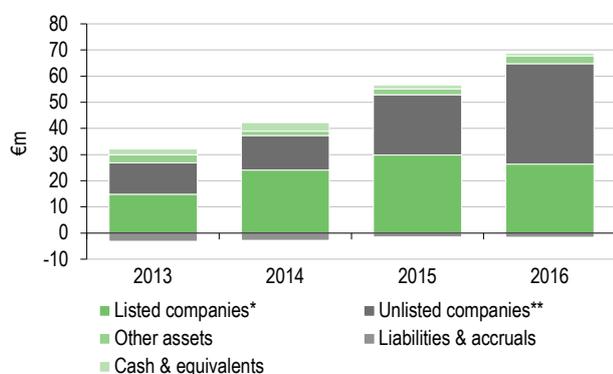
2016 NAV increased by 21% to €67.1m and FinLab trades at a 10% discount this NAV. This does not capture an increase in valuation of Kapilendo from €10m to €22m following a capital raising in January 2017. Furthermore, 40% of FinLab's NAV is its holding in Heliad, which is valued at a 30% discount to its own NAV. While it is normal for investment companies to trade at a discount, it could be useful to consider the impact on FinLab's NAV if Heliad's assets are reflected at fair value (NAV). If the discount is removed, FinLab's NAV would rise to over €80m, suggesting a discount to NAV of c 25%.

FinLab's NAV has grown rapidly since its inception at the end of 2014 to the end of 2016 (see Exhibits 5 and 6) and the discount to NAV has narrowed sharply from 54% at end 2013 to 10%, suggesting change in strategic direction upon the creation of FinLab has been well received by investors.

NAV growth since the end of 2014 has been driven by the increase in value of its fintech investments as the value of the asset management businesses is relatively unchanged. As a result, Heliad's share of FinLab's NAV has fallen from 48% to just under 40%. Given the current fintech investments are still in early stages and FinLab's intention to increase its investments from four to seven to 10 companies over the next two years, there is still significant potential for the NAV to grow.

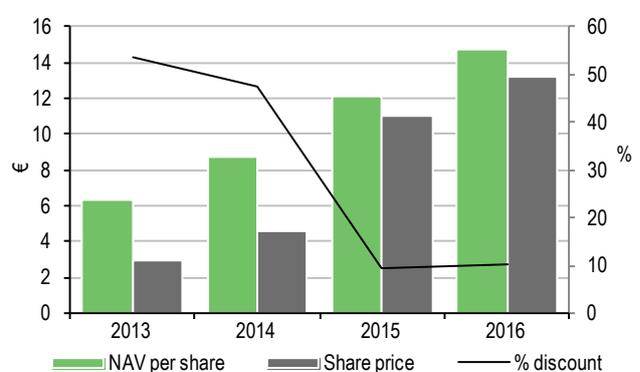
From this year, FinLab will publish its NAV on a quarterly basis to improve transparency. The first-quarter NAV, due to be published shortly, should show growth all other things being equal as it will reflect the Kapilendo revaluation discussed above.

**Exhibit 5: NAV breakdown, €m**



Source: FinLab, Edison Investment Research. Note: \*Largely attributable to Heliad Equity Partners. \*\*Largely attributable fintech companies.

**Exhibit 6: NAV and discount**



Source: FinLab, Edison Investment Research

## Sensitivities

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- **Reliance on Heliad.** FinLab can normally expect to receive over €2-3m per annum from Heliad Equity Partners and Heliad Management, plus performance fees in good years. Furthermore, Heliad Equity Partners represents 40% of its NAV, thus events that negatively affect its valuation and ability to pay dividends would adversely affect FinLab. Heliad's 2016 results showed net losses and a 22% decline in NAV to €8.43. Despite significantly weaker results, Heliad declared a €0.15 dividend as part of its "sustainable dividend policy".
- **High-risk investments.** FinLab's investments are start-ups and at high risk of failure, which could adversely impact the company financially and in terms of its reputation.
- **Short history of investing.** FinLab's short history of investing in fintech start-ups means there is a limited track record. Investors may take some comfort from its management track record at Heliad since 2000. Although Heliad's investments are not comparable and are past the seed and early growth stage, the track record does demonstrate expertise in equity investing.
- **Concentration risk.** With exclusive focus on fintech, which accounts for 60% (and rising) of NAV, FinLab is subject to sector risk and any developments that adversely affect this sector. Furthermore, with just six holdings, the portfolio is less well diversified than many other investment companies.
- **Regulatory risk.** Financial services are heavily regulated and the trend is for greater regulation, which may have an impact upon the profitability or viability of companies within the sector.

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