

## FinLab

### Financials

2 October 2018

### Several holdings complete financing rounds

FinLab's H118 results were influenced by the fall in Heliad Equity Partners' share price and limited revaluation of non-listed holdings. However, after the balance sheet date FinLab announced several positive developments, including the partial profitable exit from Deposit Solutions and new financing rounds at several holdings. According to management, these should translate into NAV/share of around €23 at end-September 2018, ie c 18% higher than the figure as at end-June 2018. Based on this estimate, FinLab is currently trading at an 11% discount to end-September NAV.

### H118 results: Net profit down amid lower write-ups

In H118, FinLab reported improved EBIT at €1.02m (vs €0.30m in H117) on the back of a higher dividend from Heliad Equity Partners and the performance fee from Heliad Management. However, net profit declined by 45.7% y-o-y to €1.6m as a result of lower write-ups (primarily related to the revised valuation in conjunction with the next funding round of nextmarkets). Amid a c 21% decline in Heliad Equity Partners' share price, the overall result (including change in revaluation reserves) was a negative €7.3m vs a positive €7.6m in H117.

### New funding rounds fuel growth in NAV

Even though FinLab managed to finalise a new financing round for only one of its holdings in H118, it completed other transactions post-balance sheet date that will have a significant impact on its asset value in H218. The revaluation of Deposit Solutions, accompanied by a partial exit, should add €3 to company's NAV per share alone. FinLab has also completed a capital increase on its own behalf, issuing 250k new shares at €20.75 each in April 2018. The €5.2m in proceeds should enable further investments. With the acquisition of awamo, FinLab's fintech portfolio reached 10 holdings compared with management's target of 10-12 companies.

### Valuation: Returning the shares' premium to NAV

FinLab's development is driven by its ability to grow NAV over time as earnings in any given year can be less informative due to their high volatility. In H118, it recorded a 6.3% decrease in NAV per share followed by a 17.7% drop in the share price, which saw the premium at which it trades reduced from 13.7% to null. If we remove the discount of 28.2% at end-June for Heliad Equity Partners and its stock trades in line with NAV, FinLab's NAV increases to €22.01 per share.

#### Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	4.8	1.7	0.36	0.00	56.9	N/A
12/15	6.5	7.1	1.44	0.00	14.2	N/A
12/16	4.9	14.0	2.98	0.00	6.9	N/A
12/17	4.4	14.5	2.85	0.00	7.2	N/A

Source: FinLab accounts. Note: \*Diluted figures.

Price €20.5  
Market cap €107m

#### Share price graph



#### Share details

Code	ATA
Listing	Deutsche Börse Scale
Shares in issue	5.2m
Last reported net cash at 30 June 2018	€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. It currently has 10 fintech investments.

#### Bull

- Good cash position may translate into NAV and earnings-enhancing acquisitions.
- 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.

#### Analyst

Milosz Papst +44 (0) 20 3077 5700

[financials@edisongroup.com](mailto:financials@edisongroup.com)  
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

## Financials: Modest revaluations until end-June

FinLab reported a more than threefold y-o-y improvement in EBIT in H118 (which amounted to €1.02m) on the back of a 58.9% y-o-y increase in total income. The revenue related to services provided to subsidiaries and equity interests rose from €0.76m in H117 to €1.22m in H118, assisted by the €0.5m performance fee received from Heliad Management. Income from investments reached €1.21m compared with €0.67m in H117 and included a higher dividend from Heliad Equity Partners compared to last year (€0.89m vs €0.67m in H117), as well as a dividend from Heliad Management (€0.32m). Meanwhile, personnel expenses increased by 24.3% y-o-y to €1.06m from €0.85m, but this was largely due to the valuation of options issued under the stock option programme, while non-operating expenses rose moderately by 18.0% y-o-y to €0.7m.

However, net income for the period dropped by 45.7% y-o-y to €1.6m. This is primarily because of the limited extent of write-ups in H118 (€0.92m vs €2.52m in H117), with the only major event triggering a revaluation of non-listed holdings being the new financing round of nextmarkets. However, it is worth noting that there were significant positive events post-balance sheet date, including the profitable partial sale and new financing round of Deposit Solutions (announced on 16 August), as well as new funding rounds in the case of kapilendo (announced on 11 July) and Authada (21 August), which will be reflected in the H218 results (we discuss these in more detail below). FinLab reported a negative overall result of €7.28m compared with a positive €7.56m in H117. It was driven by a €8.9m decline in the revaluation reserve, which is fully attributable to the c 21% share price decline of Heliad Equity Partners in H118.

### Exhibit 1: Results highlights

€000s	H118	H117	y-o-y change
Revenue	1,221	760	60.7%
Income from investments	1,210	669	80.9%
Other operating income	360	326	10.4%
<b>Total income</b>	<b>2,791</b>	<b>1,756</b>	<b>58.9%</b>
Personnel expenses	(1,059)	(852)	24.3%
Non-personnel expenses	(709)	(601)	18.0%
<b>EBIT</b>	<b>1,022</b>	<b>303</b>	<b>237.3%</b>
Financial result, of which:	944	2,728	-65.4%
Income from the sale of securities and financial assets	144	725	-80.1%
Retirement of securities and financial assets	(128)	(535)	-76.1%
Write-ups and write-downs of securities and financial assets	917	2,522	-63.6%
Interest and similar income	15	6	150.0%
Interest and similar expenses	(3)	0	nm
<b>EBT</b>	<b>1,966</b>	<b>3,031</b>	<b>-35.1%</b>
Taxes on income	(340)	(36)	844.4%
<b>Net result for the period</b>	<b>1,626</b>	<b>2,995</b>	<b>-45.7%</b>
Average no. of shares (diluted)	5,272,888	4,747,022	11.1%
EPS	0.31	0.63	-50.8%
<b>Overall result (including change in revaluation reserve)</b>	<b>(7,278)</b>	<b>7,561</b>	<b>-196.3%</b>

Source: FinLab accounts

## Partial exit and funding rounds to drive NAV in H218

As at end-June 2018, NAV per share stood at €19.51, representing a 6.3% decline compared to end-2017, which resulted mainly from the lower market value of Heliad Equity Partners. Nevertheless, total NAV increased by 2.5% to €102.2m following the issue of 250,000 shares at a price of €20.75 in April. The only transaction concluded in H118 was the second part of the Series A financing round of nextmarkets, with €6m proceeds bringing the total amount raised through this series to €9.5m. New shareholders were brought on board, including Axel Springer Media for Equity, Cryptology Asset Group and the British hedge fund manager Alan Howard.

As per management estimates, the favourable post-balance sheet date events should translate into NAV per share of c €23.0 at end-September 2018, ie around 18% ahead of the end-June 2018 figure. The most significant impact came from the latest financing round of Deposit Solutions combined with the partial exit from the investment. The capital increase resulted in an additional US\$100m, putting Deposit Solutions' value at US\$500m. The new shareholders have also acquired part of FinLab's stake valued at US\$11.5m. Following the deal, the company retained a 7.7% stake valued in excess of €30m and realized a gain, which will be fully reflected in FY18 earnings (a contribution of c €15m in IFRS terms), increasing NAV per share by more than €3.0, as per management estimates.

Moreover, in July 2018, the company finalised the second part of the Series B financing round for kapilendo, with €6.0m raised from Axel Springer Media for Equity following the €7.0m collected in the first part, completed in 2017. Another positive impact will come from the latest financing round of Authada, which enjoyed an undisclosed, seven-figure sum provided by FinLab and Commerzbank Group.

## Recent developments at portfolio companies

---

In parallel with the capital increase, **nextmarkets** launched its real-money offer after being granted a banking licence in Malta (which was required to enter the EU markets). This means the company is now offering real-money trading accounts rather than only demo accounts. It intends to launch its ETFs and cryptocurrencies offering, and introduce real-time trading ideas on the web and mobile devices. Currently, its team of 14 investment professionals covers more than 1,000 markets including stocks, indices, foreign exchange and commodities. nextmarkets will now focus on dynamic growth in Europe, although it also has aspirations to grow globally.

**Deposit Solutions** facilitated more than €9bn in deposits by September 2018 (vs €4.0bn in 2017 and €5.0bn in Q118) and now connects banks from 16 European countries. Proceeds from the latest capital increase will be used not only for investments in current markets, but also to attract banks from other locations. According to the founder, Deposit Solutions may enter Switzerland with its B2C offering as early as October this year, with plans for a possible expansion into three other markets thereafter.

In January 2018, the eID-Core solution from **Authada** became the first and only identification procedure in Germany certified by the Federal Office for Information Security (BSI). In H118 Authada expanded its business and in May its digital identification solution was introduced at the German/British social trading platform, ayondo. In July 2018, eID-Core was implemented by the Austrian paysafecard, one of the global market leaders in the field of online prepaid payment methods. Further developments at Authada could be assisted by the strong customer authentication requirement introduced by the Payment Services Directive II (PSD2), which will come into force in September 2019, as the company's product already meets the standard.

In March 2018, Block.one (the developer of blockchain software EOS.IO) and FinLab announced the \$100m **FinLab EOS VC Fund**, which will invest in projects using EOS.IO blockchain software and seek to benefit the EOS ecosystem. The fund, managed by FinLab, concluded its first transaction in September 2018, as it invested an undisclosed seven-digit amount in Instaffo, the developer of VAEON, an independent and open protocol with built-in governance that seeks to redefine how personal data are structured, exchanged or sold.

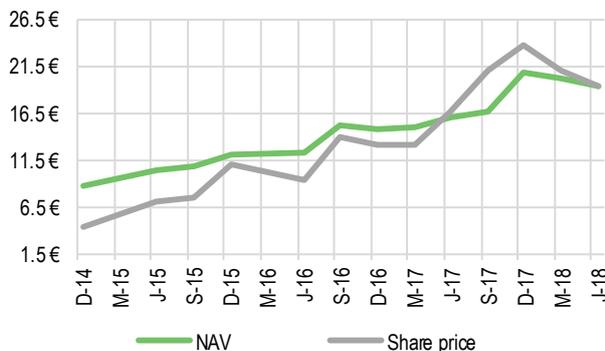
In September 2018, FinLab concluded a seven-figure investment into **awamo**, a provider of cloud-based core banking systems for small to medium-sized microfinance institutions in Uganda. This brings FinLab's total fintech portfolio to 10 holdings, which is already at the lower bound of management's target of 10-12 investments.

## Valuation

FinLab's development is driven by its ability to grow 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 on recognition, can be volatile.

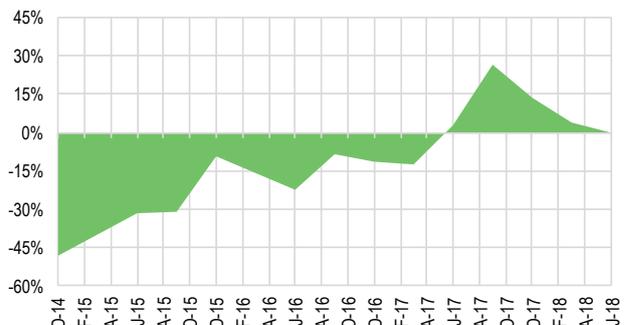
Against the backdrop of a 6.3% decrease in NAV per share in H118, the company's share price dropped by 17.7%, translating into a narrowing premium to NAV from 13.7% to null. If we factor in the NAV of €23 expected by the management at end-September, the company's shares trade at a discount of nearly 11%. Moreover, c 32% at end-June 2018 represented its holding in Heliad, which was valued at a 28.2% discount to its own NAV (the share price at end-June was €7.45 vs NAV at €10.38). While it is typical for investment companies to trade at a discount, it could be useful to consider the impact on FinLab's NAV if Heliad's assets were reflected at fair value (NAV) given that Heliad's discount has been gradually falling in recent years. If the discount were removed, FinLab's NAV (as at end-June 2018) would rise to €22.01 per share, suggesting that shares would have traded at a discount to last reported NAV of c 11% at end-June.

**Exhibit 2: FinLab's share price and NAV performance**



Source: FinLab, Bloomberg, Edison Investment Research

**Exhibit 3: FinLab's discount/premium to NAV**



Source: FinLab, Bloomberg, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

### DISCLAIMER

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c)(1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.