

FinLab

Expansion of fintech portfolio continues

FinLab continues to expand its portfolio of fintech investments (currently nine holdings), putting special emphasis on opportunities in the blockchain and cryptocurrencies space. The company regards the expertise it has acquired in this area as a competitive advantage in the context of tightening regulations. Nevertheless, FinLab's strong NAV growth in FY17 (c 41% y-o-y) was assisted by write-ups of its earlier investments: Heliad Equity Partners, Deposit Solutions and Kapilendo. As a result, FinLab's shares are trading in line with the last reported NAV.

Lower dividends and fees offset by higher write-ups

FinLab reported net income of €14.2m in FY17, up 2% vs the prior year (€14.0m), assisted by write-ups on its investments (€12.8m compared to €11.7m in FY16), in particular the revaluation of Heliad Equity Partners and Deposit Solutions. Total income was €4.4m (11.8% below last year's level) amid the absence of the performance fee from Heliad Management and a lower dividend payment by Heliad Equity Partners (€0.15 per share vs €0.20 in the prior year). For FY18, FinLab has already secured a performance fee of €0.5m and should also receive a dividend of €0.20 per share from Heliad Equity Partners.

Portfolio build-up almost complete

Following a number of transactions in 2017 and ytd, FinLab's fintech investment portfolio has grown to nine holdings, which is in line with the earlier company target of 7-10 holdings. Simultaneously, the business of key existing holdings (such as Deposit Solutions) is gaining momentum. Management expects that FinLab's portfolio could potentially expand to between 10 and 12 investments, leaving space for two to three new deals in 2018. First exits may be announced within the next 12-24 months.

Valuation: Trading broadly in line with NAV

FinLab's NAV at end-December 2017 reached €20.83, an increase of 24.6% from end-September (€16.72) and a 40.8% rise compared to end-2016 (€14.79). The current share price stands at €20.80, which is in line with the last reported NAV. If we assume that the major portfolio holding, Heliad Equity Partners, trades in line with NAV (vs a discount of 22.4% at end-December), FinLab's NAV increases to €23.28 per share. However, it must be noted that several of Heliad's key listed holdings posted a share price decline ytd (weighted average of 4.3%).

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	4.8	1.7	0.36	0.00	57.8	N/A
12/15	6.5	7.1	1.44	0.00	14.4	N/A
12/16	4.9	14.0	2.98	0.00	7.0	N/A
12/17	4.4	14.5	2.85	0.00	7.3	N/A

Source: FinLab accounts. Note: *Diluted figures.

Financials

18 April 2018

Price **€20.80**
Market cap **€104m**

Share price graph



Share details

Code	A7A
Listing	Deutsche Börse Scale
Shares in issue (basic)	4.99m
Last reported net cash as at 31 December 2017	€4.1m

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. It currently has nine 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

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Financials: Write-ups of key holdings assist earnings

FinLab has reported FY17 net profit of €14.2m, slightly ahead of last year's number (€14.0m). The results were predominantly assisted by considerable revaluation gains of €12.8m (FY16: €11.7m), mostly attributable to Heliad Equity Partners (its share price increased by 66% in 2017) and the B2C online deposit products intermediary Deposit Solutions, which saw its valuation double y-o-y following the completion of its last financing round of US\$20m in November 2017. Group NAV stood at €20.83 per share (up 41% y-o-y), with the company's shares currently trading broadly in line with reported net asset value.

FinLab's total income, including mostly fees and dividends from Heliad Equity Partners, Heliad Management and Patriarch, contributed €4.4m to FinLab's earnings in FY17, down 11.8% from €4.9m in FY16. This was due to the lack of performance fees from Heliad Management (which is the investment manager of Heliad Equity Partners), as well as a lower dividend from Heliad Equity Partners (€0.15 per share vs €0.20 in the prior year). However, Heliad's planned dividend payment from FY17 earnings stands again at €0.20 per share (or €0.9m attributable to FinLab's stake). Moreover, FinLab has already secured a performance fee from Heliad for this year at around €0.5m. It is important to note that this component is calculated as 20% of Heliad Equity Partners' realised profit and is thus quite volatile (for instance, it amounted to c €0.2m in FY16 and €2.2m in FY15).

The share issue conducted in May last year (providing €5.85m of gross proceeds), along with improved operating cash flow (€1.8m vs. €0.9m in FY16), was only partially consumed by financial investments (€4.4m), translating into a net cash position of €4.1m vs €1.0m in FY16.

Exhibit 1: FY17 results highlights

in € '000	FY17	FY16	y-o-y	H217	H216	y-o-y
Revenue	1,515	1,717	(11.8%)	755	727	3.9%
Income from investments	2,467	2,746	(10.2%)	1,798	2,246	(19.9%)
Other operating income	374	476	(21.4%)	48	85	(43.5%)
Total income	4,357	4,939	(11.8%)	2,601	3,058	(14.9%)
Personnel expenses	(1,760)	(1,643)	7.1%	(908)	(943)	(3.7%)
Non-personnel expenses	(1,140)	(1,024)	11.3%	(539)	(547)	(1.5%)
EBIT	1,457	2,272	(35.9%)	1,154	1,568	(26.4%)
Financial result, of which:	13,002	11,771	10.5%	10,284	11,974	(14.1%)
Income from the sale of securities and financial assets	879	615	42.9%	154	119	29.4%
Retirement of securities and financial assets	(676)	(650)	4.0%	(141)	(141)	0.0%
Write-ups and write-downs of securities and financial assets	12,763	11,713	9.0%	10,241	11,987	(14.6%)
Interest and similar income	36	93	N/M	30	9	N/M
EBT	14,459	14,044	3.0%	11,438	13,542	(15.5%)
Taxes on income	(245)	(42)	N/M	(209)	56	N/M
Net result for the period	14,214	14,001	1.5%	11,229	13,598	(17.4%)
EPS (€)	2.85	2.98	(4.5%)	2.85	2.98	(4.5%)
Overall result (including change in revaluation reserve)	30,759	11,803	N/M	23,207	11,227	N/M

Source: FinLab accounts, Edison Investment Research

Heliad Equity Partners reported its results on 28 March, posting strong earnings improvement with EPS reaching €4.02 compared to a loss per share of €2.31 in FY16. This was predominantly driven by revaluation gains of €47.1m (vs €2.5m last year), mostly from Heliad's largest holding, FinTech Group (63% of Heliad's NAV at end-2017) and by income from the sale of financial assets, as Heliad reduced its holdings in FinTech Group, DEAG Deutsche Entertainment and MagForce. For more details, see our recent [update note](#) on Heliad.

As at end-2016, FinLab had four fintech investments: nextmarkets, Deposit Solutions, Kapilendo and Authada. In 2017, the company completed three additional investments in FastBill (a leading German SaaS tool for small business financial management), Vaultoro (a real-time bitcoin gold exchange) and Iconiq Lab (an Initial Coin Offering and token sale accelerator program). In February 2018, FinLab invested around US\$2.0m during a pre-IPO round in Galaxy Digital Holdings, a

cryptocurrency merchant bank launched by Mike Novogratz focused on 1) opening a cryptocurrency trading desk, initially seeking to explore cross-exchange arbitrage opportunities; 2) investing in blockchain startups and ICOs; and 3) providing advisory and asset management services to affluent customers. Finally, the company signed a letter of intent with Block.one (the developer of EOS.IO blockchain software) related to the formation and capitalisation of a US\$100m fund which will be managed by FinLab and invest in projects utilising the EOS.IO open-sourced blockchain software. FinLab expects to realise first revenues from the fund in 2018 (with the launch planned for Q318). This brings FinLab's fintech investments to nine entities, which is already in line with the earlier management target of 7-10 companies. According to management, the fintech portfolio may grow to between 10 and 12 holdings, meaning the potential for two to three new investments in 2018. Within the next 12-24 months, FinLab may execute its first portfolio exits.

Deposit Solutions seems to be progressing well, with more than €5.0bn in deposits brokered as of Q118 since FinLab's initial investment in September 2015 (compared with €1.0bn by October 2016, €2.0bn by June 2017 and €4.0 by end-2017). The expanding scope of business is important, given that the company's operating model is based on a fee expressed as a percentage of assets under management. In August 2017, the company acquired Savedo, a competitor running a platform offering term deposits from foreign banks, as well as the opportunity to purchase and store physical gold and silver to German clients. Savedo expands the business of Deposit Solutions to include 18,000 customers, 13 partner banks and two new foreign markets (Austria and the Netherlands), thus assisting the company's internationalisation efforts. The combined customer base of Zinspilot and Savedo now stands at c 100,000 customers, while the number of partner banks reached more than 50 across Europe. In February this year, Deposit Solutions announced the expansion into six new regions, including Austria; France and Benelux; Central and Eastern Europe; Iberia; Italy and Malta; and the Nordics and Baltics.

As regards the update from other fintech investments, several of them reported customer base and/or product portfolio expansion in 2017, including Fastbill, Authada, Vaultoro and Kapilendo. Iconiq Lab has recently completed two pre-sale processes of its ICNQ token, raising €1.5m for its accelerator programme. Moreover, the public token sale started on 15 April and the company aims to collect €3.0m from the market. The owners of the ICNQ token will have exclusive pre-sale access to companies graduating the accelerator programme.

There seems to be several potential synergies between the respective portfolio companies. Possible product and customer synergies include, among others, 1) Vaultoro offering gold purchase to customers of Deposit Solutions; 2) Kapilendo providing crowdfunds to SMEs through Fastbill; or 3) Patriarch offering its defensive portfolios to Deposit Solutions clients. Moreover, Authada is already providing its ID solution to all portfolio companies with KYC requirements. Finally, FinLab may also benefit from network/deal sharing synergies, especially between Iconiq Lab, Vaultoro and nextmarkets with respect to ICOs, tokens and other cryptocurrency themes.

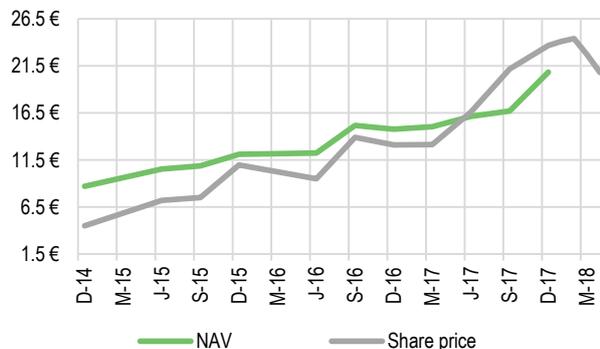
Valuation

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 on recognition, can be volatile.

FinLab's NAV has grown rapidly since the company's inception at the end of 2014 to the end of 2017 (see Exhibit 2 below) and the discount to NAV has narrowed sharply from 48% at end-2014 and changed into a 14% premium as at end-2017, suggesting that the change in strategic direction on the creation of FinLab has been well received by investors.

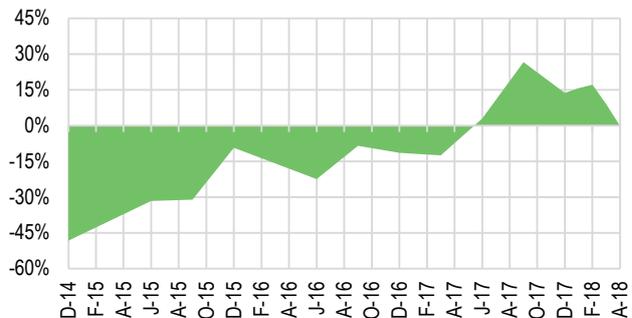
NAV per share as at end-December 2017 stood at €20.83, which represents a 24.6% increase from end-September (€16.72) and 40.8% compared to end-2016 (€14.79). The company's share price currently stands at €20.80, which means that the shares are trading in line with the last reported NAV. However, c 41% of FinLab's NAV at end-December represented its holding in Heliad, which was valued at a 22.4% discount to its own NAV (the share price at end-December was €9.48 vs NAV at €12.22). 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). If the discount was removed, FinLab's NAV would rise to €23.28 per share, suggesting a premium to last reported NAV of c 12%. However, it is important to note that share prices of Heliad's major listed holdings (representing c 70% of portfolio) declined by 4.3% ytd (weighted average based on share in Heliad's NAV). Adjusting Heliad's NAV for this, we would arrive at FinLab's NAV of €22.75 per share and a premium to the last reported NAV of 9% (based on the assumption that Heliad is traded in line with the adjusted NAV). Furthermore, FinLab's end-December NAV does not reflect the recent investment in Galaxy Digital Holdings and it seems that the market expects FinLab to use its cash pile to make further earnings- and value-accretive acquisitions following the recent capital increase.

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

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