

FinLab

Financials
24 April 2019

Growing exposure to the fintech space

FinLab's recent developments are characterised by successful new funding rounds completed by several of its private portfolio companies and their ability to attract new high-profile investors. This was coupled with good operational progress, including important client wins (eg Authada) and the introduction of new products (eg nextmarkets). On the other hand, FinLab's NAV and overall result in FY18 was negatively affected by the strong share price decline (c 50% in 2018) posted by Heliad Equity Partners. FinLab continues to expand its fintech portfolio and has some firepower left for a few additional investments.

Slight decline in NAV due to Heliad's revaluation

FinLab posted an increase in diluted EPS in FY18 of c 10% to €3.14, driven by a gain on the partial exit from Deposit Solutions (with the company retaining a 7.7% stake), as well as the revaluation of non-listed fintech holdings following new funding rounds (Deposit Solutions, nextmarkets, Kapilendo and Authada). It also booked €0.9m in dividend income from Heliad Equity Partners. However, its overall result stood at a negative €3.7m (vs a positive €30.8m in FY17) on the back of the significant share price decline of Heliad Equity Partners. Nevertheless, FinLab's NAV fell only slightly to €20.44 per share vs €20.83 at end-2017.

Fintech portfolio approaching targeted composition

The company has concluded three new investments since our last [update note](#), including awamo, Cashlink and ONPEX, which we discuss in detail later in this note. As a result, FinLab now holds a stake in 10 fintech companies, which compares with the maximum targeted size of its portfolio (determined by FinLab's active management approach) of around 12–14 companies. The company has enough dry powder to conduct a few additional investments this year, with a cash position of €13.4m at end-2018 (even if part of it has already been spent on ONPEX and the new funding round of Iconiq Lab).

Valuation: Discount to NAV returned

FinLab's last reported NAV at end-December 2018 stands at €20.44 and the company is trading at a discount to NAV of 24%. Heliad Equity Partners, one of FinLab's largest portfolio holdings, is also trading at a discount to its NAV (which at end-December 2018 stood at c 23%). While it is typical for investment companies to trade at a discount, valuing Heliad at par with its NAV would translate into FinLab's discount at c 28%.

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	10.8	N/A
12/16	4.9	14.0	2.98	0.00	5.2	N/A
12/17	4.4	14.5	2.85	0.00	5.5	N/A
12/18	4.7	17.1	3.14	0.00	5.0	N/A

Source: FinLab accounts, Edison Investment Research

Price €15.6
Market cap €82m

Share price graph



Share details

Code A7A
 Listing Deutsche Börse Scale
 Shares in issue 5.2m
 Last reported net cash at 31 December 2018 €13.4m

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 relatively concentrated.
- Weak performance and management changes at Heliad.

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Financials: Heliad weak, non-listed holdings strong

FinLab reported diluted EPS at €3.14 in FY18 compared with €2.85 in FY17. Revenues related to services provided to subsidiaries and equity interests rose to €1.9m in FY18 from €1.5m in FY17, which was driven by the €0.5m performance fee received from Heliad Management in the first half of the year. The company's income from investments went down by 8.8% y-o-y to €2.3m despite the higher dividend from Heliad Equity Partners (€0.20 per share vs €0.15 in FY17) and its first management fee from the EOS fund (in the form of a priority profit share). EBIT decreased to €0.8m from €1.5m in FY17, largely due to higher personnel expenses and advisory costs (with the increase in the latter related to the new EOS fund).

FinLab's bottom line was supported by the €3.8m net disposal gains (vs c €0.2m in FY17), largely related to the successful partial exit from Deposit Solutions back in August 2018, which was accompanied by a new funding round, putting the company's overall valuation at US\$500m. Following the transaction, FinLab retained a 7.7% stake valued in excess of €30m. The company's net write-ups of securities and financial assets amounted to €12.5m, marginally below the previous year's number (€12.8m). This was the result of revaluations in conjunction with several founding rounds conducted by portfolio holdings, most notably the above-mentioned capital measure of Deposit Solutions, as well as nextmarkets, Kapilendo and Authada.

Consequently, FinLab's net income went up to €16.9m from €14.2m in FY17. However, this does not take into account the change in revaluation reserve, which was down by €20.6m (vs a rise of €16.5m in FY17), mainly on the back of the c 50% decline in the share price of Heliad Equity Partners, which remained close to the end-2018 levels year to date. As a result, we estimate that Heliad is no longer FinLab's largest portfolio holding and has been overtaken by Deposit Solutions, as the current stake in Heliad is valued at around €20m compared to more than €30m in the case of Deposit Solutions. FinLab's overall result (including changes in revaluation reserve) stood at a negative €3.7m vs a positive €30.8m in FY17.

Heliad's price decline was accompanied by weaker results in FY18 vs the prior year, driven by the reduced valuation of listed companies, as well as some write-downs on non-listed holdings. Heliad reported a net loss for FY18 of €56.6m, which was particularly affected by an €8.1m write-down on Sleepz. Meanwhile, Heliad's managing director Thomas Hanke was replaced by FinLab's management board members, Stefan Schütze and Juan Rodriguez. We believe these changes may be associated with Heliad's subdued performance recently. Given the above-mentioned high FY18 loss, FinLab is unlikely to receive a dividend payment from Heliad this year.

Exhibit 1: Financial highlights FY18

in €000s, unless otherwise stated	FY18	FY17	change y-o-y
Revenue	1,945	1,515	28.4%
Income from investments	2,250	2,467	(8.8%)
Other operating income	495	374	32.4%
Total income	4,690	4,357	7.6%
Personnel expenses	(2,439)	(1,760)	38.6%
Non-personnel expenses	(1,462)	(1,140)	28.2%
EBIT	789	1,457	(45.8%)
Financial result, of which:	16,294	13,002	25.3%
Income from the sale of securities and financial assets	10,144	879	N/M
Retirement of securities and financial assets	(6,340)	(676)	N/M
Write-ups and write-downs of securities and financial assets	12,462	12,763	(2.4%)
Interest and similar income	35	36	(2.8%)
Interest and similar expenses	(6)	0	N/M
EBT	17,083	14,459	18.1%
Taxes on income	(167)	(245)	(31.8%)
Net result for the period	16,916	14,214	19.0%
EPS (€)	3.14	2.85	10.2%
Overall result (including change in revaluation reserve)	(3,669)	30,759	N/M

Source: FinLab accounts, Edison Investment Research

FinLab's NAV per share declined to €20.44 at end-2018 from €22.59 at end-September 2018 and €20.83 at end-2017. This was largely attributable to the above-mentioned drop in Heliad's share price, which more than offset the write-ups on non-listed holdings and disposal gain on Deposit Solutions. However, it must be noted that the NAV reduction in FY18 was rather limited at just 2%, compared with the DAX negative total return performance at c 18% in 2018. In terms of capital measures, FinLab conducted a capital increase in April at an issue price of €20.75 per share (vs the current level of €15.60), raising gross proceeds of around €5.2m.

Recent portfolio developments

FinLab has conducted a number of new investments in H218 and post balance sheet date. This includes the seven-figure investment in awamo, a provider of cloud-based core banking systems for small to medium-sized microfinance institutions in Uganda in September 2018. In November 2018, FinLab closed a seven-digit investment in stokera, which was acquired as part of a seed-financing round from Cashlink (stokera's majority stakeholder). Cashlink intends to use the new capital to grow its team, as well as build and launch stokera, which is a blockchain-based platform for tradable, virtual start-up shares. FinLab acquired a 20% stake in Cashlink. Moreover, in February 2019, the company invested (together with several business angels) a high seven-digit figure in ONPEX, a provider of modular, white-label Payment-, Banking- and Compliance-as-a-Service solutions. The company offers API-based, multi-currency IBAN accounts, and aims at creating simple, compliant and cost-efficient payment and banking solutions. We note that the B2B profile of FinLab's recent investments is in line with the company's strategy to explore new opportunities in this segment rather than the more saturated B2C space. Following these acquisitions, FinLab's fintech portfolio has now grown to 10 holdings. This compares with the 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 €13.4m in cash on its balance sheet at end-2018), the emphasis may gradually shift to value creation in existing holdings rather than portfolio expansion.

On top of the above, Iconiq Lab (one of FinLab's existing holdings) 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. The project is aimed at providing a comprehensive solution for asset managers to optimise the execution of their own crypto investment strategies. AMaaS is also the infrastructure behind Iconiq Funds' crypto asset index funds. Moreover, with the use of new funds, the company hopes to scale up its existing business units, Iconiq Lab (a decentralised venture capital group and accelerator programme) and Iconiq Funds (an issuer of passively managed crypto asset index funds tracking the top digital assets by market capitalisation). We appreciate the fact that as part of the new financing round, the company was also able to obtain a new prominent investor, High-Tech Gründerfonds, a large reputable German VC investor in the high-tech space with a current total investment volume of around €0.9bn.

The new funding round represents a continuation of Iconiq Lab's fund-raising efforts from last year. As at September 2018, Iconiq Lab raised €2.5m of proceeds from the pre-sale of 4.1m tokens throughout 2018. Part of the proceeds (€1.0m) was used to fund the first batch of its Initial Coin Offering ICO accelerator programme. The Iconiq Holding team purchased an additional 3m tokens. In total, the company planned to sell 20m tokens, but has already burned (ie cancelled) 10m of unsold tokens.

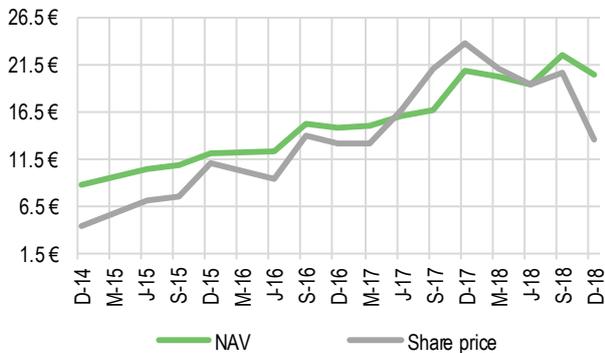
Apart from funding/investment activities, we would like to highlight Authada's important client win as it was able to attract comdirect bank as its customer to use its identity solutions. This comes after the co-operation with Paysafe announced in July last year.

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.

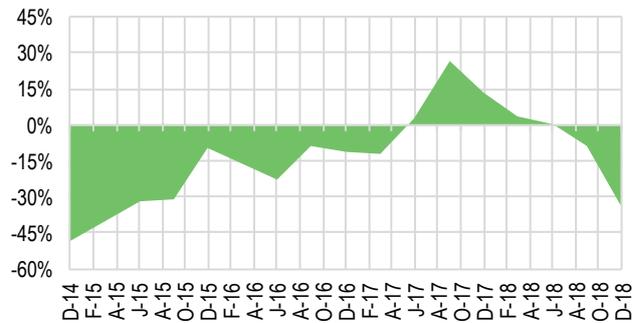
The company's NAV per share declined by 2% to €20.44 in FY18, with its share price posting a c 41% decrease over that period. Currently, FinLab's shares are trading at a 24% discount to last reported NAV. At end-December 2018, c 20% of the company's NAV represented its holding in Heliad Equity Partners, valued at a 23% discount to its own NAV, which stood at €6.20 at end-2018. The latter already reflects the write-down on Sleepz discussed earlier. 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, given that Heliad's discount has been gradually falling in recent years. If the discount were removed, FinLab's NAV (at end-December 2018) would rise to €21.64 per share, suggesting that the shares would now trade at a discount to last reported NAV of c 28%.

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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