

## Flatex

### Grateful for volatility

Flatex reported H120 earnings of €22.4m (+162% y-o-y) and ROE of 23.1%. Volatile markets helped trade executions jump 127% y-o-y to €13.1m. Client numbers continue to grow strongly, up 35% y-o-y. On 21 July 2020, the Dutch central bank gave Flatex the green light to acquire DEGIRO, a leading Dutch broker. The acquisition (agreed in December 2019) is transformational, adding greater scale and breadth of products to make Flatex Europe's largest retail online broker, present in 18 countries. If we include DEGIRO, the combined number of transactions in H120 would have been 37.6m and the number of customers almost triples to 1.1 million. The shares have reacted well to the news, but still trade at a discount to peers on both P/E and EV/EBIT despite consensus forecasts of above average growth.

### A very good H120

The strong revenue numbers allowed Flatex to report a record EBITDA margin of 42.8%, vs. 30.7% H119. The Financial division (FIN) drove earnings with an EBITDA margin of 44%, +216% y-o-y. Technology (TECH) division revenues grew 2.9%, but the EBITDA margin of 15.9% was below 20% for the first time in a long time. However, the margins tend to be volatile in this division. Financial debt was €73.5m (36% of equity). EBITDA was €42.7m and financial expenses only €1.7m.

### DEGIRO acquisition closed in July

Following approval by the regulator in July, Flatex paid €36.4m in cash and issued 7.5m Flatex shares to other DEGIRO shareholders to acquire the remaining 90.6% of outstanding shares it did not already own. The acquisition of DEGIRO, a Dutch pan-European online broker, gives Flatex greater scale and geographic presence. It becomes Europe's largest retail broker and is the fastest growing online broker in Europe. Management reiterated its €30m in annual cost synergies and DEGIRO is expected to be fully consolidated from August 2020. Flatex's debt level remains moderate even after the DEGIRO acquisition. Combined debt is c €115m, with H120 EBITDA of €75m, a debt to equity ratio of 54% and an EBITDA to interest multiple of roughly 15x based on H120 numbers.

### Valuation: Discount for premium growth

Flatex is trading on a P/E of 23.7x for FY20 and 18.3x for FY21 on consensus forecasts. Both its P/E and EV/EBIT ratios are at a discount to its B2B and B2C peer average despite consensus forecasting above-average growth.

#### Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	125.1	42.4	0.98	0.0	46.6	N/A
12/19	132.0	37.6	0.77	0.0	59.4	N/A
12/20e	230.4	86.5	1.92	0.0	23.7	N/A
12/21e	289.4	115.8	2.49	0.0	18.3	N/A

Source: Flatex, Refinitiv

#### Financial services

14 October 2020

Price €45.7  
Market cap €1,237m

#### Share price graph



#### Share details

Code FTK  
Listing Deutsche Börse Scale  
Shares in issue 27.2m

#### Business description

Flatex is an integrated online brokerage business. It covers two areas: technology and financial services, which includes a bank and a brokerage business.

#### Bull

- Merger with DEGIRO brings synergies (€30m identified by management) and greater geographic distribution, more technology and a broader product offering.
- Attractively valued against brokerage peer group in FY20.
- Favourable regulatory environment in Europe.

#### Bear

- The company does not pay a dividend as the focus is on investing for growth.
- Pressure to deliver on announced significant synergies with DEGIRO acquisition.
- Low/negative eurozone interest rates make it challenging to generate returns on client deposits.

#### Analyst

Pedro Fonseca +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

## H120 results

Flatex reported H120 of earnings €22.4m, +162% y-o-y, and revenue of €100m, up 55% y-o-y. Reported EBITDA was €42.7m, up 116% y-o-y. The very strong business volume growth led to a total group EBITDA margin expanding to a record 42.8%. We would caution that these volumes are extraordinary and are likely to come down when the market turbulence subsides. Therefore, the margin might not be easy to sustain or improve.

The FIN division (where the brokerage resides) revenue grew 63%, while the TECH division rose 2.9% y-o-y. As often happens with Flatex, consolidation effects and other revenue contributed to the higher segment revenue growth numbers, so the underlying segments' growth is higher than the total group's figures.

The volatile markets in the first half of 2020 led to a 127% increase in executed transactions year-on-year. The number of clients grew strongly to 424,000, +35% y-o-y, and +17% since FY19.

### Exhibit 1: Key performance indicators

Business volumes	H118	H218	H119	H219	H120
<b>Transactions executed (000s)</b>	6,628	5,855	5,792	6,692	13,119
Number of retail customers (000s)	275	290	313	368	424
Transactions per customer per year	48.2	40.3	37.0	36.4	61.9
<b>Customer assets under management (€m)</b>	<b>12,120</b>	<b>10,995</b>	<b>12,813</b>	<b>14,586</b>	<b>13,634</b>
of which: securities account volume	11,166	10,000	11,869	13,600	12,229
of which: deposits account volume	954	995	945	986	1,405
<b>Year-on-year (%)</b>					
Transactions executed	20	2	(13)	14	127
Number of retail customers	17	14	14	27	35
Transactions per customer per year	3	(11)	(23)	(10)	67
Customer assets under management	8	(7)	6	33	6

Source: Flatex

The TECH division EBITDA margin was 15.9% for H120 and this is below average (for example in H119 it was 40%). This is a B2B business, focused in Germany, and the EBITDA margin tends to be volatile reflecting different contracts and different stages of fulfilling them. We note that in its interim report, management has guided for a 'moderately increasing' EBITDA for FY20 compared to FY19 (it was 45.2%). The TECH division also provides important support for FIN's operations including the expansion abroad and management expects it to play a critical role in the integration with DEGIRO.

### Exhibit 2: Income summary by segment

€000s	H118	H119	H120	H120/19 %
<b>FIN Division</b>				
<b>Revenues</b>	<b>52,256</b>	<b>55,667</b>	<b>90,500</b>	<b>62.6</b>
Raw materials and consumables used	(14,060)	(24,071)	(23,299)	-3.2
Personnel expenses	(8,578)	(4,578)	(12,843)	180.5
Other administrative expenses	(14,495)	(4,152)	(14,536)	250.1
<b>EBITDA</b>	<b>15,123</b>	<b>12,594</b>	<b>39,821</b>	<b>216.2</b>
EBITDA margin %	28.9%	22.6%	44.0%	
<b>TECH Division</b>				
<b>Revenues</b>	<b>16,378</b>	<b>17,627</b>	<b>18,137</b>	<b>2.9</b>
Raw materials and consumables used	(1,834)	(1,750)	(1,707)	-2.5
Personnel expenses	(6,205)	(10,116)	(10,093)	-0.2
Other administrative expenses	(5,061)	(8,887)	(3,457)	-61.1
<b>EBITDA</b>	<b>3,277</b>	<b>7,147</b>	<b>2,880</b>	<b>-59.7</b>
EBITDA margin %	20.0%	40.5%	15.9%	
<b>Other/consolidation effects</b>				
Revenues	(10,136)	(8,945)	(8,859)	
Raw materials and consumables used	909	5,562	5,564	
Personnel expenses	2,554	2,148	2,609	
Other administrative expenses	6,673	1,235	686	
<b>EBITDA</b>	<b>0</b>	<b>0</b>	<b>0</b>	

Source: Flatex

**Exhibit 3: Income summary – total group**

€000s	H118	H119	H120	H120/19 %
<b>Revenues</b>	<b>58,498</b>	<b>64,350</b>	<b>99,778</b>	<b>55.1</b>
Raw materials and consumables used	(14,985)	(20,259)	(19,442)	-4.0
Personnel expenses	(12,229)	(12,546)	(20,327)	62.0
Other administrative expenses	(12,883)	(11,804)	(17,307)	46.6
<b>EBITDA</b>	<b>18,401</b>	<b>19,740</b>	<b>42,701</b>	<b>116.3</b>
EBITDA margin %	31.5%	30.7%	42.8%	
Depreciation and amortisation	(3,527)	(5,962)	(6,928)	16.2
<b>EBIT</b>	<b>14,874</b>	<b>13,779</b>	<b>35,773</b>	<b>159.6</b>
Financial results	(957)	(1,153)	(1,701)	47.5
<b>EBT</b>	<b>13,917</b>	<b>12,625</b>	<b>34,072</b>	<b>169.9</b>
Income tax expense	(4,442)	(4,079)	(11,698)	186.8
<b>Tax rate</b>	<b>31.9%</b>	<b>32.3%</b>	<b>34.3%</b>	
Earnings from continuing activities	<b>9,474</b>	<b>8,547</b>	<b>22,374</b>	<b>161.8</b>
Earnings from discontinued operations	(220)	(94)	0	0
<b>Consolidated net profit</b>	<b>9,380</b>	<b>8,547</b>	<b>22,374</b>	<b>161.8</b>

Source: Flatex

## Time to make acquisition work

Now that DEGIRO is being purchased, management's focus is now to make the merger work. The merger transforms it into Europe's largest retail broker with the whole value-chain in house. The five year target is €300m in revenue, EBITDA of €150m and EPS of €3.0.

This compares with current consensus market forecasts for EBITDA of €87m in FY20 and €116m in FY21. The pro-forma EBITDA of Flatex with DEGIRO was €75.2m in just the first six months of 2020, but volumes have been unusually strong and so doubling the half year result would not be an accurate extrapolation to full-year results, in our view.

**Exhibit 4: Flatex with DEGIRO combined pro forma**

	Flatex	DEGIRO	Combined	Combined
€m	FY19	FY19	FY19	H120
Revenue	132	59	191	169
EBITDA	38	11	49	75
Net profit	15	8	23	46
Equity	182	24	207	255
Brokerage clients (000s)	368	482	850	1,000
Transactions (m), B2C only	12.3	19.1	31.4	37.6

Source: Flatex

The strategy will be to use both brands (Flatex and DEGIRO) but with same low-cost strategy. It remains a trading platform only business, which reduces regulatory administration and costs. It also retains the flat price approach for all asset types and transaction sizes. This currently is a maximum of €5.90 per trade. There will be improved product offering for both brands with the acquisition. For example, DEGIRO currently offers futures and options while Flatex does not, while Flatex offers extended trading hours and DEGRIO does not.

Flatex management reiterated the previously disclosed €30m in synergy cost savings (equal to 20% of operating costs in the five-year plan) that it expects to achieve already in FY21. These are broken down as follows: flow-related (€15–20m); IT savings (€10–15m); single corporate structure (€3–5m); and greater scale, such as marketing and bargaining power (€3–5m).

The original DEGIRO offer (a friendly transaction that was supported by its management) was for €60m in cash and €190m in Flatex shares and was agreed in December 2019. Flatex then purchased a 9.4% initial stake paid in cash (€23.5m). Following regulatory approval in July, on 30 July it paid the remaining cash (€36.4m) and issued 7.5m new shares to acquire the remaining 90.6% stake in the company. It now owns 100% of DEGIRO and expects to consolidate the results as of August 2020.

**Exhibit 5: Balance sheet and cash flow**

Balance sheet (€000s)	FY18	H119	H219	H120
Intangible assets	82,664	86,977	92,722	93,879
Other non-current assets	49,829	52,619	86,978	77,870
<b>Total non-current assets</b>	<b>132,493</b>	<b>139,596</b>	<b>179,700</b>	<b>171,749</b>
Financial assets	58,267	69,135	61,761	80,342
Current loans due to customers	213,675	232,230	362,552	422,622
Equity instruments	82,465	84,449	134,693	129,503
Cash	655,046	607,277	468,616	932,352
Other	82,223	81,299	58,640	43,595
<b>Total current assets</b>	<b>1,091,676</b>	<b>1,074,390</b>	<b>1,086,262</b>	<b>1,608,414</b>
<b>Total assets</b>	<b>1,224,169</b>	<b>1,213,986</b>	<b>1,265,962</b>	<b>1,780,163</b>
<b>Total non-current liabilities</b>	<b>30,395</b>	<b>34,140</b>	<b>38,710</b>	<b>38,058</b>
Liabilities to customers	955,489	917,234	950,777	1,429,248
Liabilities to banks	57,259	56,235	71,694	57,227
Other liabilities	17,370	23,150	22,580	51,247
<b>Total current liabilities</b>	<b>1,030,118</b>	<b>996,619</b>	<b>1,045,051</b>	<b>1,537,722</b>
<b>Total liabilities</b>	<b>1,060,513</b>	<b>1,030,760</b>	<b>1,083,761</b>	<b>1,575,780</b>
Equity	163,656	183,226	182,202	204,383
Total financial debt and leases	73,085	73,623	88,916	73,493
<b>Cash flow</b>		<b>H119</b>	<b>H219</b>	<b>H120</b>
<b>Cash flow operations - before banking</b>		<b>30,765</b>	<b>18,662</b>	<b>52,074</b>
Cash flow from banking operations		(71,035)	(135,638)	421,452
<b>Cash flow from operations</b>		<b>(40,270)</b>	<b>(116,976)</b>	<b>473,526</b>
Cash flow from investments		(15,165)	(18,024)	(5,297)
Cash flow from financing		7,666	(3,661)	(4,494)
<b>Net cash flow</b>		<b>(47,769)</b>	<b>(138,661)</b>	<b>463,735</b>
<b>Cash and cash equivalent end of period</b>		<b>607,277</b>	<b>468,616</b>	<b>932,352</b>

Source: Flatex

## Valuation

Flatex's share price has been strong over the last year. It reacted well to DEGIRO acquisition and Flatex had flagged to the market during Q120 that it was doing very well in the volatile financial markets. Flatex is now trading on forward P/E ratios of 23.7x (FY20e) and 18.3x (FY21e) based on consensus forecasts. FY20 is above the average for B2B peers (16.8x), but below that of the B2C (31.2x) if we exclude loss-making outlier Crealogix from the averages. Its 2021 P/E is lower than the averages for B2B (20.0x) and B2C (25.5x, ex Crealogix). Consensus is factoring in above-average EPS growth for Flatex; we suspect this is in good measure due to the acquisition of DEGIRO. Flatex has one of the lowest 2021 EV/EBIT ratios among its peers at 15.6x. Only Sopra Steria and FinecoBank are lower and both are showing less growth in consensus forecasts than Flatex. Its business model seems to be working and its balance sheet remains healthy even after the acquisition. Regulatory approval has been given, we think that management deliverance on the promised and expected acquisition potential will be a likely catalyst over next 12 months.

**Exhibit 6: Peer analytics**

		Currency	Share price	Market cap	Revenue growth (y-o-y %)		EBIT margin (%)		P/E (x)		EV/EBIT (x)	
					(curr)	(€m)	2020e	2021e	2020e	2021e	2020e	2021e
FTKG.DE	Flatex	€	45.7	1,237	72.9	25.6	31.9	35.0	23.7	18.3	21.5	15.6
AVANZ.ST	Avanza	SEK	189	2,817	70.6	-13.5	64.6	52.9	26.8	36.7	56.7	80.0
CDBG.DE	Comdirect	€	14	1,954	28.4	-12.9	41.1	30.4	13.2	17.8	10.7	16.6
FBK.MI	FinecoBank	€	12	7,435	15.4	-0.9	63.7	62.9	24.3	24.7	13.9	14.2
IBKR.K	Interactive brokers	US\$	51	17,897	6.8	-6.9	59.7	53.3	22.1	26.0	24.8	29.8
SQN.S	Swissquote	CHF	86	1,228	32.0	5.3	34.5	31.0	14.2	14.7	46.1	48.8
<b>Average B2B*</b>					<b>25.5</b>	<b>-4.8</b>	<b>43.9</b>	<b>38.4</b>	<b>16.8</b>	<b>20.0</b>	<b>25.4</b>	<b>31.6</b>
CLXN.S	Crealogix**	CHF	120	155	3.1	5.0	-1.5	2.5	-91.2	-89.8	-98.7	56.1
FRST.L	First Derivatives	£	3,490	1,053	-2.9	7.9	11.9	11.7	55.1	45.4	37.5	35.2
GFTG.DE	GFT	€	12	309	4.9	6.0	4.2	5.7	20.6	14.3	21.8	15.2
SOPR.PA	Sopra Steria	US\$	140	2,853	-2.1	4.3	7.0	8.3	15.2	11.8	12.3	9.9
TEMN.S	Temenos	US\$	122	8,385	-3.7	12.9	34.5	34.3	33.7	30.6	33.6	29.9
<b>Average B2C*</b>					<b>-0.1</b>	<b>7.2</b>	<b>11.2</b>	<b>12.5</b>	<b>31.2</b>	<b>25.5</b>	<b>26.3</b>	<b>22.6</b>

Source: Refinitiv. Note: \*Ex-Flatex. \*\*We have removed Crealogix from the P/E and EV averages. Priced at 9 October 2020.

---

## General disclaimer and copyright

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. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Accuracy of content: 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 and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. 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.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, 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 securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. 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, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

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. 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 (i.e. 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.

---

## United Kingdom

This document is prepared and provided by Edison 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.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison 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. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

---

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia