

Lloyd Fonds

On track to reach targeted €7.0bn AUM

Lloyd Fonds (LF) continues its business repositioning under Strategy 2023/2025 to active portfolio management, expanding its assets under management (AUM) within new core business to €1.9bn as at 26 March 2021 from €1.1bn as at end-June 2020. This exclusively organic growth was driven by a robust managed funds performance and net funds inflow. Management reiterates its guidance to reach €7.0bn in AUM by the end of 2024 and 45% EBITDA margin. Management's target is underpinned by the H220 EBITDA margin of 44%, healthy AUM growth in Q121, and a potential revival in M&A activity, which would help accelerate the expansion.

FY20 financials: Minor net loss

LF continues to bear the cost of the transformation with a FY20 net loss of €0.7m. The result is ahead of management's expectations in H120, which assumed a net loss for the period of around €4.0m. The results were strongly supported by the stock market rally in the second half of 2020 which translated to higher fees collected by LF. Meanwhile, the Real Assets segment is being wound down and continues to generate diminishing fees (a 38% net return in FY20) and gains on disposals through profit-sharing agreements (€0.7m in FY20).

Successful launch of LAIC

The artificial intelligence (AI)-based individual portfolio management, LAIC, was launched in April 2020 and has already attracted €100m in AUM. With this important milestone LF now has three fully operational and complementary business lines – fund management, wealth management and digital individual portfolio management. LF continues to grow organically while searching for potential acquisition targets, especially in the highly fragmented wealth management market in Germany.

Valuation: Trading at an increasing discount to peers

As Refinitiv consensus implies a superior operating earnings increase in 2021–23e, based on EV/EBITDA multiples, LF trades at an increasing discount to the peer group, which now includes asset managers only. Consensus is also expecting LF to report a net profit as soon as FY22 and increasing profits further in subsequent years, translating into a rapidly diminishing premium to peers based on P/E multiples for 2022–23e.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	8.2	(5.1)	(0.01)	0.0	N/A	N/A
12/20	27.7	(3.0)	(0.00)	0.0	N/A	N/A
12/21e	29.3	1.1	(0.01)	0.0	N/A	N/A
12/22e	36.0	5.9	0.22	0.0	33.1	N/A

Source: Lloyd Fonds accounts, Refinitiv consensus as at 13 April 2021

Fund management

13 April 2021

Price €7.28
Market cap €97m

Share price graph



Share details

Code	L10A
Listing	Deutsche Börse Scale
Shares in issue	13.3m
Net debt as at 31 December 2020	€12.4m

Business description

Lloyd Fonds positions itself as an integrated asset manager and partner for private customers and institutional capital. It aims to provide added value through transparent, active asset management, forward-looking digital solutions with the secondary brand LAIC, as well as individual and institutional asset management.

Bull

- Transformation to an active asset manager.
- Ambitious targeted AUM growth.
- Onboarding of new experienced management and sound balance sheet.

Bear

- Execution risk in business repositioning.
- Markets for legacy activities remain volatile.
- Regulatory risks of inorganic growth.

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FY20 financials: Close to breaking even

With the successful integration of SPSW Capital (SPSW) and Lange Assets & Consulting (LAC), the new business lines became the main drivers of LF's consolidated results: Lloyd Fonds (open-ended funds management), Lloyd Vermögen (wealth management) and LAIC (AI-based individual portfolio management) are recognised under the Lloyd Fonds Liquid Assets segment and made up 81% of LF's FY20 revenues. The FY20 results were better than management expected at H120 (with a net loss at €0.7m for FY20 versus the c €4.0m guided by management), as the stock market rally supported the performance of managed funds (see Exhibit 2) and growth in fee income led to a 237% y-o-y increase in LF's top-line to €27.7m.

Costs increased y-o-y mostly due to the consolidation of the late-2019 acquisitions of SPSW and LAC (described in [our previous note](#)), which led to an increase in headcount which in turn led to personnel expenses of €11.7m (+34% y-o-y). The other operating result decreased by 13% y-o-y to a negative €8.4m, which is mostly attributable to legal expenses borne in 2019 due to restructuring and acquisitions. The overall operating profit was €3.2m compared to a €10.9m loss in FY19.

Net financial costs amounted to €6.2m compared to net financial income of €5.9m in FY19. The regular interest burden increased due to two convertible bond issues, but the y-o-y difference in the net financial result is attributable to one-offs. LF recognised a €3.3m financial cost in FY20 related to tranche payments for the SPSW and LAC acquisitions. LF also continued to dispose of its legacy portfolio, which was a significant results driver in 2019; the recognised profit amounted to €0.7m in FY20 compared to €7.0m in FY19.

The pre-tax loss of €3.0m compared to a €5.1m loss in FY19. As in FY19, LF recognised a carried forward tax loss (€4.0m versus €5.0m in FY19), and further tax losses will be also recognised in the next reporting periods. Income attributable to minority shareholders amounted to €1.7m (LF owns a 90% stake in SPSW).

Exhibit 1: Financial highlights

Year end December (€000s)	FY19	FY20	y-o-y
Revenues	8,223	27,739	237%
Lloyd Fonds Liquid Assets	-	22,348	N/A
Lloyd Fonds Real Assets	8,223	4,595	(44%)
Lloyd Fonds Group*	-	796	N/A
Cost of materials	(426)	(1,072)	152%
Personnel costs	(8,732)	(11,726)	34%
D&A	(1,258)	(3,750)	198%
Other operating result	(9,603)	(8,385)	(13%)
Result from associates	858	400	(53%)
Operating earnings (EBIT)	(10,938)	3,206	N/A
EBITDA	(9,680)	6,956	N/A
Lloyd Fonds Liquid Assets	-	9,890	N/A
Lloyd Fonds Real Assets	3,592	1,633	N/A
Lloyd Fonds Group*	(13,272)	(4,567)	N/A
Net financial income/(cost)	5,864	(6,156)	N/A
Pre-tax profit	(5,074)	(2,950)	N/A
Income tax	4,981	3,964	(20%)
Minorities	0	(1,717)	N/A
Net profit attributable to majority shareholders	(93)	(703)	N/A

Source: Lloyd Fonds. Note: *Represents company overheads.

The Real Assets segment represents LF's legacy business where fees are diminishing in line with the decrease in AUM following disposals. In FY20, revenues in this segment amounted to €4.6m (down 44% y-o-y), and the EBITDA margin increased to 36% (FY19: c 26%), as LF continued to reduce headcount and close operations in the segment. The Real Assets segment's contribution to the bottom line was much lower y-o-y due to the above mentioned lower gains on disposals.

To perform the restructuring and acquisitions LF reached for external financing by issuing two convertible bonds executed in May 2019 (€6.1m) and July 2020 (€5.0m). It also consolidated the underlying leverage of acquired companies and in turn current net debt stands at €12.4m compared to €5.6m at end-FY19. It plans to finance further growth externally, including the planned issue of a LAIC-Token in 2021 – a blockchain-based participation rights in fully owned LAIC Capital. LF informed the market that it is on track to reach its targeted €7.0bn in AUM and 45% EBITDA margin by 2024. This statement has been underpinned by strong fees in Q121 of €3.0m.

Organic growth brings AUM to €1.85bn

On the back of fully organic growth, LF expanded its core-business AUM (**Lloyd Fonds Liquid Assets**) by 57% in FY20, reaching €1.66bn as at 31 December 2020, compared to €1.06bn at end-2019. We note that this increase was largely achieved in H220 (AUM at 30 June amounted to €1.1bn), due to the broad equity market rally, which fuelled a robust funds' performance, assisted by net funds inflows. LF significantly exceeded its guidance from H120, which assumed end-2020 AUM amounting to c €1.4bn with the company announcing that it had reached this level by 12 November 2020. The successful development continued in Q121, with overall AUM as at 26 March 2021 reaching €1.85bn. Management expects this figure to increase going forward as organic growth should be assisted by M&A activity. We note that the company has not provided a targeted AUM value as at end-2021 but reconfirmed its plan to exceed €7bn by the end of 2024.

The investment funds segment (**Lloyds Fonds**) solidified its position as the largest in the company's structure, expanding to c €1.2bn AUM as at end-2020, from €0.9bn 12 months earlier, and then further to €1.33bn as at 26 March 2021. It includes eight funds with various risk profiles, which since 1 August 2020 are all managed by SPSW. We note, however, that LAC will serve as an advisor for the 'Lloyd Fonds – ASSETS Defensive Opportunities' fund. Meanwhile, the three funds already managed by SPSW prior to its acquisition by LF in Q419 were renamed during FY20 to match the Lloyd Fonds brand.

Exhibit 2: Funds managed by Lloyd Fonds

Fund	Type	AUM* (€m)	One-year Performance* (%)	FY20 performance (%)
Lloyd Fonds – Active Value Selection	Equity fund	58.0	75.6	26.7
Lloyd Fonds – European Quality and Growth	Equity fund	7.1	31.7	62.2
Lloyd Fonds – European Hidden Champions	Equity fund	179.8	5.9	71.1
Lloyd Fonds – Green Dividend World	Equity fund	19.5	10.6	7.7
Lloyd Fonds – WHC Global Discovery	Mixed fund	571.7	7.7	22.7
Lloyd Fonds – Global Multi Asset Sustainable	Mixed fund	115.7	7.4	11.7
Lloyd Fonds – Special Yield Opportunities	Fixed-income fund	56.1	2.2	3.0
Lloyd Fonds – ASSETS Defensive Opportunities	Fixed-income fund	85.6	0.9	0.4

Source: Lloyd Fonds. Note: *Data as at 12 April 2021 (except for European Quality and Growth: 6 April 2021). Returns of retail tranches.

LAC will continue its key role in the wealth management segment (**Lloyds Vermögen**), where AUM increased from €200m at end-2019 to €410m at 31 December 2020 and remained stable over Q121. According to the management, this segment has significant development potential, as the very fragmented German wealth management market needs consolidation, with LF potentially playing an active role in the process. As the company's acquisition targets include entities with AUM ranging from €0.5bn to €1.0bn, it could potentially result in doubling the managed assets on a single transaction.

On 1 April 2020, **LAIC** launched its operations, offering individual investment accounts managed by a fully digitalised, AI-based management system, for both private and institutional clients. The product portfolio was then expanded to include five mixed funds, individual retirement plans and an institutional open-ended fund. The segment's AUM at end-December reached €50m, then more than doubled over Q121 (€102m at 26 March 2021). The expansion could accelerate further, as on

21 February 2021 the Federal Financial Supervisory Authority (BaFin) granted permission to offer LAIC services in Austria.

The **Lloyd Fonds Real Assets** represents LF's legacy assets of real estate, shipping, private equity and life insurance funds and is being gradually phased down. The funds continue to contribute to LF's top line (17% in FY20 versus 42% in H120). The three active real estate funds are focused on office (60%) and hotel (40%) properties in Germany and the Netherlands. LF's fleet under management as at end-2020 consisted of 10 vessels (down from 19 at end-2019), and all three British life insurance funds are already in liquidation.

Valuation

As the strategic shift from real assets towards marketable securities progresses, LF's business model is now positioned among other asset management groups. Therefore, we have narrowed the peer group by removing the real assets investors from it. Based on an EV/EBITDA multiple for 2021–23e LF trades at an increasing discount to peers, which is attributable to the consensus expectation of a superior operating earnings increase over the analysed period. It is worth noting that this metric is in part shaped by the level of indebtedness, while all British peers reported net cash positions. According to Refinitiv consensus, LF will report net income as soon as FY22, which would result in a diminishing premium to peers based on a P/E valuation for 2022–23e figures.

Exhibit 3: Peer group comparison

	Market cap (m)	EV/EBITDA (x)			P/E (x)		
		2021e	2022e	2023e	2021e	2022e	2023e
Flatex	€2,415	17.6	14.6	13.2	21.2	17.1	15.1
Frenkel Topping	£58	12.5	10.6		18.5	15.7	
Ashmore Group	£3,321	12.6	12.2	11.1	16.9	18.8	17.2
Azimut Holding	€2,905	9.3	8.7	7.9	10.7	10.2	9.2
Jupiter Fund Management	£1,887	8.4	7.9	7.3	13.6	12.8	12.2
Man Group	\$2,774	6.9	6.4	5.8	10.0	9.0	8.0
Impax Asset Management	£1,401	32.0	26.1	22.9	43.5	31.8	25.4
Peer group average		14.2	12.4	11.4	19.2	16.5	14.5
Lloyd Fonds	€97	14.6	9.3	6.3	N/A	33.1	15.2
Premium/(discount) to peer group		3%	(25%)	(45%)	N/A	101%	4%

Source: Refinitiv consensus at 13 April 2021.

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