

# DFV Deutsche Familienversicherung

**Insurance**
**22 October 2020**

## On track for a profitable 2021

DFV Deutsche Familienversicherung (DFV) is a health and P&C insurtech company and the first fully digital insurer in Europe. Its AI and automated processing platform allow for greater scalability, lower costs and quicker customer responses compared with typical insurance models. Close peer Lemonade's IPO in July 2020 highlighted DFV's potential undervaluation considering its lower capital requirements. Earned premiums in H120 grew 10.6% y-o-y to €28.4m (H119: €25.7m). The net income loss of €4.1m was in line with management's expectations, driven by a negative investment loss and upfront sales commissions paid on its fast-growing insurance book. DFV is on track to reach an earned premiums to sales cost ratio of 4:1 by end of FY20, which should return the business to profitability in 2021.

## Growth forecast to double

DFV is on track to meet an annual target of 100,000 new contracts (H120: 46,515), which would increase the volume of existing policies to more than €125m.

Management expects existing volumes to increase by c 60% to over €200m in 2021 and for contracts to almost double to 1.1 million (FY20 guidance: 570,000) driven by the introduction of new CareFlex Chemie policies. CareFlex Chemie is the first German consortium (which DFV co-manages) that provides financed supplementary long-term healthcare insurance in the chemical industry. CareFlex comes with no acquisition costs, which would typically total €70.7m for 500,000 customers.

Management is also seeking to enter other European markets in the next two years, which will further accelerate growth.

## Limited impact from COVID-19

DFV's gross written premiums increased by 28.3% y-o-y to €53.7m (H119: €41.9m). Its combined ratio of 108.1% fell within management's target range of 95–110% and is expected to fall to 90% by 2022 during its consolidation phase.

Management state that its IT costs per insured risk are, on average, 50% cheaper than the insurance industry, which will support scalable growth and profitability.

## Valuation: Strong and stable

Market expectations mirror company guidance that DFV will be loss-making until 2021. Gross premiums are forecast to grow at a CAGR of 39%, reaching €245.9m in 2022 (FY19: €90.9m) (Refinitiv consensus). The company pays no dividends, using capital to help fund growth.

**Price** €21.11

**Market cap** €308m

### Share price graph



### Share details

Code	DFV
Shares in issue	14.6m
Solvency ratio	218%

### Business description

DFV Deutsche Familienversicherung engages in digital insurtech, focusing on selling insurance policies both digitally and online. The DFV customer portal and app are the foundations of the company's digital offering. DFV's insurance policies include health and property insurance.

### Bull

- Rapidly growing non-life insurtech company in Europe, taking advantage of typically low levels of technology adoption in the insurance industry.
- CareFlex Chemie solution looks set to almost double growth in 2021.
- Strong solvency ratio of 218% at H2 despite investments in business growth; liquidity supported by capital raise of €32m (gross) in July (ratio rises to over 300% following raise).

### Bear

- Capital investment income exposed to COVID-19 related uncertainty.
- Competing in a well-established market, has relatively low economies of scale.
- 26% free float, restricting share liquidity.

### Analyst

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### Consensus estimates

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	Combined ratio (%)	P/E (x)
12/18	66.5	(2.3)	(0.36)	0.00	N/A	N/A
12/19	90.9	(3.4)	(0.16)	0.00	N/A	N/A
12/20e	102.8	(8.1)	(0.54)	0.00	115.8	N/A
12/21e	163.8	14.1	0.39	0.01	95.2	54.1

Source: Refinitiv

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