

Heliad Equity Partners

New investments under new management

Heliad Equity Partners (HEP) has recently become more active, with a mid-double digit million-euro amount invested across several private companies under its new strategy. Following the recent management change (with Falk Schäfers now the sole board member), HEP has been focusing on providing growth equity financing and investing in pre-IPO opportunities. Meanwhile, its H121 results were still largely driven by the change in the share price of flatexDEGIRO, its largest holding representing c 81% of NAV at end-June 2021.

flatexDEGIRO's share price highly volatile ytd

HEP reported net income of €68.4m in H121 (versus €32.3m in H120), mostly on the back of the c 86% increase in flatexDEGIRO's share price during the period. Having said that, we note that the latter has subsequently given up most of the H121 share price gains following its preliminary H121 results release, which may be due to some moderation in the Q221 results following a particularly strong Q121 (albeit expected by the management). HEP's other operating expenses increased to €6.0m in H121 versus €1.3m in H120, primarily due to the performance fee paid to its investment manager (none was paid in H120).

HEP's new investment activity picking up

The company has recently announced a number of new private investments, including Enpal (a company active in photovoltaics leasing), Modifi (a digital trade finance platform for SMEs), Upscalio (a company investing in brands that sell on e-commerce marketplaces such as Amazon or Flipkart in India) and Razor Group (another business consolidating third-party merchants on Amazon's Marketplace). Consequently, we believe HEP has deployed most of its previous cash position. Moreover, it has entered into a 'collar' option strategy on flatexDEGIRO's shares to secure additional funding.

Valuation: Continues to trade at a discount to NAV

HEP's shares currently trade at a 49% discount to last reported NAV of €20.33 at end-June 2021. However, after accounting for the stake in flatexDEGIRO at the current share price (and all else being equal), we estimate that HEP's discount to NAV stands at c 28%. While most listed investment companies focused on the private equities market tend to trade at a discount to NAV, we note that the level of HEP's discount is also influenced by the management and performance fee paid to the investment manager on a portfolio that is still largely dominated by one listed holding. That said, it is worth noting HEP's recent high new investment activity to build a diverse portfolio of private holdings to justify the fees.

Historical financials

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | P/E (x) | NAV/share | P/NAV |
|----------|--------------|----------|---------|---------|-----------|-------|
| 12/17 | 43.1 | 39.6 | 4.0 | 2.6 | 12.2 | 0.9 |
| 12/18 | (50.6) | (57.6) | (5.7) | N/A | 6.2 | 1.7 |
| 12/19 | 14.5 | 11.7 | 1.1 | 9.1 | 7.4 | 1.4 |
| 12/20 | 60.7 | 58.1 | 5.8 | 1.8 | 13.3 | 0.8 |

Source: Heliad Equity Partners. Note: P/NAV based on current share price.

Investment companies

14 October 2021

Price €10.5
Market cap €103m

Share price graph



Share details

| | |
|--------------------------------|----------------------|
| Code | HPBK |
| Listing | Deutsche Börse Scale |
| Shares in issue | 9.87m |
| NAV per share at end-June 2021 | €20.33 |

Business description

Heliad Equity Partners is a Germany-based investment company focused on investing in market-leading private companies across verticals and regions to power their next phase of growth. It aims to provide shareholders with access to pre-IPO market returns while at the same time acting as a gateway to public equity markets for private companies.

Bull

- Recent acceleration of investment activity aimed at increasing exposure to private companies.
- Strong deal origination network.
- flatexDEGIRO's growth story.

Bear

- Portfolio concentration remains high despite recent new investments.
- Management and performance fee charged on a portfolio which is still dominated by one listed holding.
- New investment strategy still to be validated.

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flatexDEGIRO drives H121 results

HEP's net income more than doubled y-o-y to €68.4m in H121 (from €32.3m a year earlier), assisted by a €74.8m net revaluation gain (€33.8m). This was largely driven by 86% share price growth in its main portfolio holding, flatexDEGIRO, in the period (c 81% of Heliad's NAV at end-H121 versus c 68% at end-FY20). We believe that a small positive impact also came from the 118% share price appreciation of Elumeo, while MagForce's 25% share price drop had a minor negative effect. Heliad reduced its exposure to the latter two companies in H121 but has not disclosed further details on these holdings.

Other operating expenses increased to €6.0m in H121 from €1.3m in H120, affected by higher management and liability costs of €5.7m in H121 versus €1.1m in H120. These included a €3.8m performance fee (versus zero in H120) and a €1.9m management fee (€1.0m) charged by its investment manager Heliad Management. The former was triggered by Heliad's FY20 realised profits (compared with a loss in FY19), while the latter increased due to higher NAV at year-end than a year earlier (which is the basis of the calculation of Heliad's management fee).

| Exhibit 1: H121 results highlights | | | |
|--|---------------|---------------|---------------------|
| €'000s | H121 | H120 | y-o-y change |
| Income from the sale of financial assets | 268 | 4,676 | (94.3%) |
| Other operating income | - | 13 | (100.0%) |
| Gains from revaluation | 75,781 | 40,565 | 86.8% |
| Book value disposal of financial assets | (157) | (4,399) | (96.4%) |
| Depreciation on intangible assets | - | - | N/M |
| Other operating expenses | (6,048) | (1,281) | N/M |
| Income from investments | 640 | - | N/M |
| Depreciation of financial assets | (945) | (6,744) | (86.0%) |
| Financial income | 119 | 180 | (33.9%) |
| Financial expenses | - | - | N/M |
| Pre-tax profit | 69,657 | 33,009 | N/M |
| Income taxes | (1,219) | (660) | 84.7% |
| Net result for the period | 68,438 | 32,349 | N/M |
| Average number of shares (diluted, in '000s) | 10,080 | 9,873 | 0.0% |
| EPS (diluted, €) | 6.79 | 3.28 | N/M |

Source: Heliad Equity Partners

The company's NAV rose by 53% to €20.33 in H121 following the appreciation in flatexDEGIRO's share price in the period. Its listed equity investments were valued at €168.9m at end-H121 (c 84% of its NAV), while the value of its unlisted holdings was €23.3m (12%). Cash equivalents declined by €14.9m to €9.6m between end-FY20 and end-H121, representing c 5% of its NAV at period-end (versus 19% at end-FY20). Cash outflow in the period included a €7.5m payment for financial assets and securities, which is primarily attributable to the investment in Enpal (see below).

Importantly, after reaching its all-time high at end-H121, flatexDEGIRO's share price fell c 37% between end-June 2021 and 13 October 2021 (see below for details of recent developments at flatexDEGIRO). We also note that post-period end, management bought put options and sold call options on flatexDEGIRO's shares (thus entering a 'collar' option strategy) with a term to March 2022, which it highlights will provide additional liquidity for the planned investments. HEP's liquidity was also supported by the issue of 544k shares under its stock option programme in July 2021 (to be registered in Q421), which generated proceeds of c €3.5m.

With respect to other major holdings, it is worth noting the good top-line performance of Springlane, an e-commerce kitchenware business, which in recent years moved from being an online retailer of third-party products to a business based primarily on own brands and a direct-to-customer model. In a recent interview, the company's CEO highlighted the company generated revenues of €36m in 2020 compared to €19m in 2019 and c €10m in 2017. The company also generated positive EBITDA in 2020.

Resumed investment activity post management change

In April 2021, Juan Rodriguez and Stefan Schütze resigned from the management board at Heliad and FinLab (which had a c 45% stake in Heliad at end-H121). This was linked to the planned strategic realignment of both companies after Bernd Förtsch became the controlling shareholder in FinLab in January 2021 (see more detail in our previous [update note](#)). He is also the controlling shareholder at HEP. Rodriguez and Schütze were replaced on HEP's management board by Falk Schäfers and Matthias Kröner. However, Matthias Kröner resigned from this position in September 2021 based on mutual agreement with the supervisory board and the company. Based on our discussion with Falk Schäfers, we understand that Matthias Kröner joined the management board to streamline Heliad's and FinLab's internal processes and his departure was planned from the beginning (the term of his managerial contract was limited to a maximum of one year).

Following these changes, Heliad resumed its investment activity with the total investment volume reaching a mid-double digit million-euro amount to date, according to management. The company has been focused on two main types of investments. Firstly, it has been active in providing growth equity by participating in series A and B rounds with a ticket size of c €3–10m (translating into a c 10% stake in a business). Recent examples include: 1) HEP's participation in the €20m series B round of Modifi (a digital trade finance platform for SMEs) in September 2021, in which it invested a high single-digit million euro amount as lead investor in exchange for a 7% stake; 2) a single-digit million euro investment in Upscalio (a company investing in brands that sell on e-commerce marketplaces such as Amazon or Flipkart in India) as part of the company's US\$43m funding round in August 2021; and 3) HEP's investment in Razor Group (another business consolidating third-party merchants on Amazon's Marketplace), which in May 2021 completed its US\$400m funding round (raising US\$25m in equity and US\$375m in debt). HEP intends to have a seat on the board of its growth equity investments.

Secondly, HEP has been searching for pre-IPO opportunities to participate in series C and later rounds in companies that plan to list in the foreseeable future. HEP made its first pre-IPO investment in Enpal in July 2021, investing a single-digit million-euro amount. Enpal was founded in 2017 and is active in photovoltaics leasing, with over 8,000 customers and more than 4,500 systems installed in 2020. We note that Enpal also completed a €345m debt raise in September 2021 from institutional clients, including funds and accounts managed by BlackRock.

flatexDEGIRO share price down post H121 results

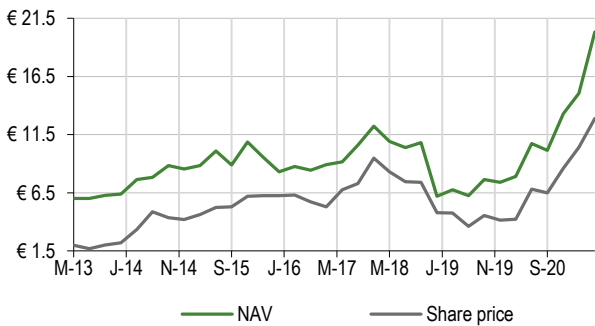
Meanwhile, Heliad's largest portfolio holding, flatexDEGIRO, reported preliminary H121 results, with a c 76% y-o-y rise in the average number of brokerage clients to 1.6 million and c 41% y-o-y growth in the number of executed transactions to 53 million in the period. At end-H121, it had more than 1.8 million customers with c €40.6bn assets under custody (compared to 1.3 million clients and €31.8bn assets at the start of the period). It benefited from a high level of market uncertainty, resulting in increased volatility and consequently stronger trading activity. In the period, flatexDEGIRO more than doubled its revenues (€226.1m in H121 versus €99.8m in H120), its EBITDA adjusted for non-cash expenses relating to provisions for long-term incentive plans (€107.7m versus €45.4m) and adjusted net profit (€65.7m versus €26.3m). Reported EBITDA was up 24.6% y-o-y to €53.2m.

flatexDEGIRO's management revised its guidance for FY21, currently targeting between 2.0 million and 2.2 million customers by the end of the year (versus 1.8–2.0 million previously), and 90–110m completed transaction over the year (up from the 75–90m guidance provided at the time of the FY20 results announcement). Despite this progress, its share price fell by c 37% between end-H121 and 13 October 2021. This may be due to some moderation in results in Q221 after an extraordinarily strong Q121 (albeit expected by the company).

Valuation

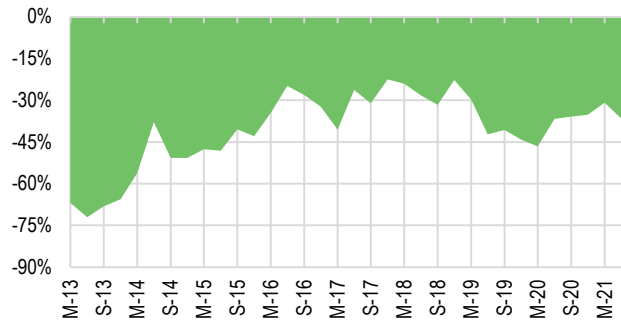
Heliad assesses NAV per share based on the valuation of listed and unlisted holdings. It is trading at a 49% discount to its last published NAV of €20.33 at end-June 2021. The discount to its recently published quarterly NAV continues largely to reflect movements in the valuation of flatexDEGIRO as Heliad still had a c 5.2% stake in the company at 13 October 2021, according to Refinitiv data (unlisted holdings are revalued primarily on completion of funding rounds, while the share of listed companies MagForce and Elumeo in Heliad's NAV is negligible). Following a 37% depreciation in flatexDEGIRO's share price between 30 June 2021 and 13 October 2021, we estimate that the value of Heliad's stake in the company declined from c €163m at end-June 2021 to c €106m at 13 October 2021. If we ignore the price movements of other listed stocks and any other factors affecting Heliad's NAV versus end-June 2021, we arrive at an underlying discount to last reported NAV of c 28%.

Exhibit 2: Heliad's NAV and share price performance



Source: Heliad Equity Partners

Exhibit 3: Heliad's discount to NAV*



Source: Heliad Equity Partners, Edison Investment Research.
Note: *Discount to NAV as reported.

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