

JDC Group

Scaling up

Bancassurance advisory and service platform JDC Group's final FY20 results were in line with the preliminary numbers. Large client wins are starting to feed into the platform, making JDC Group's 2025 target of a doubling of revenues and multiplying EBITDA realistic. The EV/EBITDA valuation of 16.4x consensus FY22e does not seem demanding compared to international peers given the strong prospects for platform growth.

No surprise in final numbers

JDC Group reported final FY20 results that were in line with the preliminary results reported in early March. Revenues increased by over 10% to €123m with an acceleration in Q4 of 14% to €36m. Advisortech, which includes JDC Group's platform business, continues to be the main revenue growth driver with 11% to €102.6m. Revenue in JDC Group's own Advisory business increased 3% to €30.9m. Adjusted for €0.7m expenditures for moving the head office, remote working infrastructure and severance packages for redundant staff, EBITDA for the year increased almost 40% to €5.8m, as the cost base was relatively stable. Reported EBITDA increased by 23% to €5.1m. All in all, the net loss reduced to €1.2m from €1.8m in 2019.

Guidance for 2025 conservative

For 2021, JDC Group expects continued double-digit growth to €135–142m and EBITDA of over €7m. This means that the group will probably be profitable at the bottom line for the first time since investing in the platform. New in the press release was the 2025 guidance of a doubling of revenues while multiplying EBITDA. As the recently announced Provinzial deal already has the potential for over €100m in additional revenues, we believe that this forecast is probably conservative. We expect more new, large client announcements.

Valuation: Higher growth justifies higher valuation

Although we realise that a peer comparison for JDC Group is not easy given the diversified profile, we note that the company trades at a discount of 36% on FY21e EV/EBITDA compared to a broad group of peers. We also note that if we apply Hypoport's 2021e EV/sales multiple to JDC Group's Key Accounts business alone, we arrive at the group's current market capitalisation.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)	Yield (%)
12/19	111.5	4.2	(0.1)	0.0	37.3	N/A
12/20	123.3	5.2	(0.1)	0.0	30.1	N/A
12/21e	140.6	7.1	0.2	0.0	22.2	N/A
12/22e	158.8	9.6	0.3	0.0	16.2	N/A

Source: JDC Group, Refinitiv consensus at 6 April 2021

Diversified financials

13 April 2021

Price €10.9
Market cap €144m

Share price graph



Share details

Code	A8AX
Listing	Deutsche Börse Scale
Shares in issue	13.1m
Last reported net debt at end-FY20	€8.7m

Business description

JDC Group is a digital financial services group providing advice and financial services, both directly to end customers and via independent intermediaries on its digital platform. It operates one of the largest broker pools in Germany and wants to be a market consolidator.

Bull

- Strong position to support digital investment.
- New client wins.
- Profitable consolidation opportunities.

Bear

- Capital market weakness from second wave COVID-19-related uncertainty or another cause affecting investment results in advisory.
- Low interest rates and regulatory uncertainty affect the insurance industry.
- Transfer of contracts to JDC platform could stall.

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EBITDA up almost 40% in COVID-19-dominated 2020

JDC Group reported final FY20 results that were in line with the preliminary results reported in early March. Revenues increased by over 10% to €123m, accelerating by 14% in Q4 to €36m.

Advisortech, which includes JDC Group's platform business, was the main driver of revenue growth increasing by 11% to €102m. Growth from the announced large contracts including Lufthansa, BMW and Comdirect accelerated in 2020, with revenues increasing by 25% to €20.3m, while the Independent Financial Advisory (IFA) business grew by 9% to €78.9m. Revenue in JDC Group's Advisory business increased by 3% to €30.9m. Holding and Intersegment revenues amounted to -€10.6m (FY19: -€10.7m).

Adjusted for expenditure of €0.7m related to moving the head office, remote working infrastructure and severance packages for redundant staff, EBITDA for the year rose by almost 40% to €5.8m as the operational cost base was relatively stable. Reported EBITDA increased by 23% to €5.1m.

The net loss reduced to €1.2m from €1.8m in 2019. For FY21, JDC Group expects continued double-digit revenue growth to €135–142m and EBITDA of over €7m. This would imply that JDC Group will be profitable at the net income level.

Exhibit 1: FY20 results highlights

€000s	FY20	FY19	y-o-y change
Total revenue	122,834	111,471	10.19%
Initial commission	85,547	75,118	13.88%
Insurance products	64,125	56,861	12.78%
Investment funds	16,028	13,587	17.97%
Shares/closed-end funds	5,394	4,670	15.50%
Follow-up commission	21,242	20,223	5.04%
Overrides	6,451	6,649	-2.98%
Services	3,478	3,405	2.14%
Fee-based advisory	2,757	3,091	-10.81%
Other income	3,359	2,985	12.53%
Capitalised services	1,091	998	9.32%
Other operating income	339	617	-45.06%
Commission expenses	-90,542	-81,433	11.19%
Commission expense as % of revenues	73.71%	73.00%	-95bp
Personnel expenses	-18,737	-17,417	7.58%
Other operating expenses	-9,860	-10,070	-2.09%
EBITDA	5,125	4,166	23.02%
D&A	-4,628	-4,311	7.35%
EBIT	497	-145	-442.76%
Pre-tax profit	-1,031	-1,753	-41.19%
Net income	-1,163	-1,813	-35.85%
EPS (€)	-0.09	-0.14	-36%

Source: JDC Group

Operational cash flow generation was unusually strong in FY20. H120 operational cash flow was already €5.7m, mostly as a result of lower receivables, while the full year figure was €8.9m (FY19: €3.8m). Nevertheless, total cash flow was negative €9.4m (versus a positive €9.3m in FY19), driven by the planned redemption of bonds (€12.3m). Investment cash flow (an outflow of €2.0m) was much lower than in 2019 (€4.6m) reflecting the fact that investments in the platform are now more or less completed. Outstanding bonds (€19.3m) and bank debts (€1.1m) partially offset by a cash position of €11.7m resulted in net debt of €8.7m.

Provincial deal is a game changer

With investments in the insurance advisory platform now more or less completed, winning new platform deals, or key accounts, is essential to drive revenue growth.

JDC Group indicates that it usually takes up to two years after a key account deal is announced before substantial numbers of insurance contracts from the key accounts are transferred to JDC Group's platform, at which point commissions start to flow in to JDC Group. Hence there is a delay in reported revenue growth from large client wins. For example, the Albatros contract (Lufthansa) announced on 14 November 2017 reached its expected revenue level in 2020 and only started to contribute to EBITDA in 2020. Once the transfer of contracts is completed on a key account deal organic growth is likely to be in line with the German insurance market.

Although key account wins do not immediately contribute to revenue growth they are essential to grow the platform in the years ahead. After a relatively slow H220, 2021 has had an excellent start with three large client wins after nine in the two years before:

- A letter of intent with insurance company Provinzial Group that could lead to 100 regional savings banks joining JDC Group's platform with one million new platform clients in the next five years.
- The win of multibanking app Finanzguru as a new platform customer, potentially adding over 500,000 customers to JDC Group's advisory and service platform with an already noticeable number of new accounts.
- A smaller deal regarding Mediolanum's insurance business in Germany.

We believe the potential deal with Provinzial Group is especially important as it already has a large insured client base and the success of the deal might open the door to adding similar groups and hence adding more saving banks from Germany's fragmented banking market to JDC's platform. The joint venture with Provinzial Group aims to process insurance products beyond Provinzial Group's own product range to retail customers within the savings banks distribution. An interface to the savings banks' insurance platform S-Versicherungsmanager (insurance manager) will be created, which will become the central distribution platform for public insurance companies. In a conservative scenario, assuming a low number of contract transfers, the Provinzial deal will lead to €20m in annual net revenues for JDC Group, which is roughly 20% of the €100m total expected commission income. We believe that it would make sense if other similar companies (Sparkasse-related insurance companies) follow suit.

Finanzguru, a multibanking app with over 500,000 users, is a very interesting new client group, immediately adding customers. Over 2,500 clients transferred insurance contracts to JDC Group's platform through Finanzguru in one week. As such, JDC Group's platform seems attractive for other financial platforms as well. Cooperative banks (like the already signed Sparda bank) could be the next large client group into which JDC Group can expand.

Within the Advisortech segment key accounts are the growth driver, with over 25% growth in 2020 to €20.3m. Management expects that in four years the key accounts will outsize the IFA business (Intermediaries) that now accounts for the largest part of JDC Group revenues (€79m). We would not be surprised if JDC Group's platform growth ultimately cannibalises a part of the IFA business.

The transfer of contracts to the platform that is now expected based on recent new client wins justifies a longer-term outlook of a doubling of revenues to 2025 (€246m) and increase in EBITDA several times (we would expect roughly 4x or >€20m). If more contracts like Provinzial are won, this number will increase further. JDC Group has now also mentioned European ambitions which we believe would make sense, as to our knowledge there is not a platform like JDC Group's in Europe.

Valuation not demanding

Within the Advisortech division, the IFA business is the largest part with roughly 77% of revenues. In this segment, JDC Group competes with companies offering financial products such as investment funds, closed funds, insurance and financing products through independent brokers to downstream brokers or end-clients. In Germany, these are private companies like Fonds Finanz

Maklerservice and BCA, as well as commercial banks. We also consider the much-larger AON and aggregators in the UK, such as Admiral and Moneysupermarket.com, as relevant comparisons. Compared to these companies, JDC Group trades at a premium on EV/EBITDA_{21e} multiples. The key growth and value driver, however, is JDC Group's key accounts platform business, already accounting for 20% of Advisortech revenues. This is best comparable to Hypoport, which also offers an independent advisory platform service but for mortgages (JDC Group: insurance). Compared to Hypoport, JDC Group trades at a steep discount. US-listed Goosehead operates a more B2B-oriented insurance platform in the US and also trades at a large premium compared to JDC.

In Advisory, JDC Group focuses on the mass affluent market mostly for wealth accumulation or protection and competes with commercial and private banks and financial advisory companies like MLP and Horbach.

Although we realise that a peer comparison for JDC Group is imperfect, given the diverse business mix, we note that it trades at a 36% discount on FY21e EV/EBITDA compared to a broad group of peers. We note that if we apply Hypoport's 2021e EV/sales multiple to JDC Group's Key Accounts business alone, we arrive at the current market capitalisation.

The most important risks are changes to the regulatory environment in Germany and Austria, but also negative capital market returns would put pressure on JDC Group's results, as part of the earned commissions are dependent on assets under management.

Exhibit 2: Peer comparison table

	Market cap (local currency, m)	FY21e EV/sales	FY22e EV/sales	FY21e EV/EBITDA	FY22e EV/EBITDA
Admiral	£9494.4	10.8	12.2	21.8	19.7
Aon	\$53971.8	4.8	4.5	15.4	14.3
DFV	€177.7	0.9	0.7	N/A	14.6
Goosehead	\$3627.0	24.0	17.1	90.0	57.4
Hypoport	€2720.9	6.3	5.4	40.5	31.7
MLP	€770.0	2.9	2.7	28.1	24.9
Moneysupermarket.com	£1436.4	4.1	3.8	13.3	11.4
Average peer group		7.7	6.6	34.9	24.8
JDC Group	€144.4	1.1	1.0	22.2	16.3
Premium/(discount) to peer group		-85%	-85%	-36%	-34%

Source: Refinitiv consensus data. Note: prices as at 6 April.

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