EDISON **Scale research report - Initiation**

JDC Group

Diversified financials

05 July 2017

Digitalised personal service

JDC has completed a refocusing of its core financial services advice and sales offering over the past two years so as to position the group for growth. The group has wholeheartedly adopted a digital strategy to meet the demands of end-customers for a better, more efficient and more convenient service, to support its broker pool members to do the same, and has created a platform from which to profitably consolidate existing contract portfolios in an IFA market that is expected to shrink.

Meeting the challenges head on

Alongside its direct-to-customer, high net worth advice and sales offering, JDC operates one of the largest broker pools in Germany. Subdued end-customer activity, increasing regulation and internet-based competition has pressured the traditional broking sector and many individual IFAs are expected to leave the market in coming years. JDC has remodelled and digitalised its offering so as to combat these pressures and build on its existing strong market presence. Its digitalised sales and administration support to IFAs and their end-customers is aimed at organically growing end-customer activity and attracting more of the remaining IFAs to the JDC pool. Crucially, JDC has built a solid platform to support the profitable consolidation of contract portfolios from exiting IFAs.

Management guides to continuing strong progress

Accretive acquisitions of contract portfolios in 2016 are significantly driving growth, although organic measures of customer activity (new brokers joining the pool and transfers of customer contracts onto the JDC platform) are also positive. Q117 revenues grew 14% y-o-y with profitability sharply improved. Management guides to double-digit revenue growth and a doubling of EBITDA with further gains in 2018.

Valuation: P/E dropping as profitability grows.

On page 10 we compare the JDC P/E to that of a group of international companies that share some common characteristics. Based on consensus data, as JDC's growth strategy sees it move from losses into profits over this year and next, the relative P/E begins to drop quickly. Consensus EPS growth in 2018 is the highest among the selected group and a continuation of above average growth by JDC would quickly erode the premium rating.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	75.70	(0.98)	(0.16)	0.0	N/A	N/A
12/16	78.05	(0.70)	(0.11)	0.0	N/A	N/A
12/17e	91.60	2.55	0.18	0.0	40.5	N/A
12/18e	102.50	4.90	0.34	0.0	21.3	N/A

Source: Bloomberg data as at 26 June 2017

Price	€7.30
Market cap	€87m

Share price graph

Share details

Code	A8A
Listing	Deutsche Börse Scale
Shares in issue	11.9m
Last reported net debt as at 31 March 2017	€9.0m

Business description

JDC Group is a financial services group providing advice and financial services, both directly to end-customers and via independent intermediaries. It operates one of the largest broker pools in Germany and recently acquired comparison website GELD.de. Digital advice and administration capabilities are a focus of strategy to drive organic growth and position the group as a consolidator.

Bull

- Group refocused on core strategy.
- Strong position to support digital investment.
- Profitable consolidation opportunity.

Bear

- IFA sector forecast to shrink.
- Low interest rates have discouraged customer savings. Insurance market mature.
- Increased regulatory burden.

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Company description: Digitalised personal service

JDC Group (JDC) is a financial services business, providing advice and broking financial services and generating the majority of its revenues in the form of commission income. It operates through two main business units shown in Exhibit 1: one (FiNUM) advises and sells financial products directly to c 80,000 high net worth end-customers and another (Jung, DMS & Cie) operates one of the largest broker pools in Germany, indirectly advising and selling financial products to end-customers. Jung, DMS & Cie pools c 16,000 independent financial advisers and brokers (with around one million customers), who are provided with technological ("fintech") applications and other business support. In 2016 JDC acquired the comparison website GELD.de, which allows end-customers to transact directly online while still retaining the services of their chosen broker should they wish.

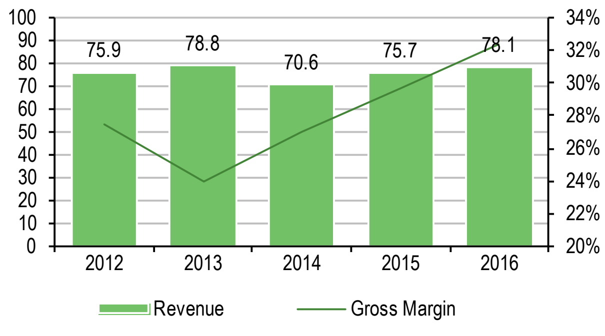
Exhibit 1: JDC Group at a glance

	JDC Group	
Jung, DMS & Cie	**FiNUM**	**GELD.de**
Broker pool/business aggregator	Financial sales	Comparison portal/online broker
16,000 IFAs	260 IFAs (exclusive)	150,000 customers
Serving 1,000,000 customers	Serving 80,000 customers	195,000 contracts
€62m in revenues (2016)	€23m in revenues (2016)	
€1.1bn in product sales (2016)	€300m in product sales (2016)	
€3.6bn customer assets under administration (AUA)	€0.9bn customer assets under administration (AUA)	

Source: JDC

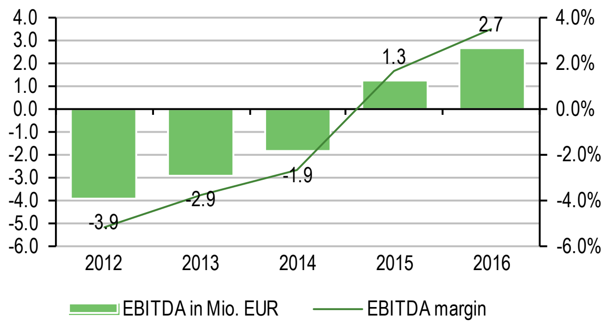
The group was founded in 2005 and was originally named Aragon, changing its name to JDC Group in July 2016. The group's results were under pressure for several years during the post-financial crisis period, reflecting weaker customer activity and regulatory changes that reduced upfront commissions and increased the burden of administrative costs. Over the past couple of years the group has streamlined its activities to focus on and further develop its core operations (broker pools and direct to end-customer financial sales) and the digital platform to support these. Non-core participations and sales activities have been disposed of with a depressing impact on reported sales and earnings. In Exhibits 2 and 3 we show the underlying performance, on a like-for-like basis as supplied by the company.

Exhibit 2: Adjusted revenues (€m) and gross margin



Source: JDC. Note: Like-for-like basis, adjusted for disposals.

Exhibit 3: Adjusted EBITDA (€m) and EBITDA margin



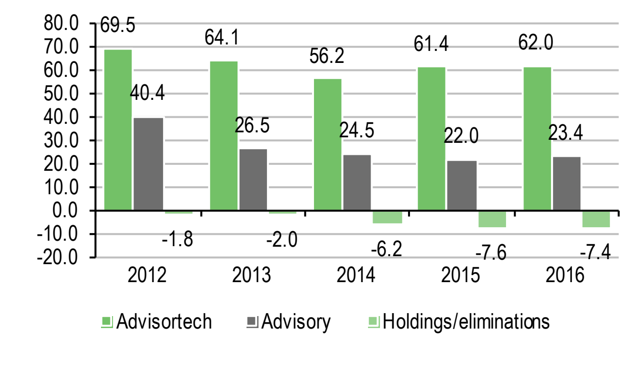
Source: JDC. Note: Like-for-like basis, adjusted for disposals.

Recognising the growing importance of online sales as well as the threats to traditional broker distribution models, JDC's strategy has been to harness the benefits of technology ("fintech" solutions) with traditional consulting. Believing that most financial products are still "sold and not bought" and that having the scale to support digital investment remains an advantage, JDC has combined its position as one of the largest IFA networks in Germany and Austria with fintech applications (supporting IFA websites, digital transaction processing, mobile technology, digital insurance wallet and comparison website services) on a leading-edge digital IFA platform. The digital mass data processing platform supports both divisions with access to c 12,000 insurance and investment products from more than 1,000 providers, processing more than one million documents per annum. JDC works with the insurance providers to undertake all of the back-end administration, which often involves high-volume human intervention such as the scanning of policy documentation into the system. Brokers and customers receive a convenient and flexible digital solution. An important new development was the 2016 introduction of the "allesmeins" mobile application, a digital insurance wallet that enables end-customers to conveniently store, monitor and manage all of their insurance contracts in one place and which JDC management believes will be a key driver of customer acquisition and retention.

JDC expects its new strategy to deliver significant growth in the coming years with its streamlined digital processes generating additional sales and improved efficiency and providing a scalable platform from which to act as a consolidator of client contract portfolios from retiring IFAs and those with insufficient scale to compete. A June 2016 market analysis by Oliver Wyman (Insurance 2025) predicts that the number of financial intermediaries in Germany will almost halve by 2025, driven by regulatory pressures, an inability to compete in an increasingly digital environment and retirement, given that a high proportion are nearing retirement with no obvious successor. As a service provider to intermediaries, the anticipated decline in their number represents a challenge for JDC; however, it aims to work with a larger share of the remaining IFA market, while at the same time increasing the proportion of its business that it transacts directly with the customer by acquiring portfolios; with no broker commissions to pay, these acquired portfolios have the potential to generate attractive margins. As we discuss below, JDC made a number of significant portfolio acquisitions during 2016, with the first effects beginning to show by year end and into Q117.

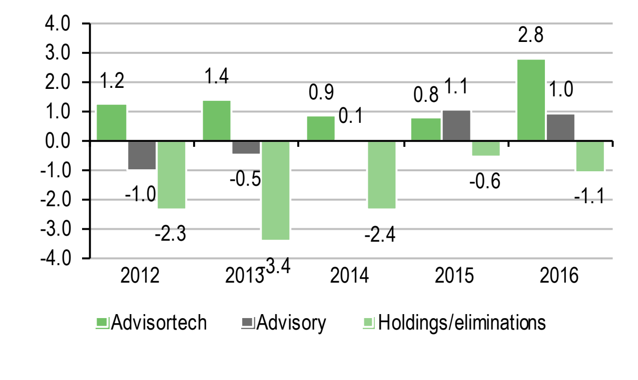
The group operates through separate and distinctive channels with their own branding and marketing. The broker pool 'B2B' activity and the newly acquired GELD.de comparison platform are grouped together in the Advisortech division, while the traditional direct-to-customer advice and sales activities sit within the Advisory division.

Exhibit 4: Revenue trends by division (€m)*



Source: JDC. Note: *Figures as reported.

Exhibit 5: EBITDA trends by division (€m)*



Source: JDC. Note: *Figures as reported.

Advisortech

JDC sits in the middle, between product providers and the affiliated intermediaries and their end-customers that it supports. The Jung, DMS & Cie subsidiary is one of the leading broker pools in Germany with c 16,000 IFAs. The intermediaries (individual IFAs, IFA groups, banks etc) are independent and are not tied to JDC, but receive from it modern advisory and administration technological support, helping them to operate more efficiently and better support their clients. The "allesmeins" smartphone application is a major initiative for JDC. It allows the end-user customers of affiliated brokers to view and manage all of their insurance contracts in a single, convenient, digital location. The planning and development of the app took around nine months, with some early teething problems to overcome, but has been progressively rolled out since March 2016. More than 650 JDC brokers have now been trained to use the product and it is already being used by c 7,000 customers, with an average of six contracts per customer. JDC describes “allesmeins” as a digital insurance wallet that should make it easier for clients to monitor their policies and provides easy access to all important documentation, stored digitally.

In May 2016 JDC acquired the online comparison platform GELD.de from the Unister Group. GELD.de is mainly an insurance price comparison website with c 200,000 users, although JDC intends to broaden this and has already added electricity, gas and internet provision, and intends to offer simple investment products in future. As well as providing a direct to consumer sales channel, JDC will use GELD.de to support the 16,000 affiliated intermediaries that work with it. Their end-user insurance customers will be able to use GELD.de to compare insurance products and quotes and where they feel comfortable, most likely in the case of simpler products, to transact simply and easily online. JDC IFAs will continue to receive their usual fees and, by redirecting simpler transactions, will free up time for more complex, consulting intensive transactions. According to the Autumn 2016 ROPO Survey for Insurance Products in Germany, conducted by the research organisation, GfK, 84% of all contracts that are eventually concluded are first researched online and then concluded in the traditional way via a broker. The clients will also be able to add the contract to their allesmeins digital insurance wallet. Additionally, JDC and Unister agreed on a marketing alliance that will see allesmeins offered to hundreds of thousands of Unister customers, which JDC management expects to lead to further customer growth.

As a broker pool, the group is in competition with other broker pools/networks such as Fonds Finanz and BCA. The number of competitors has reduced through consolidation in recent years and JDC management believes that the regulatory and IT requirements are such that barriers to entry are now high and that its increasing level of digital support to IFAs is a key differentiator.

Advisory

The traditional direct-to-customer activities, advising and selling financial products to end-customers, are undertaken by a group of three subsidiaries operating under the FiNUM name. These act as independent financial advisers for high net worth clients throughout Germany and Austria. A comparison of average revenue per client (c €300 pa in FiNUM versus c €60 pa in Advisortech) highlights the difference between the customer groups in each division and we expect JDC to continue to operate them separately. Management indicates that it expects FiNUM to continue its organic growth (c 7% in 2016 and c 12% year-on-year in Q117). While it may benefit from customer referrals, the majority of Advisortech’s growing direct-to-customer activity (where no affiliated external IFA is any longer involved) will remain with that division.

Holdings/eliminations

The holding business unit provides the overall management functions of the group, where expenses have significantly reduced in the past few years. Holdings also records a small amount of revenue in respect of divisional charges for group services, which is more than offset by the consolidation adjustments/eliminations shown in Exhibit 4 above. The growing share of eliminations within the divisional revenue breakdown follows the growth in FiNUM turnover generated through the group digital platform.

Strategy aims to grow revenues and margin

As noted above, against the likely expected decline in the number of individual IFAs, a key element of the growth strategy is to supplement organic growth by acquiring portfolios of insurance contracts. In the case of retiring IFAs these may be small, but in 2016 there were two notable larger acquisitions. JDC also hopes to use its digitalised platform to increasingly support what it calls "institutional resellers" of insurance and investment products, banks, platforms and asset managers seeking to broaden their earnings base.

In May 2016, along with the acquisition from the Unister Group of the GELD.de platform and brand assets, JDC also acquired a retail client portfolio of up to 195,000 insurance contracts. On a full year basis JDC management expects net annual premiums of almost €27m to generate annual premium commission revenue to JDC of up to €5m with an expected EBITDA of up to €4m. The expected EBITDA margin is high (up to 80% as a percentage of the annual commissions) because, as we discuss below, there is no affiliated broker commission to pay and only internal administration and customer servicing costs. The contracts acquired mainly cover legal expense, personal liability, and householder's and homeowner's comprehensive insurance, areas where management expects better than average levels of persistency. Through the introduction of the allesmeins digital insurance wallet JDC management hopes to generate substantial additional revenues from the acquired portfolio. The 195,000 contracts acquired represent just over one contract per customer and comparing this with a German average of around six to eight contracts per customer suggests potential for those customers to transfer more of their overall contracts to JDC if a successful roll-out of allesmeins persuades them of the advantages of having all their contracts accessible in one place.

A second significant portfolio acquisition came in June 2016 when JDC acquired a retail client portfolio of c 20,000 insurance contracts representing annual premiums of c €8.5m from global insurance and reinsurance broker Aon. Aon had decided to sell its retail portfolio as part of its refocusing on commercial clients and business. The contracts are also mainly legal expense, personal liability, and householder's and homeowner's comprehensive insurance. JDC anticipates earning c €1.0m in annual contract fees from product providers and, with only internal administration costs to meet (ie no broker commission expense), the EBITDA margin is expected to be significantly higher than the group average.

In other developments, in November 2016 a new co-operation agreement with Phoenix Strategic Investors (PSI) was concluded. PSI operates a network of IFAs primarily in the Czech Republic, Slovakia and Austria and was formed from parts of JDC's former distribution partner, Ertrag & Sicherheit, which fell into insolvency after falling victim to a fraud in its investment funds division. PSI IFAs will operate using the JDC platform, with the digital insurance wallet app, allesmeins, being introduced to more than 1,000 Phoenix customers in the Czech Republic, Slovakia and Austria. JDC management expects that this new partnership will eventually generate additional full-year commission revenues of up to €5m with a positive contribution to earnings already in 2017.

October 2016 saw JDC's first strategic partnership in the banking sector with flatex, a subsidiary of FinTech Group. From December 2016, flatex began to offer its 165,000 online broking clients access to the digital insurance wallet app, allesmeins. Flatex clients who choose to will then be able to use the app to transfer their existing insurance contracts into the digital wallet and mandate a broker to manage their policies.

Margin dynamics

JDC receives a commission on product sales from the producer and rebates 75% of this to the affiliated intermediary leaving a gross margin on sales of 25%. However, in circumstances where the business is transacted directly with no affiliated broker involvement, all commission revenues remain with JDC (gross margin 100%). This would be the case when JDC acquires the customer relationships from a retiring IFA or acquires a book of contracts from some other intermediary. As noted above, several such transactions occurred in 2016 and the Q117 divisional gross margin reached 32.7%.

From the c 100% gross margin on 'non-broker' business, JDC expects some marginal administration costs and customer servicing costs, but does not expect these to exceed 30% of revenue, indicating an EBITDA margin of c 70% (c 8% in Q117 in Advisortech compared with c 5% for 2016 as a whole and c 1% in 2015).

Management indicates that it is able to acquire portfolios of contracts at c 2.5x recurring revenues, which implies an EBITDA return of c 28% on the investment. The two large portfolio acquisitions discussed above (from Unister and Aon) were in line with this pricing objective. The value of contracts acquired is capitalised on the balance sheet and is amortised over the expected useful life (of between 5-15 years), which means that EBIT will have a tendency to lag EBITDA. We would suggest that investors ignore this non-cash contract value amortisation and instead focus on the expected cash return on investment (a pre-tax 28% in the example above) and any signs that the persistency of the contracts is falling short of that expected, with adverse effects on cash flow and likely impairment of the intangible carrying value.

Management, organisation and corporate governance

Supervisory board and management board

The management board of JDC is led by CEO Dr Sebastian Grabmaier who studied law at Ludwig-Maximilians-Universität in Munich and at the University of Chicago. His board responsibilities cover corporate strategy, corporate communications and marketing, legal affairs and compliance, product partnerships/procurement, and sales.

CFO Ralph Konrad has been a member of the management board since 2005 and before joining JDC he worked in private equity and venture capital investment, where he gained experience of corporate transactions and restructuring including IPOs. His management board responsibilities include finance, human resources, mergers and acquisitions, and investor relations.

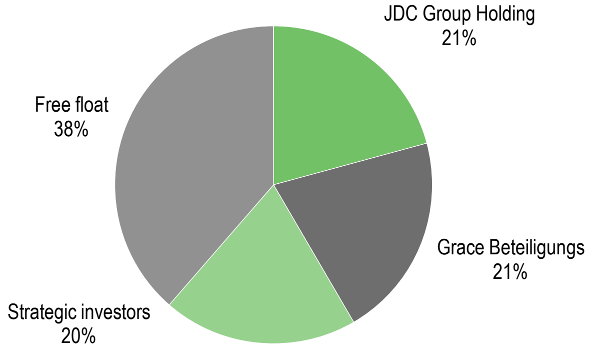
The third, and newest, member of the management board is Stefan Bachmann who joined as chief digital officer (CDO) in February 2017. Prior to joining JDC he headed up FinTech sales consulting services. At JDC he is responsible for the group's overall digital strategy and the integration of the direct-to-customer and platform business within the JDC IT network.

As a listed German company, JDC is overseen by a supervisory board that consists of five members. The chairman of the supervisory board is Jens Harig and the other members are Emmerich Kretzenbacher, Stefan Schütze, Klemens Hallmann, and Jörg Keimer.

Shareholders and free float

The group has a stable shareholder structure. Management board members Dr Sebastian Grabmaier and Ralph Konrad each own c 21% through Grace Beteiligungs GmbH and JDC Group Holding GmbH respectively. A further c 20% is held by three strategic private investors. In June 2016 the group placed 1.085m new shares (10% of the total) with institutional investors at €5.76 per share, increasing the total number of shares outstanding to 11.935m. The shares were placed without subscription rights for existing shareholders, taking the free float from 35% at the end of 2015 to 39% and slightly diluting JDC Group Holdings and Grace Beteiligungs each from c 23%. The strategic investors' holdings were increased to maintain their interest at an unchanged c 20%, which we believe demonstrates an ongoing commitment to JDC.

Exhibit 6: Shareholder structure



Source: JDC

Financials

In Exhibit 7 we provide a summary of JDC's financial statements, which are prepared by the group under IFRS. The underlying historical progression is difficult to assess given the strategic repositioning that management has undertaken, with disposals and de-consolidations having a significant impact on 2014 and prior years. For an indication of the underlying trends in revenues and profits we would refer the reader to Exhibits 2 and 3, which are based on like-for-like adjusted numbers provided by management. Returning to Exhibit 7, there is clear evidence of an improving trend, with the 2014 net attributable loss of €6.6m reducing to €1.2m in 2016 even though the accretive acquisitions completed during 2016 made only a partial year contribution. Looking at Q117, revenues were ahead 17% compared with Q116 with profitability improving at a disproportionately faster rate. Q117 EBIT became positive and net attributable income broke even. As we discuss below, market consensus (shown on page 1) looks for c 15% pa revenue growth over 2017 and 2018 and for net attributable profit to reach €4.1m in 2018 (EPS of €0.34). This consensus includes contributions from brokers, Hauck & Aufhäuser and Montega.

Exhibit 7: Financial summary

IFRS	12 months ending 31 December				Three months 31 March		
€m unless otherwise stated	2013	2014	2015	2016	2016	2017	% change
Income statement							
Revenues	**88.60**	**74.54**	**75.70**	**78.05**	**17.46**	**19.89**	**14%**
Capitalised services	0.54	0.49	0.67	0.59	0.18	0.15	
Other operating income	1.89	3.15	2.83	1.98	0.25	0.25	
Commission expenses	(68.9)	(57.7)	(56.7)	(55.31)	(12.65)	(13.24)	
Gross profit	**22.12**	**20.48**	**22.51**	**25.32**	**5.23**	**7.05**	**35%**
Gross margin	**25.0%**	**27.5%**	**29.7%**	**32.4%**	**30.0%**	**35.4%**	
Personnel expenses	(14.01)	(12.66)	(12.14)	(13.11)	(3.11)	(3.40)	
Other operating expenses	(10.59)	(9.26)	(9.09)	(9.49)	(1.91)	(2.51)	
EBITDA	**(2.49)**	**(1.43)**	**1.28**	**2.72**	**0.22**	**1.13**	**409%**
EBITDA margin	**-2.8%**	**-1.9%**	**1.7%**	**3.5%**	**1.3%**	**5.7%**	
Depreciation and amortisation	(1.90)	(1.62)	(1.55)	(2.49)	(0.43)	(0.77)	
EBIT	**(4.38)**	**(3.06)**	**(0.27)**	**0.23**	**(0.21)**	**0.36**	
EBIT margin	**-4.9%**	**-4.1%**	**-0.4%**	**0.3%**	**-1.2%**	**1.8%**	
Net financial income/(expense)	(1.1)	(0.5)	(0.7)	(0.9)	(0.2)	(0.2)	
EBT	(5.5)	(3.6)	(1.0)	(0.7)	(0.4)	0.1	
Taxes	(0.4)	(0.3)	(0.8)	(0.5)	0.2	(0.1)	
Discontinued operations	(0.1)	(2.7)	0.0	0.0	0.0	0.0	
Non-controlling interests	(0.1)	(0.0)	0.0	0.0	0.0	0.0	
Net attributable income/(loss)	**(6.1)**	**(6.6)**	**(1.7)**	**(1.2)**	**(0.2)**	**0.0**	
EPS (€)	**(0.56)**	**(0.61)**	**(0.16)**	**(0.11)**	**(0.02)**	**0.00**	
EPS (€) - continuing operations	**(0.54)**	**(0.36)**	**(0.16)**	**(0.11)**	**(0.02)**	**0.00**	
Balance sheet							
Intangible assets	39.66	31.66	31.25	45.09	31.78	44.91	
Other fixed assets	11.89	6.11	8.24	8.00	5.67	7.66	
Cash	7.82	4.18	5.32	2.91	4.09	4.34	
Other current assets	18.80	18.39	21.00	16.92	18.71	13.82	
Bonds	0.00	0.00	(12.69)	(12.87)	(12.71)	(13.00)	
Liabilities to banks	(0.94)	(0.23)	(0.00)	(0.39)	(0.29)	(0.36)	
Other liabilities	(42.25)	(33.70)	(28.43)	(29.95)	(23.29)	(27.63)	
Net assets	34.98	26.41	24.68	29.71	23.96	29.74	
Non-controlling interests	(1.09)	(0.05)	0.00	0.00	0.00	0.00	
Shareholders' equity	**33.89**	**26.36**	**24.68**	**29.71**	**23.96**	**29.74**	
NAV per share (€)	**3.12**	**2.43**	**2.27**	**2.49**	**2.21**	**2.49**	
Cash flow statement							
Cash flow from operating activity	(5.55)	(4.07)	(0.65)	1.22			
Cash flow from investing activity	4.10	2.90	(5.23)	(9.40)			
Cash flow from financing activity	1.42	(2.95)	7.25	5.77			
Other	0.02	0.48	(0.22)	0.00			
Opening cash	7.84	7.82	4.18	5.32			
Closing cash	**7.82**	**4.18**	**5.32**	**2.91**	**4.09**	**4.34**	
Bonds	0.00	0.00	(12.69)	(12.87)	(12.71)	(13.00)	
Liabilities to banks	(0.94)	(0.23)	(0.00)	(0.39)	(0.29)	(0.36)	
Net cash/(debt)	**6.89**	**3.94**	**(7.37)**	**(10.35)**	**(8.92)**	**(9.02)**	

Source: JDC accounts, Edison Investment Research

Growth accelerated in late 2016

2016 revenue growth was €2.35m or 3.1% in what management describes as a challenging market environment. The growth included a €3.3m first time, part-year contribution from acquisitions and an offsetting negative impact of c €3m from the insolvency of JDC's Austrian distribution partner, which we refer to above. The impact of acquisitions can also be seen in the breakdown of revenues, with initial commission from the sale of insurance products increasing by €3.8m or 13%. The main offset to this growth was the weakness in commissions from the sale of investment funds, which partly reflects the loss of revenue from the Austrian distribution partner but also periods of global economic and political uncertainty during the year.

Exhibit 8: Revenue breakdown (€'000s)

	2016	2015	% change
Initial commissions:			
Insurance products	32,075	28,325	13.2
Investment funds	13,395	18,033	(25.7)
Closed-end funds	3,286	2,847	15.4
Follow-up commissions	18,663	19,657	(5.1)
Overrides	4,172	1,051	297.0
Services	377	383	(1.6)
Fee-based advisory	2,740	2,860	(4.2)
Other income	3,344	2,544	31.4
Total revenues	**78,052**	**75,700**	

Source: JDC

With no broker commissions to pay away, the commission fees earned from product suppliers in respect of the insurance portfolio acquisitions significantly dropped to gross profit, with the gross margin increasing from 29.7% in 2015 to 32.4%. The gain in EBITDA, from €1.28m to €2.72m, was slightly more muted but included €0.5m in one-off, acquisition-related legal and consulting costs. EBIT was positive for the year, but again the improvement was muted by a €0.6m increase in non-cash depreciation and amortisation charges related to the capitalised value of insurance contracts acquired. After interest and tax the net attributable loss was reduced to €1.21m. Despite negative EBT of €700k the tax charge included €441k of income taxes. The tax charge is non-cash and is substantially related to the accounting treatment of previously recognised deferred tax assets and JDC is unlikely to actually pay tax for a number of years.

We estimate that the 2016 acquisitions of insurance contract portfolios and GELD.de, all settled in cash, amounted to c €13.3m. Of this amount, c €1.2m was in respect of the GELD.de platform and brand assets and the remaining €12.1m in respect of customer portfolio assets that were capitalised on the balance sheet.

The cash balance reduced by c €2.4m with the balance of funds for acquisitions coming substantially from the €6.3m of new equity raised in June and the sale of €6.0m in short-term fund investments acquired in 2015 with proceeds of a bond issue. In that respect it can be said that the 2016 investments completed the deployment of the proceeds of the €12.6m bond issue (€15.0m gross less a portion retained by JDC) earmarked for insurance contract portfolio acquisitions. The 2015 bond issue was privately placed with a coupon of 6.0% and a five-year maturity. Other than a small amount of overdraft liability, the bonds represent the entire financial liabilities of the group as at 31 December 2016. Taking the cash position and this debt position together, the group had a year-end net debt position of €10.4m compared with equity of €29.7m (equity/assets ratio 40.7%).

Q117 supports strong growth expectations for next two years

Management has guided to revenues of between €85m and €95m in 2017 and more than €100m in 2018. This is reflected in the market consensus (2017e: €91.6m; 2018e: €102.5m) and the €19.9m of revenue recorded in Q117 shows the group making progress towards these goals. 2017 revenue will benefit from a full contribution from last year's acquisitions, which our discussions with management lead us to believe will be in the range of an incremental €5.3m to €5.5m. This acquisition uplift is reflected in Q117 and the additional uplift through this year and into 2018 is based on management expectations that its digital strategy will accelerate organic growth. As we have shown above, management expects revenue growth to deliver increased profitability, primarily as a result of a growing share of end-customer business with no broker commission expenses, and guides to EBITDA of €5.0-6.0m in 2017 and more than €8.0m in 2018, which implies an EBITDA margin of around 6.0% in 2017 and at least 8.0% in 2018 compared with 3.5% in 2016. We note that Q117 showed strong progress towards the current year target with an EBITDA margin of 5.7%. We note that the market consensus for EBITDA is above management guidance at €6.7m for 2017 and €9.1m in 2018, with further growth in 2019.

Valuation: P/E falling with strong forecast EPS growth

In terms of assessing the valuation of JDC, we are hampered by a lack of direct comparators, especially in the German market. In Exhibit 9 we have gathered data on a range of stocks that may be helpful in setting a context for the JDC valuation even though they are addressing somewhat different markets with different business models. We show data for the international online brokerage sector, which, like JDC, is using digital technology to address the investment needs of a retail market. We have included direct German bank, Comdirect, on the same basis. For completeness we show two large German banks whose overall business models and drivers are perhaps the least comparable in our list, even though their retail arms will be in traditional, non-digital competition with JDC. We have also included two quoted IFAs from the UK and note that Lighthouse Group, similarly to JDC, operates a network of self-employed advisers operating under their own brands in addition to its own dedicated distribution.

Exhibit 9: Valuation comparison table

	Price (local)	Market cap (US$m)	Current year P/E (x)	Next year P/E (x)	Next year EPS growth (%)	Dividend yield (%)	Share price performance (%)			
							1m	3m	Ytd	1 year
JDC	**7.3**	**96**	**40.5**	**21.3**	**90.7%**	**0.0%**	**-14.9**	**22.0**	**37.2**	**17.1**
Fintech	16.9	339	15.4	12.1	27.3%	0.0%	-2.8	19.9	30.2	36.6
Avanza	367.9	1,306	26.5	23.9	10.8%	2.9%	-8.8	6.5	23.9	48.1
Swissquote	26.5	422	16.6	16.6	0.0%	0.4%	19.8	39.2	58.5	52.8
BinckBank	4.4	365	8.8	11.0	-20.0%	4.5%	15.2	28.9	48.8	84.9
Interactive brokers	37.4	15,415	26.7	23.4	14.3%	1.1%	2.6	1.8	3.9	42.7
Average on-line brokers			**18.8**	**17.4**	**6.5%**	**1.8%**	**5.2**	**19.3**	**33.1**	**53.0**
Comdirect	9.7	1,570	24.3	24.3	0.0%	3.1%	0.5	5.3	1.5	6.4
Commerzbank	10.4	15,349	20.8	14.9	40.0%	0.0%	15.2	28.9	48.8	84.9
Deutsche Bank	15.5	37,572	14.1	9.7	45.5%	1.3%	2.6	1.8	3.9	42.7
Average direct/indirect banks			**19.7**	**16.3**	**28.5%**	**1.5%**	**6.1**	**12.0**	**18.1**	**44.7**
Lighthouse	14.3	24	11.9	9.5	25.0%	0.0%	-8.8	6.5	23.9	48.1
AFH	255.0	101	25.5	12.8	100.0%	0.0%	19.8	39.2	58.5	52.8
Average UK IFAs			**18.7**	**11.1**	**62.5%**	**0.0%**	**5.5**	**22.9**	**41.2**	**50.5**
Overall average			**21.0**	**16.3**	**30.3%**	**1.2%**	**3.7**	**18.2**	**30.8**	**47.0**

Source: Bloomberg data as at 3 July 2017

Looking at the 'next year' data, the table indicates that JDC's P/E is at the high end of the range for the group but that it is falling noticeably as a result of strong forecast earnings growth. At c 91%, next year's (2018) forecast earnings growth is significantly above the average of the companies listed and, if JDC is able to maintain above average growth beyond 2018, the P/E premium will reduce further. In terms of share price performance, JDC shares have performed more strongly than the average of the companies shown on a year to date basis, but have given back some of the gains in the past month and are broadly in line with the average over one year.

Sensitivities

We would highlight the following risk factors:

- **Regulatory issues:** JDC operates in highly regulated markets where changes in regulations have the potential to significantly influence end-customer demand for certain products as well as the ability of JDC and/or its affiliated intermediaries to sell those products as well as the costs involved in doing so.
- **Economic/market risks:** an economic slowdown and/or volatility in investment markets has the potential to negatively affect end-customer demand for savings/wealth management products. Although an increase in interest rates has the potential to create volatility in markets, higher yields should eventually stimulate investment demand.
- **Insurance premium rates:** weakness in insurance premium rates would have a negative impact on contract values and therefore revenues for the group.

- **Acquisition risk:** the group’s growth strategy is in part dependent on its ability to acquire portfolios of contracts at favourable prices and retain the underlying end-clients for a period of time. An inability to acquire portfolios or poor retention rates would reduce the earnings potential from such acquisitions and could lead to accelerated amortisation of carried contract values.

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