Scale research report - Update

Lloyd Fonds

Fund management

9 September 2020

Focus on building scale

Lloyd Fonds (LF) continues its operational realignment process with Strategy 2023/2025 initiated in FY20. The new business model has been implemented under the Lloyd Liquid Assets segment, with €1.1bn of AUM gathered so far, and management reiterated its target to reach €7bn by 2024. The AI-based portfolio management (LAIC) has been successfully launched, with €15m in AUM raised so far. While the company reported a net loss in H120 results due to continued transformation costs and the COVID-19 crisis, management expects H220 to break even.

H120 financials: Higher share of new business

In H120, LF reported a 64% y-o-y growth in revenues, stemming primarily from the consolidation of SPSW Capital and Lange Assets & Consulting, both acquired in Q419. LF introduced new segment reporting, with its new asset management business delivering revenues of €3.6m (58% of group) and real assets generating €2.6m (down 31% y-o-y). As the business is still in realignment phase, it is bearing the increased costs of integration and is still loss-making at EBIT level; however, the loss was slightly lower year-on-year (€4.3m vs €4.6m in H119). LF's net loss amounted to only €3.7m in H120, supported by €2.4m of tax loss carried forward.

New strategy on track

LF intends to continue its operations as an active investment manager and gather momentum by increasing its AUM. During H120, AUM increased by 5% to €1.1bn despite COVID-19-related difficulties in new client acquisition, and the FY20 AUM guidance stands at €1.4bn. The acquisition of the two entities in Q419 was a transformation milestone. Going forward, scale will be increased mostly organically and supported by further M&A. Meanwhile, we note that real assets include areas affected by global slowdown, including in particular container shipping and aviation.

Valuation: Discounting the future

LF shares trade at an FY21e EV/EBITDA multiple of 15.5x. As LF is still in transition, we compare its valuation to both real assets investing companies (LF trades at 6% premium) and asset management companies (35% premium). On FY22e estimates the premiums change respectively to 27% and an 8% discount, which we believe indicates a market expectation of successful implementation of the new strategy. In terms of P/E ratios on the other hand, LF trades at a sizeable premium to both subgroups, with an FY22e multiple of 24.6x.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	7.9	(1.0)	(0.16)	0.0	N/A	N/A
12/19	8.2	(5.1)	(0.01)	0.0	N/A	N/A
12/20e	15.8	(5.1)	(0.16)	0.0	N/A	N/A
12/21e	22.6	0.2	0.01	0.0	608.0	N/A

Source: Refinitiv. Note: Consensus is based on the estimates of four analysts.

Price €4.56
Market cap €61m

Share price graph

Share details

Code	L10A
Listing	Deutsche Börse Scale
Shares in issue	13.3m
Last reported net debt at 30 June 2020	€9.8m

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. It has over 20 years' experience as an investor in a range of alternative real assets.

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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Edison profile page

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H120 financials: The cost of transformation

H120 was the first fiscal period when the majority (58%) of LF's revenues came from its repositioned business model. Its top line grew by 64% y-o-y to €6.2m, mostly on the back of first-time consolidation of SPSW, while its legacy portfolio delivered €2.5m in sales (31% less year-on-year). Management highlighted that despite COVID-19-induced hurdles to client acquisition it managed to grow its assets under management (AUM) in the 'liquid assets' segment by 5% to €1.1bn vs end-FY19, which should translate into higher management fees in the forthcoming financial periods. Management confirmed its plan to reach €7bn AUM by 2024 (extended from 2023 earlier amid the COVID-19-outbreak). The real assets portfolio is in its realisation phase and management fees are diminishing. In H120 they amounted to €2.2m (15% lower year-on-year), and transaction fees related to disposals from the portfolio were at €0.4m – stemming from the sale of an office building in Utrecht (Fonds Holland V) – compared to €1.2m in H119 when LF sold three assets.

As the repositioning is still in progress, LF continues to bear the costs of the process. The headcount increased significantly due to acquisitions and resulted in 45% y-o-y higher personnel costs of €5.1m. The increase was followed by operating costs such as IT, supplies and support growing by low double-digit year-on-year percentages. This was partially offset by lower legal and advisory costs (-52% y-o-y) due to a high base effect in H119 related to implementation of the new strategy and reorganisation of the group. In consequence the EBIT loss of €4.3m was lower than in H119 (€4.6m).

On top of transaction fees, LF also generates gains and losses on the sale of assets in the legacy portfolio due to profit-sharing agreements. In H120 assets were sold at a €1.0m loss, which drove the net financial result to a €1.9m loss, compared to €5.3m income in H119 (as disposals in the period generated €5.0m profit). The remaining interest burden increased significantly (to €0.8m from €0.2m), due to consolidation of debt of acquired businesses, issuance of a convertible bond and IFRS 16 implementation and resulting leasing fees. Despite recognising €2.4m in tax loss carried forward, the net loss amounted to €3.9m, while in H119 net income amounted to €0.9m.

For FY20 management expects a net loss at a similar level to that reported in H120, indicating a break-even result in H220. This includes expected further gains from tax losses carried forward.

Exhibit 1: Financial highlights

€000s	H120	H119	y-o-y
Revenues	**6,150**	**3,748**	**64.1%**
Lloyd Fonds Liquid Assets	*3,562*	*0*	*N/M*
Lloyd Fonds Real Assets	*2,578*	*3,748*	*(31.2%)*
Lloyd Fonds Group	*10*	*0*	*N/M*
Cost of materials	(254)	(201)	26.4%
Personnel costs	(5,068)	(3,488)	45.3%
D&A	(1,794)	(344)	N/M
Other operating result	(3,535)	(4,548)	(22.3%)
Result from associates	209	264	(20.8%)
Operating earnings (EBIT)	**(4,292)**	**(4,569)**	**(6.1%)**
Financial income	134	5,451	-97.5%
Financial costs	(2,049)	(167)	N/M
Pre-tax profit	**(6,207)**	**715**	**N/M**
Income tax	2,437	209	N/M
Minorities	(154)	-	N/M
Net profit attributable to majority shareholders	**(3,924)**	**924**	**N/M**

Source: Lloyd Fonds

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Strategy 2023/2025: Integrating new business lines

While the coronavirus outbreak caused significant disruption in financial markets and affected LF's new business strategy from the demand side, the implementation of new business lines and integration of newly acquired businesses is on track. The three new distinct business lines form the segment 'Lloyd Fonds Liquid Assets' with total AUM of €1.1bn.

The **Lloyd Fonds** product line (formerly LF-Linie) currently comprises seven open-ended funds with total AUM of €800m (end-FY19: €785m). The funds have various risk profiles, from money market to equity funds. **Lloyd Vermögen** (former LF-Vermögen) is the asset management area of LF's business. The company offers bespoke wealth management for individual and institutional investors, as well as family offices, and manages AUM of €300m. In Q419 LF acquired Lange Assets & Consulting which had AUM of €186m in this area.

The third area is **LAIC**, where LF raised €15m AUM in individual portfolio management so far. The portfolios are managed by a fully digitalised, AI-based management system, LAIC Advisor. The algorithm selects a unique mix of instruments from c 10k actively managed, open-ended investment funds and c 400 ETFs to maximise profits, as described in detail in our previous note. LAIC Advisor is also developed to support other business areas of LF, as well as new product development. In May 2020, LF launched five mixed funds and since August 2020 offers unit-linked pension insurance in partnership with Helvetia Versicherung and Condor Versicherung. In October it plans to launch portfolio solutions for institutional investors – all based on LAIC Advisor technology.

The targeted growth in AUM from €1bn to €7bn should see contributions from all areas, both organically and through acquisitions. Possible acquisition targets could be found in the wealth management area, given the fragmented German market. Acquisitions are more likely to be completed in 2021–22 and could be fuelled by further equity issues.

Alongside the implementation of a new strategy and integration of acquired companies, LF also changed its management board composition, which has been narrowed to two members, with Klaus Pinter leaving the board. He was acting as CFO before 15 April 2020, and his responsibilities have been taken over by recently appointed CEO Achim Plate. The second board member is Michael Schmidt (appointed in April 2019), who acts as CIO and is responsible for the legal department and the product lines of Lloyd Fonds and Lloyd Vermögen.

Two out of five members of the supervisory board have been substituted due to conflicts of interest arising from the integration of acquired entities. Achim Plate and Henning Soltau are co-founders of SPSW and had been members of LF's supervisory board since April 2018. Following the acquisition of SPSW, Plate was appointed LF's CEO, and Soltau is managing director and minority shareholder of SPSW Capital. They have been replaced on the supervisory board by Jörg Ohlsen (former partner at Deloitte and KPMG) and Peter Zahn (former executive director at Lang & Schwarz Broker and an independent management consultant since June 2020).

New businesses become dominant in LF's results

With the successful integration of SPSW Capital and Lange Assets & Consulting, the new business lines became the main drivers of LF's consolidated results and encouraged management to update its reporting segments. The segments of Real Estate, Shipping and Other Assets (mostly air transport) were amalgamated into Lloyd Fonds Real Assets, which combines LF's legacy business. In H120, LF Real Assets generated 42% of group revenues. It continues to generate predictable (albeit declining) revenues and may still contribute meaningfully to LF's top line in FY20–22.

Exhibit 2: Lloyd Fonds's change in reporting segments

NEW	Lloyd Fonds Real Assets			Lloyd Fonds Liquid Assets		
				Lloyd Fonds	Lloyd Vermögen	LAIC
OLD	Real estate	Shipping	Other assets	N/A		

Source: Lloyd Fonds

The **real estate** operations consist of three funds that lease a total of 28.5k sqm of office (60%) and hotel (40%) space. As at end-H120 the buildings are fully let. During H120 LF sold another building (on top of four disposed of in FY19 as described in our earlier note), which yielded a 127% return to the fund investors. The return includes cash flows received over the course of the fund's life as the final settlement was below the book value of the asset. The office building is fully let to Deloitte in Utrecht, the Netherlands, and was sold in March 2020 to a French institutional investor

As at end-H120 LF's **shipping** business consists of 15 ships and two secondary market funds. The former includes nine container ships with a total capacity of 8,500 TEU and six tankers. Management highlights that tankers performed well during H120, with two vessels delivering 15% and 16% distributions to investors. LF also has indirect exposure, through the secondary funds, to 56 vessels. The third fund is under a liquidation process. The broader shipping industry has been affected by the COVID-19 crisis, especially in the container shipping segment. We note that there has been a significant fall in charter rates and an increase in the number of unused ships. The market is slowly recovering and market participants are cautiously optimistic according to LF.

Within the **other assets** segment, at end-June 2020 LF managed three airplane funds, one private equity fund and eight British life insurance funds. The airplane funds manage three planes, leased to Singapore Airlines and Chair Airlines. The aviation industry has been strongly hit by the slowdown in global trade and travel restrictions. Management highlights that it cannot rule out that airlines will not extend their leasing contracts or that extension options will not be exercised.

Valuation

As Lloyd Fonds' transformation progresses, we have decided to expand the peer group. On FY21e EV/EBITDA, LF trades at a significant premium to both real asset investment and asset management groups (with an expected loss in FY20), and at a discount on FY22, which may reflect market expectations of the successful implementation of the new strategy. As a point of reference Scalable Capital, which is a privately owned asset manager developing a robo-investment platform with AUM of €2bn, recently closed a US$58m funding round. The capital raise implied a post-money valuation of the company of €400m according to TechCrunch.

Exhibit 3: Peer group comparison

	Market cap	P/E (x)			EV/EBITDA (x)		
	(€m)	2020e	2021e	2022e	2020e	2021e	2022e
Lloyd Fonds	**60**	**N/A**	**608.0**	**24.6**	**N/A**	**15.5**	**9.1**
MPC Capital	50	N/A	19.7	12.9	N/A	12.9	5.3
Corestate Capital	366	5.2	3.6	3.1	7.9	6.2	5.8
VIB Vermogen	757	11.7	10.3	10.4	19.0	17.7	16.5
TLG Immobilien	1,890	40.1	10.1	11.6	23.9	21.9	21.8
Patrizia	2,244	33.6	27.6	24.8	16.7	14.6	13.5
Real asset investment average	**1,061**	**22.7**	**14.3**	**12.5**	**16.9**	**14.7**	**12.6**
Premium/(discount) to peers	**-94%**	**N/M**	**N/M**	**96%**	**N/M**	**6%**	**-27%**
Frenkel Topping	50	23.5	18.4	15.7	17.0	13.2	11.5
Impax Asset Management	746	42.9	33.3	26.8	31.0	24.5	19.9
Flatex	1,098	22.1	16.3	13.4	16.4	11.7	10.0
Jupiter Fund Management	1,283	10.0	9.1	8.6	6.0	5.0	4.8
Man Group	1,962	13.0	9.7	8.1	8.8	7.2	6.4
Azimut Holding	2,286	10.0	9.9	9.4	8.9	9.0	8.5
Ashmore Group	3,040	14.7	15.2	14.3	8.7	9.5	8.8
Asset management average	**1,495**	**19.5**	**16.0**	**13.8**	**13.8**	**11.5**	**10.0**
Premium/(discount) to peers	**-96%**	**N/M**	**391%**	**79%**	**N/M**	**35%**	**-8%**

Source: Refinitiv. Note: Consensus is based on the estimates of four analysts. Priced at 7 September 2020.

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