EDISON

Scale research report - Update

JDC Group

Diversified financials

14 May 2020

Price	€5.74
Market cap	€75m

Share price graph

Share details

Code	A8A
Listing	Deutsche Börse Scale
Shares in issue	13.1
Last reported net debt at end-2019	€10.4m

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. The strategy is to focus on digital advice and administration capabilities to drive organic growth and position the group as market consolidator.

Bull

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

Bear

- Increased COVID-19-related uncertainty, affecting investment results.
- Low interest rates and regulatory uncertainty affect the insurance industry.
- IFA sector is forecast to shrink.

Analysts

Edwin de Jong +44 (0) 20 3077 5700

Milosz Papst +44 (0) 20 3077 5700

financials@edisongroup.com

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Ready to scale up

JDC Group is ready to scale up. Development costs for its bancassurance advisory, administration and service platform are stabilising, and last year it was successful in winning some large client contracts. These new contracts underpin consensus revenue growth forecasts for the next few years. As a platform with a recurring revenue base, JDC's business model is not very vulnerable to the COVID-19 crisis. A valuation of 14.2x consensus FY20e EV/EBITDA does not seem demanding compared with international peers.

Strong results and solid outlook

JDC Group reported strong 2019 results. Revenue growth of 17% to €112m was slightly ahead of earlier guidance of €110m. Growth was largely driven by the Advisortech business, +20% to €92.3m, mainly due to the large Albatros contract and other clients. EBITDA almost tripled to €4.2m, partly helped by a positive €1m impact from IFRS 16, while the net loss narrowed to €1.8m from €4.3m in 2018. JDC Group guides to €125–132m revenues this year, based on existing contract wins, implying 12–18% growth. EBITDA will also increase further. If the effects of the COVID-19 crisis lead to a severe recession, or persistent volatility or negative developments on capital markets, it will have an impact. The platform itself is not dependent on supply chains or third-party vendors, so operational risks are limited.

Stabilising cost and new clients increase profitability

Where in the past an increasing portion of costs went into developing JDC's platform, development costs began to stabilise in 2019, which could be positive for investors. The JDC business model is highly operationally geared, so signing new business/clients at limited extra cost should increase EBIT margins, given the platform is now in place. After the effect of the Albatros contract in 2019, 2020 should see additional service and management fees from recently announced large contracts. It can take some time before meaningful revenues come in, but JDC Group should be able to continue to win market share. The combination of higher revenues and a stabilising cost base means earnings growth should be strong.

Valuation: In line with peers on EV/EBITDA in FY20e

We have compiled a peer group of listed insurance brokers and aggregators. Compared to this group, JDC Group trades in line on EV/EBITDA in FY20e, while its growth profile has been much more attractive. It trades at a 21% discount on EV/EBITDA in FY21e.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	95.0	(2.9)	(0.34)	0.0	N/A	N/A
12/19	111.5	(1.8)	(0.14)	0.0	N/A	N/A
12/20e	122.4	0.7	0.07	0.0	N/A	N/A
12/21e	137.4	3.0	0.13	0.0	44.2	N/A

Source: Company accounts, Refinitiv consensus at 14 May 2020.

Strong FY19 results and outlook

JDC Group reported revenue growth of 17% y-o-y to €112m, in line with the preliminary numbers released on 10 March and slightly ahead of earlier guidance of €110m. Growth in the Advisortech business, JDC Group's B2B activities through broker pools and its bancassurance platform, increased by 20% y-o-y to €92.3m. The step-up was driven by the first full year consolidation of Albatros Versicherungsdienst (Lufthansa), but also by other new client wins. Revenue growth in the traditional Advisory business, the B2C part of the business in which JDC sells financial products directly to end-customers, amounted to 13.7% y-o-y, a strong increase from the 6.2% y-o-y growth reported in H119. According to the company, JDC Group significantly outgrew the German investment fund sector (+15% AUM) and insurance industry (+6.7% premium income), as well as much larger international peers like MMC, Aon, Moneysupermarket.com and Admiral.

EBITDA almost tripled to €4.2m, from €1.5m in 2018, partly helped by a positive €1m impact from IFRS 16. Advisortech reported €4.8m in EBITDA, Advisory €1.3m, while holding costs were €1.9m. The net loss narrowed to €1.8m from €4.3m in 2018.

Exhibit 1: FY19 results highlights

€'000s	FY19	FY18	y-o-y change
Total revenue	**111,471**	**95,029**	**17%**
Initial commission	75,118	62,891	19%
Insurance products	56,861	47,449	20%
Investment funds	13,587	10,890	25%
Shares/Closed-end funds	4,670	4,552	3%
Follow-up commission	20,223	17,331	17%
Overrides	6,649	6,490	2%
Services	3,405	2,739	24%
Fee-based advisory	3,091	2,851	8%
Other income	2,985	2,727	9%
Capitalised services	998	741	35%
Other operating income	617	1,056	-42%
Commission expenses	(81,433)	(67,280)	21%
Commission expense as % of revenues	*73%*	*71%*	*225bp*
Personnel expenses	(17,417)	(16,534)	5%
Other operating expenses	(10,070)	(11,504)	12%
EBITDA	**4,166**	**1,508**	**176%**
D&A	(4,311)	(3,110)	39%
EBIT	**(145)**	**(1,602)**	**91%**
Pre-tax profit	**(1,753)**	**(2,874)**	**39%**
Net income	(1,813)	(4,266)	N/M
EPS (€)	**(0.14)**	**(0.34)**	**N/M**

Source: JDC Group accounts

If the effects of the COVID-19 crisis lead to a severe recession, it could of course also have an impact on the development of JDC Group's business, as there will be less demand for insurance policies and bank products in general. In addition, persistent volatility or negative developments in capital markets could affect JDC Group's profitability, as some fees are dependent on development of the values of underlying investment portfolios. However, JDC Group remains positive on 2020 and has sufficient liquidity, especially after the €25m bond placement in November last year. As a digitalisation platform, the company is not dependent on supply chains or third-party vendors.

Moreover, based on a mix of co-operation agreements already completed, like the recently announced service contracts for Boehringer Ingelheim Secura and InsureDirect24 (Nürnberger Versicherungsgruppe), as well as the contract wins from last year, JDC Group expects revenue to increase to €125–132m in 2020. This implies 12–18% growth this year. EBITDA will also increase further, with the EBITDA margin likely to rise if JDC can monetise economies of scale and the recently introduced efficiencies.

Large contracts continue to come in

After the effect of the Albatros contract on 2019 revenues, 2020 should see the benefits of the recently announced large insurance, banking and broker service and administration contracts. In 2019, JDC Group won contracts with the insurance broker of BMW (Bavaria Wirtschaftsagentur) and Rheinland Versicherung, which will also contribute to revenues. Furthermore, JDC completed its first, major long-term client agreements' with Sparda-Bank, Comdirect Bank and Volkswagen Bank, followed this year by the broker business of Boehringer Ingelheim and the direct sales agent of Nürnberger Versicherung.

As such, there appears to be strong momentum in connecting new client pools to the management and administration platform for investment and insurance portfolios, which could be seen as a positive development. However, it can take some time for meaningful revenues to come through after signing contracts (remember the Albatros contract was signed in November 2017). This can be caused by operational issues like the time it takes to physically connect networks and to transfer portfolios to the platform. Nevertheless, we would expect JDC Group to continue to grow faster than peers which do not have such a scalable platform.

Platform costs are stabilising

Where in the past a large portion of costs went into developing JDC's platform, development costs have now stabilised as IT platform development has been completed. We believe that is a major positive. As a result, the operational gearing of the business model should now become visible as margins grow faster than revenues. The flexibility and modularity of the white-label product range mean JDC can deploy interfaces at its clients quickly, as it is a plug and play solution.

More than €40m has been invested in this platform in the last six to seven years and it is now is one of the largest management and administration platforms for investment and insurance portfolios in Europe. This investment also creates an extra barrier to entry, which is already high given the regulatory environment and IT requirements (eg security, connectivity etc).

The combined effect of large new contracts and a stabilising cost base means that earnings growth in the coming years should be strong.

Valuation

Finding relevant listed peers for JDC Group is difficult. In the Advisortech division, it competes as a broker pool 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.

Looking at local listed companies that have their own platform, we have selected Netfonds and Hypoport. We also consider that much larger international insurance brokers like MMC, AON, Willis Towers Watson and aggregators in the UK like Admiral and Moneysupermarket.com, are the most relevant comparisons.

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.

We have compiled a group of listed insurance brokers and aggregators. JDC Group trades in line with this group on EV/EBITDA 2020e, while its growth profile has been much more attractive over the last few years. This is also reflected in a much higher discount on 21% EV/EBITDA in 2021e.

Although JDC Group is not yet profitable on a net profit level and pays out no dividend, it has initiated a share buyback programme in July last year. Up to 27 April 2020 it had bought back over 0.4m shares of the up to 5% (or 0.7m shares) shares that it intended to purchase. The shares that were purchased are kept in treasury.

Exhibit 2: Peer group comparison

	Market cap	EV/EBITDA (x)		EV/Sales (x)	
	(m)	2020e	2021e	2020e	2021e
MMC	50,045	14.3	13.1	3.6	3.4
Aon	40,957	12.6	11.8	3.8	3.7
Willis Towers Watson	23,641	11.8	11.3	3.1	2.9
Admiral	7,430	14.4	15.1	8.0	6.9
Moneysupermarket.com	1,740	12.8	11.6	4.5	4.2
MLP	505	25.6	23.5	2.8	2.6
AFH	127	6.4	5.6	1.5	1.4
Netfonds	50	20.9	16.7	0.5	0.4
Hypoport	2,260	44.1	34.7	6.1	5.1
Peer group average		**14.3**	**13.1**	**3.6**	**3.4**
JDC Group	76	14.2	10.4	0.7	0.6
Premium/(discount) to peer group		**0%**	**(21%)**	**(81%)**	**(82%)**

Source: Refinitiv consensus at 8 May 2020.

EDISON

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia