

Heliad Equity Partners

Enpal and Razor closing new funding rounds

Heliad Equity Partners (HEP) reported a 3.6% decrease in net asset value (NAV) over the four-month period ending January 2023, bringing the NAV decrease since end 2021 to 45.4%. flatexDEGIRO (FTK) was the main valuation driver and remains HEP's largest asset (38% of the portfolio). Meanwhile, HEP's private portfolio saw successful funding rounds at Enpal and Razor Group in recent months. HEP recently issued 1.6m new shares, raising €7m in new capital to facilitate further investments. Given that the share issue was carried out at a 43.6% discount to end-January 2023 NAV, we calculate that it will result in a c 5% NAV per share dilution.

HEP's share price performance against FTK and SDAX



Source: Refinitiv, Edison Investment Research. Note: Total returns in euros.

Why consider HEP now?

HEP aims to provide a convenient way of investing in a diverse set of unlisted growth technology businesses through a listed vehicle. Given the ongoing trend of businesses remaining private for longer, we see potential for institutional investors to provide private capital and capture a greater share of value accretion by successful companies. We calculate that the current share price implies that HEP's private portfolio is available to investors at a 57% discount (assuming FTK is valued in line with its current market price adjusted for a 10% discount, which HEP would likely need to accept when selling a large portion of its stake, and after accounting for the recent share issue).

The analyst's view

HEP's portfolio of innovative private businesses may benefit from secular trends such as ongoing business digitalisation, the expansion of e-commerce, increasing fintech penetration and clean energy. While venture capital valuations remain under pressure, we note that around three-quarters of HEP's investments since 2021 have downside protection through liquidation preference and/or anti-dilution provisions.

Based on our discussion with management, we understand that HEP decided to issue new capital rather than draw down on its remaining available credit line to avoid a further increase in its net gearing (which stood at 19% at end January 2023) and in turn its interest expense. HEP intends to use the proceeds for follow-on opportunities, including Burnhard (formerly Springlane) and Modifi, among others.

Investment companies
Venture capital

22 March 2023

Price	€4.33
Market cap	€55m**
NAV*	€97m
NAV per share*	€7.80
Discount to NAV	44.5%
Yield	0.0%
Ordinary shares in issue	12.8m**
Code	HPBK
Primary exchange	Frankfurt (Scale)
AIC sector	N/A

*At end-January 2023

**Including recent share issue

Fund objective

Heliad Equity Partners aims to invest in market-leading private companies and skilled entrepreneurs across sectors and regions to power their next phase of growth and act as a gateway to public equity markets by leveraging its experienced team and strategic partners.

Bull points

- Good access to a network of top-tier VC companies and entrepreneurs.
- HEP is flexible in that it has no commitments to realise investments within a specified time.
- Companies staying private for longer, allowing VC/PE investors to capture more of the value accretion.

Bear points

- HEP is yet to build a track record of successful realisations.
- Majority of portfolio value still attributable to one listed holding.
- Most private investments made close to peak of the recent cycle (H221/Q122).

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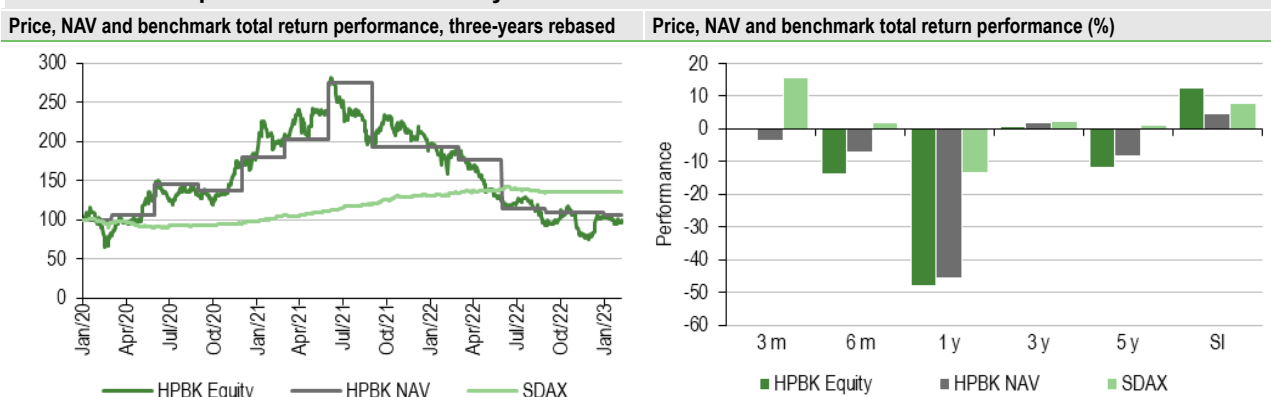
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NAV slightly down since end September

HEP's NAV stood at €87.5m at end January 2023, down 3.6% versus the end of September 2022 and down 45.4% versus end December 2021. The main driver of HEP's changes in NAV remains its stake in listed FTK, which represents 38% of HEP's portfolio value. FTK's share price decreased by 15.6% between end September 2022 and end January 2023 (61.5% since end December 2021), but has rallied by 12% since then (see below for details).

HEP's portfolio value is reported by group rather than by individual company (see Exhibit 3). There were three valuation events in HEP's portfolio in Q422. The Series C pool was revalued on the back of a new funding round at Enpal, adding 8.5pp to HEP's NAV performance (four months ending 31 January 2023). The fair value of the Series A/B pool was reduced slightly to €27.7m at end January 2023 from €29.8m at end September 2022 (reducing HEP's NAV by 2.3pp), with a new funding round completed at Razor Group. The last revaluation event – a convertible loan issue at Burnhard (formerly Springlane) – had no effect on HEP's NAV performance.

Exhibit 1: HEP's performance to 31 January 2023 in euro terms



Source: Refinitiv, Edison Investment Research. Note: Three-, five-year and since inception (SI) performance figures annualised.

Exhibit 2: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	LPX Europe NAV index (%)	LPX Venture NAV index (%)	SDAX (%)
31/12/18	(48.2)	(48.3)	7.9	13.0	(20.0)
31/12/19	(14.0)	19.2	13.9	5.2	31.6
31/12/20	103.9	79.7	(2.6)	1.5	18.0
31/12/21	22.0	7.5	36.1	25.0	11.2
31/01/23*	(50.4)	(45.4)	2.7	(5.0)	(20.4)

Source: Refinitiv. Note: All % on a total return basis in euros. Note: *13-month period from end December 2021 to end January 2023.

FTK's share price under pressure

FTK reported strong 2022 preliminary results, albeit lower than in 2021, which was a record year. Adjusted revenues (excluding revenues from the release of stock appreciation rights plan provisions) were 12% lower y-o-y at €369m (up 41% versus 2020) and adjusted EBITDA decreased by 18% y-o-y to €145m (up 27% versus 2020). FTK is an online broker and experienced unfavourable business conditions amid the worldwide equities sell-off in 2022. The company highlights that overall retail trading has not yet returned to normal seasonal patterns.

In December 2022, the company disclosed that the German Federal Financial Supervisory Authority (BaFin) conducted a special audit of FTK in 2022, which identified shortcomings in some business practices and governance. This had an adverse effect on market sentiment with respect to FTK and resulted in a 37% price drop on the day of the announcement. FTK will be required to

ensure appropriate business organisation and BaFin has issued temporary capital surcharges as a result of the audit. The shortcomings were likely the result of the rapid growth of FTK's business over recent years. Recently, FTK has expanded its management board by two members and extended the role of the current group CFO. In addition, the supervisory and management boards have decided to capitalise flatexDEGIRO Bank with an additional €50m out of the company's retained funds. FTK has also presented a pipeline targeting audit findings, with the first milestones related to credit risk mitigation strategies planned to be reached in H123 and all findings to be addressed by the end of 2024. Since then, FTK shares have gradually been rebounding, increasing by 23% since the day after the announcement. Meanwhile, sell-side analysts remain confident in FTK's prospects with the mean target price (Refinitiv consensus) implying 28% upside potential. Consensus implies a revenue and EBITDA CAGR in 2022–25 of c 11% and 17% pa, respectively.

Exhibit 3: HEP's NAV breakdown at end-January 2023

Company	Business profile	Round of investment	Latest valuation event	Investment amount (€m)	Fair value at end-January 2023 (€m)	Fair value at end-September 2022 (€m)	Change* (%)
Klarna	Fintech – e-commerce payment solutions platform	Pre-IPO	Q222	1.6	0.2	0.2	-
Clark	Fintech – tech-driven customer-centric insurance advisor	Series C	-	12.6	20.2	12.5	61.9
Enpal	Green energy – photovoltaics leasing		Q422				
Razor Group	D2C – global consumer holding that acquires and scales Amazon e-commerce merchants		Q422				
Modifi	Supply chain – digital trade finance solution for SMEs		-				
InstaFreight	Supply chain – digital B2B logistics company combining transport management and freight forwarding	Series B	-				
NewtonX	Artificial intelligence – B2B AI-driven knowledge business connecting companies with professionals to provide support in critical business decision-making		-	29.7	27.7	29.8	(7.0)
FINN	Mobility – car subscription platform in US and Europe		Q222				
WorkMotion	HR tech – HR management platform		-				
Upscalio	D2C – company investing in brands that sell on e-commerce marketplaces, eg Amazon or Flipkart in India	Series A	-				
Burnhard**	D2C – creator of a community as well as products and brands for people with an interest in food	Seed	Q422	9.1	10.4	10.1	2.7
flatexDEGIRO	Leading European online broker with more than two million customers in 18 countries	Listed	N/A	9.4	40.0	48.5	(15.6)
tonies	D2C – tech-driven audio direct-to-customer brand		N/A	3.0	1.7	1.5	18.4
Other		-	-	-	3.6	3.7	(3.7)
Total portfolio					103.9	106.3	(2.3)
Other net liabilities					16.4	15.6	5.4
Total net asset value					87.5	90.8	(3.6)
NAV/share					103.9	106.3	(2.3)

Source: HEP. Note: *Quarterly value change includes the acquisitions and disposals. **Formerly Springlane.

Enpal benefits from high PV demand

Enpal provides financing solutions for the rapidly growing photovoltaic market in Germany. The switch to green energy in Germany has significantly accelerated recently due to the energy crisis in Europe triggered by the tensions with Russia. This has allowed Enpal to quadruple its revenues in 2022 y-o-y to €400m while being net profitable.

In Q422, Enpal raised €215m in additional growth capital through a Series D funding round led by TPG Rise Climate. Westly Group and Activate Capital were new investors, joining existing investors including HV Capital, SoftBank Vision Fund 2 Capital and Princeville Climate Tech. The transaction follows a recently secured €855m in refinancing by Blackrock Alternatives, ING, Pricoa Private Capital, UniCredit and Infrantry.

HEP did not participate in the Series D funding round, although it did take part in the previous Series C round, which was completed in April 2021. The exact revaluation of HEP's stake in Enpal

has not been disclosed, but its Series C holdings (Clark and Enpal) are now valued at €20.2m, up 62% versus end September 2022, providing a reference point for the scale of upward revaluation.

Razor Group raises capital for inorganic growth

On the other hand, the Series C funding round at Razor Group did not result in a material revaluation for HEP, as HEP's Series A/B portfolio pool was revalued down by 7% during the period (to €27.7m, see Exhibit 3). Heliad did not participate in this funding round either, with the latest investment made in August 2022 in the mid-single-digit million euros. The €70m round was led by US/French consumer-focused private equity investor L Catterton, joining existing investors like 468 Capital, Presight Capital, Blackrock, GFC and Redalpine.

Razor Group is an e-commerce aggregator set up amid the rapid growth in e-commerce during the initial phase of the pandemic. According to HEP, Razor is one of the three most successful aggregators out of c 100 founded globally in the last 1.5 years, generating pro forma last 12-month net revenue of nearly €400m. The €70m proceeds will finance Razor's acquisition of Valoreo (an e-commerce provider in Latin America) as well as further organic growth – accelerating its strategy of global growth and consolidation.

HEP also made a c €0.3m follow-on investment in Burnhard (previously Springlane) through a convertible loan agreement (CLA). The transaction had no impact on the company's valuation and conversion of the CLA is expected in Q323.

Heliad raises new capital, diluting NAV per share

At end January 2023, HEP's net liabilities stood at €16.4m (19% of NAV). Its liquidity position was then supported by the recently completed share issue. HEP issued up to 1.6m shares at €4.40 (out of 1.8m on offer, 88% subscription), which translated into capital proceeds of €7.0m (out of up to €8m planned). HEP's leading shareholder, FinLab, has executed its pre-emptive rights in full and supported the transaction with €3.48m. The proceeds will be used to finance HEP's investment activities and, according to our discussion with management, this includes a c €3m follow-on investment in Burnhard and a c €1m follow-on investment in Modifi. The issue price was 44% below NAV per share (at end January 2023). The transaction was therefore dilutive to NAV and we calculate that it decreases HEP's NAV per share by c 5.4% to €7.38 (from €7.80 at the end of January 2023).

Peer group comparison

HEP's NAV performance is below peer average over the last one-, three and five-year periods due to the recent significant decrease in FTK's valuation, which also affects the long-term results. HEP's ongoing charges ratio is higher than peers and it does not intend to pay dividends for now, contrary to venture capital trusts (VCTs), which normally distribute dividends on a regular basis.

HEP currently trades at a 44% discount to NAV, wider than the peer group average of 25%. However, we note that VCTs tend to trade at a much narrower discount than some of the other peers (with HEP having the narrowest discount among them, see Exhibit 4). For illustrative purpose, if we applied the current average peer discount to HEP's NAV at end January 2023 (adjusted for the subsequent movement in FTK's share price and completion of the share issue), we would arrive at a fair value per share of €5.54.

Exhibit 4: Peer group comparison at 10 March 2023* in sterling terms

	Market cap (£m)	NAV TR 1-year	NAV TR 3-year	NAV TR 5-year	Discount (ex-par)	Ongoing charge (%)	Perf. fee	Net gearing	Dividend yield (%)
Heliad Equity Partners	49	(42.3)	10.8	(34.5)	44.5	3.8	Yes	119	0.0
Albion Enterprise VCT	113	(3.1)	21.2	53.4	(4.2)	2.5	Yes	100	5.4
Kings Arms Yard VCT	103	1.5	24.4	38.8	(3.5)	2.4	Yes	100	11.3
Northern 2 VCT	102	(4.5)	24.3	33.4	(11.7)	2.2	Yes	100	6.2
FinLab	50	(40.9)	-26.4	(8.9)	(41.7)	3.1	No	100	0.0
British Smaller Companies VCT2	102	9.5	51.3	70.6	(8.2)	2.0	Yes	100	14.4
ProVen Growth and Income VCT	154	(8.8)	8.5	12.2	(4.2)	2.4	Yes	100	10.4
Augmentum Fintech	166	4.9	38.1	N/A	(40.1)	1.7	Yes	100	0.0
Vostok Emerging Finance	137	(40.5)	10.3	40.7	(52.9)	1.3	Yes	100	0.0
Molten Ventures	467	(5.6)	45.8	(16.1)	(62.8)	2.3	Yes	100	0.0
Average (excl. HEP)	155	-9.7	22.0	28.0	(25.5)	2.2	N/A	100	5.3
HEP's rank in sector	10	10	7	9	1	10	N/A	10	6

Source: Morningstar, Edison Investment Research. Note: TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared). *12-month performance based on latest available ex-par NAV: end January 2023 for HEP, end-December 2022 for Albion Enterprise VCT, Kings Arms Yard VCT, Northern 2 VCT, FinLab, British Smaller Companies VCT2, ProVen Growth and Income VCT and Vostok Emerging Finance; end September 2022 for Augmentum Fintech and Molten Ventures.

Scenario analysis

We believe that forecasting the results of an investment company like HEP is very difficult (if not impossible), as these depend on a number of parameters relating to its existing investments, such as holding period, realised multiple of invested capital (MOIC) and prospective new investment activity. Moreover, HEP's future earnings will also depend on FTK's share price performance and realisation path. Having said that, we have updated our scenario analysis, which we included in our [initiation note](#) published in July 2022 (see Exhibit 5).

Exhibit 5: HEP's prospective NAV TR under different scenarios*

	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e
Average MOIC at 2.5x, FTKs share price at average sell-side target price							
EPS (diluted, €)	1.67	(7.02)	1.08	0.59	0.83	1.03	1.35
IFRS NAV per share (€)	14.15	7.13	7.92	8.51	9.34	10.37	11.72
NAV TR		(50%)	11%	7%	10%	11%	13%
Average MOIC at 3.0x, FTK's share price at average sell-side target price							
EPS (diluted, €)	1.67	(7.02)	1.27	0.91	1.28	1.65	2.19
IFRS NAV per share (€)	14.15	7.13	8.28	9.19	10.47	12.11	14.31
NAV TR		(50%)	16%	11%	14%	16%	18%
Average MOIC at 2.0x, FTK's share price flat							
EPS (diluted, €)	1.67	(7.02)	0.66	0.10	0.27	0.39	0.52
IFRS NAV per share (€)	14.15	7.13	7.34	7.44	7.71	8.10	8.62
NAV TR		(50%)	3%	1%	4%	5%	6%

Source: HEP, Edison Investment Research. Note: *All scenarios assume share issue completed in full.

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