

## Lloyd Fonds

### Continued business repositioning

Lloyd Fonds (LF) took the first major steps in its transition to an active asset manager by acquiring Lange Assets & Consulting and SPSW Capital announced in H119. Both transactions should be completed in H219, contributing €350m and €650m to LF's assets under management (AUM), respectively. This would help LF meet its guidance of €1.0bn AUM in two core business segments by end 2019. As part of the deals, LF will acquire tenured fund managers to hold executive positions at LF. Distribution of units in the first four funds under the new business model started in April, with proceeds collected up to mid-September at €60m.

### H119 financials: Still reflecting legacy business

Due to the early stage of LF's strategic realignment, new business had a limited impact on H119 results. LF reported a 22% y-o-y increase in revenue to €3.7m on the back of improved transaction fee income. As it had already incurred some expenditure relating to the transformation, the EBIT loss widened to €4.6m in H119 (vs a €0.8m loss in H118). However, the bottom line was supported by successful disposals in the real estate segment, which resulted in significant financial income from profit sharing agreements. Together with using tax losses carried forward, this resulted in net income in H119 of €0.9m (vs a €0.8m loss in H118) and EPS of €0.09. Management expects to break even in FY19.

### New capital to finance transformation

To finance the business model transition and further development, the company issued convertible bonds with a face value of €6.1m in May 2019. The bonds have a three-year maturity and bear a 3.75% coupon paid semi-annually in arrears. Investors may convert the bonds into shares on predefined dates after a one-year lock-up period. Acquisitions announced in H119 will be concluded against cash and the issue of LF shares, with an expected 32% increase in share count.

### Valuation: Trading at discount to peers on FY19e P/E

LF intends to position itself as an investment and active asset manager, but is still in the initial stages of transformation, with a sizeable real asset portfolio. Therefore, we believe that the relevant peer group should still contain local asset managers active in the shipping and/or real estate sector. Based on current consensus, LF trades at a 9% discount to the peer group on FY19e P/E.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	7.9	(1.0)	(0.16)	0.00	N/A	N/A
12/19e	12.4	(6.3)	0.21	N/A	23.1	N/A
12/20e	30.6	(0.9)	0.06	N/A	81.0	N/A
12/21e	39.3	3.0	0.16	N/A	30.4	N/A

Source: Lloyd Fonds, Refinitiv consensus as at 9 October 2019. Note: Consensus is based on the estimates of one analyst.

#### Fund management

10 October 2019

Price €4.86

Market cap €49m

#### Share price graph



#### Share details

Code	L10A
Listing	Deutsche Börse Scale
Shares in issue	10.1m
Last reported net cash at 30 June 2019	€2.0m

#### Business description

Lloyd Fonds is repositioning itself as a leading asset manager with its own range of retail funds, digital portfolio management and individual direct asset management. It has over 20 years' experience as an asset and investment manager in a range of alternative real assets, primarily in the areas of shipping and real estate.

#### Bull

- Proposed broadening of business to become 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.

#### Analyst

Milosz Papst +44 (0) 20 3077 5700

[financials@edisongroup.com](mailto:financials@edisongroup.com)  
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## H119 financials: Assisted by profitable disposal

In H119, Lloyd Fonds reported a 22% y-o-y increase in revenue to more than €3.7m. This was primarily the result of higher transaction fees (details below), which stood at €1.2m compared to €0.2m in H118. Management fees remained broadly stable, amounting to €2.5m (vs €2.7m in the comparable period). The new funds set up under Strategy 2019+ were launched for seed investors in April 2019 and offered to the public from end May, and therefore made a limited contribution to H119 figures. However, improved sales did not translate into higher earnings, with an EBIT loss of €4.6m in H119 vs a loss of €0.8m in H118. We believe this reflects the early stage of LF's strategic realignment, with the company already incurring associated costs, but a related improvement in revenues is yet to be recorded. Implementation of the new strategy resulted in an almost doubling in headcount, with 53 employees at 30 June 2019 vs 29 at 30 June 2018. Therefore, personnel costs increased to €3.5m in the reporting period vs €2.0m in H118. Similarly, in other operating expenses, expenditure related to accounting, legal and advisory services increased to €2.2m in H119 (vs €1.0m in H118) on the back of consultancy fees. The company also recorded higher IT-related costs (€0.9m vs €0.2m), driven by development and integration of the Digital Asset Platform 4.0, which is an essential part of the new business model.

In parallel with the implementation of new strategy, LF is still operating its legacy real assets business, with three significant disposals concluded in H119. Alongside the aforementioned transaction fees, LF benefited from profit sharing agreements related to the sold assets, recording financial income of €5.5m in H119 (vs €0.5m in H118). These profits fully offset additional expenditure and brought the company's pre-tax profit to €0.7m compared to a €0.5m loss in H118. LF has also used tax loss carry-forwards, which put net profit for the period at €0.9m (€0.09 per share) vs a loss of €0.8m (€0.08 loss per share) in H118.

### Exhibit 1: Financial highlights

€000s	H119	H118	y-o-y
Revenues	3,748	3,067	22.2%
Cost of materials	(201)	(217)	-7.4%
Personnel Costs	(3,488)	(1,994)	74.9%
D&A	(344)	(50)	588.0%
Other Operating Result	(4,548)	(1,947)	133.6%
Result from Associates	264	356	-25.8%
<b>Operating earnings (EBIT)</b>	<b>(4,569)</b>	<b>(785)</b>	<b>482.0%</b>
Financial income	5,478	448	N/M
Financial costs	(194)	(173)	12.1%
<b>Pre-tax profit</b>	<b>715</b>	<b>(510)</b>	<b>NM</b>
Income tax	209	(267)	NM
<b>Net profit</b>	<b>924</b>	<b>(777)</b>	<b>NM</b>
Earnings per share (€)	0.09	(0.08)	NM

Source: Lloyd Fonds accounts

Management expects expenditure attributable to its strategic realignment to further shape its financial results in H219. As new funds are still in the early stages of development, targeted break-even in FY19 should be largely achieved through further use of tax loss carry-forwards.

## Transformation through acquisitions

LF's new strategy is aimed at transforming itself into an investment and active asset manager outside the real assets space. Once implementation is completed, the company's operations will be divided into three segments: 1) LF-Linie – active asset management of open-ended equity, fixed income, mixed and real estate funds; 2) LF-System – digital portfolio management using artificial intelligence; and 3) LF-Vermögen – direct wealth management.

LF has made the first strategic steps in developing LF-Linie by offering seed-class shares in four primary funds to investors in April and May 2019, before offering to the general public. These include Lloyd Fonds – European Hidden Champions (an equity fund), Lloyd Fonds – European Quality & Growth (an equity fund), Lloyd Fonds – Best of Two Worlds (a mixed fund) and Lloyd Fonds – Special Yield Opportunities (a corporate bond fund).

Each of these funds will have an actively managed, concentrated portfolio with just 40–50 positions. According to the last available data as at 12 September 2019, proceeds totalling more than €60m were collected for all four funds. To build a high-performance team of experienced fund managers, LF carried out two acquisitions in H119, which will also come with sizeable assets under management, as discussed below.

In December 2018, LF announced the acquisition of Lange Assets & Consulting (LA&C), which was approved by the regulator on 16 September. According to LF, the deal should be concluded in the coming weeks. LF will acquire a 90% stake in LA&C against newly issued LF shares and an additional cash component. The remaining 10% stake can be sold after a minimum of four years. The transaction adds a total of €350m to both LF-Vermögen's and LF-Linie's AUM through the money market-oriented ASSETS Defensive Opportunities UI fund and the bonds-oriented ASSETS Special Opportunities mixed fund. Additionally, Thomas Lange, managing partner of LA&C, will become a managing director of LF to help source new high net worth individuals and institutional clients.

On 25 April 2019, the acquisition of SPSW Capital was announced, which will contribute a further €650m AUM to LF's portfolio with two mutual funds (SPSW – WHC Global Discovery A and SPSW – Global Multi Asset Selection A) and one special fund (SPSW – Active Value Selection). The German regulator approved the transaction on 2 October 2019. Following completion, Achim Plate, the managing director of SPSW, will serve as a LF's CEO with a four-year tenure. This agreement is crucial from a short-term portfolio expansion perspective, as it helps meet management guidance for FY19 of more than €1bn AUM in LF-Linie and LF-System (the target for LF-Vermögen of more than €0.2bn has already been met with the LA&C transaction). In the medium term, LF targets total AUM of €7bn, with €5bn in the first two segments and €2bn in the latter by 2023.

## **New shares and convertible bonds issue**

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The company's realignment and expansion are accompanied with a number of financial events. On 20 May 2019, LF announced a convertible bonds issue without subscription rights to selected investors. Investors may convert bonds into shares on predefined dates after a one-year lock-up period. The aggregate principal amounts to €6.1m with an initial conversion price set at €6.1 (vs the current share price of €4.86) and a three-year term starting on 3 June 2019. The bonds bear a 3.75% coupon paid semi-annually in arrears. The issue was closed on 28 May, following subscription exclusively by investors from Germany and Luxembourg.

The aforementioned acquisitions will be concluded against issuance of own shares. Although the final purchase price for LA&C has not yet been announced, LF believes it will reach the upper single-digit million euros, whereas the preliminary conditions set a minimum consideration of €4.5m. Having said that, it has already been agreed that LF's capital will increase by 193,608 new shares (a 1.9% dilution) with an implied value of c €1.0m. Acquisition of the 90% stake in SPSW capital is partially against contributions in kind and will result in issuing 1.5m new shares, with the subscription rights waived by shareholders (which is usual in such cases). To avoid dilution of the existing shareholders, a further 1.5m shares at €6 per share will be offered in Q419, thus providing an additional €9.0m to finance the strategical realignment. We estimate that LF's outstanding number of shares at end 2019 will therefore be c 13.3m.

## Segment analysis

Although the company is in the process of implementing its new strategy, it still manages significant assets in closed-end investment funds, which may provide additional income from divestments and, as a result, support the reorientation.

In the **real estate segment**, LF manages five funds invested in properties in Germany and the Netherlands. The total rental area of 58k sqm includes offices (79%), hotels (20%) and retail (1%) and is leased to 33 tenants. This business area had the most significant impact on the company's H119 results due to successful disposals of an office building in central Eindhoven (fully leased to a health insurance company) and two hotels in Hamburg and Sylt. Capital flowback before tax from the office building sale amounted to c 190% of initial investment and constituted a return of c 10% pa, while the disposal of hotels generated 227.4% and over 11%, respectively.

In the **shipping segment**, LF managed 19 vessels fully owned by its clients at 30 June 2019 (vs 20 at 31 December 2018), including 12 container ships (up to 8.5k TEU) and seven tankers (eight at end-December 2018). The company also manages three funds holding shares in second-hand ships, which currently include 42 container ships, 23 tankers and 1 bulker (down one tanker compared to 31 December 2018). Even though the shipping portfolio remained broadly stable in the analysed period, analysis of the y-o-y results reveals a 21.7% and 66.3% decline in segment revenue and net income due to fleet reduction in H218. At end June 2018, LF managed 24 vessels fully owned by its clients and held shares in a further 78 ships through secondary market funds.

At 30 June 2019, the **other assets segment** included four airplane funds with an AUM of €350m, seven British life insurance funds and a private equity fund. The aircraft fleet includes two long-distance and two medium-distance Airbuses, leased to Singapore Airlines, Virgin Atlantic and Germania Flug (with the latter taking over the leases following the insolvency of Germania Fluggesellschaft). Within the segment, LF is rapidly exiting the life insurance funds business as in the last 12 months the number of managed policies has been reduced by half from 1,100 at 30 June 2018 to 520 at 30 June 2019.

## Valuation

Although LF's transformation to an investment and active asset manager is underway, it is at a relatively early stage and still operating within the real asset segment. Therefore, we believe that a relevant peer group for LF should still contain local asset managers active in the shipping and/or real estate domain, with Ernst Russ (no consensus estimates) and MPC Capital as its closest peers. We acknowledge that LF's valuation may already capture its business repositioning to some extent, but we have not been able to identify any relevant local peers that represent a good reference point in this respect. The closest potential listed peer is PEH Wertpapier, but there are no consensus forecasts available for the company. Other comparable businesses, such as DJE Kapital, Flossbach or Scalable Capital are not listed.

**Exhibit 2: Peer group comparison**

	Market cap	P/E (x)			EV/EBITDA (x)		
	(€m)	2019e	2020e	2021e	2019e	2020e	2021e
Corestate Capital	725	5.4	5.0	4.9	7.7	7.5	7.0
Patrizia	1559	20.6	18.1	17.5	11.0	10.2	9.9
VIB Vermogen	768	13.3	12.0	11.9	17.4	16.7	15.9
TLG Immobilien	2799	17.2	15.3	16.2	22.7	22.2	20.9
MPC Capital	59	70.2	16.3	8.8	N/M	45.2	12.7
<b>Average</b>		<b>25.3</b>	<b>13.3</b>	<b>11.9</b>	<b>14.7</b>	<b>20.3</b>	<b>13.3</b>
Lloyd Fonds	49	23.1	81.0	30.4	N/M	11.7	5.6
<b>Premium/(discount) to peers</b>		<b>(9%)</b>	<b>N/M</b>	<b>156%</b>	<b>N/M</b>	<b>(42%)</b>	<b>(58%)</b>

Source: Lloyd Fonds, Refinitiv consensus as at 9 October 2019. Note: Consensus is based on the estimates of one analyst (SMC Research).

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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