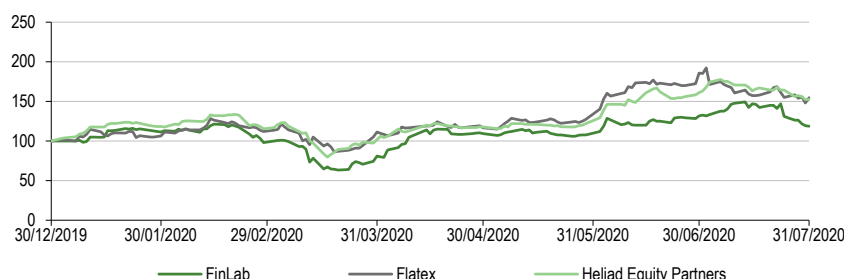


FinLab

Focus on existing holdings and EOS VC Fund

FinLab has recently continued to focus on adding value to its existing fintech investments and expanding its portfolio of blockchain projects through the EOS VC Fund. Its 12-month NAV total return to end-March 2020 was 35.2%, largely driven by the revaluation of its stake in Deposit Solutions. FinLab's NAV performance post-March 2020 may be assisted by the share price increase of Heliad Equity Partners (HEP), presumably driven by positive stock catalysts at its largest investment, German online broker flatex. HEP's partial exit from flatex announced in July 2020 increases the likelihood of a higher management fee and potentially a performance fee for 2020 to be charged by Heliad Management, which is fully owned by FinLab.

Share price performances of FinLab, Flatex and Heliad Equity Partners (ytd)



Source: Bloomberg, Edison Investment Research

The market opportunity

FinLab's portfolio offers exposure to a number of disruptive, agile and tech-driven companies, which may experience further traction as digitalisation processes accelerate amid the pandemic-induced crisis. Long-term growth fundamentals for fintech companies remain strong, driven by the changing expectations for enhanced customer experience and personalisation, as well as the evolving regulatory framework in the financial services industry.

Why consider investing in FinLab?

- Active investment approach, underpinned by management expertise and its extensive network of entrepreneurs, investors and business partners.
- Exposure to several fintech themes, including wealth management, lending, regtech and blockchain/cryptocurrencies.
- Recurring income covering operating expenses and thus providing greater flexibility with respect to fintech portfolio funding and exits.

Valuation: Discount to NAV remains wide

FinLab is trading at a 36% discount to last reported NAV of €27.73 per share as at end-March 2020. The combined market value of its stake in unlisted Deposit Solutions (based on the last funding round in September 2019) and its stake in HEP alone exceeds its current market capitalisation.

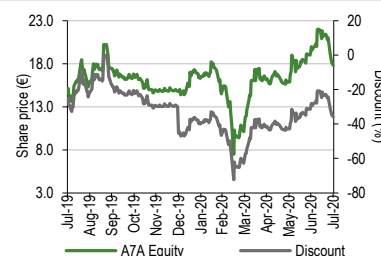
Investment trusts Venture capital

3 August 2020

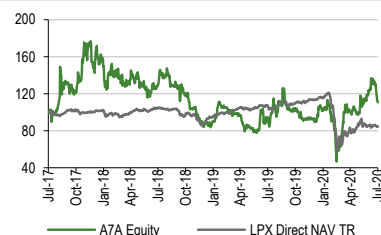
Price €17.80
Market cap €93.4m
AUM €145.4m

NAV per share (as at end-March 2020) €27.73
Discount to NAV 35.8%
Yield 0%
Ordinary shares in issue 5.2m
Code A7A
Primary exchange Frankfurt
AIC sector Venture Capital Trust
Benchmark N/A

Share price/discount performance



Three-year performance vs index



52-week high/low €22.00 €7.50
NAV high/low €27.73 €20.21

Gearing

Gross* 0.00%
Net* 0.00%

*As at 31 December 2019.

Analysts

Milosz Papst +44 (0)20 3077 5700
Anna Dziadkowiec +44 (0)20 3077 5700
investmenttrusts@edisongroup.com
[Edison profile page](#)

**FinLab is a research client of Edison
Investment Research Limited**

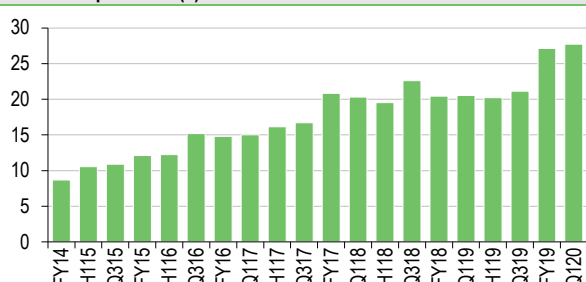
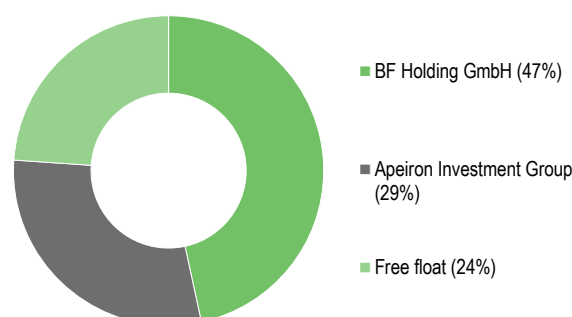
Exhibit 1: FinLab at a glance
Investment objective and fund background

FinLab is a self-managed VC company primarily focused on investing in early stage fintech companies in Germany. It also holds stakes in asset management companies, which gives it stable cash flows and a strong balance sheet. Currently it has 9 fintech investments (excluding investments held through the EOS VC Fund).

Recent developments

- 8 July 2020: FinLab EOS VC Fund invests an undisclosed amount in ZkSystems.
- 2 July 2020: Heliad Equity Partners realises gross proceeds of €21.5m on partial exit from flatex.
- 25 June 2020: Kapilendo launches digital application process for instant loans in cooperation with Varengold Bank.
- 24 June 2020: FinLab EOS VC Fund invests an undisclosed amount in Sparrow.

Forthcoming		Capital structure		Fund details	
AGM	June 2021	Ongoing charges	2.1% (FY19)*	Group	N/A
Interim results	September 2020	Net gearing	None	Manager	Self-managed
Year end	31 December	Annual mgmt fee	None (self-managed)	Address	Grüneburgweg 18, D-60322 Frankfurt am Main
Dividend paid	N/A	Performance fee	None (self-managed)	Phone	+49 (0) 69 719 12 80 00
Launch date	2014	Company life	Indefinite	Website	www.finLab.de
Continuation vote	N/A	Loan facilities	None		

Historical NAV per share (€)

Shareholder base

Portfolio holdings (as at 31 March 2020)

Company	First investment	Sector	Portfolio weight %
			31 March 2020
Deposit Solutions	Sep-15	Wealth management	49.5%
Heliad Equity Partners	2000	Technology and digital brands	13.0%
Kapilendo	Apr-16	Lending	5.3%
Authada	Apr-16	Regtech	2.0%
nextmarkets	Feb-15	Wealth management	N/A
FastBill	Apr-17	Personal finance	N/A
Iconic Holding	Nov-17	Blockchain/cryptocurrencies	N/A
Cashlink	Nov-18	Wealth management	N/A
Vaultoro	Sep-17	Blockchain/crypto	N/A
awamo	Sep-18	Personal finance	1.0%

Source: FinLab, Edison Investment Research. Note: *Please see the 'Capital structure and fees' section for further details. **Portfolio weight as per Edison estimates. N/A where valuation of the holding is not available. Does not include asset management holdings.

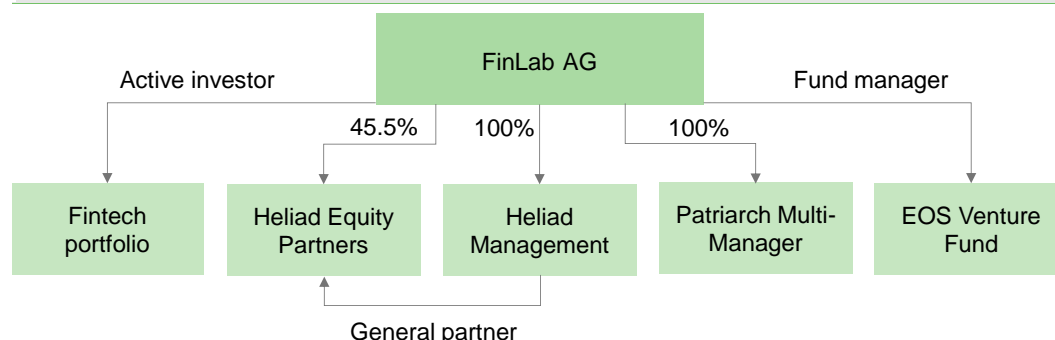
Fund profile: A German VC fintech specialist

FinLab is a self-managed venture capital (VC) company primarily focused on investing in early stage fintech companies in Germany. The company was created from the restructuring of listed asset management company Altira Aktiengesellschaft (which was founded in 2000) and renamed FinLab in January 2015. Its headquarters are in Frankfurt, it is listed on the Frankfurt Stock Exchange in the Scale segment and it employs 14 people at the holding level.

FinLab focuses exclusively on long-term capital appreciation and has not paid any dividends since its transformation back in 2015. Its portfolio consists of two types of constituents: holdings in asset management companies and stakes in German fintech businesses. The former generate steady fee income streams, which over the last few years stood at around €4–5m pa translating into dividend payments to FinLab. These allowed the company to cover its operating expenses (reduced to

€2.4m in FY19 from around €3.9m in FY18 and €2.9m in FY17) and as a result provide a high degree of flexibility with respect to fintech portfolio funding and realisations. This represents a certain competitive advantage compared with other VC players. We described FinLab's asset management holdings and fintech investments in more detail in our [initiation note](#).

Exhibit 2: FinLab's organisational structure



Source: FinLab, Edison Investment Research; Note: simplified structure excluding some less significant subsidiaries

The manager's view: Secured liquidity

FinLab's management underlines that its solid cash position ensures existing investments can (if necessary) be supported with additional liquidity. At the same, it provides the firepower needed to take advantage of new investment opportunities in the current environment. Even though the majority of FinLab's investments have not been acutely affected by the COVID-19 pandemic so far, it cannot be ruled out that business models will have to be adapted, revised or refinanced in the interim amid the broader macroeconomic fallout. Nevertheless, management already sees certain opportunities amid the crisis, as illustrated for instance by the performance of nextmarkets (one of its existing portfolio holdings). Through the EOS VC fund, the company will continue to invest selectively in blockchain projects in 2020 as well.

Fintech market outlook: COVID-19 drives change

Global fintech investment (including VC, private equity (PE) and M&A) reached US\$135.7bn in 2019, down from US\$141.0bn in 2018 but well above the average US\$64.3bn between 2015 and 2017, according to KPMG. In favourable pre COVID-19 market conditions, venture capital and private equity investors often prioritised growth and customer acquisitions over profitability, which seems to have changed during the pandemic. Investors are now more hesitant to fund riskier early-stage businesses as illustrated by a lower share of early stage fintech transactions in global deal count post the outbreak of COVID-19 (50% in Q220 vs 65% in Q120 and 62% in Q219). Fintech funding volume remained broadly stable at US\$10.2bn in Q220 as more mature fintech companies continued to attract new funding. The most notable examples include Stripe (a payment processing platform), which raised €600m in April 2020, and Robinhood (a commission free trading website and app), which was able to attract a €280m funding in May 2020 and a further €320m in July 2020.

KPMG expects that a 'flight to quality' will continue over the coming months and venture capital and private equity funds will be more likely to provide financing to their existing portfolio companies. We believe this will support the ongoing industry consolidation and lead to more strategic and transformational deals. However, in the current market uncertainty overall M&A activity will likely slow down (which was also the case during the 2008 financial crisis) and we expect valuations to be more cautious. Data from CB Insight and PwC shows that the number of M&A deals in the

broader VC funding market declined to 144 in Q220 (including 120 M&A exits and 24 IPOs) from 200 in Q219 (166 and 34, respectively).

Exhibit 3: Global disclosed funding to fintech companies

Fintech funding is up slightly year-over-year

Global disclosed funding to fintech companies (\$B), Q1'16 – Q2'20

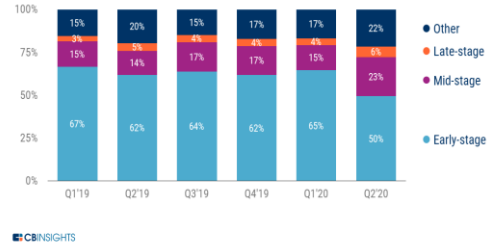


Source: [CB Insights](#)

Exhibit 4: Global percentage deal share to fintech companies

Early-stage deals take hit amid deal crunch

Global percentage deal share to fintech companies, Q1'19 – Q2'20



Source: [CB Insights](#)

Having said that, the fundamentals of the ongoing fintech revolution are solid and the pandemic may accelerate the adoption of technology in financial services over the longer term, underpinned by fintechs' lean and flexible operating models as well as low operating costs compared to traditional financial institutions. The fintech sectors that are most likely to benefit from the social and economic changes brought about by the pandemic are digital payment, digital identity, know your customer (KYC) and cybersecurity. In contrast, digital banks, point of sale credit providers and peer-to-peer lending may face some challenges as clients may become more risk averse during the economic slowdown triggered by the COVID-19 crisis. On the other hand, we note that the fintech industry has been under increasing regulatory and compliance scrutiny over recent years, which may strengthen in the aftermath of the alleged accounting fraud that led to the collapse of Wirecard, a German payment processing company, in June 2020.

FinLab's portfolio is diversified across various fintech sectors and its largest portfolio holdings are gradually maturing fintech companies, which were able to gain scale and attract major customers in recent years (Deposit Solutions, Kapilendo, Authada and Heliad's major holding flatex). They were also able to seize opportunities from the current market environment as illustrated by Kapilendo's partnership with Varengold for granting instant loans to SMEs announced in June 2020 or the new clients wins of Authada (see more details below). At the same time, FinLab acknowledges it cannot rule out that some of its portfolio holdings may need to adapt or revise their business models or refinance, but management is ready to supply its fintech holdings with additional liquidity, if necessary. At end-2019, FinLab's net cash position stood at €6.8m, while the current overall liquidity across the capital group stands at more than €10m, according to the management.

Investment process: Actively adding value

FinLab looks for innovative and disruptive fintech companies in Germany (with prospects for subsequent offering rollout in Europe or globally) where it can acquire a significant minority stake of around 10–35% (usually representing an investment volume of c €0.5–5.0m). Moreover, it looks for opportunities to participate in seed and follow-on rounds as a value-add VC investor. Finally, it invests in and partners with other VC funds and incubators that focus on fintech investments, particularly in the US and Asia. An example here is the EOS VC Fund, which we discuss later in the note. FinLab usually participates in seed and series A rounds, though sometimes it joins series B rounds as well (but only if it already invested in the series A round).

Rather than taking small, passive positions in a large number of businesses, FinLab aims to hold a concentrated portfolio, which allows it to have significant influence over the portfolio holding,

including representation on the supervisory board. FinLab's team often has the role of a strategic sparring partner, ie a trusted partner acting as a sounding board for the company's management. It is noteworthy that fintechs from FinLab's portfolio obtain access to the expertise, customer base and product offerings of FinLab's other holdings.

FinLab's deal origination process is a combination of proactive sourcing and incoming requests during various events and conferences, while also being based on the company's venture partners and broader network built up over several years. The management receives on average a mid-double-digit number of pitch decks per year. FinLab's team and supervisory board members indicate that they have an extensive network of entrepreneurs, investors and business partners who may act as co-investors. Some of its portfolio companies were also able to attract prominent investors from the fintech space, which we described more extensively in our [initiation note](#). The company has its own in-house due diligence team and states its pre-selected lawyers and partners facilitate a lean due diligence process with limited resources required at team level.

The company's exit strategies represent the standard VC approach and cover first of all a trade sale to a strategic investor, sale to a PE player, as well as a secondary deal with other existing investors. Moreover, in selected cases it will consider an IPO (this may potentially be an exit route in the case of Deposit Solutions, Kapilendo and maybe nextmarkets).

Current portfolio positioning

FinLab's net asset value (NAV) was €27.73 per share (or c €145.4m) at end-March 2020, which compares with €27.12 per share (or c €142.2m) at end-December 2019. Its fintech portfolio is concentrated and includes 9 holdings (apart from investments made through EOS VC Fund, see our [initiation note](#) for details). This is generally consistent with management's intention to invest in and actively manage around 12–14 fintech companies rather than make passive investments in a large number of companies, while at the same time leaving some room for further investments. Net cash was €6.8m at end-December 2019 (on a standalone basis), with some part of this amount invested through the EOS VS Fund since then. It had no long-term borrowings as of end-2019 and has not used any long-term debt since its establishment in 2015. Based on our discussion with the management, we understand that the liquid position across FinLab's capital group is in excess of €10m at present.

We present a decomposition of FinLab's NAV as of 31 December 2019 (last available data) in Exhibit 5, partially based on our estimates (see details below).

Exhibit 5: FinLab's NAV decomposition as of 31 December 2019

	€000s
Investments, of which:	100.3
Deposit Solutions	>72.0*
Kapilendo	>7.6*
Authada	2.9
EOS VC fund	1.4
other unlisted holdings	<16.4
Heliad Equity Partners	18.7
Shares in affiliated companies	12.9
Other assets	7.2
Cash	6.8
Total assets	145.8
Liabilities and other	3.0
NAV as reported	142.8

Source: FinLab accounts, Edison Investment Research. Note: *Edison estimates based on last available funding round data.

Deposit Solutions was FinLab's largest holding as of end-2019 (c 51% of its NAV). We understand its 7.2% stake in the company was worth at least €72m after Deutsche Bank acquired a 4.9% stake

in September 2019 (the consideration was partially non-cash), which brought its implied value at above €1bn at that time (vs €500m based on the previous funding round in August 2018). We described this transaction in more detail in [our flash note](#). Kapilendo is the second largest unlisted portfolio holding, with value implied by the funding round completed in July 2018 of c €40m. At the time of this funding round, FinLab's share in Kapilendo was 19.1%, which would translate into a stake value of c €7.6m. We note however that Kapilendo converted its loans at a higher valuation in Q219 as part of the wevest Digital acquisition, which triggered a write-up of an undisclosed amount. Total write-ups booked by FinLab in H119 stood at c €3.4m, but this also included Iconic Holding, which completed a new funding in January 2019. As a result of the wevest Digital transaction, FinLab's stake in Kapilendo declined from 19% to 14%. We estimate FinLab's stake in Authada at c €2.9m, which is based on the last available valuation of c €10m in the funding round completed in August 2018.

The book value of the remaining unlisted holdings stood at up to c €16.4m at end-2019, which we assume includes Awamo valued at acquisition cost (€1.5m paid back in September 2018). According to management, we understand that the company has already sold its stake in Onpex to the company's management, with the corresponding partial write-down already reflected in FY19 accounts. Further, based on our conversation with FinLab's management, we understand that its current exposure to blockchain/crypto themes was below 5% of NAV at end-March 2020. We note that subsequently, Iconic Holding completed its Series A funding round (through the issue of preferred shares), raising close to €4.0m.

[Heliad Equity Partners](#) is FinLab's only listed portfolio holding and its stake was valued at €18.7m based on end-2019 share price. Back then, Heliad's portfolio included three listed companies: flatex (a listed online broker), [MagForce](#) (a biotech player with approved nanotechnology-based therapy to treat brain cancer) and Elumeo (an online jewellery retailer). Listed holdings represented 70% of Heliad's NAV at end-2019, with [flatex](#) alone accounting for c 64% of NAV. In addition, Heliad holds stakes in five unlisted businesses: Springlane, Spaze, Libify, Muume and Tiani Spirit.

FinLab reported shares in affiliated companies at €12.9m as of end-2019. As the company prepares only standalone financial statements, we understand that these shares cover predominantly its asset management businesses: Heliad Management, Patriarch, EOS VC Fund and FinLab Asset Management. It also includes VCH Investment Group, which is a legacy subsidiary from the earlier Altira times. We understand that Heliad Management (valued based on cash flows generated to FinLab under IFRS) makes up the majority of the €12.9m.

Interestingly, if we do a mark-up of FinLab's 45.5% stake in Heliad Equity Partners (based on the closing price on 31 July 2020), we arrive at €27.9m. After we add to this amount the value of its stake in Deposit Solutions (c €72m implied by the funding round in September 2019), we get €99.9m, which exceeds FinLab's market capitalisation of €93.4m as of 31 July 2020. This means that the market is currently valuing FinLab's shares predominantly based on the market value of its stake in Heliad as well as the value based on last year's funding round of Deposit Solutions, attaching no value to the remaining portfolio components (or alternatively it is not fully accounting for the carrying value of its top two holdings). If we account for Deposit Solutions at the value during the previous funding round (€500m), Heliad and Deposit Solutions would then represent €63.9m, with c €29.5m of the remaining market capitalisation attributable to remaining unlisted holdings and the asset management businesses plus cash on the balance sheet.

We also note that Heliad is trading at a notable discount to its last reported NAV of c 21% as of 31 July 2020. Interestingly, its market cap was €61.2m as of 31 July 2020, well below the market value of its remaining stake in flatex alone (c €55.1m as per our estimates) and cash on the balance sheet after it partially exited the company in early July 2020 (c €21.5m). We describe the transaction in more detail below.

Focus on existing holdings and EOS VC Fund

FinLab has recently remained focused on developing its existing holdings and did not make any new direct investments (outside of EOS VC Fund) in recent months. Its last direct investment was Onpex in February 2019 (already sold as discussed above), while the last (and at the same time its first) meaningful realisation was a partial exit from Deposit Solutions in August 2018. Meanwhile, FinLab continues to add new blockchain investments to the EOS VC Fund. It acts as the fund's investment manager and charges a 1.5% priority profit share, which represents fee income of c €1m pa (see our [initiation note](#) for further details). FinLab booked its first fees from the fund in FY19, with its overall income from its asset management companies at €2.7m in FY19. This also includes fees from Heliad Management and Patriarch, which totalled €2.3m in FY18 and €2.5m in FY17. Furthermore, FinLab is also one of the investors in the EOS VC Fund, with an outstanding commitment at c €3.7m as of end-2019 (vs €4.8m at end-2018), of which part was most likely called to fuel investments into seven companies in 2020 year-to-date. Exhibit 6 presents investments made by the EOS VC Fund since its inception in March 2018.

Exhibit 6: EOS VC Fund investments

Investment date	Company	Profile	Total investment*	Investors
Jul-20	ZK Systems	Software provider for industrial manufacturers	Seven-digit euro amount (seed round)	FinLab EOS VC Fund (lead investor), Brandenburg Kapital, Enjoy Ventures, seed+speed Ventures
Jul-20	Arxum	Provider of blockchain solutions for inter-company data exchange in the manufacturing industry	Seven-digit euro amount	FinLab EOS VC Fund (lead investor)
Jun-20	Sparrow	Options trading platform	\$3.5m (series A)	HDR Group (lead investor), FinLab EOS VC Fund, Signum Capital, Du Capital
May-20	Spielworks	Blockchain gaming platform operator	Seven-digit euro amount (seed round)	FinLab EOS VC Fund (co-lead investor), Volksbank Mittweida eG (co-lead investor)
Apr-20	Gapless	Blockchain based app for car management	€5.5m (seed round)	FinLab EOS VC Fund (lead investor), Kersten Jodexnis with his family office LA ROCA Capital and Porsche AG
Feb-20	Agora Innovation	Platform for blockchain, DLT and digital asset solutions	Seven-digit euro amount (pre-series A)	FinLab EOS VC Fund (lead investor)
Jan-20	CAPTRACE	Equity management platform	Seven-digit euro amount (seed round)	FinLab EOS VC Fund (lead investor)
Jun-19	Upland	Digital property trading game	Seven-digit euro amount	FinLab EOS VC Fund (lead investor), private investors
May-19	Innoplexus	Global artificial intelligence (AI) company with over 80 patent application in AI, machine learning and blockchain technologies	Double-digit million-euro amount (series C)	ATAI Life Sciences (lead investor), FinLab EOS VC Fund
May-19	Blockchain Helix	Provider of digital identity solution for individuals and corporates	Seven-digit euro amount (venture round)	FinLab EOS VC Fund (lead investor)
Apr-19	Moonlighting	On-demand freelance platform	\$2.5m (venture round)	FinLab EOS VC Fund (lead investor)
Apr-19	Next Big Thing	Company builder for the internet of things and services and blockchain	€12m (series A)	Talanx (lead investor), FinLab EOS VC Fund, private investors
Sep-18	Instaffo	Artificial intelligence powered recruitment software	€2m (series A)	FinLab EOS VC Fund (lead investor), private investors

Source: FinLab, Edison Investment Research, crunchbase.com. Note: *Total investment in the funding round, amount invested by FinLab not disclosed.

Below we describe the major developments of FinLab's largest portfolio companies since our April 2020 [update note](#).

FinLab holds a c 45.5% stake in **Heliad Equity Partners** (HEP) and fully owns the company's investment manager, Heliad Management. The NAV performance of HEP is strongly linked to the share price performance of flatex, which saw a c 41% share price appreciation from end-March 2020 to 31 July 2020. We believe this was backed by positive stock catalysts in the company, including the acquisition of DeGiro announced in December 2019 and solid preliminary H120 figures, driven by increased stock market volatility over recent weeks amid the COVID-19 pandemic.

On 2 July 2020, Heliad announced that it sold 0.5m shares in flatex (of 1.9m shares it held before the transaction) as part of a private placement to institutional investors at a price of €43 per share (vs the previous closing price at €47.15), translating into gross proceeds of €21.5m for the company. Heliad has agreed to a 90-day lock-up on its remaining c 5.3% stake in flatex (valued at c €55m as of 31 July 2020). The deal has some potential positive read-through for FinLab as the partial realisation coupled with the recent flatex stock price rally (all else being equal) increases the likelihood of a higher management fee and potentially also a performance fee for 2020 to be charged by Heliad Management. Furthermore, if it proves supportive to the share price of Heliad Equity Partners, it will further assist FinLab's NAV.

FinLab's largest portfolio holding **Deposit Solutions** connects 150 banks from 20 European countries and has mediated €25bn+ in deposits since inception by April 2020. This represents a €9bn increase since April 2019, driven by its B2B business, including new partnerships with Deutsche Bank, Merck Finck Privatbankiers and M.M.Warburg. Its CEO confirmed that it plans to start its expansion to the US later this year. In April 2020, Deutsche Bank expanded its partnership with Deposit Solutions. It has rolled out its interest rate platform ZinsMarkt to German branch customers and wealth management clients through their personal advisors. In May 2020, Deutsche Bank subsidiary norisbank launched an open banking platform (norisZinsMarkt) from Deposit Solutions.

In respect to COVID-19's impact on its business, Deposit Solutions highlights that eurozone deposit flows remained stable amid the economic shock of COVID-19. Net flows of retail deposits in the eurozone in March 2020 reached €43bn, which compares with a monthly average €33bn between January 2019 and March 2020. Germany experienced a 0.4% decline in deposits in March 2020, and thus reacted to the COVID-19 crisis in a similar manner as during the financial crisis in 2008/09. In contrast, the Netherlands, France and Spain saw cash outflows from deposit accounts in September 2008 but were among the largest net depositors in March 2020.

Kapilendo has been making progress with its transformation to a digital banking partner for small and medium enterprises, initiated in September 2019 after the acquisition of wevest Digital. In June 2020, the company announced that it will offer a fully digital application process for instant loans to small and medium-sized enterprises in cooperation with Hamburg-based Varengold Bank. Noteworthy, these loans are offered by a German state-owned development bank, KfW, and will be 100% guaranteed by the German federal government. In December 2019, the company set up Kapilendo Custodian AG, which holds a preliminary licence for crypto custody from the German banking authority (BaFin). Kapilendo issued its first blockchain-based digital bond in December 2019, raising €2.4m in the form of subordinated debt for the issuer. In March 2020, the company started a digital share subscription for a German second league football club, with a targeted total volume of up to €20m. We recognise Kapilendo's efforts to support projects focused on the use of distributed ledger technology (DLT) technology in financial services. This is in line with an important market trend that we examined in our recent report, [Blockchain adoption: Implications for the financial services sector](#).

FinLab's third largest unlisted portfolio holding **Authada** announced in April 2020 that its digital identification solution will be launched by Vodafone. Its customers will now be able to activate SIM cards with the use of Authada's eID service. Vodafone is the first customer from the telecommunication sector after Authada became a certified service provider for the eID function in March 2019. It can now expand its identification services to unregulated markets, including e-commerce, e-health, e-betting and e-mobility. In early July 2020, Authada announced that its eID solution will be available for Kapilendo's clients, which illustrates FinLab's ability to create synergies across its portfolio holdings.

Performance: Driven by Deposit Solutions

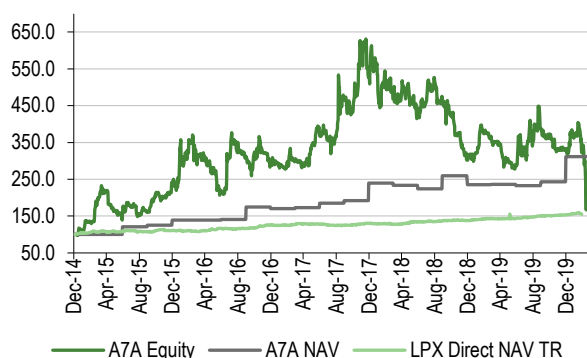
FinLab's one-year NAV total return (TR) to end-March 2020 was 35.2% (in euro terms) after its NAV per share increased by €7.22 to €27.73. This was largely driven by the revaluation of its stake in Deposit Solutions following a funding round with Deutsche Bank in September 2019, which we estimate contributed at least €7.6 per share to its NAV per share over the period. This was partly offset by an 11% decline in Heliad's share price between end-March 2019 and end-March 2020, translating into a negative impact of c €0.5 per share. We understand that the remaining positive contribution over the period came from the undisclosed revaluation of its stake in Kapilendo in Q219, which we described above.

FinLab has achieved NAV TR of 24.7% pa since its inception from the beginning of 2015, which was largely driven by a few success stories, in particular Deposit Solutions, and compares with 8.3% for the LPX Direct Index. The latter is not its official benchmark, but we believe that investors may refer to it as it illustrates the global performance of listed private equity companies pursuing a direct investment strategy. We note however that FinLab only revalues its investments upon completion of new funding rounds by their respective portfolio companies so the impact of public equity market movements on its NAV is limited to the share price performance of Heliad Equity Partners. This is in contrast to most private equity funds (ie components of the LPX Direct Index) that revalue their portfolios on a regular basis primarily using the multiples method.

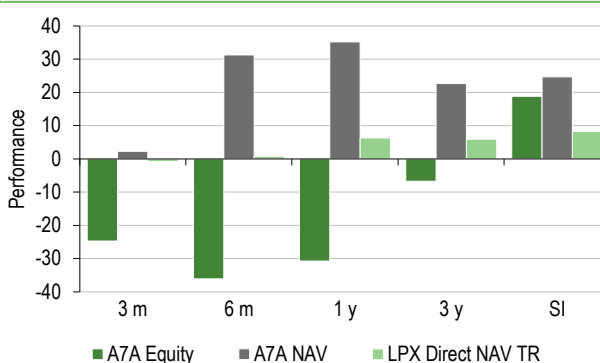
FinLab's one-year share price return was negative 30.7% to end-March 2020, which coincided with the broad market sell-off driven by the COVID-19 outbreak. Its share price has rebounded c 60% since then. On 31 July 2020, FinLab was trading at a 36% discount to its last reported NAV, which compares with an average for the past 12 months of c 33% (See Exhibit 8).

Exhibit 7: Investment company performance to 31 March 2020

Price, NAV and index total return performance since end-December 2014 rebased



Price, NAV and index total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. SI – since inception (beginning of 2015).

Exhibit 8: Share price premium/discount to NAV since December 2014 (%)


Source: Refinitiv, Edison Investment Research

Capital structure and fees

FinLab is self-managed and thus is not being charged any external management or performance fees by the investment team. The company's operating expenses are largely covered by distributions from the asset management business. We estimate that FinLab's ongoing charges ratio (expressed as annual operating costs to average NAV in the period) declined to 2.1% in FY19 (from 3.8% in FY18 and 3.3% in FY17), assisted by lower personnel expenses. This includes the impact of changes in the stock option plan valuation.

FinLab had no long-term borrowings as of end-2019 and has not used any long-term debt since its establishment in 2014. The company highlights that it aims to achieve a solid return on its investments without any long-term borrowing. Also, the company has not taken any capital measures since April 2019. We described FinLab's historical capital measures in our [initiation note](#).

Between 2015 and 2017, the company granted stock options to FinLab employees and management (425k stock options in total) as well as one of its subsidiaries (13k) at a subscription price of €4.82 per share. The option holders are entitled to exercise their subscription rights if FinLab's stock price rises by at least 100% on any trading day within two years since the options' issue date. As of end-December 2019, there were 228.5k options issued compared to 5.2m shares in issue. During 2019, 84.5k stock options were converted into shares and 100k expired as the company did not achieve the required performance target.

Peer group comparison

Given that FinLab is almost exclusively focused on the fintech sector (except for the Heliad Equity Partners stake) and its regional exposure is limited to Germany, it is difficult to find close comparators. We consider German Startups Group (GSG) to be the closest peer among the selected companies, as it primarily invests in early growth private technology businesses in German-speaking countries. Having said that, GSG holds minority stakes and takes a passive position in the holdings, which contrasts with FinLab's investment strategy. Moreover, GSG is currently transitioning to a private equity asset manager through the merger with SGT Capital (and thus is largely focused on realisations within its existing VC portfolio, see our recent [update note](#)). Our peer group includes Vostok Emerging Finance listed in Sweden, but it also invests in minority stakes and its focus is on Latin America (c 77% of portfolio ex-cash). Moreover, we have considered Augmentum Fintech as a peer given its sole focus on fintech investments, but the fund

has started its portfolio ramp up process following its IPO in March 2018 and has no long-term historical track record available at the moment.

Finally, our peer group includes several UK VC trusts (VCTs), which besides technology also invest in other sectors, such as biotech, healthcare, services and industrials. These invest in early stage companies (similarly to FinLab) but are predominantly active in the UK (except for FastForward Innovations, which is largely exposed to the US market).

We note that NAV TR figures in Exhibit 9 are not fully comparable as some of FinLab's peers have already reflected the effect of COVID-19 on their portfolio valuation. In contrast, as discussed earlier, FinLab revalues its portfolio holdings after completion of funding rounds so the impact of public equity market movements on its NAV is limited to the share price performance of Heliad Equity Partners. NAV TR figures are based on data not adjusted for COVID-19's impact in the case of GSG (end-2019), Augmentum Fintech (end-September 2019) and FastForward Innovations (end-September 2019).

FinLab has outperformed its closest peer GSG over one, three and five years. It is worth noting that one-year NAV TR for both companies was largely driven by one transaction, which was the revaluation of the stake in Deposit Solutions in FinLab and a notable gain on the disposal of Exozet in GSG (see more details of the latter transaction in our [update note](#)). Notably, NAV TR figures are expressed in sterling, while both FinLab and GSG report their NAV per share in euros. Thus, part of the return may be attributed to the appreciation of the euro vs sterling in recent years.

FinLab is trading at a discount to NAV of c 36%, which is smaller than GSG's, and its ongoing charge ratio is slightly below the peer average. The company does not pay dividends, in contrast to its UK peers, which as VCTs normally distribute dividends on regular basis.

Exhibit 9: Peer group comparison at 31 July 2020

	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 (%)
FinLab AG	83.9	39.4	84.0	161.4*	(35.8)	2.1	No	100.0	0.0
German Startups Group	17.4	8.4**	17.2**	N/A	(41.9)	2.2	No	N/A	N/A
Vostok Emerging Finance	158.3	(5.7)	26.1	34.7	(4.5)	2.5	N/A	100.0	N/A
Augmentum FinTech	132.3	7.9	N/A	N/A	0.7	2.1	Yes	100.0	N/A
FastForward Innovations Limited	14.3	6.9	66.2	N/M	(29.9)	6.0	No	85.9	N/A
Draper Esprit PLC	625.5	5.9	50.0	N/A	(20.3)	1.8	No	N/A	N/A
Albion Enterprise VCT	68.3	(5.1)	19.7	42.6	(2.9)	2.7	Yes	81.4	6.0
British Smaller Companies VCT2	57.2	(7.0)	2.4	15.9	(8.7)	2.3	Yes	61.5	14.7
Kings Arms Yard VCT	72.2	(8.8)	4.8	36.0	(2.6)	2.4	Yes	86.9	6.3
Northern 2 VCT	85.6	(15.0)	(13.0)	14.1	5.0	2.3	Yes	70.3	7.6
ProVen Growth and Income VCT	119.4	(15.8)	(6.2)	2.7	(2.0)	2.4	Yes	64.3	0.0
Average (excl. Finlab)	135.1	(2.8)	18.6	24.3	(10.7)	2.7	N/A	81.3	6.9
Finlab's rank in sector	6	1	1	1	10	10	N/A	1	5

Source: Morningstar, Edison Investment Research. Note: Performance to 30 March 2020 in sterling. TR: total return. *Calculated between end-2014 and end-March 2020. **Based on share count excluding treasury shares, according to our estimate. ***Including management fee and excluding performance fee.

The board

FinLab's management board consists of two members, Juan Rodriguez and Stefan Schütze. Juan Rodriguez joined Altira (renamed to FinLab in 2015) as head of controlling in 2007 and has been a member of its management board since 2013. He is now responsible for finance and investor relations and acts as a sparring partner for FinLab's portfolio companies, backed by his more than 20 years of experience in managerial positions in the asset management, telecommunication and energy sectors, as well as over 13 years' experience in capital markets in the field of trading and investor relations. Stefan Schütze is responsible for investments as well as the legal and compliance department. He has held supervisory board positions in FinLab's portfolio holdings (eg Kapilendo) and other listed companies including German insurtech JDC Group (until December



2017). Before joining FinLab, he worked for listed VC and private equity companies based in Berlin and Frankfurt. FinLab's supervisory board consists of three members: Axel Benkner, Friedrich Schmitz, PhD, and Stefan Müller.

It is worth highlighting that Juan Rodriguez and Stefan Schütze replaced Heliad Equity Partner's managing director Thomas Hanke on 1 April 2019 and since then they have performed managing functions at the company.

General disclaimer and copyright

This report has been commissioned by FinLab and prepared and issued by Edison, in consideration of a fee payable by FinLab. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

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