

# Heliad Equity Partners

Strong returns being driven by listed holdings

Heliad Equity Partners (Heliad) achieved a NAV total return of 47.3% in 2017, driven by the strong performance of its listed holdings, including its largest investment, FinTech Group. Diversification continued in 2017, with some of Heliad's listed holdings reduced to fund new investments in Sleepz, Elumeo and Urbanara. In 2018, Heliad has invested in Cyan and merged Cubitabo into Sleepz. The portfolio now comprises seven listed investments and eight private equity investments, all operating within the technology and digital brands market segments. While NAV declined in the first quarter of 2018, Heliad's listed investments have recovered strongly so far in the second quarter, and the manager expects strong growth in the value of portfolio companies to drive NAV higher over the full year.

12 months ending	Share price (%)	NAV (%)	LPX Europe (%)	LPX Europe NAV (%)	SDAX (%)	FTSE All-Share (%)
31/03/14	61.5	27.1	20.0	9.1	25.8	11.3
31/03/15	50.2	15.7	23.3	14.7	17.4	21.8
31/03/16	36.1	9.9	(1.7)	2.2	4.7	(12.3)
31/03/17	(13.7)	(4.5)	20.0	16.0	14.6	13.0
31/03/18	60.5	24.3	13.0	7.0	18.2	(1.2)

Source: Thomson Datastream, Bloomberg. Note: 12-month discrete total return performance in euros up to last reported NAV date.

## Investment strategy: Private equity approach

Heliad takes a private equity approach to making growth equity investments of up to €10m in unlisted and listed innovative and high-growth companies, primarily in Germany, typically generating up to €50m in annual revenues. An essential feature of each transaction is that the investment team has an advantage relative to other potential investors due to its knowledge and the sector expertise that it can leverage via its network. Sufficient liquidity is maintained for new investments, with the aim of completing up to three transactions a year.

## Outlook: Optimistic view for 2018

The Federal Association of German Capital Investment Companies reported strong growth in German private equity investment in 2017, with an increase in venture capital fund-raising, although buyout fund-raising declined from the prior year. Sentiment among German private equity investors surveyed by the association is reported to be broadly positive, with the majority expecting stable or higher levels of investment activity in the current year, and more than half of respondents expecting company valuations to move higher in 2018. A rise in investment exit activity is also anticipated, with trade sales expected to see the strongest increase in activity.

## Valuation: Long-term discount narrowing trend

Based on our estimate of Heliad's end-May 2018 NAV per share, which adjusts the last reported NAV for the subsequent share price moves of its listed investments, Heliad's current share price discount to NAV is 32.6%. This compares to the 25.1%, 33.1% and 41.5% average discounts over one, three and five years. Heliad management remains committed to narrowing the discount.

## Investment companies

21 June 2018

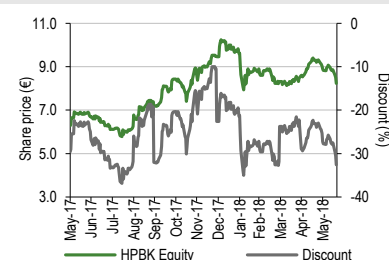
Price	€8.24
Market cap	€81.4m
AUM*	€120.7m

NAV*	€12.23
Discount to NAV*	32.6%

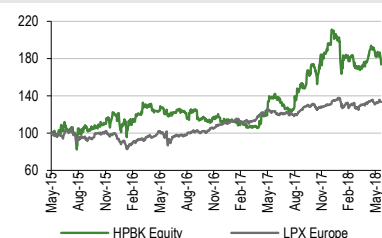
\*Edison estimate as at 31 May 2018.

Yield	2.4%
Ordinary shares in issue	9.9m
Code	HPBK
Primary exchange	Frankfurt
AIC sector	Private equity
Benchmark	N/A

## Share price/discount performance



## Three-year performance vs index



52-week high/low	€10.25	€5.78
NAV high/low	€12.23	€9.16

## Gearing

Gross*	1.4%
Net*	1.1%

\*As at 31 December 2017.

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**Heliad Equity Partners is a research client of Edison Investment Research Limited**

### Exhibit 1: Company at a glance

#### Investment objective and fund background

Heliad aims to achieve long-term capital growth by investing in innovative and high-growth unlisted and listed companies in German-speaking countries, and actively supporting their development. Heliad predominantly makes growth equity investments of up to €10m, targeting technology and digital brand companies that generate €1m to €50m of revenues. In addition, Heliad aims to pay dividends regularly. Heliad is managed by Heliad Management GmbH, a wholly owned subsidiary of its major shareholder FinLab AG.

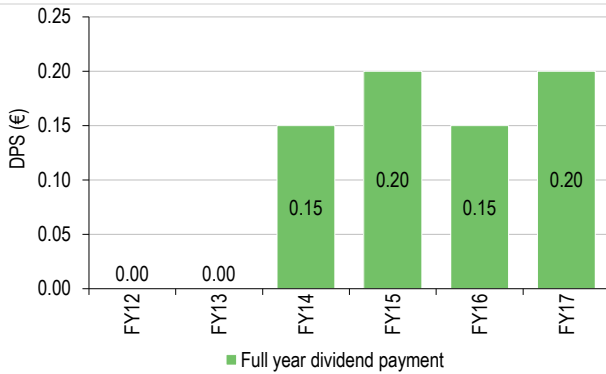
#### Recent developments

- 14 June 2018: Deputy chairman Kai Panitzki stepped down from Heliad's supervisory board and was succeeded by Herbert Seuling.
- 27 April 2018: €10.91 NAV per share at 31 March 2018 published – Q118 NAV total return -10.7%, share price total return -12.0%.
- 28 March 2018: FY17 final results – NAV total return +47.3%, driven by strong performance from listed investments; share price total return +74.1%.
- 28 March 2018: IPO of Cyan on the Frankfurt Stock Exchange, raising €31.7m.
- 22 February 2018: Heliad invests in Cyan, a leading European provider of digital security solutions, in a pre-IPO fund-raising round.

Forthcoming		Capital structure		Fund details	
AGM	June 2019	Total expense ratio	3.5%	Group	Heliad Equity Partners
Interim results	28 September 2018	Gearing	1.1%	Manager	Team-managed
Year end	31 December	Annual mgmt fee	2.5% of net assets	Address	Grüneburgweg 18, 60322 Frankfurt am Main, Germany
Dividend paid	June	Performance fee	20% of net income	Phone	+49 69 719 159 65-0
Launch date	19 November 2004	Company life	Indefinite	Website	<a href="http://www.heliad.com">www.heliad.com</a>
Continuation vote	None	Loan facilities	€6.5m facility, €1.7m drawn		

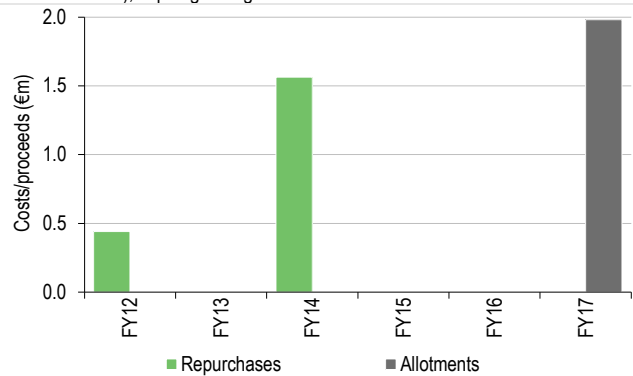
#### Dividend policy and history

Since 2015, Heliad has paid an annual dividend each year in relation to the prior financial year, and aims to continue paying dividends regularly.

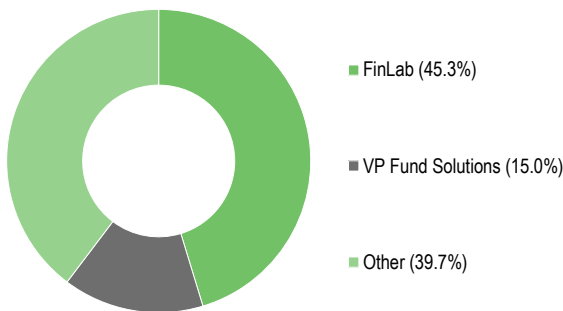


#### Share buyback policy and history

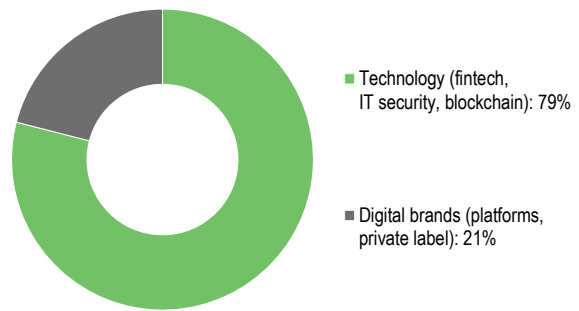
Heliad has authority to repurchase up to 0.951m shares (9.6% of shares in issue), expiring in July 2019, and authority to allot up to 4.72m shares (47.8% of shares in issue), expiring in August 2018.



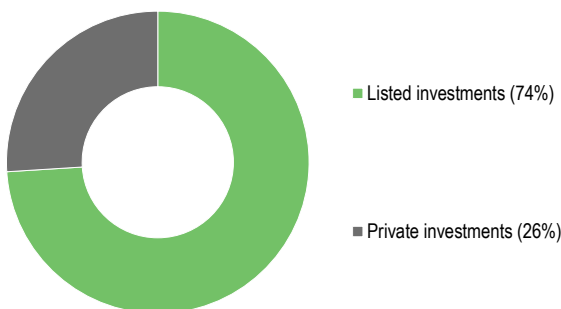
#### Shareholder base (as at 20 June 2018)



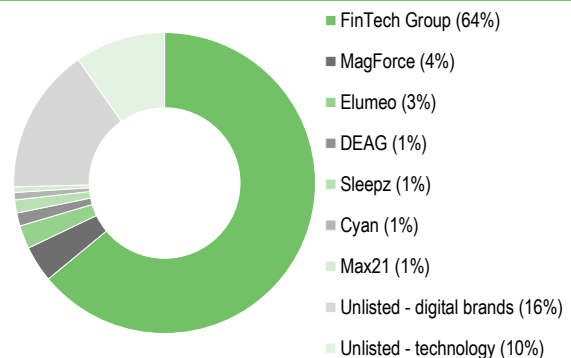
#### Portfolio exposure by sector (as at 31 March 2018)



#### Portfolio exposure by investment type (as at 31 March 2018)



#### Portfolio company exposure by value (as at 30 April 2018)



Source: Heliad Equity Partners, Edison Investment Research, Bloomberg, Thomson Reuters

## Outlook: Optimism for German private equity in 2018

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Heliad pursues a focused investment strategy, particularly with regard to business models and company sizes, and its prospects are therefore not dependent on the general economic outlook to a significant degree. Similarly, it is difficult to translate equity market forecasts into consequences for Heliad's investment activities. However, the broader development of the economy and financial markets is likely to have some effect on the prospects for portfolio companies as well as levels of investment activity, and consequently on the medium- to long-term success of Heliad.

In its 2017/18 report, the German Council of Economic Experts (GCEE) reflected on the continuing economic recovery in Germany and the eurozone, estimating that real GDP growth would rise from 2.0% in 2017 to 2.2% in 2018 for Germany. Although expecting eurozone growth to slow from 2.3% in 2017 to 2.1% in 2018, the GCEE noted that the economic recovery has extended to all member states. While consumption remains the strongest component of the upswing, it was noted that investment is now making a significant contribution, with export growth also increasing in strength.

The Federal Association of German Capital Investment Companies (BVK<sup>1</sup>) provided the following statistics in its February 2018 outlook for the German private equity sector: investments grew 67% in 2017 to €11.3bn, with the number of companies financed rising to 1,100 from 1,011 in the previous year. Fund-raising in 2017 remained stable at c €3.0bn, with an increase in venture capital fund-raising to €1.5bn from €1.3bn in the previous year, and a decline in buyout fund-raising to €0.9bn from €1.5bn. Growth capital funds accounted for €0.5bn of funds raised in 2017. The value of private equity investment sales increased by c 25% to €5.4bn in 2017, with trade sales making up over half of the transactions and secondary sales to other investment companies more than doubling from the previous year to account for c 40% of exit transactions.

A BVK survey of investment companies regarding their outlook for 2018 determined overall optimism, with 50% expecting an unchanged level of investment, 43% an increase, and only 7% a decrease. Venture capital investors were most optimistic, with 48% expecting an increase, compared to 38% of buyout and growth capital investors. Two-thirds of the companies surveyed expected a steady level of co-investment activity, while 30% expected an increase. Expectations for company valuations to rise in 2018 were significantly stronger than a year earlier, with only 43% of companies surveyed expecting unchanged valuations, compared to almost two-thirds in the prior year survey. Again, optimism was greater among venture capital investors, with 62% expecting valuations to rise compared to 28% a year earlier, while 47% of buyout and growth capital investors anticipated a rise, compared to 24% a year earlier.

Surveyed companies also had an overall positive outlook for realisations in 2018, with 40% expecting an increase in exit transactions, although more than half expected an unchanged level of activity. The exit outlook was broadly similar for venture, growth capital and buyout investors. Optimism was greatest for trade sales and sales to other investment companies, which together have historically represented the majority of exit transaction activity in Germany. 42% of companies predicted a slight or clear increase in trade sales and 28% expected an increase in sales to other investment companies. Although the surveyed companies were less optimistic regarding the outlook for IPOs and sales to management (buyout transactions), with 72% and 79% expecting unchanged activity levels for each category respectively, c 20% anticipated an increase in exit transactions involving IPOs.

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<sup>1</sup> Bundesverband Deutscher Kapitalbeteiligungsgesellschaften.

## Fund profile: Disruptive growth equity investor

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Heliad is a Frankfurt-listed investment company that takes a private equity approach to investment in young and fast-growing, non-listed and listed companies in German-speaking countries. In combination with an active 'hands-on' investment approach, Heliad seeks to take advantage of its 'evergreen' closed-ended structure to invest without fixed time horizons, which enables it to support entrepreneurs flexibly, individually and consistently in every stage of a company's growth and development. Heliad has a long-term capital growth objective and aims to achieve significant excess returns for its shareholders in relation to other investment companies and equity funds. In addition, Heliad aims to pay dividends regularly, thus providing investors with an income stream as well as an attractive route to gain exposure to a diversified portfolio of the most interesting disruptive growth companies in German-speaking countries.

Heliad is managed by Heliad Management, a wholly owned subsidiary of FinLab, which is Heliad's largest shareholder. FinLab's two biggest shareholders, with 49% and 31% of the outstanding shares respectively, are BF Holding and Apeiron Investment Group, which are controlled by leading German entrepreneurs, Bernd Förtsch and Christian Angermayer. Förtsch was the founder of FinTech Group and still exerts significant influence on the company through his investments, which include a 26.9% interest through GfBk Gesellschaft für Börsenkommunikation, where he is CEO.

BF Holding was the sole subscriber in Heliad's May 2017 capital increase, which raised €1.98m through the issue of 363,500 new shares, representing 3.7% of Heliad's current shares in issue. Added to his interest through FinLab, this took Bernd Förtsch's direct and indirect economic interest in Heliad to 26%. Förtsch also has an interest in Heliad's portfolio company, MagForce, through his controlling shareholding in Nanostart, which holds a 9.5% stake.

Lead manager Thomas Hanke is supported by Theo Woik and Gunter Greiner in managing Heliad's investment portfolio. The management team has many years' investment experience, and has access to an extensive network of industry contacts, providing a source of additional expertise, which can be leveraged in managing portfolio companies.

## The fund manager: Heliad Management

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### The manager's view: Maintaining a longer-term focus

Heliad's investment team emphasises that the business model is based on a medium- to long-term period of evaluation and forecasts, accepting that unforeseeable events and developments can significantly influence Heliad's short-term performance. They point out that developments in the markets in which portfolio companies operate, as well as in capital markets, can have positive or negative influences in the short term without the long-term success of Heliad being affected. As a result, they consider that Heliad's reported earnings for individual financial years reveal little about the success and the performance of the business. The team highlights that key performance indicators for assessing the success of the business are fair value NAV growth and the availability of cash to make new investments and expand existing ones.

Continuing its current investment strategy, the team plans to make up to three new investments in 2018, although noting that the timing of purchases and sales remains uncertain. In general, the managers anticipate a steady investment rate in the near term, with acquisitions broadly matched by disposals over the longer term. They aim to maintain available cash (including gearing) at around the current level, enabling Heliad to enter into promising long-term investment opportunities, while limiting the potential cash drag on performance. The team always factors in the potential for providing follow-on financing to individual portfolio companies during the investment holding phase.

Based on the current portfolio and investment strategy, the investment team believes that Heliad has good prospects for a successful performance in 2018 and subsequent years. While it cannot predict the effects of changes in the economic outlook and equity market fluctuations, the team is convinced that Heliad's business performance will be positive in 2018. After the substantial increase in NAV per share from €8.43 to €12.22 in 2017, it expects continued strong growth in the value of portfolio companies to drive another considerable increase in NAV per share across the current financial year.

## Asset allocation

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### Investment strategy and process

In pursuit of its capital growth objective, Heliad focuses on investing in innovative and high-growth companies, primarily in Germany, aiming to be actively involved in supporting their development. The investment team will look at both private and public equity opportunities, taking a buy-and-build approach, rather than a passive one. New investments in listed companies, usually via private placements to establish a major stake, are often complementary to existing private equity holdings. Heliad targets growth equity investments of up to €10m in companies with annual sales revenues typically between €1m and €50m. The investment team currently intends to make up to three new investments each year, and considers that its large network, reputation as a reliable negotiating partner and active hands-on approach are key to ensuring access to attractive investments.

An essential feature of each transaction is that, through its existing knowledge and the sector expertise that it can leverage through its network, Heliad's investment team has a strong position relative to other potential investors. This gives it an advantage in the following areas:

- performing initial due diligence;
- working with management to achieve sales growth;
- effective assessment of potential exit routes for the investment; and
- achieving a lower purchase price by bringing in a preferred partner.

The investment team has established processes for deal sourcing, deal management and portfolio management that enable it to operate efficiently in implementing the investment strategy. The team comprises highly motivated investment professionals with longstanding industry experience and access to an extensive network of industry contacts, which can be leveraged to identify and implement development opportunities for portfolio companies.

Heliad's portfolio NAV is regularly determined on the basis of fair market values of both listed and unlisted investments, and this largely corresponds with Heliad's reported IFRS net asset value. With changes to the fair value of portfolio investments being directly reflected in Heliad's reported financial results, portfolio company performance is seen as a key measure of Heliad's success. The management team aims to increase Heliad's long-term average NAV per share, and is also committed to ensuring that its higher corporate value is closely reflected in its market price.

The availability of free cash is considered to represent Heliad's ability to make new investments and expand existing ones, which is seen as a prerequisite for the ongoing success of the company. The management team aims to maintain sufficient liquidity for new investments, with the prospect of Heliad completing up to three transactions a year. Available free cash is defined as cash and cash equivalents, credit available under Heliad's bank borrowing facility, in addition to readily liquidated current assets. As at end-December 2017, Heliad's free cash was €10.0m (previous year €1.9m).

While Heliad's performance is primarily measured in terms of NAV growth, the performance of portfolio companies is assessed on the basis of financial year-related key data such as revenue, EBITDA and profitability.

At the time of the investment decision, Heliad establishes a corporate plan with the target company management, against which the investment is assessed and evaluated every quarter. Based on monthly and quarterly figures, the investment team monitors the development of the individual companies in comparison with the prior year, the plan and the current budget. Current and strategic developments in the portfolio companies, as well as any related measures to be implemented, are discussed in regular meetings between the company management and Heliad's investment team.

Heliad's investment manager is responsible for the generation of investment opportunities, assessment and negotiation of acquisitions and disposals, and it also seeks to secure supervisory and advisory positions in portfolio companies wherever possible, to ensure that Heliad is integrally involved in the operating performance of its investments. In addition to its own corporate-level risks, Heliad's risk management processes cover risks arising from portfolio company performance. Risk control reports on portfolio companies are discussed at regular meetings, where decisions are taken on the implementation of any required corrective measures.

### **New investment opportunities**

Heliad's investment team continually seeks to identify and obtain information early on forthcoming investment opportunities in German-speaking countries, and has the resources and tools to ensure an adequate and high-quality flow of prospective transactions. This enables it to pursue a targeted acquisition strategy to select promising companies and increase the probability of successful acquisitions by avoiding structured sales processes where there is greater competition. There is a constant flow of potential new investment opportunities generated by the team's extensive network, which consists of former investment partners, banks, consultants, lawyers, accountants and experienced industry experts, and the team works closely with these business partners to identify and assess the most promising new investment opportunities.

### **Portfolio company development**

Following acquisition of each new investment, the Heliad team is focused on implementation of the agreed growth strategy, which is planned to translate into a substantial increase in the value of the investee company, while the operating income from portfolio companies – such as dividends, profit shares and interest income – provides a source of cash flow for Heliad. The investment team plays a significant role in the support and development of portfolio companies: existing management and reporting structures and processes are scrutinised and optimised for continuous performance monitoring, active identification of potential additional value drivers and appraisal of company development with regard to the planned exit strategy.

### **Exit strategy**

While the stock market listing of portfolio companies generally provides sufficient liquidity for Heliad to dispose of a holding, the investment team is not obliged to sell down investments and distribute proceeds promptly, as is often required for fixed-term private equity fund structures. In practice, the Heliad team works jointly with the management of investee companies towards an exit strategy that has been proposed at the start of the investment period, aiming to crystallise the value created in the most effective way. The investment team works with its network of relevant industry contacts to identify and structure the optimum divestment approach for each portfolio company.

### **Current portfolio positioning**

During 2017, Heliad significantly expanded its portfolio of unlisted and listed investments, which increased in value by €38.1m to €117.2m. During the year, new investments were made in Sleepz, Elumeo, Urbanara and Sleepz Home (a subsidiary of Sleepz), as well as follow-on investments in existing portfolio holdings Cubitabo and Springlane. Through increasing its stakes in existing portfolio companies such as Libify and Tiani Spirit, as well as making new investments in Sleepz,

Elumeo and Urbanara, Heliad is continuing its strategy of planned diversification, with the aim of ensuring that its performance is less dependent on the market price of FinTech Group.

Portfolio developments continued in early 2018, with Heliad granting Libify a convertible loan of less than €1.0m and investing c €1.0m in Cyan, which listed subsequent to Heliad taking a stake. With effect from 1 March 2018, Heliad contributed its entire holding in Cubitabo to Sleepz Home and invested further in Sleepz Home as part of a capital increase.

**Exhibit 2: Heliad's listed investments as at 31 December 2017\***

Name	Description	Headquarters	Sector	Market cap	Heliad's stake
FinTech Group	FinTech Group is a leading European financial sector technology and service provider. Its subsidiary, flatex, has been one of the leaders in the German and Austrian online brokerage market for a number of years, reaching c 200,000 private customers, and executing 12 million trades per year. flatex is distinguished by inexpensive flat fees and a wide product range. In addition to growing its customer base, flatex has potential to expand its credit business, which doubled in volume to €200m in 2017. FinTech's highly scalable Group Core Banking System technology provides business partners with a solution to manage processes such as granting credit, securities processing, online brokerage, retail banking and corporate payments.	Frankfurt	Technology	c €540m	14.4% c €80m
Cyan	Cyan is a leading European provider of mobile security solutions to customers of mobile and fixed network operators, virtual network operators and companies in the financial industry. Cyan focuses on the growing segment of smartphone users, who increasingly use mobile platforms such as email, banking, messenger or social media for their daily business, and are thereby exposed to threats of cyberattacks.	Munich	Technology	c €200m	0.5% c €1m
MagForce	MagForce is a leading company in the area of nanotechnology-based cancer therapy, and was the first company worldwide to receive European approval for a medical product with nanoparticles. The therapy is available in NanoTherm therapy centres in Germany in the Charité, Berlin, and the University Clinics of Münster, Kiel, Cologne, and Frankfurt.	Berlin	Technology	c €140m	3.4% c €5m
DEAG	DEAG is an integrated entertainment content company and a leading provider of live entertainment in Europe. It produces and organises a broad spectrum of events and concerts, covering the entire value chain in the area of live entertainment: from concerts to selling audio carriers, rights utilisation and sponsoring, and from merchandising to ticketing. Its own sales business, MyTicket, ensures increasing profitability and scalability of the business model.	Berlin	Digital brands	c €50m	3.2% c €1.5m
Elumeo	Elumeo is a leading European e-commerce provider of jewellery, with brands including Juwelo, Rocks and Co, and AMAYANI, also selling to global customers through New York Gemstones. Elumeo cuts gemstones at its own facility in Thailand, combining the tradition of a century of craftsmanship with the cost benefits of electronic sales channels and integrated products. Sales are made directly, both online and through its own TV presence in continental Europe.	Berlin	Digital brands	c €40m	7.5% c €3m
Max21	Max21 is a technology holding company. Max21's most important investments focus on the business areas of postal services, IT security, and cloud and IT services.	Weiterstadt, Germany	Technology	c €22m	3.2% c €0.5m
Sleepz	Sleepz is a leading full-online service provider of sleep and home decor. Its subsidiaries, Sleepz Home, Matratzen Union and Grafenfels Manufaktur, operate online shops in the sleep segment with their own collections. Sleepz addresses both the premium and the rapidly growing budget market for sleep products.	Berlin	Digital brands	c €10m	15.4%** c €1.5m

Source: Heliad, Edison Investment Research. Note: \*Adjusted for Cyan and Cubitabo transactions completed in 2018. \*\*As at 31 December 2017, Heliad held 15.4% of Sleepz, 8.5% of Sleepz Home and 40.5% of Cubitabo. Heliad contributed its shares in Cubitabo to Sleepz Home as part of a capital increase, effective January 2018.

**Exhibit 3: Heliad's private equity holdings as at 31 December 2017\***

Name	Description	Headquarters	Sector	Heliad's stake
MUUME	MUUME is a technologically leading platform, which digitalises day-to-day consumption and shopping processes on smartphones, and links them with banking and payment services as well as loyalty cards/points and coupons. The MUUME platform has a modular structure suitable for the current market dynamics. MUUME provides its platform under the MUUME brand, in co-branding and as a pure merchant solution for integration in existing merchant apps (such as SDK).	Zug, Switzerland	Technology	3.9%
Alphapet	Alphapet Ventures is the leading German online retailer of premium pet supplies and food, operating through the portals Hundeland.de, Katzenland.de and petspremium.de. A broad selection of specialist and premium products, planning tools developed in-house and an expert telephone hotline allows portal users to find the right product. Alphapet Ventures has its own portfolio of three independent brands, which are sold over-the-counter in over 100 specialist retail shops as well as via online platforms.	Munich	Digital brands	6.7%
Springlane	Springlane is the leading platform for all cooking and baking needs. As a vertically integrated company, Springlane aims to offer an unequalled product and service range in the world of cooking. In addition to proprietary business intelligence, a high-performing e-commerce infrastructure and unique product and category expertise, the company has built one of the most influential food content communities in Europe.	Dusseldorf	Digital brands	23.4%
Tiani Spirit	Tiani Spirit is an international IT company specialising in solutions for standardised data exchange, focusing on medical information. Tiani Spirit's software solution ties in with the globally recognised IHE standard and it has signed partners such as Cisco Systems, which integrated the software solution into its own products as well as marketing it directly. Tiani Spirit is working to develop pioneering solutions for interoperability in other areas, such as resident registration and decentralised energy provision.	Bisamberg, Austria	Technology	35.4%
Libify	Libify Technologies specialises in the provision of portable emergency call and location systems. Its hybrid emergency call system, GEOCARE, can assist in both professional and private daily life. In addition to risk groups such as outdoor sport enthusiasts and remote workers without visual contact or phone signal, the elderly and chronically ill can also utilise the company's safety solution.	Munich	Digital brands	16.1%
Stapp	Stapp markets the digital presence of leading personalities ('influencers'), developing individual web/app applications, defining an appropriate e-commerce strategy and establishing a scalable network across all relevant digital platforms. In December 2015, Stapp released the Daniela Katzenberger app "Love and Style", which became one of Germany's most popular celebrity apps with over 270,000 app downloads.	Hamburg	Digital brands	74.0%
Urbanara	Urbanara sells home furnishings and accessories, relying on natural materials and high-quality workmanship by combining traditional craftsmanship with state-of-the-art manufacturing procedures. Particular value is placed on responsible manufacturing and environmental awareness. In addition to its online shop, Urbanara operates a flagship store in Dusseldorf.	Berlin	Digital brands	25.8%
My Better Life	my better life offers individual online coaching, based on science and psychology, with the help of leading experts. Coaching is provided to address specific issues such as weight loss and quitting smoking. By end-2018, 30 programmes on stress, relationships, money, sex and other topics are planned to be available, thereby offering a central point for addressing specific individual concerns.	Berlin	Digital brands	49.9%

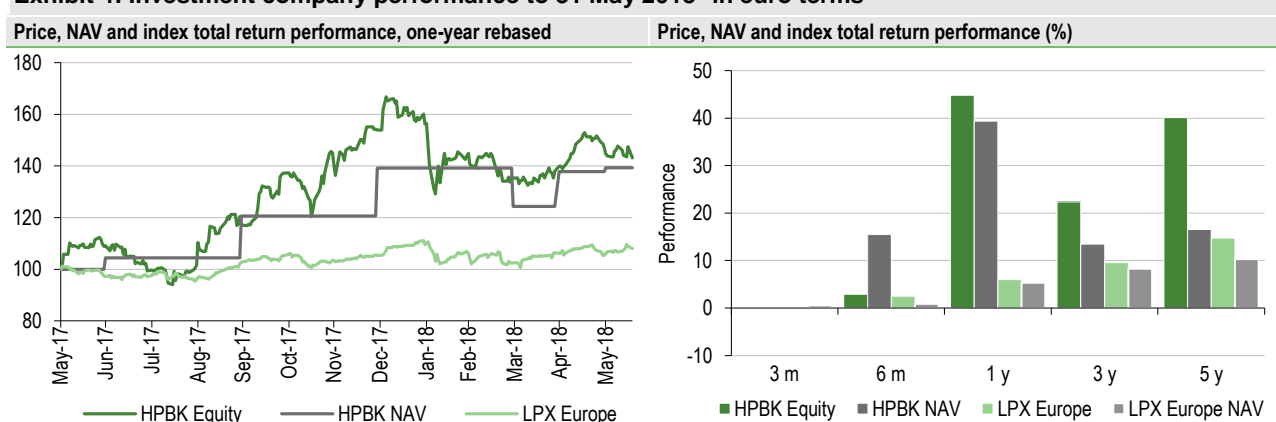
Source: Heliad, Edison Investment Research. Note: \*Adjusted for Cyan, which listed following Heliad's investment, and Cubitabo transactions completed in 2018.



## Performance: Strong returns driven by listed holdings

Heliad achieved a NAV total return of 47.3% in 2017, and its net assets increased by 50.0% from €79.8m to €119.7m, taking into account payment of the €0.15 per share FY16 dividend and the issue of 0.36m shares. Valuation gains on its holdings in FinTech Group, Sleepz, Elumeo, DEAG, MagForce and Alphapet totalled €47.1m, while devaluations of Max21, Springlane and Cubitabo totalled €9.3m. Heliad sold shares in its listed portfolio holdings FinTech Group, DEAG and MagForce, which crystallised valuation gains, while Max21 shares were sold at a slight loss, following write-downs in previous years. Heliad's overall valuation gain was largely attributable to the appreciation in value of FinTech Group shares. Heliad reported €39.1m net income for 2017, compared with a loss of €22.0m in 2016, primarily due to the strong valuation gains, with a €2.1m decline in operating expenses making an additional positive contribution.

**Exhibit 4: Investment company performance to 31 May 2018\* in euro terms**



Source: Thomson Datastream, Edison Investment Research. Note: \*NAV figures at end-April and end-May 2018 are Edison estimates. Three-, five- and 10-year performance figures annualised.

As illustrated in Exhibit 4, in spite of a weak performance in the first three months of 2018, over the year to end-May 2018 Heliad's share price and estimated NAV total returns significantly outperformed the LPX Europe index, which comprises the 30 largest and most liquid Europe-listed private equity investment companies. The weak performance in the first quarter of 2018 largely reflected declines in the share prices of Heliad's listed holdings, which have seen a strong recovery so far in the second quarter. Although Heliad had a relatively weak performance in 2016, its share price and NAV total returns also outpaced LPX Europe index returns over three and five years.

**Exhibit 5: Share price and estimated NAV total return performance to end-May 2018\*, relative to indices (%)**

	Three months	Six months	One year	Three years	Five years
Price relative to LPX Europe	0.1	0.4	36.7	39.4	171.4
NAV relative to LPX Europe NAV	(0.5)	14.5	32.3	15.2	31.6
Price relative to SDAX	(2.5)	(2.4)	29.2	28.9	163.9
NAV relative to SDAX	(2.4)	9.5	24.4	2.7	5.1
Price relative to FTSE All-Share	(7.7)	(4.0)	36.9	80.2	281.1
NAV relative to FTSE All-Share	(7.7)	7.7	31.7	43.7	51.8

Source: Thomson Datastream, Edison Investment Research. Note: \*Based on Edison's estimate of end-May 2018 NAV. Geometric calculation.

Exhibit 5 shows that, despite relative weakness during the last three months, Heliad's estimated NAV total returns over one, three and five years to end-May 2018 are above the returns of the SDAX index, which comprises 50 small and mid-cap German companies, while its share price total return has materially outperformed this index over all three periods. Heliad's share price and NAV total returns have significantly outpaced the FTSE All-Share index over one, three and five years. Exhibit 6 shows the divergence of Heliad's performance from the broader LPX Europe index, with periods of significant outperformance and underperformance over the last five years. The sharp adjustments in the relative performance chart mainly reflect Heliad's quarterly NAV reporting.

**Exhibit 6: NAV total return performance relative to LPX Europe index NAV over five years**

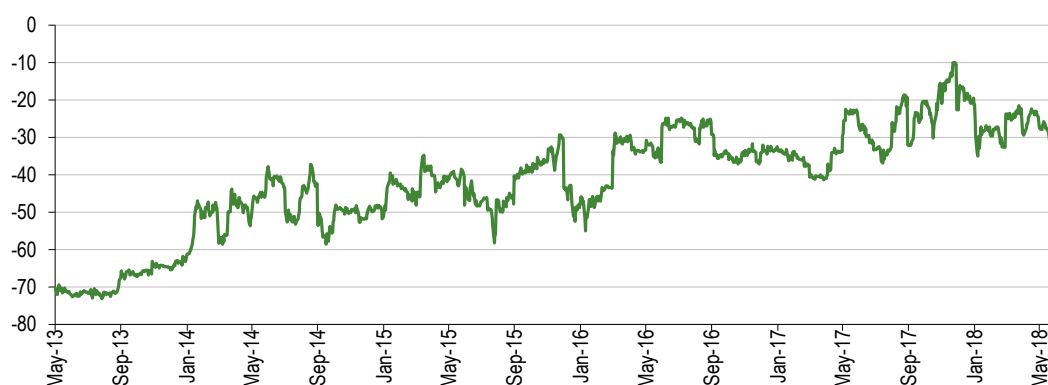


Source: Thomson Datastream, Edison Investment Research

## Discount: Substantial narrowing over five years

As illustrated in Exhibit 7, Heliad's share price discount to NAV has followed a narrowing trend over the last five years, decreasing substantially from its widest point of 73.7% in May 2013 to a five-year low of 10.0% in December 2017. The discount widened during the first three months of 2018, as the share price declined while the published NAV was unchanged, due to it only being reported quarterly. As might be expected given the large proportion of Heliad's portfolio currently invested in listed companies, Heliad's share price anticipated the weak NAV performance in the first quarter of 2018 (driving the discount wider relative to the reported NAV at the end of December 2017) and showed little reaction when the quarter-end NAV was published. To give a better indication of the discount being applied by the market, we have estimated Heliad's NAV at end-April and end-May 2018 by adjusting the reported end-March 2018 NAV for the subsequent share price moves of Heliad's listed investments. On this basis, while Heliad's share price strengthened in April and May 2018, the discount remained within a 20-30% range, and it has now widened to 32.6%, which compares to its 25.1%, 33.1% and 41.5% averages over one, three and five years.

**Exhibit 7: Share price discount to NAV over five years (%)**



Source: Thomson Datastream, Edison Investment Research

## Capital structure and fees

Heliad has a single share class with 9.87m fully paid-up shares in issue, following a capital increase in May 2017, which raised €1.98m through the issue of 363,500 new shares. At the July 2014 AGM, authorisation was granted for Heliad to acquire up to 10% of its existing subscribed capital to hold as treasury stock, in the period up to 7 July 2019. The authorisation may be exercised in whole or in

part, via a market purchase or tender offer. The acquired stocks may be sold in the open market or through a public offer and can be fully or partially retracted, with the consent of the supervisory board. Heliad also has authorisation to issue new ordinary shares, in cash or in kind, in partial amounts totalling up to 5.1m shares, until 19 August 2018. Subject to supervisory board approval, the pre-emptive subscription rights of existing shareholders may be waived. Following the May 2017 capital increase, unissued authorised capital was reduced to 4.7m shares.

Heliad is also permitted to issue bearer, registered option or convertible bonds, participation rights and participating bonds, with a total nominal value of up to €50m, until 30 June 2021, with or without a term limit. The holders or creditors of debt instruments may be granted option or conversion rights for up to 3.8m new Heliad shares.

A further 0.95m new Heliad shares in total may be issued to meet subscription rights issued under the Stock Option Program 2017, up to 30 June 2021. In FY17, a total of 132,000 share options were issued to members of senior management and employees of Heliad Management, following the issue of 412,000 share options during FY16. These options vest after four years and give the right to subscribe to one Heliad share per option.

Raiffeisenbank Attersee-Süd eGen has provided Heliad with a credit line of up to €6.5m, expiring on 31 August 2019. As at end-December 2017, Heliad had drawn €1.7m of this line and was paying interest on the utilised portion at a rate of 2.75% pa, linked to three-month Euribor. The unused portion of the credit line is subject to a 0.75% pa charge.

Heliad pays Heliad Management a 2.5% management fee based on its IFRS net asset value at the end of the previous financial year. In addition, Heliad Management receives profit-related remuneration amounting to 20% of Heliad's approved German GAAP (HGB) net income for the previous financial year. In FY17, Heliad Management was paid a management fee of €2.0m, compared with €2.6m in FY16. No performance fee was paid in 2017 in relation to FY16 net income, while €0.23m was paid in 2016. Heliad Management received €0.03m statutory remuneration in relation to the May 2017 capital increase and FinLab AG charged Heliad €0.19m for marketing and accounting services. Total operating expenses for FY17 amounted to €3.5m, giving a total expense ratio of 3.5% based on average net assets during the year of €99.7m.

## Dividend policy and record

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Since FY14, Heliad has had a defined distribution policy, under which it aims to pay dividends regularly, while acknowledging that in individual years, a lower dividend or no dividend may be paid. For FY17, a €0.20 per share dividend was declared, which compares with the €0.15 dividend paid for FY16, and the €0.15 and €0.20 dividends paid for the two prior financial years (see Exhibit 1). The €0.20 dividend paid for FY17 equates to a 2.4% yield on the current share price, and represents a 2.11% yield on the end-2017 share price of €9.46. Based on year-end share prices, Heliad's average dividend yield for FY14 to FY17 is 2.9%.

## Peer group comparison

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Exhibit 8 shows a comparison of Heliad with a range of listed private equity investment companies focused on Europe and German-speaking countries. Heliad is the smallest company in the group by market cap, although it has grown significantly over the last year, as reflected in its 72% share price total return in sterling terms over one year to end-March 2018. Heliad's NAV total return leads the peer group over one year, ranking sixth and third out of 11 over three and five years, while its share price leads the peer group over one and three years, and ranks second over five years. In spite of its strong recent relative performance, Heliad's shares are trading at a wider-than-average

discount to NAV, within a wide peer group range between a 51% discount and a 19% premium. Heliad's 2.4% dividend yield is at the lower end of the peer group range, but at a broadly similar level to a number of peer companies.

**Exhibit 8: Listed private equity investment company peer group as at 20 June 2018\* in sterling terms**

% unless stated	Region	Mkt cap £m	NAV TR 1 year	NAV TR 3 years	NAV TR 5 years	Price TR 1 year	Price TR 3 years	Price TR 5 years	Premium/ (discount)	Dividend yield (%)
	Europe	71.5	29.9	57.9	99.8	72.0	113.6	498.4	(32.6)	2.4
	Europe	1,341.8	N/A	N/A	N/A	53.8	108.0	362.0	(1.1)	9.2
	Europe	464.7	20.3	91.9	113.4	29.9	73.4	166.6	19.4	4.0
	UK	353.0	0.2	66.6	120.2	2.6	72.4	130.3	(14.9)	0.0
	Europe	1,148.5	N/A	N/A	N/A	(3.7)	48.3	50.3	2.6	4.1
	UK	720.4	19.5	69.5	82.3	19.1	76.4	80.3	(3.3)	2.4
	UK	602.6	13.2	50.8	68.7	19.9	47.4	78.6	(10.3)	2.4
	Europe	172.3	N/A	N/A	N/A	38.6	71.5	537.0	(50.8)	7.9
	Europe	376.8	7.4	26.0	39.9	14.4	5.7	13.6	(25.1)	2.5
	Global	610.1	9.6	71.5	78.1	14.1	89.3	109.0	(7.8)	5.6
	Europe	512.0	14.0	59.7	93.7	10.8	60.3	101.4	(14.7)	3.7
<b>Peer group average</b>		<b>579.4</b>	<b>14.3</b>	<b>61.7</b>	<b>87.0</b>	<b>24.7</b>	<b>69.7</b>	<b>193.4</b>	<b>(12.6)</b>	<b>4.0</b>
<b>Rank in peer group</b>		<b>11</b>	<b>1</b>	<b>6</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>10</b>	<b>8</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance data to end-March 2018. TR = total return in sterling terms. N/A where NAV performance data not available.

## The supervisory board

In addition to the supervisory board's other corporate-level oversight responsibilities, each significant prospective investment is presented to and approved by Heliad's supervisory board before an investment decision is taken.

Heliad's supervisory board comprises three members. Chairman Volker Rofalski (appointed member November 2004, chairman May 2005), is managing director of only natural munich, and is also on the supervisory boards of Sporthouse, Bio-Gate, Demekon Entertainment, card4you, mutares and Taishan Capital Management. He is also an investment director at private equity firm Mountain Partners. Deputy chairman Kai Panitzki (appointed November 2013) stepped down from the supervisory board at the June 2018 AGM and was succeeded by Herbert Seuling, a tax consultant who has served on the supervisory board of FinTech Group since May 2016. Stefan Müller (appointed May 2016) is chief representative of Börsenmedien, and was a member of the management team at FinTech Group for 14 years to August 2016.

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