EDISON **Scale research report - Initiation**

Heliad Equity Partners

Investment companies

06 June 2017

Focused DACH investor

Heliad Equity Partners (Heliad) is a DACH-focused investor in the tech, e-commerce and lifestyle sectors. It is managed by Heliad Management GmbH, a company wholly owned by Heliad's largest shareholder, FinLab (A7A). Stakes in listed tech companies FinTech Group (FTK) and MagForce (MF6) account for 69% of the portfolio value and their value currently exceeds Heliad's market cap, having appreciated 34% and 76%, respectively, in 2017 to date. The performance of these holdings and the diversification offered by Heliad's 12 other investments may make it an attractive way to access the German tech, e-commerce and lifestyle sectors at a discount.

Q117 NAV growth expected to continue

Following a difficult 2016, when the share prices of Heliad's two biggest holdings fell, Q117 has seen a reversal, leading to 17% NAV growth in Q1 from €8.43 to €8.92 per share. This has come on the back of good results from FinTech and progress on the roll-out of MagForce's cancer nanotherapy. Heliad's other investments appear to have interesting potential for development, particularly in the e-commerce space. The recent acquisition of a stake in bmp Holding, a listed company operating in a similar market to an existing investment, may provide synergies as well as a clearer valuation should a merger take place.

Simple strategy and diversification to come

Heliad invests in relatively small companies in Germany's growing tech and e-commerce sector, both private companies and listed small caps, which management believes are undervalued. It looks to invest in companies with revenues of under €50m but with growth potential. The management fee is 2.5% of NAV and a 20% carry on realised investments. Heliad expects to make around four new investments in the next 12 months following the bmp investment in May, equity funding for which was provided by FinLab's biggest shareholder, BF Holding.

Valuation: Big discount on listed assets

Heliad reported NAV per share of €8.92 at 31 March, and we calculate that the value of its investments in listed companies is c €6.99 per share (2 June). Heliad's current share price is therefore a 5% discount to the listed investments, and only a 3% premium net of €3.8m of liabilities (assuming these are unchanged since 31 December). We believe there is scope for the discount to continue to narrow, supported by greater transparency and increased investor relations efforts.

Historical financials

Year end	Net revenue (€m)	PBT (€m)	EPS (€)	P/E (x)	NAV/share (€)	P/NAV (x)
12/13	26.7	11.6	1.14	5.8	6.39	1.04
12/14	23.8	18.5	1.87	3.5	8.53	0.78
12/15	29.2	23.0	2.37	2.8	10.87	0.61
12/16	(16.6)	(22.2)	(2.31)	N/A	8.43	0.79

Source: Heliad Equity Partners data

Price	€6.65
Market cap	€63.7m

Share price graph

Share details

Code	HPBK
Listing	Deutsche Börse Scale
Shares in issue	9.51m
NAV/share as at 31 March 2017	€8.92

Business description

Heliad Equity Partners is a Germany-based investment company focused on listed and unlisted smaller companies in German-speaking countries. Investments typically comprise growth and venture stage technology companies operating disruptive business models or addressing structural issues.

Bull

- Invests in markets likely to experience strong growth in major economies.
- The backing of major shareholders is firm and has provided capital for new investments.
- The share price is a discount to the value of its holdings in listed companies, net of liabilities.

Bear

- Portfolio concentration: the largest investment comprises over 50% of the portfolio.
- 2.5% management fee paid to a company owned by the main shareholder.
- Early-stage investments are inherently higher risk.

Analysts

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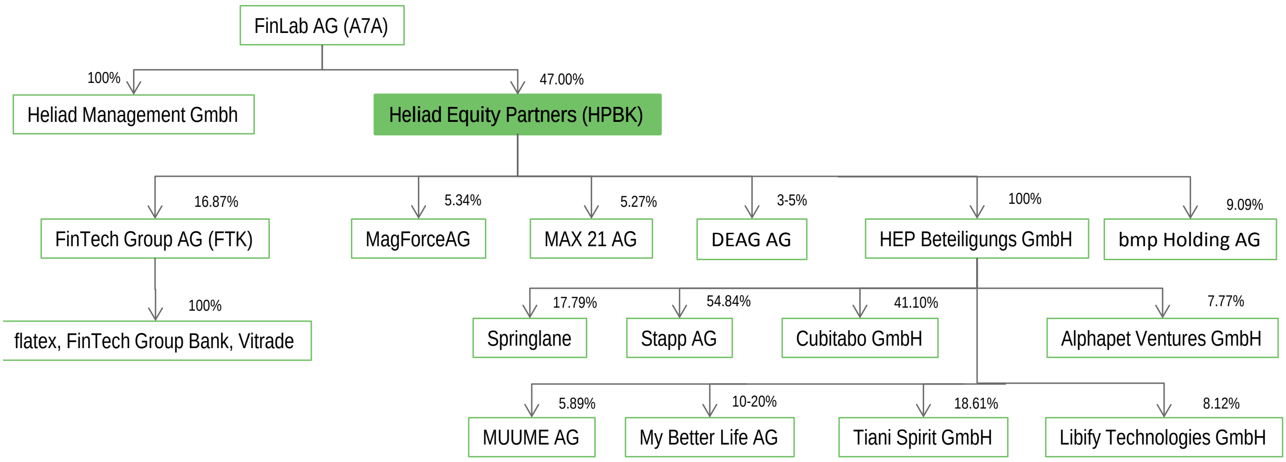
Investments focused by sector and geography

Heliad invests in companies operating in the internet and technology, e-commerce and lifestyle sectors, based in German-speaking countries, which have the potential to transform or dominate their sector through a new technology or approach. It aims to invest in relatively small companies, with annual sales of €1-50m, and will look at both private and public equity opportunities, taking a buy-and-build approach, rather than a passive one. In this way it seeks to assemble a portfolio of investments, which would likely be too small for institutional investors and, through its own listing on the Deutsche Börse's Scale Segment, make them accessible to other investors. It is notable that its investments in listed companies take the form of private placements to establish a major stake in a company, and may be complementary to its private investments, potentially offering an exit via a merger.

Heliad Equity Partners, the listed entity and the limited partner (LP) in each investment, is managed by Heliad Management GmbH, the general partner (GP). Heliad Management is 100% owned by FinLab, another German company listed in Frankfurt. The management company receives a 2.5% annual management fee as well as a performance fee of 20% of realised net earnings (the same as 20% of net profit under German GAAP). FinLab also owns 47% of the shares in Heliad Equity Partners. Exhibit 1 shows the corporate structure. FinLab's two biggest shareholders, with 49% and 31% of the outstanding shares respectively, are BF Holding and Apeiron Investment Group, which in turn are owned by Bernd Förtsch and Christian Angermayer, leading German entrepreneurs. The access to deals afforded by the connections of these shareholders differentiates Heliad from other PE houses. Before examining the portfolio in more detail we will look at the investment strategy.

Exhibit 1: Heliad Equity Partners organisation chart



Source: Heliad Equity Partners, ownership data as of 31 December 2016 annual report, with later shares of acquisitions as per RNS releases (bmp, DEAG and My Better Life).

Strategy

Heliad focuses on German-speaking Europe (DACH) where it has a wide network. The region is one of the most economically important on the continent: Germany is the world's fourth-biggest economy by GDP and mid-sized firms such as those Heliad looks at (the Mittelstand) are one of its cornerstones, and may be undervalued as a result of their size and because illiquidity makes them inaccessible to institutional investors. The German economy remains healthy, with the IMF expecting it to grow 1.6% in 2017 and 1.5% in 2018.

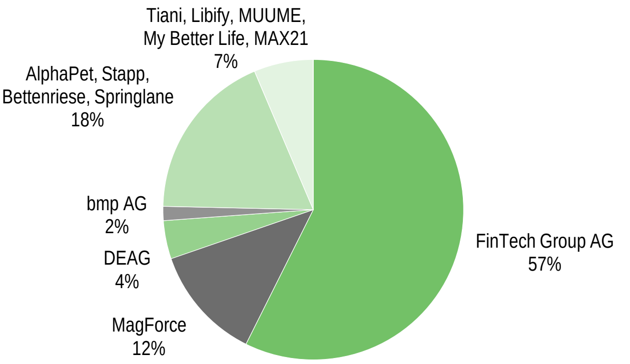
The sectors Heliad addresses are all those which are expected to see market growth, where products and services can be scalable and where innovation, either through technology or the way it is used, can give companies the ability to dominate their markets. We will look at the markets in which Heliad's investments operate in more detail later, but Germany provides a potentially fertile market for e-commerce and fintech in particular. The World Bank estimated that 87.6% of Germans used the internet in 2015 (vs 74.6% in the US and 92.0% in the UK), but the Ecommerce Foundation (a worldwide non-profit organisation) estimated that in 2015 business-to-consumer e-commerce only had a 1.97% share of GDP, vs 6.12% and 3.32 % in the UK and US and a global average of 3.11%, implying that there remains room for growth.

Heliad's primary investment criterion is the quality of the management team or the company's ability to bring in a new one. It will also give managerial assistance where necessary: for example, Thomas Hanke spent a year working at FinTech Group as head of business development and investments before returning to Heliad as CEO in April 2016. The typical investment horizon is between two and four years, although Heliad does not have a time limit. The aim is to achieve a cash multiple of 3-5x in that timespan. Heliad will consider various methods of exit from its investment, including IPO and trade sales. Selling shares in listed entities has been the favoured method so far, with the Deutsche Entertainment (DEAG) and FinTech stakes being reduced over time. The recent acquisition of a stake in bmp may provide a way to exit Bettenriese too in due course: both operate in the sleep product market and bmp is listed, so a merger might be a way of both creating value, if there are synergies, and make it possible to realise that value.

Portfolio

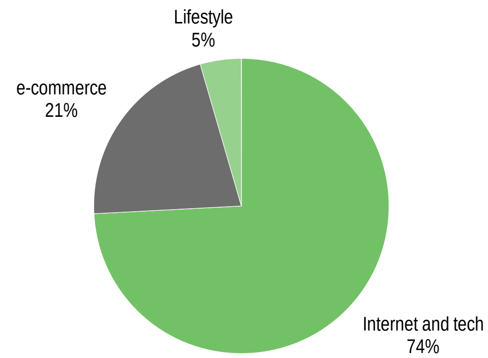
As shown in Exhibit 2, the portfolio is dominated by FinTech Group, and the technology and internet sector comprises nearly three quarters of investments by value (Exhibit 3). Management is working to diversify the portfolio, but the relative scale of the FinTech holding and recent good performances of FinTech and MagForce mean they are likely to comprise the majority of the portfolio for some time. We understand that management expects to make four or five new investments in the next 12 months and would expect Heliad to continue to sell down its stake in DEAG. Below we look at the portfolio in more detail, explaining the investment case for each holding, and explain FinTech Group in detail.

Exhibit 2: Portfolio analysis by investment



Source: Heliad Equity Partners data at 31 March 2017, Deutsche Börse. Note: Quoted investments prices as at 16 May 2017.

Exhibit 3: Portfolio analysis by sector



Source: Heliad Equity Partners data as at 31 March 2017.

Detailed financial statements are not available for the unlisted constituents of the portfolio because Heliad consolidates them, either because it holds a controlling interest, or because they are held through HEP Beteiligungs, but we show basic income statement data for the listed investments in Exhibit 4 as well as the value of Heliad's holding in each company. We would draw attention to the fact that Heliad's listed investments have a current value of at least €66.5m (assuming that the stake in DEAG is at the lower end of the most recently reported range of 3-5%), 4% more than Heliad's own market capitalisation of €63.7m. It may be that a discount is being applied to reflect the 2.5% annual fee and potential 20% "carry" payable to the management company and for Heliad

Equity Partners' own costs, but the discount on the listed investments seems high: Heliad's total liabilities are only €3.8m (at 31 December 2016), giving a net value for the listed assets alone of €62.8m, which means shareholders would have access to those assets at almost exactly market value and does not seem to ascribe any value to the unlisted holdings which Heliad reports make up c 25% of portfolio value. We explain each business briefly below.

Exhibit 4: Value and recent income statement data for Heliad's listed investments

€m	FinTech		MagForce		DEAG		MAX 21		bmp	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Revenue	68.0	87.6	2.6	1.2	200.4	184.8	N/A	0.0	5.7	15.0
EBITDA	18.4	30.6	(4.4)	(6.7)	(25.7)	1.8	N/A	0.0	(1.8)	(1.8)
EBIT	40.9	30.3	(4.5)	(7)	13.4	5.9	N/A	0.0	0.8	(0.8)
Net income	(1.7)	8.4	(1.5)	(7)	(1.7)	8.4	N/A	(6.4)	(2.8)	(9.6)
EPS	(0.11)	0.50	(0.06)	(0.27)	(1.82)	(0.22)	N/A	(0.52)	(0.42)	(1.38)
Market cap		306.0		204.6		46.8		25.7		12.7
Value of Heliad stake		51.6		10.9		1.4–2.3		1.4		1.2

Source: Bloomberg data as at 2 June 2017. Note: Bloomberg uses adjustments, which may differ from company reported accounts.

Fintech Group (16.87%, market cap c €300m)

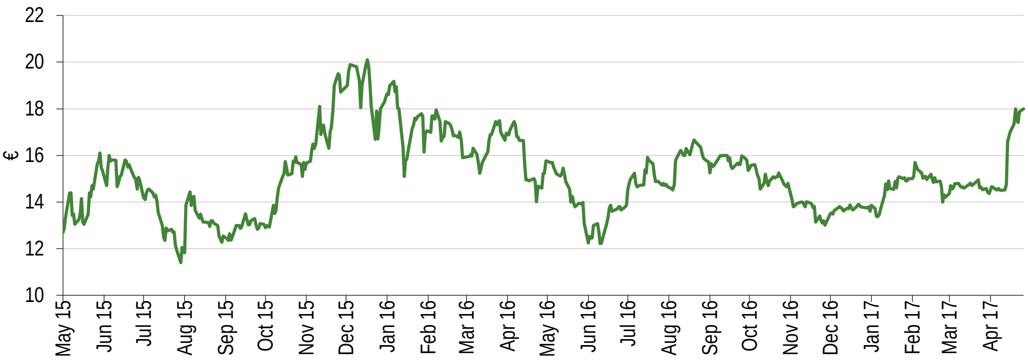
FinTech has itself consolidated several other businesses and is now reorganising itself into a tech and a finance entity. It reports under two segments and is in the process of reorganising its divisions so that the operational structure matches the structure of its financial reporting more closely.

The **securities trading and financial services division** (€19.4m of revenue, €11.9m EBITDA in 2016) comprises flatex, an online broker, and ViTrade, a specialist trading platform for very active investors. flatex is the fastest-growing online broker in Europe and had net new client growth of 25,000 in 2016, bringing the total to c 175,000. It has customers in Germany and Austria and management aims for their number to exceed 200k by the end of 2017. Both businesses provide non-advice securities transactions to well-informed investors. Securities covered include all financial instruments tradeable on German exchanges as well as numerous international ones, over-the-counter (OTC) direct trading, FX and CFDs. Both operate online and have no branches, charge competitive fees (with no subscription costs and a maximum of €5.90 per trade OTC and €5.00 for exchange-traded instruments, flatex is the cheapest online broking platform available to German retail investors). Other differentiating factors include the range of trading partners (19) available to its customers and the fact that they can also use flatex to invest in time deposits or overnight money, it can also make loans to its customers. Flatex's new and integrated trading, settlement and banking software reduce costs and make the company profitable despite its low fees. FinTech also has a mobile payments business called kesh and is winding up a second online broker called brokerport.

The **transaction processing and white-label banking division** (€70.8m of revenue, €28.3m EBITDA in 2016) is made up of XCOM and its fully owned subsidiary biw (Bank für Investments und Wertpapiere). These earn R&D revenues for developing financial technology for their clients, execute securities transactions and provide business process outsourcing to over 250 financial service companies and banks (notable clients include Commerzbank and Deutsche Bank, for which FinTech runs LOX, the exchange-traded products over-the-counter system with 3bn price feeds and 50,000 transactions a day). The two entities also provide services to flatex and ViTrade, including securities settlement. biw is a full-service bank in its own right and holds over €1bn in customer deposits. XCOM provides software, hosting services, complete specialised banking processes, deposits, brokerage, payment transactions, cards, loans, mobile payments and peer-to-peer transactions as well as cash logistics, ATM operation and settlement. All services and products are highly secure, while maintaining flexibility, as they are fully integrated into clients' existing systems and easy to use. As well as established financial service providers, the clientele includes start-ups needing their own systems.

FinTech is listed in Frankfurt under the ticker FTK and recent share price performance has been good, with the shares up 28% ytd (Exhibit 5), partly driven by encouraging FY16 results published in April. FinTech has not paid any dividends to date, but Heliad has realised €7.7m of its investment. The current value of Heliad's remaining stake is €52.7m, meaning that the cash multiple on the original investment (including realised returns), which was 2.4x at 31 December, is now likely to be c 3x because FinTech's chares have appreciated by c 34% since. Separately, under the Scale scheme, we will be initiating on FinTech in due course, but will not be providing forecasts.

Exhibit 5: Fintech Group share price performance over the last two years



Source: Bloomberg, data to 18 May 2017

MagForce AG (5.34%, market cap c €200m)

MagForce is a nanotechnology company listed in Frankfurt under the ticker MF6. It has developed a medical device called NanoTherm to treat cancer. Put simply, the technology involves injecting tumours with nanoparticles, which can then be excited (heated) remotely by a NanoActivator to destroy the tumour while minimising the impact on surrounding healthy tissue. We have recently re-initiated coverage of the company and our report includes detailed forecasts. MagForce is executing its strategy to drive uptake and acceptance (in the US and Europe) of NanoTherm. In Germany, MagForce has six centres (three utilised, c 50 patients to date) commercially capable of treating glioblastoma (GBM) patients. To accelerate uptake of NanoTherm treatment in Europe, we expect MagForce to look to expand from Germany into other countries over six to 18 months. In the US, its subsidiary MagForce USA is in talks with the FDA to initiate a planned clinical trial in prostate cancer patients (potential launch in 2018). Data are expected in 2018 (potential launch soon after).

Again, recent positive newsflow has helped the share price (up 73% in 2017) and the successful execution of management's strategy could be expected to see further gains. Please see our initiation note for a more detailed outlook and explanation of sensitivities.

Exhibit 6: MagForce share price performance over the last two years

Source: Bloomberg, data to 18 May 2017

Deutsche Entertainment (3-5%, market cap c €50m)

Deutsche Entertainment (DEAG) has been listed in Frankfurt under the ticker ERMK since 1998 and was founded in 1978. It operates in the entertainment industry, organising concerts, Christmas fairs and other events in Germany, Austria, Switzerland and the UK, promoting recorded music and selling tickets to other events. It hosts around 2,000 events per year and sells c 5m tickets. It has exited an unprofitable festival business, which led to a loss of €26.2m in 2016 (previously reported at €17.8m). DEAG has 10 subsidiaries operating in the live touring industry including ACT Artist Agency in Germany (currently running a tour of Germany by Riverdance), KBK (running the 2017 German tours for Status Quo, Alice Cooper and Chris De Burgh) and Raymond Gubbay (specialising in ballet, opera and classical music events and with strong links to the Royal Opera House and the Royal Albert Hall). The entertainment services division includes myticket.de, a ticketing website, Verescon, which designs sets and entertainment spaces, Handwerker Promotion (which promotes rock music events) and 13 other subsidiaries.

Heliad has recently been selling down its position in DEAG because the cash multiple has been in the target zone of three to five times the original investment and the shares have been in the portfolio for longer than the usual holding period. We believe that Heliad did not participate in DEAG's recent €2m capital increase which will allow it to invest in a UK ticketing business.

MAX 21 (5.27%, market cap c €25m)

MAX 21 has been listed in Frankfurt since 2006 under the ticker MA1. It holds positions in mail management, IT security and cloud services. Its holdings include Binect, KeyIdentity, Necdis and GFN. All are at early stages of development and MAX 21 does not expect to report a profit in 2017, although revenues are projected to be over €10m and the FY16 consolidated loss of €6.4m is expected to be substantially reduced.

bmp Holding (9.09%, market cap c €13m)

In May 2017 Heliad invested €930k to acquire its stake in bmp Holding, an e-commerce company listed in Frankfurt and Warsaw (BTBA and BMPAG). bmp has three subsidiaries, which sell sleep products such as beds and mattresses online: sleepz, Matratzen Union Gruppe and Grafenfels. Heliad and bmp are exploring the extent to which Bettenriese could be incorporated in bmp. It is expected that the fragmented sleep product industry may well see consolidation in future, and that e-commerce will take market share from bricks-and-mortar retailers. Heliad aims for its sleep investments to emulate Eve, a successful UK company.

bmp was previously a venture capital company and its management decided in Q215 to sell the VC portfolio by the end of 2017 to concentrate on the sleep sector. The company recorded significant losses on its VC portfolio, due to one particular investment going into insolvency and write-downs on a number of others. These led to a capital reduction and restricted bmp's ability to fund the marketing efforts of sleepz and Grafenfels, which had an impact on their revenues in 2016. The subsequent capital increase, fully subscribed by Heliad, will allow a greater marketing effort and the potential for future acquisitions through share issuance.

Cubitabo (41.10%)

Cubitabo operates the online sleep product sites BettenRiese.de and buddysleep.de. The latter sells the company's own-brand mattresses and both are aimed at design-oriented customers. The German mattress market is reported to be growing rapidly and Cubitabo aims to increase its market share. There may be scope for it to be combined with bmp Holding.

Stapp (54.84%)

Stapp helps celebrities to monetise their social media presence by developing individual apps that connect to major social media. It has collaborated with German reality television stars to create apps allowing their fans to try out their “looks” and purchase the relevant products. Product providers can enter co-operation agreements to place products directly.

Alphapet (7.77%)

Alphapet is Germany’s leading online retailer of premium pet foods. It was formed in 2016 through the merger of ePetWorld and Pets Premium ad operates three specialist online shops. Its branded products are now available over the counter in more than 100 specialist shops too.

Springlane (17.79%)

Springlane is a leading retailer of kitchenware, winning an award for being the best online shop in Germany in 2016. The company was founded in 2012 with seed capital from Heliad, among others, and has conducted further rounds since, the last being €11m in 2014. It has a strong business intelligence and content marketing system to help grow sales and has recently reached several milestones in terms of online traffic: the July 2016 issue of its magazine had over one million downloads and on 30 December the website exceeded 100,000 hits in a day. It regularly has nearly 10 million pins on Pinterest per day.

Tiani Spirit (18.61%)

Tiani Spirit specialises in the standardised and secure exchange of data, and of healthcare information in particular. It has 17 partners, including Cisco Systems, Virgin Media, Swiss Post and Austrian Health. Its technology enables Cisco’s Medical Data Exchange Solution (MDES), to connect previously incompatible systems from multiple institutions, allowing them to share data quickly, accurately and securely.

My Better Life (10-20%)

My Better Life runs an online life coaching service through which users have access to advice from eight experts in various areas of everyday life. Advice is tailored to individuals’ needs and is scientifically based. The company also offers corporate services to help improve employee motivation, reduce stress, improve leadership and contribute to a happier workforce.

Libify Technologies (8.12%)

Libify makes and sells portable emergency call and location systems designed for use by outdoor sport enthusiasts, the elderly and unwell Its devices can all send an alert signal and location, either to a pre-arranged telephone number or the emergency services. It also produces tracking devices for animals such as dogs and horses that may stray. Its devices are on sale in 18 countries and have been used successfully in Germany, Austria and Switzerland over 20,000 times.

MUUME (5.89%)

Muume is a private Swiss company whose technology allows consumers to make purchases and place orders at multiple retailers using a single app on their smartphone. It links shopping applications to bank and payment services and provides added value to consumers via coupon and loyalty programmes. The company is working to attract closed-user groups, which should make it attractive to merchants, and to sign more merchants up to its network.

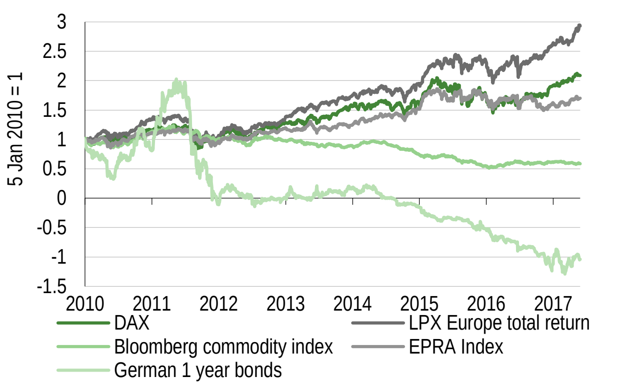
Recent newsflow and upcoming catalysts

Heliad conducted a small capital increase on 11 May, issuing 363,500 shares at €5.50 each to BF Holding, a company controlled by Bernd Förtsch. The proceeds of €2m (gross) were to be used for further investments, and the first €931,500 has been invested in bmp Holding, giving Heliad a 9.09% stake in the listed online bed and mattress retailer. We examine Heliad's FY16 results in the financials section below.

Market overview

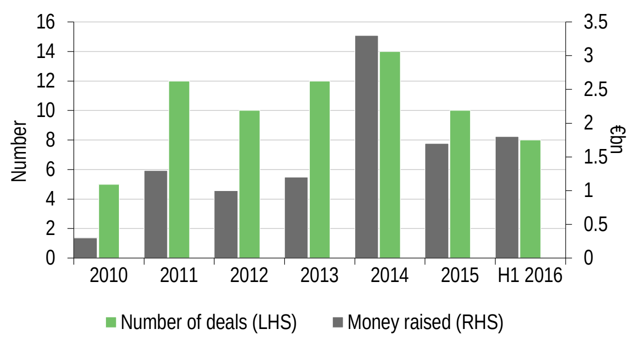
The German private equity market is among the largest in Europe, with close to 200 private equity firms based in the country and German institutions having an average allocation to PE of €535m according to Preqin. There were 120 PE-backed buyout deals in 2015, with an aggregate value of €20bn, the third biggest market in Europe by value after the UK and France (second only to the UK in number). The 240 PE-backed venture capital deals in 2015 totalled €1.7bn, the second highest number and value in Europe. The market is dominated by deals in the mid-cap range, defined as €50m to €500m, meaning that Heliad operates in something of a niche below that level. The industrial sector has seen the most activity in recent years but information technology has been second every year since 2011, followed by healthcare and consumer discretionary, meaning that Heliad's sector focus is more mainstream. As measured by the LPX Index, European PE performance has compared well with other asset classes in Germany (Exhibit 7), meaning that it has attracted considerable amounts of capital (Exhibit 8).

Exhibit 7: Major asset class performance since 2010



Source: Bloomberg

Exhibit 8: Germany-focused PE funds raised



Source: Preqin

The resources being committed to private equity have been pushing asset prices up. Although data for 2016 are not available, in its Private Equity trend Report 2016, PwC reported that the average year one EBITDA multiple paid for PE deals in Europe over €100m was 11.4x in 2015, up from 10.9x in 2014. Against that background, Heliad's focus on smaller deals that do not attract the attention of larger PE funds and institutions may differentiate it, as does its network, as mentioned above. Heliad's network and focus may therefore mitigate some of the effects of strong investment interest in PE, while benefiting from the fact that the PE market is well-developed and commonly explored as a funding option by businesses seeking investment. We will now look at the markets in which Heliad's subsidiary companies operate.

Fintech

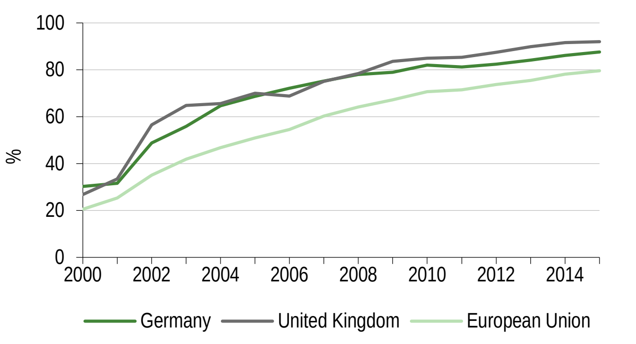
Germany is a hub of financial technology, with a large number of fintech companies that benefit from the skilled workforce, a tradition of entrepreneurship, access to capital and a large and relatively wealthy domestic market. The German Federal Ministry of Finance commissioned a report on the industry, which was published in October 2016 and identified 346 active fintech businesses in Germany in the crowd-lending, crowd-investing, social trading, wealth management and robo-advice sectors. These companies had assets under management or administration (AUMA) of €2.2bn in 2015 and several subsectors have seen triple-digit compound annual growth between 2007 and 2015 (the period covered by the report). The market being addressed by those companies was estimated to be close to €1.7tn (€1.3tn in wealth management and €380bn in financing). The authors forecast growth in total market volume from €2.2bn in 2015 to €58bn in 2020, €97bn in 2025 and €148bn in 2035, a compound annual growth rate of 142%. Market penetration is already high, with 87% of financial institutions already reporting that they co-operate with a fintech company and intend to do so in future.

The appeal of fintech is its potential to earn significant returns by capturing greater market share from more traditional financial services provision, improving the service offering and reducing the cost of providing it. What is more, incumbent providers appear to be embracing the trend. Although this may mean greater competition from established banks, brokers etc, it also allows potential collaboration and may make exits easier should incumbents seek to consolidate the sector.

E-commerce

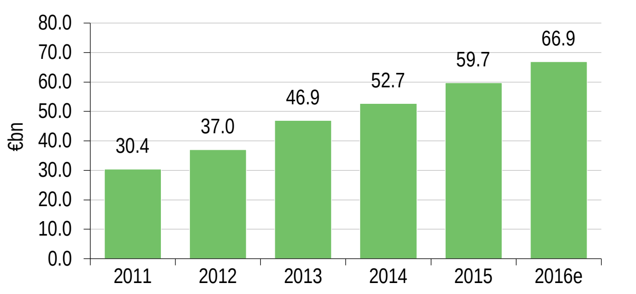
Similar trends to the ones supporting fintech are beneficial to e-commerce. Internet penetration in Germany is second only to the UK in Europe, and a growing proportion of internet users are also internet shoppers (82.4% in 2015 vs 77.0% in 2012 according to the Ecommerce Foundation), magnifying the increasing reach of the internet. Germany is top of the Logistics Performance Index compiled by Händlerbund, an online trade association, which bodes well for the delivery of goods ordered online.

Exhibit 9: Internet users, % of population



Source: World Bank

Exhibit 10: E-commerce consumer sales in Germany



Source: Ecommerce Foundation, BEVH, excludes private sales via sites such as eBay.

Including private sales through auction sites and VAT, the Bundesverband E-Commerce und Versandhandel (BEVH) estimates that online consumer sales in 2016 totalled €72.4bn, which is still well below the UK total of c €154.7bn estimated by IMRG and Capgemini, despite the slightly larger online population in Germany. This implies that there is still considerable scope for growth in e-commerce volumes in Germany. The structure of the market may change as well: in Germany, the online share of sales of non-physical goods and services such as flights, music and hotel stays is already high (71%, 69% and 63%), albeit still lower than in the UK (84%, 89% and 79% respectively), whereas online sales of, for example, household appliances, accounted for 53% of UK sales in 2016, vs 29% in Germany. This implies that there is possible growth to come from digital sales of physical goods in Germany.

Lifestyle

There is overlap between Heliad's exposure to the lifestyle sector and e-commerce, with its two investments in My Better Life, an online life coaching service, and DEAG, which manages live entertainment events, for which most tickets are sold online. Live music accounted for the largest share (27%) of gross value added (GVA) by the German music sector in 2014,[1] the last year for which detailed statistics are available, and in the UK (from where 35% of DEAG's revenues are derived), live music GVA grew at a compound annual rate of 11% from 2012 to 2015 (with a peak in 2014).[2]

Management, organisation and corporate governance

Below we summarise the biographies and other positions of both the supervisory and management board members.

Volker Rofalski, chairman of the supervisory board, is also on the supervisory boards of Sporthouse, Bio-Gate, Demekon Entertainment, card4you, Mutares and Taishan Capital Management. He has held numerous other board positions in the past and founded TradeCross, which was sold to VEM Aktienbank in 2005. He is also an investment director at PE firm Mountain Partners.

Kai Panitzki, deputy chairman of the supervisory board, is a member of the management board of FinLab and was on the board of Börsenmedien, a company founded by Bernd Förtsch, from 2013 to 2016. Before that he was a managing director and acting partner at the leading creative media agency Scholz & Friends (part of WPP Group).

Stefan Müller, supervisory board member, is an executive manager at Börsenmedien and was a member of the management team at FinTech Group for 14 years to August 2016.

Thomas Hanke, CEO, holds an MBA from Julius-Maximilians-Universität Würzburg and was an investment manager at FinLab and Heliad from 2010 to 2015. From July 2015 to April 2016 he was head of business development and investments at FinTech Group before returning to Heliad Equity Partners as CEO. He is also managing director of Heliad Management GmbH, the general partner.

The investment managers are **Theo Woik** and **Gunter Greiner**, and the former is also an investment manager of FinLab. Mr Woik previously worked at ViewPoint Capital Partners from 2006 to 2014. ViewPoint specialises in growth equity and focuses on software and internet technology companies. Mr Greiner has 15 years' experience in private equity as an investment director. They are supported by **Stefan Schütze** (legal and compliance) and **Juan Rodriguez** (CFO). The last two perform the same functions for FinLab.

Shareholders and free float

Heliad's biggest shareholder is FinLab, which owns 47% of the outstanding shares. IFOS Internationale Fonds Service, a Liechtenstein fund operation and management business, owns 15%. BF Holding, a company controlled by Bernd Förtsch, subscribed for all of the new shares issued in the €2m capital increase on 11 May. Combined with his 49% share in FinLab, this takes Bernd Förtsch's direct and indirect stake in Heliad to 26%. Mr Förtsch also has significant direct holdings in some of the portfolio companies, including 39.8% of FinTech Group and 9.8% of MagForce (where he was also a board member until 2014), taking his look-through stakes in those companies to 44.2% and 11.2% respectively.

Financials

As an investment company, Heliad's financials are relatively simple. Income is either in the form of dividends (income from investments), receipts of interest from loans to subsidiaries or from cash

[1] Source: *2015 Music Industry Report* by Professor Dr Seufert, chair of the Institute for Communication Studies at the Friedrich-Schiller-Universität Jena, commissioned by the Hamburg Senate and the Federal Ministry of Economics and Energy.

[2] Source: *Measuring Music 2016*, commissioned by UK Music.

held on deposit (although interest rates in Germany are currently negative), from selling investments or changes in their valuation.

Investments in listed securities are shown at market value, and any increase in value (although unrecognised goes through the income statement; the five unquoted venture holdings are shown at cost, in line with IAS 39.46(c). Other unquoted investments assessed at fair value through profit and loss are valued using either comparable prices for the investment or, where they exist, from prices for the company itself (for instance from a new funding round), again, changes are taken through the income statement.

In FY16 Heliad had lower revenue than in previous years, mainly because its two biggest investments, FinTech and MagForce, had poor share price performances. Not only did this reduce their balance sheet value, but also discouraged Heliad from realising more of its investment. As shown above, both companies' shares have performed considerably better so far in 2017. Heliad's unlisted investments are mainly at an early stage of development and did not compensate for the fall in the value of listed investments, resulting in a loss in FY16 after three years of profits.

Exhibit 11: Income statement

Year-end 31 December (€000s)	2012	2013	2014	2015	2016
Net revenue	17,853	26,709	23,762	29,205	(16,606)
Amortisation of intangible assets	(10,657)	(10)	0	0	(2)
Other operating expenses	(7,849)	(15,087)	(5,263)	(6,251)	(5,600)
PBT	(652)	11,612	18,499	22,954	(22,210)
Tax	(1,141)	(33)	(469)	(386)	249
Net profit	(1,794)	11,580	18,030	22,568	(21,962)
Minority interest	36	0	0	0	0
Profits attributable to shareholders of the parent	(1,830)	11,580	18,030	22,568	(21,962)
Average shares in issue	10,192,541	10,174,762	9,620,632	9,509,441	9,509,441
EPS (€)	(0.18)	1.14	1.87	2.37	(2.31)

Source: Heliad Equity Partners data. This may differ from subsidiary accounts in Exhibit 4 as previously noted.

Exhibit 12: Balance sheet

Year-end 31 December (€000s)	2012	2013	2014	2015	2016
Total non-current assets	36,407	33,082	48,081	78,025	79,135
Marketable securities				0	136
Other assets	16,537	21,295	9,914	15,530	4,167
Tax receivables	1,270	9,317	5	2	77
Cash and equivalents	30,681	8,634	23,814	9,502	129
Total current assets	48,488	39,245	33,733	25,033	4,509
Total assets	84,894	72,328	81,814	103,058	83,644
Deferred taxes	412	164	353	721	434
Long-term provisions	86	6	6	7	6
Total non-current liabilities	499	170	359	728	439
Provisions	5,954	7,612	486	212	213
Trade payables	726	43	37	52	58
Payables to credit institutions	108	3	3	0	2,190
Payables to investments				0	910
Other liabilities	24,554	101	63	63	77
Total current liabilities	31,342	7,759	590	327	3,448
Total liabilities	31,841	7,928	949	1,055	3,887
Net assets	53,053	64,400	80,866	102,003	79,757
NAV/share (€)	5.30	6.39	8.53	10.87	8.43

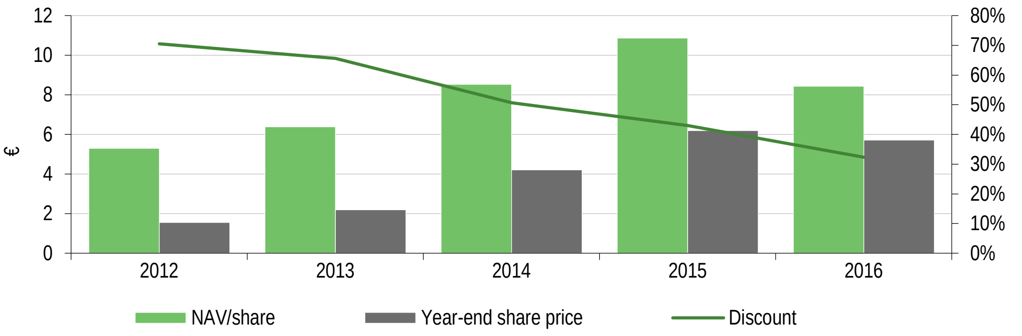
Source: Heliad Equity Partners data

Valuation

As explained above, Heliad assesses its own portfolio value and calculated a NAV per share of €8.92 at 31 March 2016, meaning the shares trade at a c 25% discount, well above the discount for the LPX Europe index of c 10% (although the discount has narrowed in recent weeks). This may be for a number of reasons, including the concentration of investments and the low free float.

NAV growth has recently been driven by the performances of listed entities, which have done better in the first part of FY17 than they did in FY16. As a result, the discount has narrowed recently.

Exhibit 13: Heliad NAV and discount progression



Source: Bloomberg and company data using year-end values.

Sensitivities

Apart from the normal risks associated with private equity investment, including valuation risk, management risk and the ability to exit investments, Heliad is sensitive to some other factors:

- **Early-stage investments.** Some investments are start-ups and are likely to be at a higher risk of failure than more mature companies. Those that are still loss-making are reliant on investment to fund their growth.
- **Concentration risk.** With FinTech Group and MagForce comprising well over half of the portfolio, NAV is highly dependent on the share price performance of these two companies, which could be a risk to the upside or the downside. Concentration will increase if they continue to perform well, and management is seeking to diversify the portfolio.

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