EDISON Scale research report - Update

Heliad Equity Partners

Investment companies

25 April 2019

Management change amid weak results

Heliad has experienced a c 50% reduction in NAV per share in FY18 and reported a loss per share at €5.72. This was driven by the overall negative market sentiment, but also company-specific challenges, in particular at Sleepz. We understand that the recent changes in the company's management (with two board members of its largest shareholder FinLab replacing the previous CEO) are a consequence of this poor performance. The company's shares now trade at a c 29% discount to last reported NAV.

Results burdened by significant write-downs

Heliad booked an IFRS net loss of €56.6m in FY18 on the back of negative valuation effects related to both listed and non-listed holdings. Specifically, it has incurred an €8.1m write-down on Sleepz and recognized the share price decline of FinTech Group, MagForce, Max21 and Elumeo in its accounts. Moreover, the value of its non-listed holdings reduced by €11.6m (vs a decline of €7.7m in FY17). As a result, Heliad's NAV per share went down to €6.20 at end-December 2018 (compared with €12.22 at end-2017).

Further restructuring measures introduced at Sleepz

Sleepz has recently entered the next stage of its restructuring, which involves the agreement to sell nearly all shares held by Heliad (which had a 23.77% stake in the company at end-2018), as well as other important shareholders, to a strategic investor (WAOW). This is despite several capital measures introduced last year, including a €5.0m funding agreement with Heliad and Apeiron Investment Group in October 2018. The agreement also involves the commitment by Sleepz's debt holders (including Heliad) to waive their claims to repayment of loans and the convertible bond in full against granting a debtor warrant. It is worth noting that Sleepz acquired two of Heliad's other portfolio companies last year (Cubitabo and Urbanara).

Valuation: Considerable discount to net asset value

Heliad currently trades at a c 29% discount to the last reported NAV as at end-December 2018. After the balance sheet date, the shares in its largest listed holding (FinTech Group) appreciated by c 23%, while some of the other holdings posted a share price decline. If we take these movements into account, Heliad is trading at a c 35% discount to NAV, according to our estimates.

Historical financials

Year end	Net revenue (€m)	PBT (€m)	EPS (€)	P/E (x)	NAV/share (x)	P/NAV (x)
12/15	29.2	23.0	2.4	1.8	10.9	0.4
12/16	(16.6)	(22.2)	(2.3)	N/A	8.4	0.5
12/17	43.1	39.6	4.0	1.1	12.2	0.4
12/18	(50.6)	(57.6)	(5.7)	N/A	6.2	0.7

Source: Heliad Equity Partners accounts. Note: P/NAV based on current share price.

Price	€4.41
Market cap	€44m

Share price graph

Share details

Code	HPBK
Listing	Deutsche Börse Scale
Shares in issue	9.87m
NAV/share as at 31 December 2018	€6.20

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

- The shares trade at a substantial discount to the value of assets and net liabilities.
- Invests in markets likely to experience strong growth in major economies.
- Recent managerial change may result in improved performance.

Bear

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

Analyst

Milosz Papst +44 (0) 20 3077 5700

financials@edisongroup.com

Edison profile page

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Financials: Heavy write-downs reducing NAV by half

Heliad reported a net loss in FY18 of €56.6m (IFRS) compared with a net profit at €39.1m in FY17. This includes the recently announced €8.1m write-down on Sleepz, a German e-commerce group focused on sleep products. In the adverse equity market environment, the company recorded a minor net disposal loss of €111k in FY18, compared with a €4.8m net disposal gain in FY17. During the year, Heliad reduced its position in FinTech Group (in order to reduce reliance on this largest portfolio holding), DEAG Deutsche Entertainment and Cyan. On top of this, the company incurred a heavy net revaluation loss of €51.0m compared with a net gain of €37.8m in FY17. Apart from the write-down on Sleepz, we believe the major contributors in terms of listed holdings here were FinTech (share price down 45% in 2018), MagForce (-15%), Max21 (-45%) and Elumeo (-85%). However, the company has also recognized a net reduction in the fair value of non-listed holdings at €11.6m (FY17: €7.7m). Heliad's costs of management and liability (including fees paid to Heliad Asset Management) increased to €4.4m from €2.4m in FY17. Consequently, the diluted loss per share amounted to €5.72 vs earnings per share of €4.02 in FY17.

Heliad's NAV per share as at end-December 2018 stood at €6.20 (which already accounts for the Sleepz write-down), translating into a c 49% decline vs the €12.22 reported at end-2017. This is significantly below the revised management guidance of €10.00 published towards the end of November 2018.

Exhibit 1: Results highlights

€000s	FY18	FY17	change y-o-y
Income from the sale of financial assets	**15,298**	**19,483**	**(21.5%)**
Other operating income	47	91	(48.4%)
Gains from revaluation	**1,260**	**47,057**	**(97.3%)**
Retirement of financial assets	(15,409)	(14,724)	4.7%
Income from investments	-	51	N/M
Depreciation of financial assets	(52,218)	(9,266)	N/M
Financial revenue	457	481	(5.0%)
Financial expenses	(49)	(59)	(16.9%)
Other operating expenses	**(6,953)**	**(3,516)**	**97.8%**
Amortization of intangible assets	(4)	(4)	0.0%
EBT	**(57,570)**	**39,594**	**N/M**
Income taxes	961	(520)	N/M
Net result for the period	**(56,609)**	**39,074**	**N/M**
EPS (diluted, €)	**(5.72)**	**4.02**	**N/M**

Source: Heliad Equity Partners accounts

Recent portfolio developments

Given that the write-down of Heliad's holding in Sleepz had a considerable impact on the FY18 results, we have decided to look into the background of this company in more detail. On 29 March, Heliad revealed that it would sell most of its shares in Sleepz together with other significant shareholders to WAOW Group. It is worth noting that Heliad and other creditors of Sleepz have decided to waive their claims for the repayment of loans and the convertible bond in full against granting a debtor warrant. WAOW Group will provide bridge financing to Sleepz and intends to restructure the company.

In the first nine months of FY18, Sleepz's sales declined from €8.8m to €7.9m and net income stood at -€3.7m vs -€2.9m in the comparable period of FY17. According to the company, its business performance was adversely affected by strong competition on the mattress market, which led to a decline in margins. At that time, the company did not expect the price war to ease in the medium term, even though some of Sleepz's competitors had exited the German market or become insolvent.

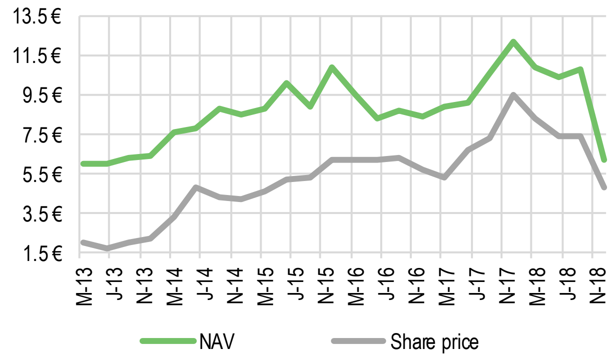
In the last few months, Sleepz has undertaken several capital measures to improve its balance sheet position. In October 2018, the company entered into a €5.0m funding agreement with Heliad and Apeiron Investment Group. This included a private placement of a €2.0m convertible bond and granting a €3.0m long-term loan. Sleepz has also issued 5.3m shares in exchange for contributions in kind for the acquisition of shares in Urbanara, an online shop for home accessories, based on a valuation of €1.20 per Sleepz share. Consequently, Sleepz's capital increased from €12.4m to €17.8m. At the end of FY18, Sleepz further increased its capital to €18.7m in a private placement by issuing 892k shares at an issue price of €1 per share. However, it seems that the above measures proved insufficient to turn around the business. Interestingly, at the beginning of 2018, Sleepz acquired Cubitabo, another portfolio company of Heliad.

In terms of other portfolio developments, FinTech Group (also covered by Edison Investment Research – see our last report) announced in November that it had abandoned the planned banking joint venture with Austrian Post. This is because the respective regulatory authorities highlighted that approving a new banking licence could take 1.5–2.0 years. FinTech Group's decision supports the company's near-term earnings and leaves the business focused on its online brokerage activities. In recent months, MagForce completed a capital increase to fund its pivotal US prostate cancer trial to completion and also started its expansion outside Germany. However, the company's remunerated glioblastoma treatments declined as a consequence of both a change in revenue recognition and a lower number of patients treated in Germany, stemming from a transition away from foreign, private to reimbursed treatments and expansion in Europe progressing slower than anticipated. This seems to have negatively affected the company's market valuation. In contrast, Cyan's long-term contract with Orange announced in December 2018, which the company expects to significantly improve its profit starting from 2020, proved to be a positive stock catalyst. The decline in Max21's share price might be associated with the recent personnel changes, including the resignation of the company's CEO (Nils Manegold) and the departure of the CEO of KeyIdentity, one of Max21's two major subsidiaries. Subsequently, the company communicated the intention to divest KeyIdentity. Elumeo continues its restructuring process, while posting a year-on-year decline in revenues and margins in the first nine months of 2018. It is worth noting that Heliad sold all its shares in DEAG in January 2019, following the company's positive business performance in the first nine months of FY18 and raised FY18 guidance in November. However, since end-January 2019, DEAG's share price has increased by c 30%.

Valuation

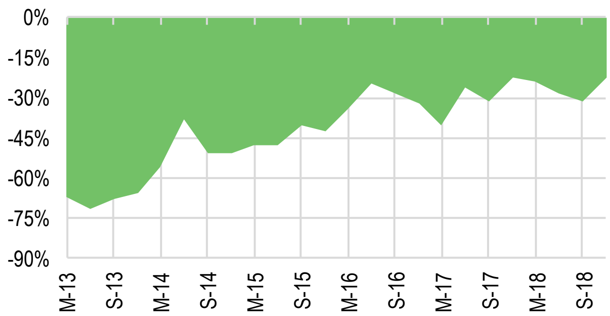
Heliad assesses its own NAV per share on the basis of the valuation of listed and unlisted holdings. The company is currently trading at a 29% discount to the last published NAV of €6.20. Movements in the discount between publication of the quarterly NAV tend to reflect the valuation of listed holdings, which made up c 77% of NAV (c 56% for FinTech Group alone) at end-December 2018. We estimate that FinTech's c 23% share price increase between end-December 2018 and 24 April 2019 translates into an incremental NAV per share improvement of c 12% (or c €0.75 per Heliad share). On the other hand, the negative impact of a share price change in Heliad's remaining listed holdings over the same period might have resulted in NAV deterioration of c €0.19 per Heliad share, according to our estimates. Adding the net figure (c €0.56) to Heliad's last reported NAV per share suggests the underlying discount may be now closer to 35%. This means that the market is currently valuing Heliad's shares predominantly based on the value of listed holdings, attaching no value to the non-listed companies. However, we understand that at least part of the discount is associated with the recent poor performance of Heliad's portfolio.

Exhibit 2: Heliad's NAV and share price performance



Source: Heliad Equity Partners corporate website

Exhibit 3: Heliad's discount to NAV



Source: Heliad Equity Partners corporate website, Edison Investment Research

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Australia

New Zealand

United Kingdom

United States

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