# Heliad

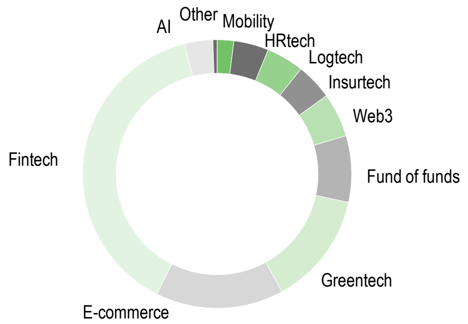
Re-initiation of coverage

## Starting a new chapter

Investment companies
Venture capital

**Heliad Equity Partners (HEP) and FinLab completed their merger in Q423. Heliad, the new combined entity, has seen positive developments across its three largest holdings recently. flatexDEGIRO, while still affected by the low trading activity across the market, in Q323 generated its highest quarterly EBITDA since the meme stock hype in 2021. Raisin has shown sustained strong growth in assets under management (AUM) and last year crossed the €50bn mark. Finally, Enpal more than doubled its revenue to €900m in 2023. All three are profitable and the value of Heliad's stakes in these companies more than covers its current market cap and net liabilities. Heliad recently invested in AI21 Labs, which develops proprietary text-generating AI technology. Heliad's shares are now available at a 48% discount to the last reported NAV.**

**Breakdown of Heliad's private portfolio* by theme**




Source: Heliad. Note: *As at end-September 2023 (€114m fair value).

## European VC, an attractive way to gain tech exposure

Despite the recent weakness in deal activity, the European venture capital (VC) ecosystem benefits from an expanding pool of opportunities, with deal values growing by 27% pa in 2018–22 (vs 11% for US VC), as well as a high number of vibrant science hubs. PitchBook highlights that the improved regulatory framework for start-ups has assisted deal activity and capital inflows from outside Europe, with US participation in European VC deals (by count) at 23.0% in 2022 (12.6% in 2018). This makes it a compelling route to gain exposure to the European tech sector, especially given the limited options in European public markets, the fact that companies are staying private for longer, as well as superior historical VC returns versus public markets. Average European VC valuations are still below the US market, offering greater value discovery potential.

## Why consider Heliad now?

The merger created a listed VC and growth investor with a €150m+ portfolio of 28 holdings, most of which provide exposure to potentially disruptive secular themes (see chart above), including its two largest private holdings (both fast-growing and profitable): Raisin, a digital platform for savings and investments, and Enpal, a provider of photovoltaic (PV) leasing solutions. Heliad is now self-managed, with management expecting a net expense ratio below 2%, which will be supported by c €0.5–1.0m annual fee income, mostly earned through the fully owned Patriarch Multi-Manager.

**25 January 2024**

| | | |
|---|---|---|
| **Price** | | **€9.45** |
| **Market cap** | | **€80m** |
| **NAV*** | | **€153m** |
| NAV per share* | | €18.17 |
| Discount to NAV | | 48.0% |
| Yield | | N/A |
| Ordinary shares in issue | | 8.4m |
| Code/ISIN | | A7A/DE0001218063 |
| Primary exchange | | Frankfurt (Basic Board) |
| AIC sector | | N/A |
| 52-week high/low | €23.10 | €8.96 |
| NAV high/low | €28.66 | €17.88 |

*At 30 September 2023.

### Fund objective

Heliad aims to invest in market-leading, fast-growing private technology companies to power their next phase of growth. It plans to act as a gateway to public equity markets by leveraging its experienced team and strategic partners.

### Bull points

- The merger between Heliad Equity Partners and FinLab created a portfolio exposed to different tech themes and stages.
- Heliad is flexible in that it has no commitments to realise investments within a specified time.
- Companies are staying private for longer, allowing venture capital/private equity investors to capture more of the value accretion.

### Bear points

- Heliad is yet to build a track record of successful private company realisations.
- Potential further weakness in M&A markets would make new fund-raising of portfolio companies more difficult.
- No details on the cash runway across the private portfolio.

### Analyst


Milosz Papst +44 (0)20 3077 5720

investmenttrusts@edisongroup.com

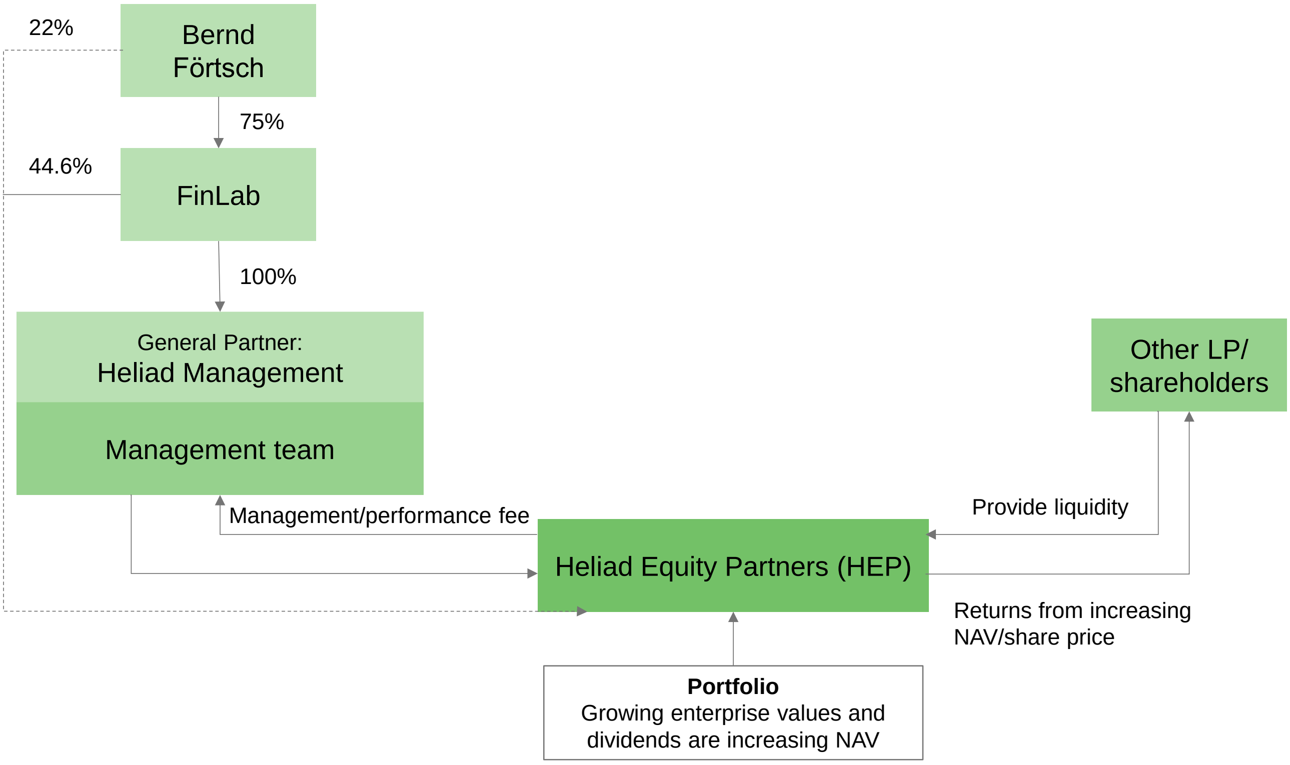
Edison profile page


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

## Fund profile

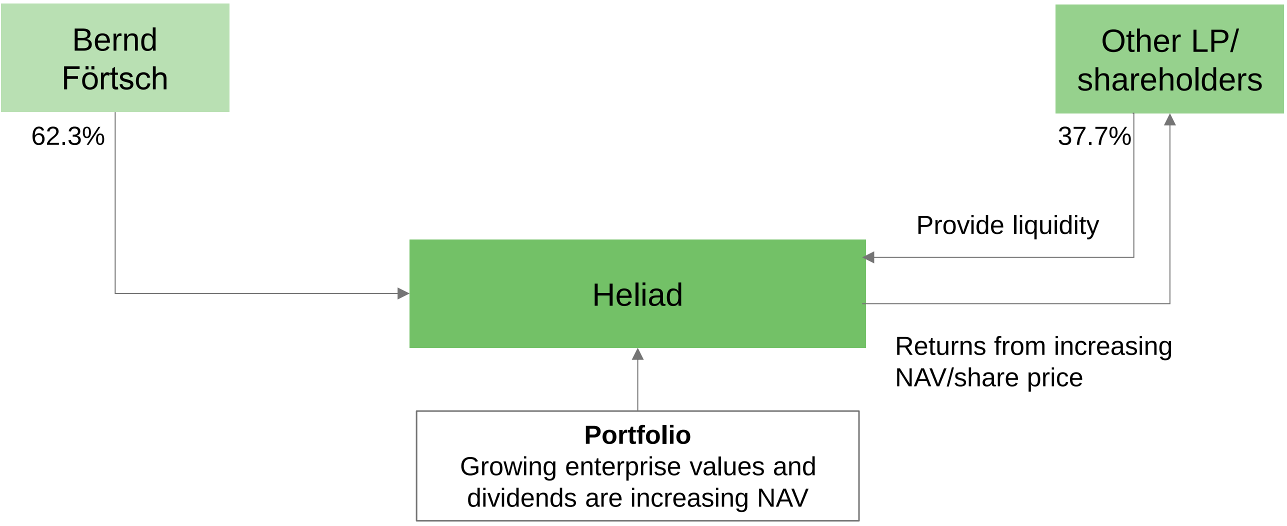
Heliad aims to invest in market-leading, fast-growing private technology companies to power their next phase of growth. It plans to act as a gateway to public equity markets by leveraging its experienced team and strategic partners. Heliad was created in 2023 through the merger of HEP with FinLab, its major shareholder (holding a 44.6% stake) and owner of HEP's investment manager (see Exhibit 1). HEP was the transferring legal equity and FinLab the acquiring legal entity. HEP shareholders received five new FinLab shares in exchange for every 12 shares of HEP they held. This exchange ratio was based on the average share prices of both companies over the three months prior to the announcement of the merger plans. Heliad is a signatory to the UN Principles for Responsible Investments, as per its announcement dated 30 August 2022.

**Exhibit 1: Heliad Equity Partners/FinLab previous organisational chart**




Source: Heliad, Edison Investment Research

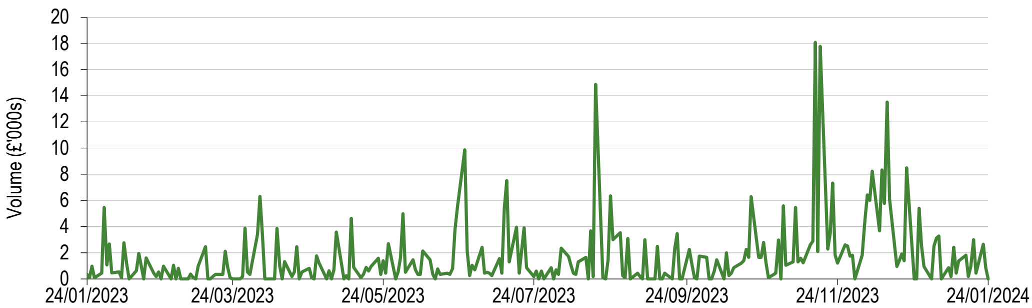
**Exhibit 2: Heliad's current organisational chart**




Source: Heliad, Edison Investment Research

Heliad's share capital is now divided into 8,410,265 common shares. Its majority shareholder, holding a 62.3% stake, is Bernd Förtsch, a serial entrepreneur and investor in Germany. He is, among others, the founder and owner of a Germany-listed publisher of stock exchange and financial magazines, Börsenmedien, and the founder of flatex Bank (now flatexDEGIRO).

**Exhibit 3: Average daily volume**




Source: Refinitiv. Note: Last 12 months to 24 January 2024.

# Heliad's value proposition

## A rare, listed gateway to private tech businesses

Heliad is a listed evergreen investment vehicle offering exposure to early-stage, potentially disruptive, private tech companies that are otherwise difficult for retail investors to access. It therefore offers investors flexible holding periods, freely disposable shares and a variable ticket size, with a free float of about 40%. The European public markets allow for only limited exposure to some technology subsectors, some of which are experiencing a shrinking pool of opportunities due to strategic M&A and take-private transactions. Moreover, better access to private capital in Europe means that companies do not need to list to access the capital required to drive growth. As a result, companies can stay private for longer, avoiding the cost, corporate governance regulations and short-termism associated with public markets. This has allowed private company investors (and entrepreneurs) to retain far more of the value created by Europe's successful start-ups.

## Attracting founders through investor network and value-add

Although Heliad is normally not the major shareholder driving the strategy of portfolio companies (as it usually acquires an initial stake of up to 10%), it still plays an active role. It provides guidance in terms of possible funding options to accelerate growth (helping overcome the funding gap of growth-stage businesses in Europe), as well as strategic advice (eg with respect to business internationalisation). Heliad supports its portfolio companies in utilising alternative funding measures that some founders are not fully aware of. Good examples of such innovative financing are the asset-backed securities debt facilities obtained by FINN and Enpal, two of Heliad's portfolio companies, with volumes of €1.0bn and €1.8bn, respectively. Heliad's deal flow origination and screening process benefit from investing alongside experienced tech investors (both traditional VC and non-traditional) and tech companies, for example 468 Capital, MPGI, Rocket Internet, Ionic, Picus Capital, Global Founders Capital and BlackRock.

## A €150m+ portfolio diversified by themes and stages

Following the merger of HEP with FinLab in 2023, the combined entity holds a portfolio of 28 private businesses (with a fair value of c €114m at end-September 2023, mostly valued based on the last funding round) and two listed companies, including a 4.7% stake in flatexDEGIRO, now valued by the market at c €53m, as well as a small stake in Tonies. Heliad's private portfolio provides exposure to some of the most exciting potential disruptive themes, such as ongoing business digitalisation (Modifi, WorkMotion), clean energy (Enpal), AI-driven solutions (NewtonX, AI21 Labs), expansion of e-commerce (Razor Group, Upscalio), increasing fintech penetration (Raisin, Clark, Invesdor) and web3 (Cashlink, NYALA, Deutsche Digital Assets), among others.

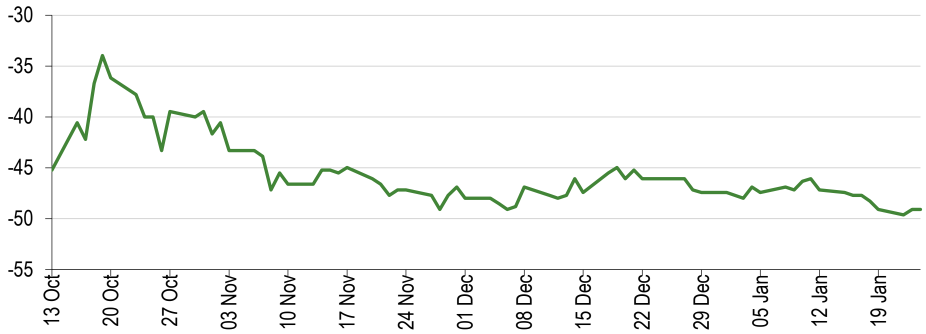
## Self-managed with a net expense ratio below 2%

The recent FinLab/HEP merger simplified their organisational structure by combining HEP with its investment manager (Heliad Management, fully owned by FinLab). As a result, Heliad is now self-managed, and therefore is not subject to any management or performance fees charged by an external manager. While this means that Heliad needs to cover the expenses associated with its investment team and process, it also generates recurring income from third-party mandates of €0.5–1.0m pa. The latter includes, in particular, Patriarch Multi-Manager, which develops fund-of-funds solutions and asset management strategies for independent financial advisers, selecting managers for each mandate. We also note that Heliad recently announced the launch of a cryptocurrency multi-strategy vehicle, Heliad Crypto Partners, based on early-stage VC investments, as well as directional and non-directional crypto investments. Heliad's management expects a net expense ratio of the combined entity at below 2% of NAV, which we believe is comparable with other listed VC companies (see Exhibit 15).

## Available at a wide discount to NAV

Heliad is currently trading at a c 48% discount to its end-September 2023 NAV (see Exhibit 4). This is despite the fact that the fair value of its three major profitable holdings (flatexDEGIRO, Raisin and Enpal) alone exceeds the sum of its current market cap and end-September 2023 net liabilities. Heliad's management believes there are several strong followers in Heliad's portfolio, including AI21 Labs, NewtonX, FINN, WorkMotion, Modifi and BURNHARD, offering further upside. See below for a detailed portfolio discussion.

**Exhibit 4: Heliad's discount to NAV since the registration of the merger* (%)**

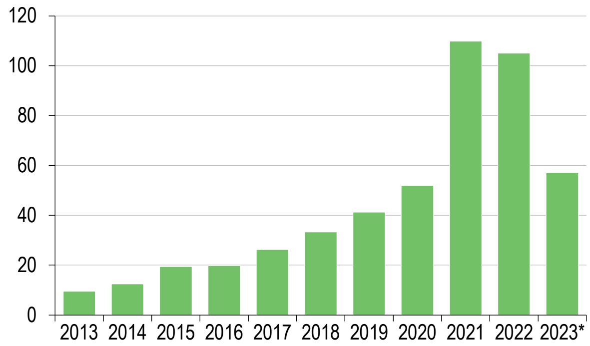



Source: Heliad, Refinitiv. Note: *On 13 October 2023.

## European VC gradually catching up with the US

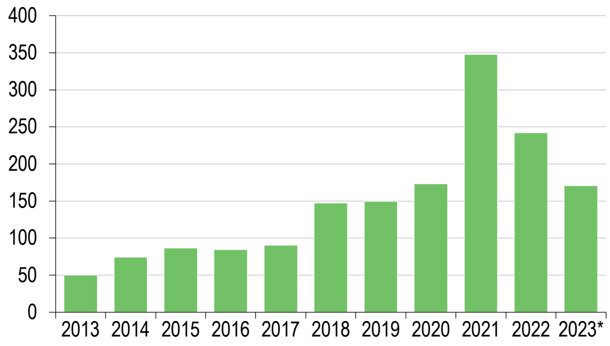
Heliad operates in the vibrant European VC sector, which has grown dynamically in terms of deal volumes in recent years. In part, this growth reflects the overall growth in the asset class globally, with assets under the management of VC funds expanding from €60bn in 2013 to €300bn in 2022, and one of the main drivers being non-traditional VC investors, according to PitchBook. At the same time, above-average growth in European VC has led to a gradual narrowing of the gap with the US VC market. Based on year-end US$/€ exchange rates, we calculate European VC deal values represented 37% and 46% of US VC deal values in 2023 and 2022 respectively, compared to c 20–25% in 2013–16, based on PitchBook data.

**Exhibit 5: European VC deal value (€bn)**




Source: PitchBook. Note: *Data as at 31 December 2023.

**Exhibit 6: US VC deal value (US$bn)**

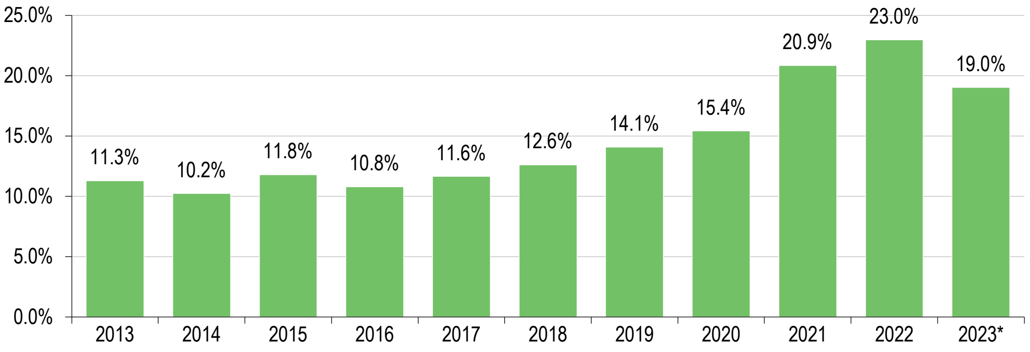



Source: PitchBook. Note *Data as at 31 December 2023.

Heliad notes that nearly half of the world's top 30 science hubs are in Europe, underpinning the region's status as an innovation hotspot. Moreover, PitchBook recently highlighted that key European VC hubs have improved their regulatory frameworks for start-ups in recent years. This has stimulated deal activity and capital inflows from outside of Europe, leading to an increase in European VC activity with US participation to 23.0% in 2022 and 19.0% in H123 (based on data as of end-June 2023) versus 12.6% in 2018 (see Exhibit 7). Continued growth in deals with US participation could help further narrow the valuation gap between US and European VC deals.

We note that there is room for improvement in terms of funding of early-stage companies, as illustrated by the fact that VC funding as a percentage of GDP stood at 0.12% in Europe compared to 0.75% in the US, according to Heliad. One way to narrow the funding gap would be by unlocking the capital of pension funds for VC investments, given that they allocated a mere 0.024% of their capital to VC in 2022, according to the State of European Tech 2023 report by Atomico.

**Exhibit 7: Percentage of European VC deal count with US investor participation**

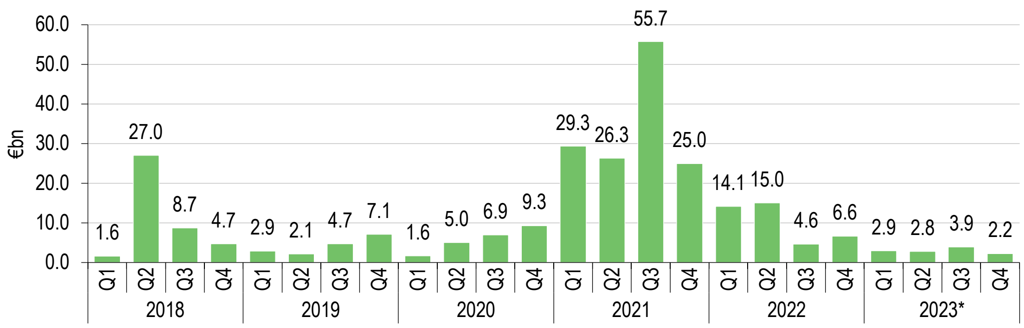



Source: PitchBook. Note: *Data as at 30 June 2023.

## Macro headwinds weighing on VC markets lately

More recently, deteriorating macroeconomic conditions, along with a de-rating of public equity markets and a normalisation of monetary policy after the ultra-low interest rate environment of previous years, have had an impact on both deal volumes and valuations in the VC market, given that VC-backed companies are long-duration assets and therefore more sensitive to a changing rates environment. This has also triggered investor concerns over the pressure on cash runways of high-growth, unprofitable businesses backed by VC and growth equity funds. As a result, VC markets remain soft, with longer due diligence processes extending deal timelines and limiting exit activity. PitchBook highlights that 2023 was the worst year in terms of European VC exits since 2013, with an exit value of just €11.8bn compared to €40.4bn in 2022. That said, we note some initial signs of revival in the IPO markets (as illustrated by the listings of Arm, Klaviyo and Instacart) as well as in private M&A markets.

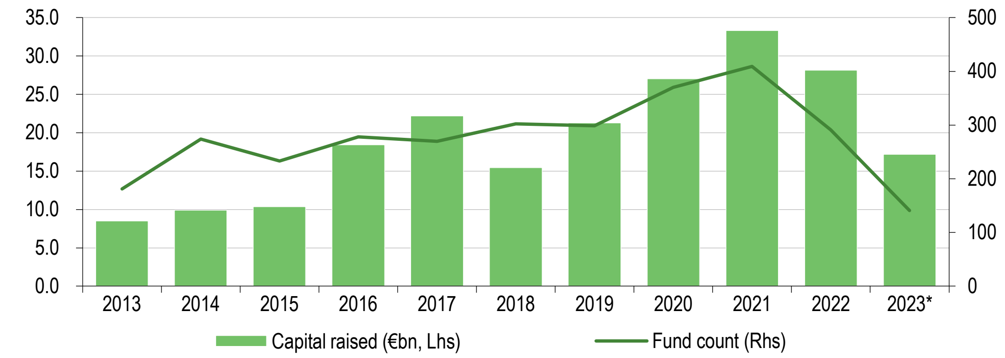
**Exhibit 8: European VC exit value**




Source: PitchBook. Note: *Data as at 31 December 2023.

Despite these headwinds, VC fund-raising remained solid in 2022 at €28.2bn (vs €33.3bn in 2021), according to PitchBook (see Exhibit 9). In 2023, VC funds raised €17.2bn (based on data as of end-December 2023). Coupled with a more cautious capital deployment of VC funds recently, this has kept VC dry powder (funds available to invest) at a relatively high €43bn as at end-May 2023. Once investor sentiment improves, the dry powder could prove supportive to deal volumes and valuations. In this context, we note that pre-money valuations across all stages in Europe were on average 57% below US levels, according to Heliad.

**Exhibit 9: European VC fund-raising activity**



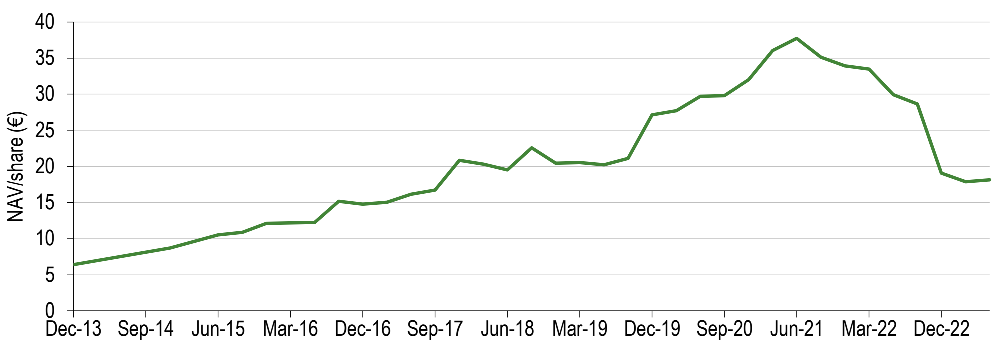

Source: PitchBook. Note: *Data as at 31 December 2023.

While the current challenges may weigh on VC returns in the near term, it is worth keeping in mind the superior returns this asset class has delivered over the long term. The horizon pooled return of the Cambridge Associates LLC US Ventures Capital Index over the 10 years to end-June 2023 stands at c 17.9% pa, ahead of the modified public market equivalent (mPME) of the US small-cap index (as calculated by Cambridge Associates, CA) of 8.4% pa. CA's VC index also outperformed the public markets over the 20 and 25 years to end-June 2023, with respective returns of c 12.3% and 23.5% pa versus the respective mPME US small-cap index returns of c 9.2% and 8.0% pa. It also outperformed the mPME Nasdaq Composite Index over the 10-year and 25-year periods by c 115bp and 1,305bp respectively, while its performance over 20 years was broadly in line.

## More than half of portfolio in three success stories

Between 2003 (inception) and 2020, FinLab was a self-managed German VC investor and start-up incubator specialising in fintech companies, with Deposit Solutions (a pan-European deposit marketplace that merged with Raisin in March 2021) being its major success story. This, together with HEP's share price performance, allowed FinLab to generate an NAV total return of c 9% pa between end-2014 and end-June 2023 (before the merger with HEP), see Exhibit 10. More recently, FinLab posted a 39% NAV decline between end-June 2022 and end-June 2023, which was driven by the c 33% fall in HEP's share price during this period, as well as markdowns of several of FinLab's private portfolio holdings, including nextmarkets (which in March 2023 decided to liquidate its subsidiaries and other assets and to subsequently propose the liquidation to the AGM), as well as Raisin, Authada and Vaultoro.

**Exhibit 10: FinLab's historical NAV per share**




Source: FinLab

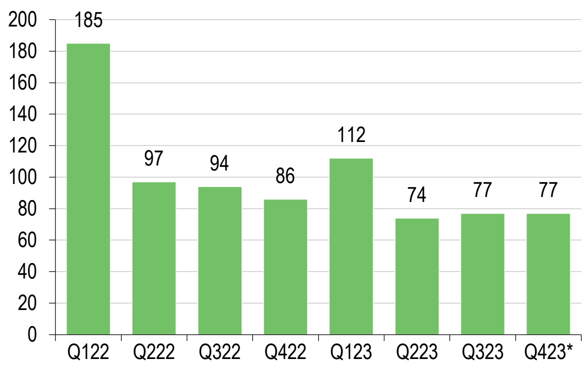
HEP's management and investment strategy changed around mid-2021 (with c €53m invested since 2021), which means it is still too early to evaluate the performance of its private portfolio. Moreover, we note that HEP's historical results were largely driven by its stake in the listed flatexDEGIRO (HEP's NAV declined by c 63% between end-June 2021 and end-June 2023, mostly due to the fall in the latter's share price).

## flatexDEGIRO: A well-established online broker

flatexDEGIRO is one of the leading European online brokers, formed following the acquisition of DEGIRO by flatex in 2020. Heliad's stake in the company made up c 27% of its end-September portfolio value. HEP first invested in flatex in 2013, and partially realised the investment, receiving €67.9m proceeds. Together with the unrealised part of the investment (4.7% stake, if valued based on the latest close price of flatexDEGIRO), this represents a healthy 4.8x multiple on its total investment of €25.2m.

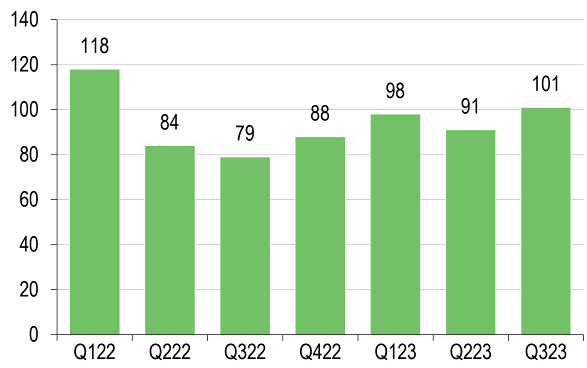
The company's recent results were affected by the continued low trading activity across the industry, with the number of settled transactions of 13.8m in Q323 being down 9% year-on-year. That said, we calculate (based on the company's monthly activity reports) that Q423 volumes were down only marginally year-on-year. Gross client additions in 9M23 stood at 263k, and with a churn of 32k (implying a 98.3% retention rate), net client additions reached 231k, despite a year-on-year reduction in marketing budget. This translated into 9M23 net customer account growth of 9.6%, which is 1.8x the average rate for its listed peers (Avanza, Nordnet and Fineco) of 5.4%, according to the company's management. This is in line with management's target growth rate of 1.5–2.0x its peer average. Furthermore, we calculate that flatexDEGIRO added c 77k gross accounts in Q423 (see Exhibit 11), bringing the number of customer accounts to 2.7m at end-December 2023, up by 13% y-o-y. flatexDEGIRO's revenue (including commission and interest income and adjusted for the change in provisions for long-term, variable compensation) reached €101m in Q323, up 29% y-o-y. This was largely driven by a 164% y-o-y increase in interest income, to €38m, amid the recent interest rate normalisation, as the company is set up as a full-fledged bank with a fully collateralised book. Its interest income includes interest earned on customer deposits recycled into margin loans (on which the company raised rates during 2023) and overnight central bank deposits. While commission income declined 4% y-o-y, commission per transaction increased by c 6% y-o-y to €4.26 in Q323, with the sequential growth from €3.99 mostly on the back of price adjustments at DEGIRO.

**Exhibit 11: flatexDEGIRO's gross customer additions (in thousands)**




Source: flatexDEGIRO. Note: *Edison calculations based on non-IFRS, preliminary, unaudited monthly figures published by flatexDEGIRO; may be subject to rounding errors.

**Exhibit 12: flatexDEGIRO's adjusted revenues (€m)**




Source: flatexDEGIRO

Management highlighted that in Q323 the company generated the highest quarterly EBITDA since the meme stock hype in 2021, reaching €40m, or €41m on an adjusted basis (up 70% y-o-y). This included a c €10m negative one-off impact from a valuation adjustment within its investment portfolio as part of its treasury activities. As a result, management maintained its guidance for FY23 adjusted EBITDA of €380m.

In 2023, the company was able to successfully mitigate the shortcomings in some business practices and governance identified during a special audit conducted in 2022 by the local watchdog (BaFin, see our previous note for details). The mitigation measures introduced by the company led to an increase in personnel expenses, which were offset by a reduction in marketing spend. In turn, BaFin allowed flatexDEGIRO to reapply credit risk mitigation techniques (CRMT) to DEGIRO's margin loans business, which resulted in a significant increase in flatexDEGIRO's regulatory capital, with management expecting a CET-1 ratio of over 27% (based on end-June 2023 figures) versus a regulatory requirement of 15.4%. This would represent a regulatory surplus of c €100m and management is currently discussing the possible use of this capital, which may include shareholder distributions (buybacks and/or dividends), subject to the approval of the regulator and shareholders.

The average target price of sell-side analysts covering flatexDEGIRO currently stands at c €12.2 (with a range from €9.50 to €15.60), which is c 20% above the current share price. flatexDEGIRO is now trading at an FY24e P/E ratio of 9.7x compared to 16.6x, 14.9x and 14.2x for Avanza, Nordnet and Fineco, respectively (based on Refinitiv consensus).

## Raisin: A digital platform for savings and investments

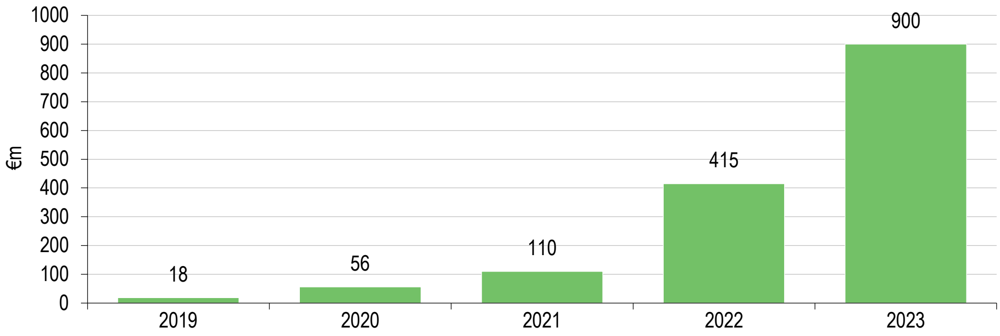
Raisin represented c 20% of Heliad's gross portfolio value at end-September 2023. The company is an open banking fintech that offers a digital platform for savings and investments, allowing savers and financial institutions to connect to marketplaces across Europe and the US. FinLab made a €4.1m investment in Raisin in Q315, with its 1.9% stake valued at €31.0m at end-September 2023, implying a superior c 7.6x unrealised multiple on invested capital (MOIC).

The company has recently benefited from the interest rate normalisation, crossing the €50bn mark with respect to its AUM in September 2023 (with c €2bn AUM inflows per month), and is expected to reach €56bn by end-2023 (which would imply a 2021–23 CAGR of c 70%). Raisin now has more than 1.3 million customers. Heliad's management highlighted that Raisin is well financed and in a comfortable situation, and it does not foresee an IPO in the near term. The company raised €60m in a Series E funding round in March 2023.

## Enpal: Supporting the energy transition

We consider Enpal as an emerging success story, representing 10% of Heliad's portfolio value at end-September 2023. Enpal is a 'greentech' business and a provider of PV leasing solutions, and also offers smart electricity meters, batteries, electric vehicle chargers and heat pumps. HEP made a €7.5m investment in Enpal in Q121, with its 0.7% stake valued at €15.2m at end-September 2023 (at an unrealised MOIC of c 2.0x). The business has seen exponential top-line growth in recent years, from €18m in 2019 to €415m in 2022 (see Exhibit 13), which helped it generate €23m EBITDA in 2022. In 2023, Enpal more than doubled its revenue to €900m and attracted 30,000 new customers, remaining profitable.

Exhibit 13: Enpal's revenue 2019–23




Source: Heliad, Enpal

In January 2023, Enpal raised €215m in a Series D funding round, which increased its valuation above €2bn (double the valuation during the previous funding round in October 2021, which saw an investment from Softbank). To secure further funds for its growth (including the expansion into Southern Europe) and move to a more asset-light business structure, Enpal recently sold a majority stake in a substantial part of its portfolio of rooftop PVs, batteries and EV chargers (funded by an asset-backed securities facility) to the infrastructure funds Equitix and Keppel Infrastructure Trust for up to €160m (representing the present value of its entitled revenues from these assets). Earlier in 2023, it secured €420m in debt funding. As a result, Enpal's management believes that the business is well funded and does not plan an IPO in the near term.

## BURNHARD: Owner of a D2C BBQ brand

Another important Heliad private portfolio holding is BURNHARD (representing c 8% of end-September 2023 portfolio value), which Heliad describes as Germany's fastest-growing direct-to-customer (D2C) BBQ brand, with a strong community. In 2012, Heliad made its first investment in Springlane, an e-commerce kitchenware business that developed the fully integrated D2C BURNHARD brand in 2019 (the company was recently renamed BURNHARD). Since then, it has invested €11.9m (including €3.1m in December 2022), which is in line with the end-September 2023 fair value of its 40.2% stake in the company. Heliad announced in September 2023 that it had led BURNHARD's €20m funding round. Springlane (including BURNHARD) grew its revenue at a c 48% CAGR in 2019–22 to €64m. Heliad's management highlighted that the business recently improved its profitability significantly through supply chain recovery and cost optimisation (though no recent profitability figures were disclosed) and it is now preparing a new growth strategy that will be implemented in 2024.

## Broader portfolio overview

At end-September 2023, Heliad's portfolio was valued at €157.6m and was presented with the respective holdings grouped in fair value buckets (see Exhibit 14). Its '>€10m' bucket included the largest holdings discussed above, while the '€5–10m' bucket included three holdings: Modifi (trade finance fintech), Clark (insurance broker) and InstaFreight (logistics tech solutions for freight forwarding, which filed for insolvency in December 2023). These two buckets represented c 75% of Heliad's portfolio. While the high share of the portfolio attributable to the top four assets may benefit Heliad's performance, this also poses some concentration risks if they continue to perform well.

Heliad generally focuses on investing in companies with a proven business model and a greater degree of visibility in terms of the path to profitability, with only c 10% of portfolio value in companies at an early revenue stage, according to Heliad's management. Management expects to close 2023 with average revenue growth (weighted by fair value) across Heliad's private portfolio of around 2x. This follows a more than tripling of revenues in 2022 versus 2021 for new private companies it invested in since 2021.

**Exhibit 14: Heliad's portfolio at end-September 2023**

| Buckets | Investments | Industry | First investment | Stage of first investment | Stake | Invested (€m) | Fair value (€m) | MOIC (x) | Share in gross portfolio |
|---|---|---|---|---|---|---|---|---|---|
| **>€10m** | flatexDEGIRO | Fintech | Mar-13 | Public | <5% | 9.4 | 42.7 | 4.5 | 27% |
| | Raisin | Fintech | Sep-15 | Series A | <5% | 4.1 | 31.0 | 7.6 | 20% |
| | Enpal | Cleantech | Apr-21 | Series C | <1% | 7.5 | 15.2 | 2.0 | 10% |
| | BURNHARD | E-Commerce | Oct-12 | Seed | <50% | 11.9 | 11.9 | 1.0 | 8% |
| **€5–10m** | Modifi | Fintech | Aug-21 | Series B | <10% | 19.6 | 18.5 | 0.9 | 12% |
| | Clark | Insurtech | Jul-21 | Series C | <1% | | | | |
| | InstaFreight* | Logtech | Sep-21 | Series B | <5% | | | | |
| **€2–5m** | WorkMotion | HRtech | Jun-22 | Series B | <5% | 27.5 | 30.2 | 1.1 | 19% |
| | C3 Tech VC I | VC Fund | Sep-18 | - | <10% | | | | |
| | Razor Group | E-commerce | Jul-21 | Series B | <1% | | | | |
| | Invesdor | Fintech | Feb-15 | Series A | <5% | | | | |
| | NewtonX | AI | Oct-21 | Series B | <5% | | | | |
| | Cashlink | Web3 | Nov-18 | Seed | <20% | | | | |
| | Upscalio | E-Commerce | Aug-21 | Series A | <10% | | | | |
| | Capnamic United Venture Fund I | VC fund | Jun-14 | - | <5% | | | | |
| | Patriarch Multi-Manager | Asset manager | Dec-12 | - | 100% | | | | |
| | FINN | Mobility | Jan-22 | Series B | <1% | | | | |
| **<€2m** | Tonies | Consumer | Jun-21 | Public | <1% | 6.4 | 6.0 | 0.9 | 4% |
| | NYALA | Web3 | Mar-21 | Series A | <20% | | | | |
| | Deutsche Digital Assets | Web3 | Nov-17 | Series A | <20% | | | | |
| | Freshbooks | Fintech | Apr-17 | Series C | <1% | | | | |
| | AI21 Labs | AI | Sep-23 | Series C | <1% | | | | |
| **<€1m** | Other | - | - | - | - | N/A | 2.1 | N/A | 1% |
| | **Total portfolio** | | | | | | **157.6** | | |
| | Other net assets / (liabilities) | | | | | | (4.9) | | |
| | Net asset value (NAV) | | | | | | 152.8 | | |
| | **NAV per share (€)** | | | | | | **18.17** | | |

Source: Heliad, Edison Investment Research. Note: InstaFreight filed for insolvency in December 2023

## Peer group comparison

Given the recently completed merger, as well as the change to HEP's investment strategy around mid-2021, there is no historical NAV total return track record for the combined business. In Exhibit 15, we present performance data based on the end-September 2023 NAV of Heliad and previous NAV figures for FinLab. While the end-September 2023 NAV is not fully comparable with earlier data, we note that the merger was completed at an exchange ratio that was broadly in line with the ratio of the last reported NAV of both companies before the publication of merger plans (as of end-March 2023). We believe these figures may still be informative to some extent, given that FinLab previously held a 43.5% stake in HEP and collected management and performance fees from the latter.

As a reference point, we present a peer group composed of selected UK-listed investment companies focused on early-stage private companies, as well as a set of venture capital trusts (ie UK-listed investment companies structured as tax-efficient vehicles focused on unquoted and AIM-listed companies).

**Exhibit 15: Peer group comparison at 25 January 2024* in sterling terms**

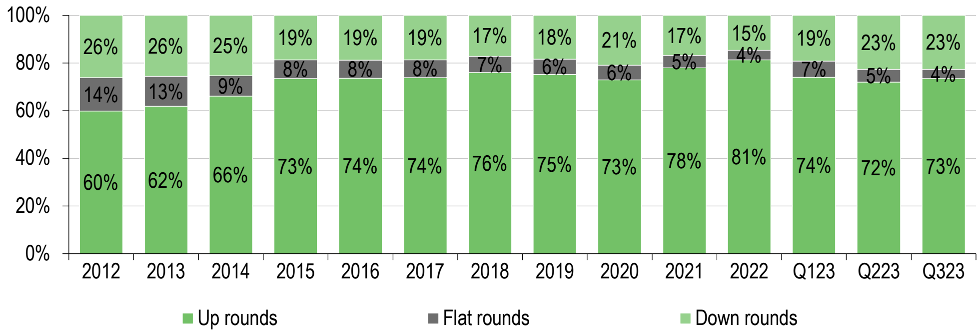
| | Market cap (£m) | NAV TR 1-year | NAV TR 3-year | NAV TR 5-year | Discount (ex-par) | Ongoing charge (%) | Perf. fee | Net gearing | Dividend yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| **Heliad** | **68.0** | **(37.4)** | **(15.9)** | **(21.7)** | **(49.1)** | **<2.0**** | **No** | **103** | **0.0** |
| Augmentum Fintech | 175.8 | 2.5 | 33.2 | 52.8 | (35.5) | 1.9 | Yes | 100 | 0.0 |
| Vostok Emerging Finance | 1,548.0 | (7.7) | 13.6 | 51.6 | (57.5) | 1.3 | Yes | 108 | 0.0 |
| Molten Ventures | 450.6 | (12.2) | 22.5 | 61.9 | (64.8) | 2.2 | Yes | 100 | 0.0 |
| **Peer average (excluding VCTs)** | **724.8** | **(5.8)** | **23.1** | **55.4** | **(52.6)** | **1.8** | **-** | **103** | **0.0** |
| **Heliad's rank** | **4** | **4** | **4** | **4** | **2** | **2** | **-** | **2** | **-** |
| Albion Enterprise VCT | 101.0 | (2.3) | 27.0 | 40.1 | (5.4) | 2.5 | Yes | 100 | 5.5 |
| Kings Arms Yard VCT | 101.0 | 1.1 | 29.0 | 30.6 | (7.3) | 2.5 | Yes | 100 | 5.4 |
| Northern 2 VCT | 112.8 | 2.9 | 17.7 | 31.6 | (4.9) | 2.2 | Yes | 100 | 5.7 |
| British Smaller Companies VCT | 185.8 | 7.2 | 43.6 | 55.0 | (4.2) | 2.1 | Yes | 100 | 5.2 |
| ProVen Growth and Income VCT | 149.8 | (10.7) | 11.7 | 3.0 | (9.0) | 2.4 | Yes | 100 | 6.1 |
| **Peer average (VCTs)** | **130.0** | **(0.4)** | **25.8** | **32.1** | **(6.2)** | **2.3** | **-** | **100** | **5.6** |
| **Peer average (total)** | **353.1** | **(2.4)** | **24.8** | **40.8** | **(23.6)** | **2.1** | **-** | **101** | **3.5** |
| **Rank** | **10** | **10** | **10** | **10** | **8** | **8** | **-** | **2** | **7** |

Source: Morningstar, Edison Investment Research. Note: TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared). *12-month performance to end-September 2023. **Management guidance.

## Most VC funding rounds still at higher valuations

We acknowledge that a persistent weak macroeconomic environment may put further pressure on valuations of VC-backed companies as they approach the end of their cash runway and must return to the market for fresh funding. While most new European VC funding rounds were completed at higher valuations than the last round (73% by count in Q323, according to PitchBook), we note that down rounds have picked up throughout 9M23, making up 23% of all deals in Q323 compared to 15% in 2022 (Exhibit 16). That said, the share of down rounds remained flat on a sequential basis in Q323.

**Exhibit 16: Share of European VC deal count by up/down/flat rounds**




Source: PitchBook, Edison Investment Research

Heliad values its private holdings on the basis of the last funding round. While a detailed breakdown of recent funding rounds by up/flat/down rounds across Heliad's private portfolio companies is not available, we note that the latest funding round of FINN in January 2024 was an up round (see details below). Moreover, we believe that the discount to NAV at which Heliad's shares currently trade provides a meaningful degree of downside protection. If we cautiously assume that Heliad's stake in flatexDEGIRO is valued at a 10% discount to its last closing price of €10.24, we estimate that Heliad's current market capitalisation would imply a significant c 71% discount to the end-September 2023 fair values of its other holdings (or a 0.4x MOIC).

Further downside protection comes from the fact that private investors like Heliad usually receive more attractive terms from preferred shares, such as dilution protection (receiving free shares in the event of a down round) and liquidation preferences (being repaid a certain amount of capital first in the event of corporate liquidation). At present, more than 80% of Heliad's private investments have liquidation preferences and anti-dilution clauses.

## Heliad's management confident in its balance sheet

Our calculations above of the implied discount to the value of Heliad's portfolio do not account for the potential extent of Heliad's follow-on financing required across its private portfolio. No details on the cash runway or the strength of the funding syndicate across Heliad's portfolio are available at present. In this context, we note that the reason for InstaFreight's recent filing for bankruptcy was, according to the founder, over-indebtedness and the withdrawal of a potential investor during an ongoing funding round. That said, we note that 64% of Heliad's end-September 2023 portfolio is attributable to flatexDEGIRO (which is listed and profitable) and its three largest private holdings that closed funding rounds in 2023 (Raisin, Enpal, BURNHARD). Some of its other private investments also completed funding rounds in 2023 or early 2024 (Razor Group, Cashlink, AI21 Labs, FINN, Modifi, NewtonX).

Heliad currently has €15m of its €23m credit facility drawn (implying a c 10% gross gearing to NAV). The facility is secured on Heliad's stake in flatexDEGIRO, which we calculate is worth c €53m based on the last closing price. While no full post-merger financial statements are currently available, the company reported that its net debt (defined as total assets excluding investment portfolio less total debt) stood at €5.3m at end-October 2023. Based on our discussion with Heliad's management, we understand that it believes that Heliad's current bank liquidity, paired with debt structures and liquid investments, gives it sufficient flexibility with respect to new and follow-on investments, and that Heliad does not have to raise any further equity at this stage.

That said, we believe that Heliad's new investment activity may be limited in the near term, as Heliad has earmarked c 70% of its liquidity for follow-on investments. The remaining 30% will be mostly used for new Series A investments. We understand that Heliad does not intend to further sell down its flatexDEGIRO stake in the near term to be able to more extensively seize attractively priced opportunities in private investments. We note that in March 2023, HEP issued c 1.6m shares at €4.40, which translated into capital proceeds of €7.0m. The issue price was set 44% below HEP's end-January 2023 NAV per share, and therefore the transaction was dilutive to NAV (we calculate that it decreased HEP's NAV per share by c 5.4%).

### Recent investments in AI21 Labs and FINN

Heliad's plans in terms of follow-on investments involve doubling down on the winners within its portfolio. In September 2023, it participated in the follow-on round of BURNHARD. In January 2024, Heliad participated in the Series C round of FINN, a full-service car subscription platform, with a low single-digit million amount. The company raised €100m in a Series C round, led by Planet First Partners, a sustainability-focused investor. The funding round was completed at a c US$650m valuation, which is above the prior round (more than US$500m). FINN plans to use the funding to fuel further growth in the electric car sector and aims to double the share of low-emission vehicles in its fleet from 40% to over 80% by 2028. The company reached €160m of annual recurring revenue in 2023 with over 25,000 active subscriptions.

With respect to recent new investments, Heliad invested a low single-digit million amount in the oversubscribed Series C round of AI21 Labs, which valued the business at US$1.4bn and was led by Walden Catalyst, with participation from, among others, Google and NVIDIA. AI21 Labs was founded in 2017 by a team that has successful entrepreneurial experience, including the sale of one business to Intel and two to Google. The company offers a pay-as-you-go developer platform powered by the company's proprietary text-generating AI technologies, which enable the creation of tailored text-based business applications. AI21 Labs also offers an AI-driven multilingual assistant that enhances reading and writing experiences. It is also worth noting that the company is a launch partner for Bedrock, Amazon's generative AI application development platform.



London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom