Heliad Equity Partners

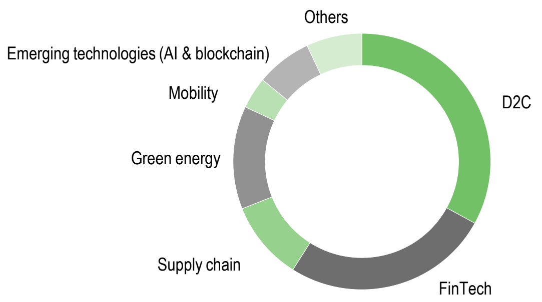
Initiation of coverage

A high-tech growth investor from Germany

Investment trusts

Heliad Equity Partners (HEP) seeks to offer investors exposure to early-stage, private tech companies, with a particular focus on growth investments, through a listed evergreen structure. It has actively expanded its private portfolio since the change of its investment strategy in mid-2021 and held stakes in 16 unlisted and four listed companies at end-March 2022 offering solutions across sectors such as fintech, green energy, direct-to-customer (D2C), supply chain management, crypto/blockchain and mobility.

HEP's private portfolio at end March 2022 (€54m as at end March 2022)



Source: Company data; Note: Does not include HEP's recent investment in WorkMotion.

Why invest in Heliad Equity Partners now?

HEP aims at providing a convenient route to invest in a diverse set of unlisted growth technology businesses through a listed vehicle. Given the ongoing trend of businesses remaining private for longer, we see potential for institutional investors to provide private capital and capture a greater share of value accretion by successful companies. We note the strong returns generated in recent years by these investors, especially in the late-stage venture capital (VC) segment (29% per year over the last five years to end-June 2021, according to Bain & Company citing Cambridge Associates data), but also growth equity (five-year net IRR of 24%). HEP may benefit from this by investing alongside experienced VC tech investors and companies, such as the recent transactions with 468 Capital, MPGI, Rocket Internet, Ionic, Picus Capital, Global Founders Capital and BlackRock.

The analyst's view

HEP's recent high level of investment activity brought new holdings (acquired under its revised investment policy) to 26% of its portfolio value at end March 2022. A further 6% was attributable to the legacy investment in a 26.5% stake in the online community-driven, D2C cookware business, Springlane. Nevertheless, HEP's major holding remains its 5.2% stake in the listed leading European online broker flatexDEGIRO, which made up 65% of portfolio value at end March 2022. As HEP's private portfolio grows further, it will also become more diversified and thus more compelling to investors.

11 July 2022

Price		**€5.94**
Market cap		**€67m**
NAV*		**€146m**
NAV*		€13.0
Discount to NAV		54.3%
Yield		0.0%
Ordinary shares in issue		11.2m
Code		HPBK
Primary exchange		Frankfurt (Scale)
AIC sector		N/A
52-week high/low	€13.9	€5.7
NAV high/low	€20.3	€13.0
Gross gearing*		11.7%
Net gearing*		5.7%

*As at end-March 2022.

Fund objective

Heliad Equity Partners aims to invest in market-leading private companies and skilled entrepreneurs across sectors and regions to power their next phase of growth and act as a gateway to public equity markets by leveraging its experienced team and strategic partners.

Bull points

- Good access to a network of top-tier VC companies and entrepreneurs.
- HEP is flexible in that it has no commitments to realise investments within a specified time.
- Companies staying private for longer, allowing VC/PE investors to capture more of the value accretion.

Bear points

- HEP is yet to build a track record of successful realisations.
- Majority of portfolio value still attributable to one listed holding.
- Most private investments made close to peak of the recent cycle (H221/Q122).

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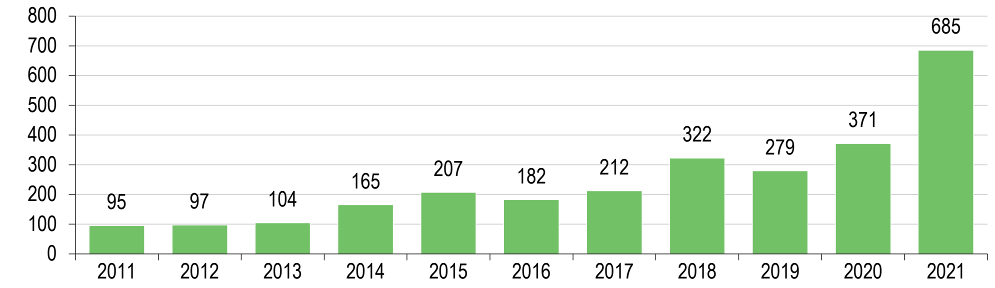
Market outlook: Private capital on the rise

Since the global financial crisis, private capital has been expanding rapidly at a 15% annual growth rate in 2010–21 across private debt, private equity (PE) and VC, providing companies with access to a variety of potential financing options. Growth equity and VC funds have been a particularly vibrant group, with assets under management (AUM) growing at twice the rate of buyout funds over the 10 years to 2021 and reaching 82% of buyout AUM (according to Bain & Company). In turn, global growth equity and late-stage VC deal value reached US$685bn in 2021 compared to US$371bn in 2020 (see Exhibit 1).

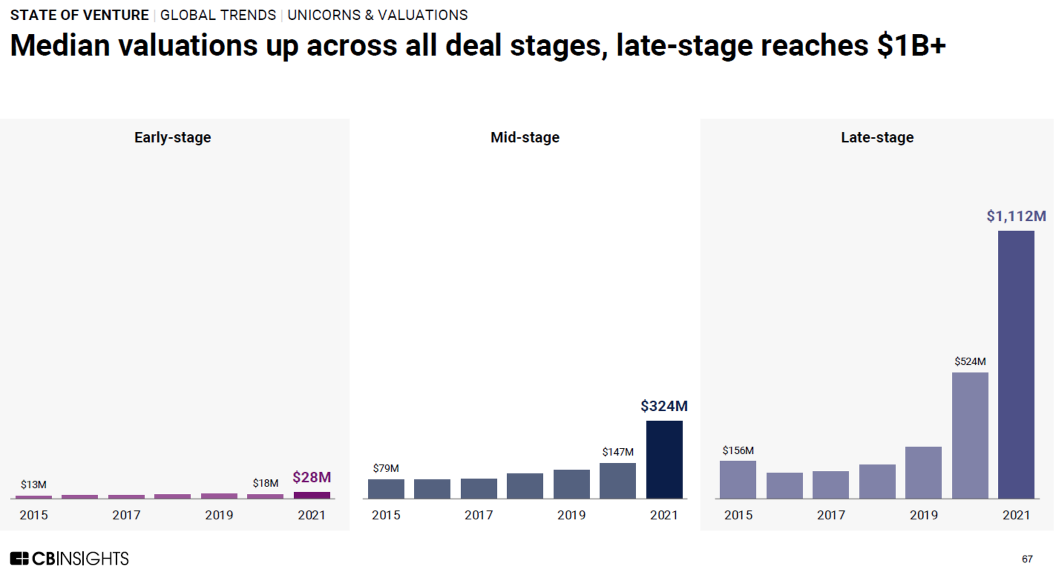
This was accompanied by a trend of companies staying private for longer, which is reflected in the increasing size of companies funded by institutional private investors. As at end 2021, the global count of private unicorns (that is businesses valued in excess of US$1bn) increased to 959 (up 69% y-o-y) and the median valuation of a company raising late-stage VC financing was US$1.1bn compared to US$524m in 2020 and US$156m in 2015, according to CB Insights (see Exhibit 2).

Exhibit 1: Global growth equity and late-stage VC deal value (US$bn)



Source: PitchBook as in Bain and Company *Global Private Equity Report 2022*

Exhibit 2: Median valuation upon late-stage VC financing round (US$m)

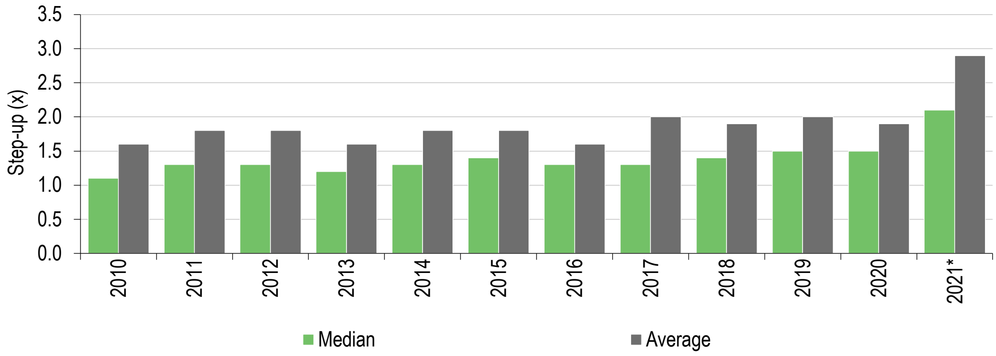


Source: CB Insights – [State Of Venture 2021 Report]

As companies enter public markets at a more mature development stage on average, a larger part of the value accretion is captured by VC/PE investors. Both late-stage VC and growth equity strategies delivered strong five-year net internal rates of return (IRRs) of 29% and 24% pa, respectively, but at a lower risk than early-stage VC investments, which generated a net IRR of

27% over the period, according to Bain & Company citing Cambridge Associates data. Having said that, private valuations (including late-stage VC deals) increased significantly last year, which may weigh on prospective returns. Step-ups, ie valuation uplifts from the previous financing round, stood at 2.9x for late-stage deals in 2021, according to PitchBook, visibly above the 1.6–2.0x in the last 10 years. While this is not weighted by deal size, PitchBook highlights that more than half of the top 20 valuation step-ups in 2021 were attributable to mega-deals raised at unicorn valuations (rather than small transactions).

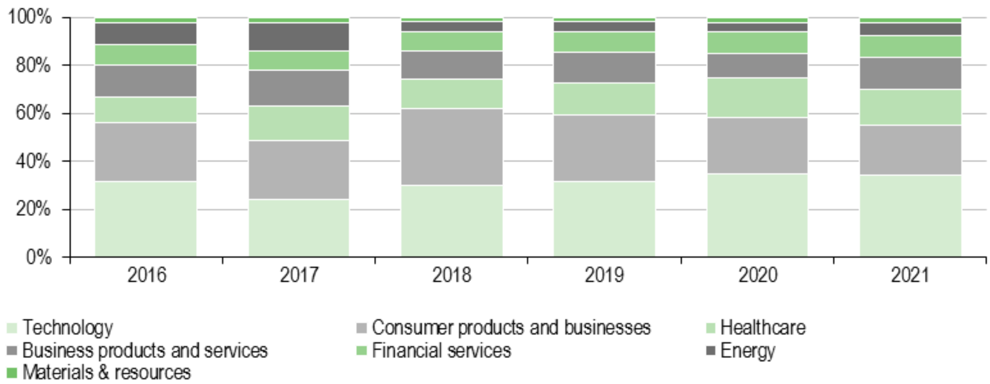
Exhibit 3: Late-stage financing round step-up



Source: PitchBook

According to PitchBook, both venture and growth financing has been marked by an increasing share of technology deals in recent years, but also with rising popularity of healthcare deals (see Exhibit 4). Since March 2020, technology indices have soared, with the COVID-19 pandemic accelerating the digital transition as consumers and companies were forced to embrace new online ways of working. The revenue multiples of enterprise software companies peaked in 2021 at more than double the long-term averages, according to Cambridge Associates. This trend is particularly well captured by the performance of the BVP Nasdaq Emerging Cloud Index, which we treat as a fair proxy for what is happening in the tech industry – delivering a 34% annual growth rate until end 2021 since its inception in mid-2013. However, we need to note that the index eased significantly in 2022 alongside the broad equity market sell-off by losing c 39% so far in total return terms.

Exhibit 4: Venture and growth funding by sector



Source: PitchBook as in Bain and Company's *Global Private Equity Report 2022*

Fund profile: A German growth tech investor

HEP's objective is to provide public market investors with the possibility of participating in private market returns through an evergreen structure. In that way, it aims to offer investors flexible holding periods, freely disposable shares and a variable ticket size.

HEP realigned its investment strategy following the change in its management board as well as the board of FinLab (another German investment company listed in Frankfurt, which has a c 43.5% stake in Heliad) in April 2021. This was linked to the change in FinLab's ownership structure in January 2021, when Bernd Förtsch became the controlling shareholder with a c 75% stake as a result of acquiring it from Christian Angermayer (who had been FinLab's second-largest shareholder). We note that Bernd Förtsch also holds a direct stake of c 22% in HEP and is a serial entrepreneur and investor in Germany, for example he is the founder and owner of a Germany-listed publisher of stock exchange and financial magazines, Börsenmedien, and the founder of flatex Bank (now flatexDEGIRO, HEP's largest portfolio holding).

Since the strategic realignment in May 2021, the company has been focused on two main types of investment opportunity. It has been active in exploring growth investments and pre-IPO opportunities, usually by participating in Series A and B rounds with a standard ticket size of c €3–10m (giving HEP an up to c 10% stake in a business and normally also a seat on the board), as well as Series C and later rounds (at a smaller stake, often below 1%). HEP aims to invest in market-leading companies across verticals and regions, with a focus on high-tech companies.

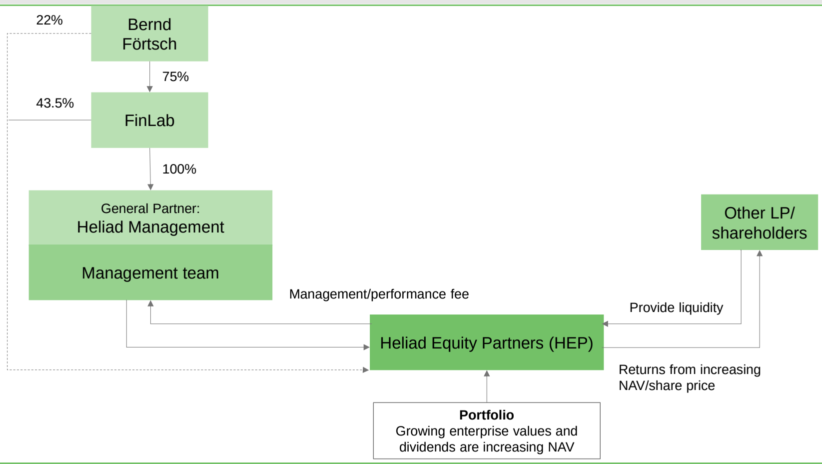
The fund manager: Heliad Management

Heliad Equity Partners (HEP), the listed entity and the limited partner (LP) in each investment, is managed by Heliad Management, the general partner (GP), which is fully owned by FinLab (see Exhibit 5). Heliad Management's core senior team has more than 40 years of combined VC experience.

Following the strategic shift, the management boards of HEP, Heliad Management and FinLab initially consisted of Falk Schäfers and Matthias Kröner. However, the latter resigned in September 2021 based on a mutual agreement with the supervisory board and the company. Based on our discussion with Falk Schäfers, we understand that Matthias Kröner joined the management boards to streamline Heliad's and FinLab's internal processes and his departure was planned from the beginning (the term of his managerial contract was limited to a maximum of one year). In March 2022, HEP and FinLab announced that Julian Kappus would join FinLab's and HEP's management boards, as well as Heliad Management as managing director from 1 June 2022.

Falk Schäfers previously spent more than six years at Berenberg, a multinational, full-service investment bank based in Hamburg (Germany) where his latest position was an associate director in the corporate finance department. Berenberg is one of Germany's top private banks active in wealth and asset management, investment banking and corporate banking. During Falk Schäfers' time at Berenberg, he advised more than 60 capital market and M&A transactions. Julian Kappus was previously responsible for the sale of structured finance products in continental Europe at Bank of America Merrill Lynch, where he worked with insurance companies, pension funds and asset managers on their purchases and sales of alternative investments. HEP highlights that this has given Julian Kappus a good understanding of the institutional investor landscape in the DACH region. Julian Kappus also co-founded a Berlin-based investor network and has experience as a business angel.

Exhibit 5: Heliad Equity Partners organisation chart



Source: Heliad Equity Partners.

The manager's view

The manager highlights that the trend of high-growth and innovative tech companies coming to public markets later and at higher valuations will continue, allowing private investors to reap most of the value increases during the high growth years. According to the manager, recent years have shown a development in the private investor universe with large international hedge funds, private equity firms and other asset managers allocating more capital to non-listed tech companies. Many have raised multi-billion-dollar funds that will be allocated over the next decade. The manager believes that while private investors like HEP are giving up short-term liquidity, they usually receive more attractive terms from preferred shares rather than listed common shares (dilution protection, liquidation preferences, drag-along and tag-along rights etc) in return.

The manager highlights that HEP has proven access to high-profile founder teams and a strong co-investor network of both local and international funds. The company's complementary value-add based on capital markets and route to IPO advice is a clear competitive advantage when fighting for the best deals. Although the recent developments of rising interest rates, supply chain disruptions and overall economic uncertainty will affect public and consequently private valuation levels, with an investment focus on Series A–C rounds, HEP expects its investments to increase in value significantly over the next years. Its portfolio companies have reached a proven product market fit and are growing by a high double- to even triple-digit percentage figure on all key metrics.

Investment process

HEP's deal flow generation and screening process is leveraged by its access to a network of top-tier VCs and entrepreneurs, underpinned by Falk Schäfers' experience at Berenberg. This is further facilitated by inbound deal flow through website and social media, as well as outbound reach based on in-house market research. Examples of VC investors and tech companies that HEP invested alongside recently include 468 Capital, MPGI, Rocket Internet, Ionic, Picus Capital, Global Founders Capital and Redalpine. Moreover, HEP recently invested alongside BlackRock in Razor Group and alongside the European Investment Bank in InstaFreight (see Exhibit 6).

Each investment case is assessed using a scorecard approach to methodological screening and covers, among others: 1) external environment (market, competition and technology); 2) internal capabilities (business model, traction and team); and 3) deal characteristics (co-investors, terms and value-add). HEP's preference is for businesses with first-mover or platform advantage, disruptive technology with clear value-add for the customer and a high-growth end-market with potential for long-term differentiation. Of all investment opportunities, c 5–10% advance to the in-depth due diligence stage. HEP's usual target exit multiple for growth-stage companies is 2–3x. It will consider all the standard exit routes, including IPO and trade sale.

HEP's investment manager discusses the investment case with the supervisory board before it makes the final investment decision. Once accepted, it performs confirmatory legal due diligence, supported by experienced external partners and defines the key responsibilities it will have at the company following investment (including involvement in strategic and business decisions).

HEP's approach to ESG

The manager is currently considering the introduction of ESG criteria to its investment strategy and plans to formalise it in the future. At the same time, the manager asserts that HEP invests in companies which overall have a favourable ESG profile (although the degree varies by company).

Asset allocation

Current portfolio positioning

HEP had 20 portfolio companies valued at €162.5m as of end March 2022 (see Exhibit 6), including 16 private investments (valued based on last funding round or at cost if the former is not available) and four listed holdings (recognised in line with their market value). We note that tonies became a listed company in November 2021 through the merger of Boxine and 468 SPAC I. HEP's end-March 2022 portfolio does not account for its recent series B investment in WorkMotion, a European HR-tech company offering solutions to facilitate building international teams by streamlining international hiring, onboarding and human resource management functions.

Around 65% of HEP's portfolio value at end March 2022 was attributable to its 5.2% stake in flatexDEGIRO, a leading European online brokerage platform. flatexDEGIRO's share price performance has been a notable contributor to HEP's NAV total return (TR) over recent years, which we discuss in more detail below. More recently, the company's business faced headwinds from a combination of bearish financial markets and lower activity by retail investors in the broad market. Nevertheless, it was able to add 185k customer accounts in Q122 (versus the Q2–Q421 average of 142k) and saw a stable number of transactions per customer account. Moreover, the company's annualised average revenue per user (ARPU) reached €221 versus €207 in Q421. Finally, the company's adjusted EBITDA improved by 75.8% vs Q421 to €54.5m. However, flatexDEGIRO's share price declined by c 54% ytd.

HEP's other major pre-2021 investments include the private direct-to-customer (D2C) company Springlane (in which HEP holds a 26.5% stake). Springlane made up 6% of HEP's portfolio at end-March 2022 and is an online community-driven, D2C cookware business and an unlisted legacy holding which HEP retained, encouraged by its successful top-line acceleration to €47m in FY21 based on preliminary figures versus €10m in FY18 (the business has been profitable since 2020). HEP also held a minor stake in the listed healthcare business MagForce (valued at €1.2m at end March 2022).

Exhibit 6: HEP's NAV breakdown as at end-March 2022

Company	Business profile	Investment date	Round of investment	Share class*	Investment amount (€m)**	Ownership per company	Fair value at end-March 2022 (€m)	As % of total portfolio
Klarna	Fintech - e-commerce payment solutions platform	Oct-21	Pre-IPO	Common	1.6	<1%	1.6	1%
Clark	Fintech - tech-driven customer-centric insurance advisor	Jul-21	Series C	Seed5/A pref/ B2 pref	12.6	<1%	12.5	8%
Enpal	Green energy – photovoltaics leasing	Apr-21		C pref				
Razor Group	D2C – global consumer holding that acquires and scales Amazon e-commerce merchants	Aug-21	Series B	Common	25.9	<10%	25.7	16%
Modifi	Supply chain – digital trade finance solution for SMEs	Aug-21		B pref				
InstaFreight	Supply chain – digital B2B logistics company combining transport management and freight forwarding	Sep-21		B pref				
NewtonX	Artificial Intelligence – B2B AI-driven knowledge business connecting companies with professionals to provide support in critical business decision making	Announced Dec-21; completed in Q122		B pref				
Celsius	Crypto/blockchain – developing an online financial platform to facilitate secure digital asset trading, lending and borrowing, as well as crypto payment services.	Q122		B pref				
FINN	Mobility – car subscription platform in the US and Europe	Q122		B pref				
Upscalio	D2C – company investing in brands that sell on e-commerce marketplaces such as Amazon or Flipkart in India	Aug-21	Series A	A pref				
Springlane	D2C – creator of a community as well as products and brands for people with an interest in food	Oct-12	Seed	Common/ A1 pref	8.8	26.5%	10.1	6%
flatexDEGIRO	Leading European online broker with more than two million customers in 18 countries	N/A	Listed	Common	10.4	5.2%	105.1	65%
MagForce	Healthcare – development of medical devices that generate magnetic hyperthermia to treat cancer	N/A	Listed	Common	3.3	2.1%	1.2	1%
tonies	D2C – tech-driven audio direct-to-customer brand	Jun-21	Listed	Common	3.0	0.3%	2.0	1%
Other	-	-	-	-	-	-	4.3	3%
Total	-	-	-	-	-	-	**162.5**	**100%**

Source: Heliad Equity Partners. Note: *Pref stands for preferred. **Including acquisition cost.

Portfolio built in a late stage of the market cycle, but with no new investments in early-stage VC or listed companies

We note that most of HEP's private investments under the new strategy were conducted close to the peak of the recent cycle (H221/Q122). While HEP has not disclosed its entry multiples (in line with broader market practice), it is worth bearing in mind that there is a risk of a valuation contraction as the cycle starts to turn. As an example, the Wall Street Journal recently reported that Klarna is about to close its next funding round at a valuation of US$6.5bn versus US$46bn during a funding round completed last year. For now, any valuation contraction in private holdings has not been reflected in HEP's NAV, as these are rarely revalued between funding rounds.

Having said that, there are several factors that could potentially mitigate the impact of a deterioration in broader market conditions on HEP's NAV. Firstly, VC/PE investors often underwrite a degree of contraction in valuation multiples in the investment case for a given company and this may be more than offset by the value-creation initiatives of investors HEP invested alongside and earnings growth in the underlying businesses. Secondly, HEP focuses on investing in companies with a proven business model and a greater degree of visibility in terms of their path to profitability (as they already exhibit high top-line growth, eg Modifi or Enpal) compared to early-stage VC investments. Finally, HEP has largely avoided investing in very late-stage tech companies and has not invested under its revised policy in new listed companies (which tend to be more susceptible to overvaluation in the late stage of the cycle). Its only later-stage investment (Klarna) made up just 1% of its total portfolio at end-March 2022. Moreover, as discussed above, HEP's private holdings under the new policy represented 26% of its portfolio, with ample room for new investments, which could be funded by proceeds from selling down HEP's stake in flatexDEGIRO.

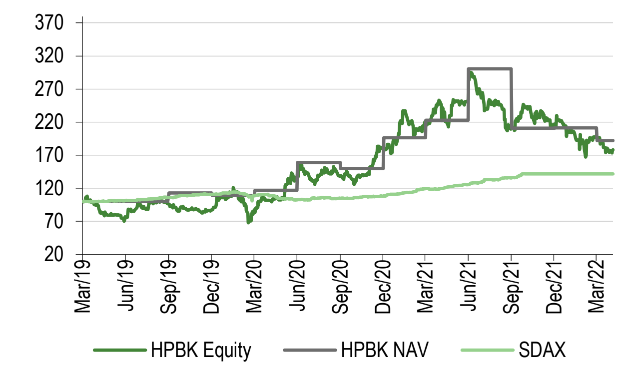
Nevertheless, we note that the cycle turn has already affected Celsius, a cryptocurrency lending platform in which HEP invested in Q122 as part of the series B funding round. On 12 June 2022, the company announced that it was halting all withdrawals, swaps and transfers between accounts of client funds (which until then were not subject to any withdrawal restrictions) due to 'extreme market conditions'. It said this move was aimed at putting it in a better position to honour withdrawal obligations over time. This apparent liquidity crunch has sparked speculation that Celsius could face default. One of its competitors (Nexo) has already offered to buy the company's assets. However, based on a conversation with HEP's management, we understand that the company invested only US$1.0m in Celsius.

Performance: Previously driven by flatexDEGIRO

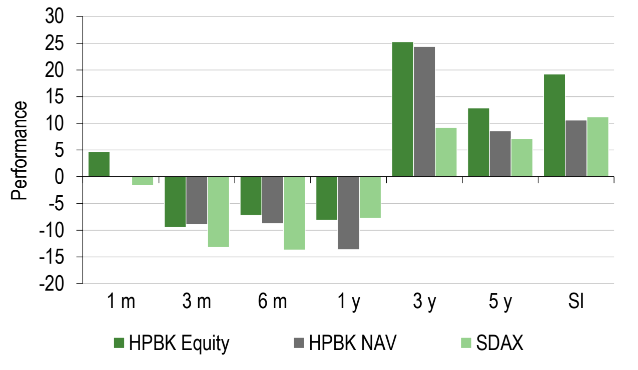
Given HEP's recent change in management and investment strategy, as well as the high weighting towards a single, relatively mature listed holding (flatexDEGIRO), its past performance is only of limited use as a reference point for assessing its prospective return profile. Keeping this in mind, we compare HEP's track record to the SDAX, a stock market index composing 70 small and medium-sized companies in Germany (of which flatexDEGIRO has been a component since December 2020) and the LPX Venture Index, comprising the 30 most highly capitalised and liquid VC companies (diversified across regions, financing styles and vintage). HEP achieved a NAV TR of 8.6% pa in euro terms over the last five years to end March 2022, compared with 7.1% per year for the SDAX and 8.5% per year for the LPX Venture NAV Index.

Exhibit 7: HEP's performance to 31 March 2022 in euro terms

Price, NAV and benchmark total return performance, three-years rebased



Price, NAV and benchmark total return performance (%)



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

Exhibit 8: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	LPX Europe NAV index (%)	LPX Venture NAV index (%)	SDAX (%)
31/03/18	60.5	24.4	7.0	(1.6)	18.2
31/03/19	(42.0)	(36.9)	12.5	6.6	(8.3
31/03/20	(16.7)	16.7	8.7	9.2	(15.4)
31/03/21	157.0	90.7	10.0	12.4	67.0
31/03/22	(8.1)	(13.6)	27.2	16.9	(7.8)

Source: Refinitiv. Note: All % on a total return basis in euros.

HEP's NAV was primarily assisted by flatexDEGIRO's share price performance, which was up c 400% over the five years to end March 2022 (or 38% on an annualised basis), with most of this growth taking place since the pandemic outbreak in March 2020, fuelled by a strong sentiment towards online brokerage companies. flatexDEGIRO's share price reached a record-high level at end June 2021 and has declined c 37% since then to end March 2022, which may have been linked to the more bearish outlook amid monetary tightening and high inflation, translating into weakening sentiment towards tech stocks (after a period of rich valuations) and weaker retail trading volumes in the broad financial markets. We estimate that the correlation between the weekly share price returns of HEP and flatexDEGIRO was c 0.8 over one year to 31 March 2022.

HEP's partial disposal of flatexDEGIRO has been the largest exit that it completed in recent years. On 2 July 2020, HEP announced that it had sold 0.5m shares in flatexDEGIRO as part of a private placement to institutional investors, translating into proceeds of c €21.5m for the company. This implied a disposal price of around €43 per share (versus flatexDEGIRO's closing price of €45.65 on the day before the announcement), which we estimate represented a notable uplift to the average cost of acquisition of €7.3 per share. As a result, it reduced its stake in flatexDEGIRO from 9.9% to 7.3%, which declined to 5.2% post July 2020 as a result of the dilution from capital measures as part of the merger between flatex and DEGIRO completed in 2020.

Peer group comparison

HEP is focused growth investments in private high-tech companies, and has increased its activity in this space in recent months. However, this is yet to have a meaningful impact on HEP's NAV TR. Keeping this in mind, we have considered Augmentum Fintech, Vostok Emerging Finance, Molten Ventures and FinLab as HEP's peers as they invest in early-stage companies in Europe, mostly from the fintech space. Our peer group also includes several UK VC trusts (VCTs), which invest in technology, biotech, healthcare, services and industrials, but their focus is mostly on the UK (except for FastForward Innovations, which is largely exposed to the US market).

HEP's one-year NAV TR to end March 2022 in sterling terms of c -14.3% is below the average figure posted by its peers, which is partially due to flatexDEGIRO's share price performance (down 6% between end March 2021 and end March 2022 in euro terms). HEP's NAV TR was ahead of the median of its peer group over the three-year period and below over the five-year period.

HEP's shares are trading at a wider discount to NAV than that of most of its peers. However, if we adjust HEP's NAV for the movement in flatexDEGIRO's share price between end-March and 7 July 2022, we arrive at a broadly similar discount. It is worth noting that VCTs trade at quite a narrow discount, while some of the other peers (eg Molten Ventures and FinLab) trade at more substantial discounts. For illustrative purpose, if we applied the 29.0% average peer discount to HEP's NAV at end March 2022 (adjusted for the subsequent movement in flatexDEGIRO's share price), we arrive at a fair value per share of €5.92. HEP's ongoing charges ratio is higher than its peer group median, although we note the recent changes to HEP's fee structure as discussed below. HEP does not intend to pay dividends for now, contrary to VCTs which normally distribute dividends on a regular basis.

Exhibit 9: Peer group comparison at 8 July 2022* in sterling germs

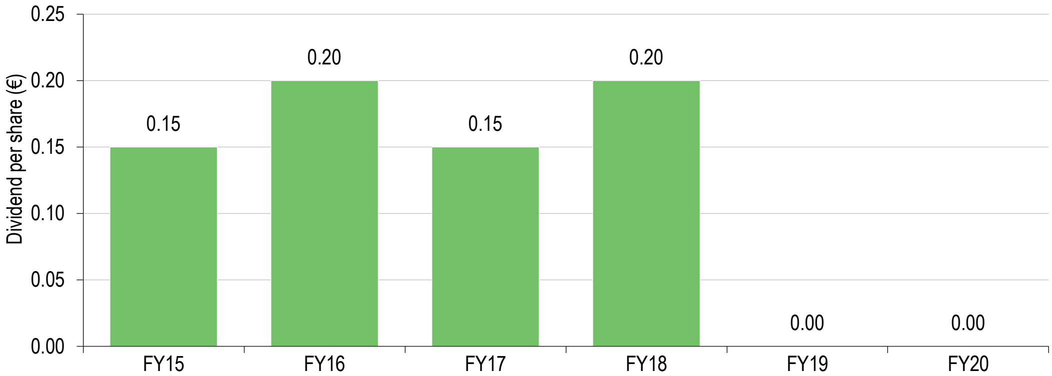
	Market cap (£m)	NAV TR 1-year	NAV TR 3- year	NAV TR 5-year	Discount (ex-par)	Ongoing charge (%)	Perf. fee	Net gearing	Dividend yield (%)
Heliad Equity Partners	**56**	**(14.3)**	**88.6**	**49.2**	**(54.3)**	**3.8**	**Yes**	**105.8**	0.0
Albion Enterprise VCT	112	24.0	33.4	68.2	(5.1)	2.5	Yes	100.0	5.2
Kings Arms Yard VCT	99	18.7	28.0	47.1	(11.7)	2.4	Yes	100.0	11.0
Northern 2 VCT	116	3.1	29.8	33.5	(4.5)	2.4	Yes	100.0	5.9
FinLab	52	(8.1)	59.7	120.1	(66.2)	3.1	No	100.0	0.0
British Smaller Companies VCT2	149	20.4	41.2	55.4	(6.7)	2.0	Yes	100.0	11.3
ProVen Growth and Income VCT	161	14.7	15.4	28.5	(4.9)	2.4	Yes	100.0	7.4
Augmentum FinTech	213	19.0	41.6	N/A	(23.8)	1.7	Yes	100.0	0.0
Vostok Emerging Finance	1,880	46.3	123.8	196.7	(67.0)	1.6	Yes	100.0	0.0
Molten Ventures	633	26.1	78.8	122.3	(71.1)	1.6**	Yes	100.0	0.0
Average (excl. HEP)	**379**	**18.2**	**50.2**	**84.0**	**(29.0)**	**2.2**	**N/A**	**100**	**4.5**
HEP's rank in sector	**9**	**10**	**2**	**6**	**7**	**10**	**N/A**	**10**	**6**

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 based on latest available ex-par NAV: HEP, FinLab, Molten Ventures, Vostok Emerging Finance – end March 2022, Northern 2 VCT – 17 March 2022, Augmentum Fintech – end September 2021, Albion Enterprise VCT, British Smaller Companies VCT2, Kings Arms Yard VCT – end December 2021, ProVen Growth and Income VCT – end November 2021 **Operating costs net of fee income were less than 1% of NAV, according to the company.

Dividends

Following the change in its management and investment strategy, HEP does not intend to pay dividends for the foreseeable future and is focused on being a capital appreciation vehicle expanding its investment portfolio.

Exhibit 10: HEP's dividend history since FY15



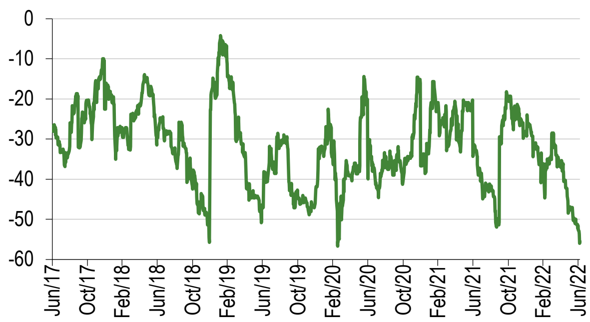
Source: Heliad Equity Partners

Discount: Close to historical average

HEP's discount to last reported NAV has averaged c 30% over the last five years but has been quite volatile, occasionally increasing to more than 50% and narrowing to less than 20%. This is associated with the fact that HEP only reports its NAV on a quarterly basis, while the market responds to movements in HEP's listed holdings faster, creating a certain lag.

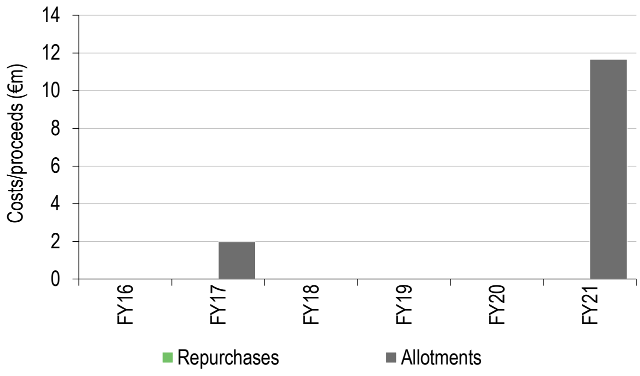
As of 7 July 2022, HEP is trading at a c 54% discount to its last published NAV of €13.00 as at end-March 2022. Following a 50% depreciation in flatexDEGIRO's share price between 31 March and 7 July 2022, we estimate that the value of Heliad's stake in the company declined from c €105.1m at end March to c €52.9m at 7 July 2022. Taking this into account (all else being equal), we arrive at an underlying discount to last reported NAV of c 29%.

Exhibit 11: HEP's discount over five years



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Company data

Gearing

HEP had no long-term borrowings as of end December 2021 and has not used any long-term borrowings in the past. However, it had €18.8m in short-term liabilities to banks representing cash collateral received to secure possible claims from put options on flatexDEGIRO's shares, which HEP purchased as part of a collar option strategy it entered into in H221. While these options expired in March 2022, the company highlighted in its FY21 report that it generally aims to extend these collar transactions, or alternatively sell or pledge some of its flatexDEGIRO shares to take out a loan. Hence, we include the €18.8m in our gearing calculations and, together with the €9.7m cash and equivalents at end-2021, this translates into a net gearing ratio (net debt to NAV) of 5.7% at end 2021 (and gross gearing of 11.7%). However, the ratio may have increased subsequently given the ytd NAV decline. We estimate that net debt of €9.1m at end 2021 represents 9.7% of HEP's NAV at end March 2022 after adjusting for the subsequent decline in flatexDEGIRO's share price to 7 July.

While the company has deployed further funds into new investments since end June 2021, we note that its liquidity was supported over the last 12 months with 1) gross proceeds of c €8m from the capital increase completed in December 2021; 2) gross proceeds of c €3.5m from the issue of 544k shares under its stock option programme in July 2021 (which it planned to register in Q421); and 3) the above-mentioned collar transaction.

Fees and charges

Until recently, Heliad Management charged a 2.5% annual management fee based on HEP's year-end IFRS net asset value and a performance fee of 20% of realised net earnings (the equivalent of net profit under German GAAP). We estimate that HEP's ongoing charge ratio, calculated as other operating expenses (including management fees but excluding performance fees) to average NAV in FY21, was 3.8% versus 2.6% in FY20.

However, HEP's AGM held on 21 June 2022 voted in favour of changes to the above remuneration structure (based on the recommendation of HEP's investment manager and supervisory board). These changes include the introduction of a management fee based on HEP's equity according to HGB (German accounting standard) of 1.75% pa of equity up to €300m, 1.50% of equity between €300m and €500m and 1.25% of equity above €500m (but subject to a minimum fee level of €2.5m pa). According to HGB, HEP's equity at end 2021 was €51.8m (€158.7m according to IFRS), at which level HEP incurs the minimum fee of €2.5m pa. On top of this, HEP's investment manager will charge a business management and liability remuneration of 4% of HEP's share capital (which would be c €0.45m based on the last reported balance sheet figure at end 2021). We estimate that these fees represent c 2.0% of HEP's NAV of €145.8m at end March 2022, as disclosed in its quarterly portfolio update. We note that the change in the fee calculation base from IFRS to HGB equity means that HEP's manager will not charge a management fee on unrealised gains (which are captured in equity under IFRS but not HGB) in future. The rate and base for the performance fee will remain unchanged, but will be subject to a 25% hurdle rate with no subsequent catch-up (except for write-downs affecting the performance fee in previous periods).

We note that the majority of HEP's portfolio value represents its stake in flatexDEGIRO, an investment that is easily accessible through public markets (without HEP's overheads). However, HEP has made a number of investments over the last 12 months, which have shifted the weighting to private holdings (providing more justification for charging fees).

Scenario analysis

We believe that forecasting the results of an investment company like HEP is very difficult (if not impossible), as these depend on a number of parameters relating to its existing investments, such as holding period, realised multiple of invested capital (MOIC) and prospective new investment activity. Moreover, HEP's future earnings will also depend on flatexDEGIRO's share price performance and realisation path. Nevertheless, we have prepared a scenario analysis to highlight how a change in certain parameters influences HEP's prospective NAV TR. For this purpose, we have assumed that 1) HEP will gradually sell down its flatexDEGIRO exposure in 2023–27 and recycle the proceeds into new private investments; 2) HEP will not realise any of its existing private investments in FY22 and FY23 and will exit private holdings representing 5% of NAV (by acquisition cost) excluding flatexDEGIRO in FY24 and 10% in FY25–27; 3) HEP's average holding period in a given private investment will be five years; and 4) HEP will not conduct any further share issues.

In our first scenario, HEP realises an average 2.5x MOIC (including an average 40% uplift to last carrying value on exit) on its private investments (at the midpoint of its 2–3x target range) and flatexDEGIRO's share price gradually converges to the current average sell-side target price of €21.77 (based on Bloomberg data), starting from an end-FY22 value in line with the current price of c €9.24. Our second scenario assumes a MOIC of 3.0x (at the upper range of HEP's target) and flatexDEGIRO's share price converging to the average sell-side target price of €21.77. Our last scenario assumes a MOIC of 2.0x and flatexDEGIRO's share price remaining flat in the forecast horizon. As a result, we have arrived at different NAV TR paths in the coming years, as illustrated in Exhibit 13.

Exhibit 13: Heliad's prospective NAV TR under different scenarios

	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e
Average MOIC at 2.5x, flatexDEGIRO's share price at average sell-side target price							
EPS (diluted, €)	1.67	(5.34)	1.14	1.37	1.66	1.64	2.19
IFRS NAV per share (€)	14.15	8.81	9.95	11.33	12.98	14.62	16.81
NAV TR	-	*-38%*	*13%*	*14%*	*15%*	*13%*	*15%*
Average MOIC at 3.0x, flatexDEGIRO's share price at average sell-side target price							
EPS (diluted, €)	1.67	(5.14)	1.40	1.74	2.17	2.37	3.22
IFRS NAV per share (€)	14.15	9.01	10.41	12.15	14.32	16.69	19.91
NAV TR	-	*-36%*	*16%*	*17%*	*18%*	*17%*	*19%*
Average MOIC at 2.0x, flatexDEGIRO's share price flat							
EPS (diluted, €)	1.67	(5.56)	0.01	0.17	0.37	0.53	0.70
IFRS NAV per share (€)	14.15	8.58	8.59	8.76	9.13	9.66	10.36
NAV TR	-	*-39%*	*0%*	*2%*	*4%*	*6%*	*7%*

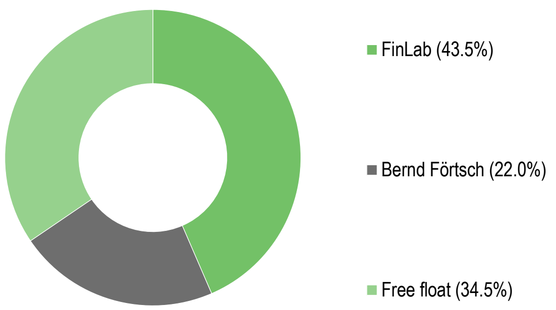
Source: Heliad Equity Partners, Edison Investment Research

Capital structure

HEP's share capital increased to €11.2m at end-2021 (divided into 11.2m shares) from €10.1m at end-June 2021 after it completed a capital increase in December 2021. As part of the transaction, it issued 800k shares in a private placement at the price of €10.15 per share, raising gross proceeds of c €8m.

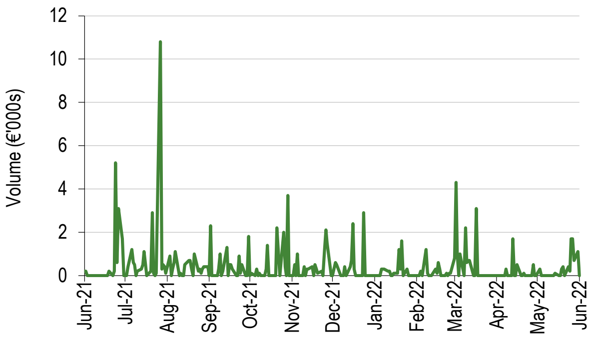
As part of its stock option programme, HEP issued 100k options to Falk Schäfers on 30 June 2021, which entitle him to subscribe to one share in the company for each option right after a four-year vesting period. In July 2021, HEP issued a further 544k shares in total as part of its stock option programme. The four-year vesting period for stock options that it previously issued in 2016 and 2017 to management and employees of the general partner and companies affiliated with HEP (412k and 132k, respectively) has expired.

Exhibit 14: Major shareholders



Source: Company data

Exhibit 15: Average daily volume



Source: Refinitiv. Note 12 months to 2 February 2022.

The board

HEP's supervisory board consists of three members:

- Volker Rofalski (chairman), a serial entrepreneur and business angel, supervisory chairman of Mutares and a member of the supervisory board of Bio-Gate and paycentive Group.
- Stefan Müller (deputy chairman), who is also a general representative of Börsenmedien, vice chairman of the supervisory board of FinLab and flatexDEGIRO.
- Herbert Seuling, a tax expert, member of the supervisory board of FinLab, flatexDEGIRO and TubeSolar.

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