

JDC Group

Adding more client groups

Bancassurance, advisory and service platform JDC Group announced a joint venture with Bain Capital and its main shareholder Great-West Lifeco (GWL) to acquire insurance brokers/agencies in Germany and Austria. This will add a fresh source of revenue growth and extra revenue potential on top of the expected boost to platform revenues from 2023 due to previous large client wins. In this note, we introduce our estimates for 2022–24. Based on 2023e consensus EV/sales and EV/EBITDA multiples and our DCF valuation of €37.90 per share, JDC's valuation does not seem demanding.

Year end	Revenue (€m)	EBITDA (€m)	EPS* (€)	DPS (€)	EV/EBITDA (x)	P/E (x)
12/20	122.8	5.1	(0.09)	0.0	18.7	N/A
12/21	146.8	8.3	0.07	0.0	40.8	262.9
12/22e	170.5	11.6	0.24	0.0	21.4	75.1
12/23e	199.2	15.1	0.42	0.0	15.8	44.0

Note: *EPS are reported.

Co-investing with Bain/GWL

JDC has agreed to enter into a joint venture (JV) with Bain and a unit of major shareholder GWL (27% shareholding) to acquire insurance brokers/agencies in Germany and Austria. In this JV, JDC can (but is not obliged to) co-invest in acquisitions. The acquired brokers will be connected to JDC's processing platforms through service agreements, a similar model to the one Bain has used in the United States with Keystone Agency Partners (KAS). This deal will add growth to JDC's platform, as well as a return on the co-investment. No amounts have been disclosed, but we estimate that this transaction could add a single-digit million-euro EBIT contribution to JDC's earnings after a few years (not in our estimates).

Large contracts moving to execution stage

In the last few years, JDC has won several very large contracts with German savings bank-related insurers Provinzial and Versicherungskammer Bayern (VKB), and is running a pilot with R+V Versicherung, Germany's cooperative banks' insurance company. These contracts could add more than €300m in annual turnover once they are fully onboarded. Transferring the insurance contracts from these clients to the platform is key to JDC's investment case. At Provinzial, the onboarding process of JDC's Advisortech platform has started and at VKB it is planned for later this year. The revenue contribution from these contracts will therefore be limited this year, with a more significant contribution in 2023.

Valuation: DCF value points to €37.90 per share

Our EPS estimates are slightly lower than consensus and we forecast a P/E of 27.4x in FY24e, which we believe is undemanding for what is largely a platform fintech company. In our May [update note](#), we compared JDC to a group of financial brokers and platform peers and it is still trading at a discount to platform peers and at a premium to financial brokers. A DCF analysis based on our estimates points to a value of €37.90 per share.

Introduction of forecasts

Insurance

14 July 2022

Price €19

Market cap €260m

Net cash (€m) at 31 December 2021 1.4

Shares in issue 13.7m

Free float 47.7%

Code JDC

Primary exchange Deutsche Börse Scale

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 10.5 (15.9) 19.5

Rel (local) 16.3 (7.2) 47.9

52-week high/low €27.40 €14.60

Business description

JDC Group is a leading German insurance platform, providing advice and financial services to professional intermediaries and banks but also directly to end-customers. JDC also provides its digital platform, for end-clients and for the administration and processing of insurance products, as a white-label product.

Next events

AGM 27 July 2022

H1 results 10 August 2022

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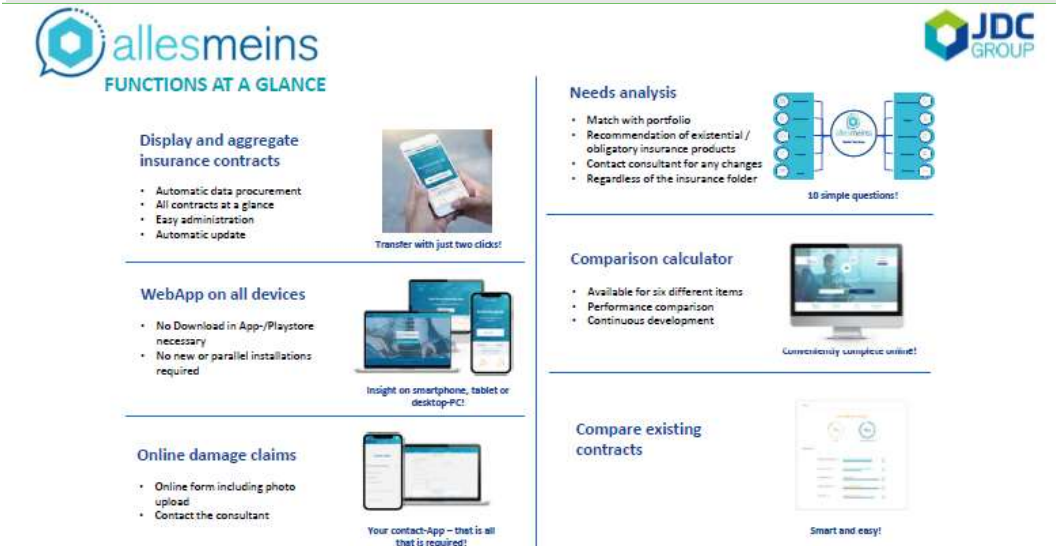
JDC Group is a research client of Edison Investment Research Limited

Platform growth is key

JDC's key asset is its highly scalable Advisortech insurance platform, which enables private clients to manage insurance portfolios from hundreds of German insurance companies. This technology platform, in which JDC invested more than €40m to develop, was initially built for its own broker pool business, Jung, DMS & Cie, and the financial advisory business FiNUM, but at a later stage JDC decided to exploit it commercially.

The platform can be sold either as a white-label product with the client's look and feel or as a separate service. Examples are www.finanzapp.allesmeins.de (Exhibit 1) and the direct customer platform www.geld.de. Through the platform, private individuals/intermediaries can select, add and service insurance policies from almost all insurers active on the German market, using a simple app that also provides a comprehensive overview of an individual's insurance portfolio.

Exhibit 1: Allesmeins app functionality



The infographic 'allesmeins FUNCTIONS AT A GLANCE' is divided into two main columns. The left column lists core app features, and the right column details specific functionalities. The JDC GROUP logo is in the top right corner.

- Display and aggregate insurance contracts**
 - Automatic data procurement
 - All contracts at a glance
 - Easy administration
 - Automatic update

Transfer with just two clicks!
- WebApp on all devices**
 - No Download in App-/Playstore necessary
 - No new or parallel installations required

Insight on smartphone, tablet or desktop-PC!
- Online damage claims**
 - Online form including photo upload
 - Contact the consultant

Your contact-App – that is all that is required!
- Needs analysis**
 - Match with portfolio
 - Recommendation of existential / obligatory insurance products
 - Contact consultant for any changes
 - Regardless of the insurance folder

10 simple questions!
- Comparison calculator**
 - Available for six different items
 - Performance comparison
 - Continuous development

Conveniently compare online!
- Compare existing contracts**

Smart and easy!

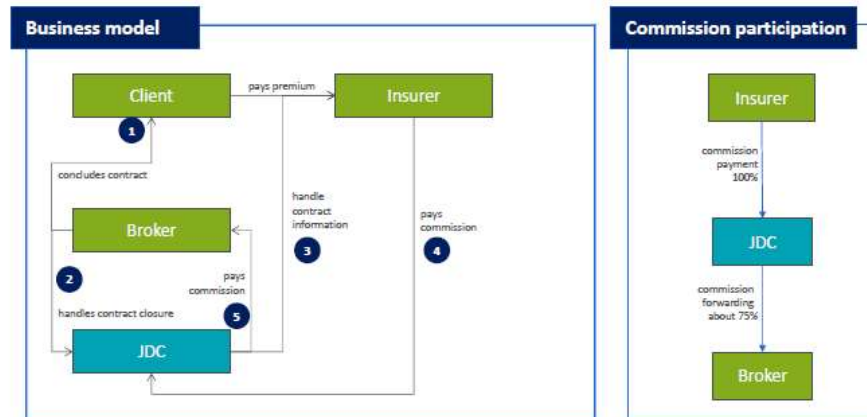
Source: JDC presentation

JDC's corporate clients can use the app's functionality for their clients. JDC operates the front end and back end of the contracts and the client-facing side of the app. The earnings model is very simple, adding clients to the platform and generating commissions through selling and transferring insurance policies.

Clients that have large private client portfolios, such as banks, corporate brokers or the exclusive sales networks of insurance groups, are the easiest way to generate traffic on the platform and income for JDC. JDC receives part of the commission (typically c 25%, see Exhibit 2) its clients generate for offering the platform and contract handling. JDC thereby operates a B2B2C platform.

Exhibit 2: Business model

Economics BUSINESS MODEL



Source: JDC Group

Adding new client groups to the platform

JDC has been very successful in adding new client groups to its platform (see Exhibit 3 below). In addition to in-house insurance brokers from Lufthansa (Albatros) and BMW, JDC has contracts with Provinzial and VKB, insurance companies from large savings banks, as well as internet platform Finanzguru and agency networks of insurers such as Gothaer.

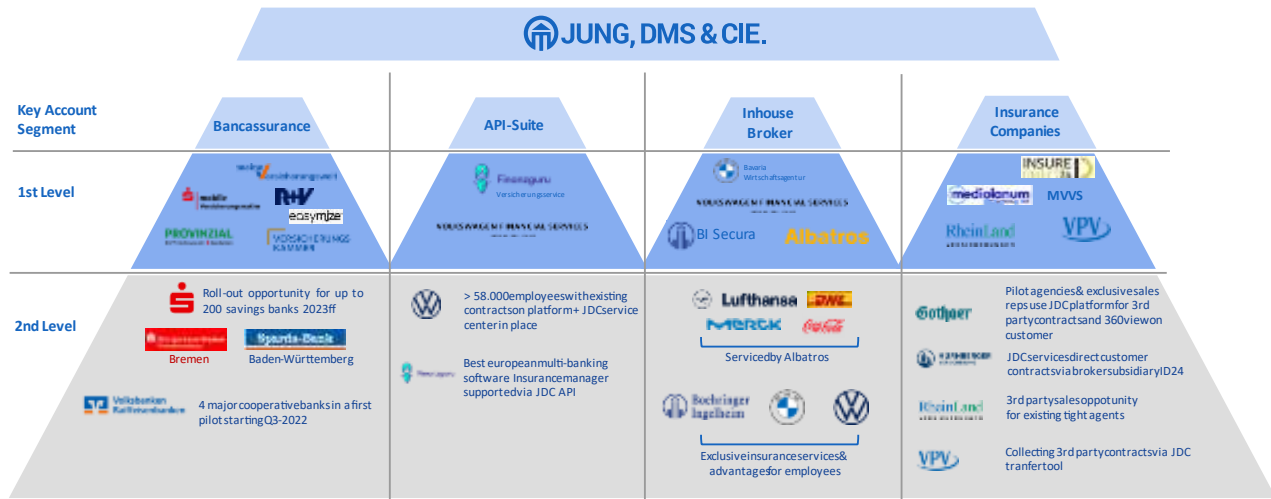
We see the recently announced JV with Bain and 27% shareholder GWL as yet another opportunity for platform growth. JDC can co-invest in the JV with Bain/GWL, to acquire larger insurance brokers in Germany and Austria (brokers with €1m+ in revenues). The acquired brokers will consequently be plugged into JDC's platform through service agreements, adding both platform growth and part of the generated earnings by the acquired broker.

Bain made a similar deal in the United States with [KAS](#) in Q120. KAS has already acquired \$110m in annual revenues through 11 acquisitions. We therefore believe that this transaction could add a single-digit million-euro EBIT contribution to JDC's earnings after a few years. The advantage compared to the other large clients is that as a (co) owner JDC has much more leverage transferring contracts quickly to its own platform.

Nevertheless, we have not included this deal in our estimates, as the timing of the acquisition of brokers is highly uncertain.

Exhibit 3: Client groups

JDC key account segments and growth potential with B2B2C partners



Jung, DMS & Cie. AG

1

Source: JDC presentation

What's next?

JDC has shown remarkable success in adding new client groups and we believe it will continue to do so. German mortgage platform Hypoport is making inroads into the insurtech space with a B2C model, but so far JDC has beaten it in the race for large clients. The pilot with cooperative bank insurer R+V Versicherung (30 million clients) could result in a new large contract. Other new large clients could be additional savings banks using the S-Versicherungsmanager app, for example VGH Versicherungen, or agent networks from insurance companies and of course more individual brokers of all sizes. The transfer of client contracts to JDC's platform is now key. At this point, JDC can transfer c 330k contracts on an annual basis, of which c 120k are new customers.

Operationally, JDC has been able to add high volumes to its platform without needing to hire many extra staff, which has not been a bottleneck so far. While the largest part of the operation is digital, employees are still needed to verify accounts and for help desks. Thus, operational capacity could be a limitation.

Estimates

Within Advisortech, JDC's most important business, representing more than 80% of revenues, the key component is the independent financial advisory (IFA) business. This includes commissions earned by independent advisories using JDC's platform. On average, there has been double-digit growth in this part of the business in the last few years and the outlook continues to be strong. JDC's platform is gaining adoption and traction, and competition from platforms like Hypoport is diminishing. As a result, we continue to expect double-digit growth in this part of business.

Higher revenue momentum should come from the large clients JDC has won in the last few years (see Exhibit 4). The darker green areas indicate that the contract is running according to plan, while

the lighter green areas indicate either the start of a contract or a quiet period (mostly driven by COVID).

We expect key clients to deliver €51.7m in revenues by 2024, well over 20% of our forecast total revenues, and that proportion will grow further. In particular, the large insurance platform contracts won from the German savings banks-related insurance businesses Provinzial and VKB have strong revenue growth potential. However traditional banks are slow to adopt a new insurance platform, which makes the runway of increasing revenues more gradual. Also, adoption rates between savings banks can vary greatly.

Exhibit 4: Key clients

	To March 2020	Announced	Potential users	2019	2020	2021	2022e	2023e	2024e
Albatros	x		150k employees						
Rheinland	x		300 agents, 10k						
Sparda Bank	x		700k clients						
BMW insurance	x		55k						
Volkswagen Bank	x		100k						
Boehringer Ingelheim	x		15k						
Nürberger Versicherung	x		30k						
Sparkasse Bremen	x		400k private, 26k corp						
Finanzguru		Feb-21	500k users						
Provinzial		Feb-21	Target >1m users						
VKB		Sep-21	Target >1m users						
R+V pilot		Feb-22	Multi-million user potential						
Gothaer Group		Mar-22							
Cumulative number of probable clients (000s)					1,460	1,960	2,960	5,960	5,960
Revenue contribution (€m)				16.2	20.3	22.7	28.4	38.3	53.6

Source: JDC Group, Edison Investment Research. Note: The darker green areas indicate that the contract is running according to plan, while the lighter green areas indicate either the start of a contract or a quiet period. x indicates contracts announced before 2020.

Next to Advisortech, JDC has its own advisory business, FiNUM. The origin of this business segment results from the acquisition of three smaller advisory businesses next to the existing broker pool between 2009 and 2011. We have pencilled in 5% growth in this business, driven by limited volume growth and an increasing price component.

As a check, we have also modelled initial commissions (commission when an insurance policy is transferred to the platform) and follow-up commissions (commission on retained insurance policies). We estimate 20% growth in initial commissions in the next few years and 14% growth in follow-up commissions in 2022, increasing towards 18% by 2024. Other fee income (services/fee-based advisory/overrides) are assumed to be stable in our model.

JDC pays the majority of the commissions earned to the parties that close the transaction through its platform (unless it is JDC's own advisory business). For the larger contracts that have been closed, clients have negotiated a larger proportion of the commission pie and that is the reason why gross profit margins are expected to decrease (from 28.4% in 2021 to 25.0% in 2024e). We expect the commission paid out to clients to increase to 76% of total commission income by 2024 from 72.9% in 2021 (see Exhibit 5).

As a platform business, JDC's cost base is relatively stable. We have pencilled in 6% higher staffing costs in 2022, driven by higher pay rates and an increase in staff to assist the growth in transferring insurance contracts to JDC's platform. While most of the operation is digital and so can be scaled up easily, employees are still needed to verify accounts and for help desks. JDC has offices in areas in Germany where the wages are lower.

Other operating expenses are expected to grow by 2–3% in the next few years, driven by cost control. As a result, we forecast that EBITDA will more than double between 2021 and 2024 to €19.8m. Although we forecast 17% revenue growth in both FY23 and FY24, we expect EBITDA margins to expand to 8.5% in 2024 (from 5.7% in 2021).

We see D&A increasing by 5–10% per year and assume that interest remains stable (the majority is interest on a bond). JDC's corporate tax rate will be 15–20% (we have assumed 20%) in the next few years, as it has deferred tax assets of €3.1m. We therefore forecast that net profit will increase to €9.1m by 2024 from €0.9m in 2021.

FY22 guidance and longer-term targets

JDC has guided to revenues of €165–175m in FY22 or +16% at the midpoint versus 2021 and EBITDA of more than €11m, compared to €8.4m in FY21. This seems slightly conservative given the 20% increase in Q1, and our forecasts are at the higher end of revenue guidance and slightly higher on EBITDA. The deteriorating macro environment is likely to drive consumers to household savings; insurance could be an obvious source of savings and JDC's platform helps with that.

JDC expects revenue growth to accelerate to more than 20% in 2023 from its large contracts. Over the longer term, by 2025, JDC targets a doubling in revenues to €246m by 2025 and a 'multi-fold' increase in EBITDA compared to 2020. These longer-term targets seem achievable given the client wins that have been reported so far.

Exhibit 5: Results highlights (P&L)

€m	FY19	FY20	FY21	FY22e	FY23e	FY24e
-Advisortech	92.3	102.6	121.0	143.0	169.7	201.8
-Advisory	29.9	29.7	35.7	37.5	39.4	41.3
-Holding	(10.7)	(9.4)	(9.9)	(9.9)	(9.9)	(9.9)
Total revenue	111.5	122.8	146.8	170.5	199.2	233.2
Other income	3.0	3.4	6.3	6.4	6.4	6.4
Capitalised services	1.0	1.1	1.2	1.2	1.2	1.2
Other operating income	0.6	0.3	0.7	0.7	0.7	0.7
Commission expenses	(81.4)	(90.5)	(107.0)	(125.9)	(149.0)	(176.8)
Commission expense % of revenues	-73.1%	-73.7%	-72.9%	-73.8%	-74.8%	-75.8%
Gross profit	31.7	33.7	41.7	46.6	52.1	58.3
Personnel expenses	(17.4)	(18.7)	(22.3)	(23.6)	(25.3)	(26.5)
Other operating expenses	(10.1)	(9.9)	(11.1)	(11.3)	(11.7)	(12.0)
EBITDA	4.2	5.1	8.3	11.6	15.1	19.8
D&A	(4.3)	(4.6)	(5.4)	(5.9)	(6.5)	(6.9)
EBIT	(0.1)	0.5	2.9	5.7	8.6	12.9
Pre-tax profit	(1.8)	(1.0)	1.4	4.2	7.1	11.4
Net income	(1.8)	(1.2)	0.9	3.3	5.7	9.1
EPS (€)	(0.14)	(0.09)	0.07	0.24	0.42	0.67

Source: JDC Group financial accounts, Edison Investment Research

Financial position and cash flows

In 2019, JDC's Jung, DMS & Cie unit issued a bond of €19.5m carrying coupon interest of 5.5% and maturity to 2024. In addition, JDC has a short-term bank loan of €1m. In FY20, there was a small net debt position, but in 2021 JDC issued €10.6m in equity in relation to the deal closed with VKB, which also included a share of JDC. This cash inflow was partly offset by the acquisition of independent data analysis and software development company Morgen & Morgen. All in all, JDC had a net cash position of €1.4m at the end of FY21. Cash and cash equivalents were €21.9m.

Part of the cash on the balance sheet will be used for a share buyback programme up to a maximum of 200k shares or €5m, which was initiated on 14 June 2022. Up to 8 July, more than 17k shares have been bought back at prices between €18.17 and €19.80. JDC has held its own shares in treasury for a long time. With the Q122 results, JDC owned 3.7% or more than 500k shares. With the buyback so far, JDC's ownership of JDC shares will have increased to 3.8%. JDC could use these shares to pay for M&A transactions or retain the shares.

Valuation undemanding

In our previous reports we have compared JDC with a group of financial brokers and platform peers. As we are now using our own estimates, we have also included a DCF valuation.

DCF

Our discounted cash flow model is based on the following assumptions:

- We only consider organic revenue growth, although we expect JDC to remain active in M&A. We expect organic growth to increase between 2024 and 2027 from 17% to a peak rate of 25%, as adoption of the platform by retail clients grows before slowing to the terminal growth rate of 2.5%.
- The EBITA margin will increase to 11% by 2030, from 3.4% in 2022e, as JDC benefits from platform effects and operational leverage.
- The effective tax rate is 32%, based on the corporate tax rate in Germany.
- We use a beta of 1.5 to reflect the relatively low-risk IFA/advisory business, offset by more uncertain key client development.
- We have deducted the number of shares that JDC owns from the outstanding number of shares and also the 90,000 shares in option programmes.

We set a risk-free rate and market equity risk premium of 3.0% and 5.0% respectively, delivering a WACC of 9%. Our DCF model suggests a fair value for JDC of €37.90 per share.

Peer valuation

As we explained in our [update note](#) published on 30 May, we believe financial broker Aon and aggregators in the UK like Moneysupermarket.com are relevant comparisons for the advisory part of JDC's business (although Aon is substantially larger, with a market cap of \$57.2bn). Compared to these companies, JDC trades at a premium on EV/EBITDA but at a steep discount on EV/sales due to its higher profitability.

JDC's Advisortech activities are a platform business. This part of the business is best compared to financial platform providers like Hypoport in Germany and US platforms such as Goosehead. Hypoport offers a B2C independent advisory platform for German mortgages through different labels, but especially Dr Klein. Compared to Hypoport, JDC now trades at a premium on 2022e and 2023e EV/EBITDA multiples, but at a discount on EV/Sales. Compared to Goosehead, which has a similar platform to JDC but is also more of a B2C business, JDC trades at a discount on both EV/Sales and EV/EBITDA.

Although we realise that a peer comparison for JDC is not easy given its diversified profile, we note that it trades at a 61% discount on FY23e consensus EV/sales compared to platform peers and 49% compared to financial brokers.

Exhibit 6: Peer valuation

	Market cap (local currency, m)	FY22e EV/Sales	FY23e EV/Sales	FY22e EV/EBITDA	FY23e EV/EBITDA
Aon	\$57,225	4.5	4.3	16.4	15.4
Moneysupermarket.com	£974	2.8	2.4	9.5	7.9
Netfonds	€89	0.4	0.4	8.6	6.5
Average financial brokers		2.6	2.3	11.5	9.9
Goosehead	\$1,105	5.7	4.1	31.6	19.2
Hypoport	€1,142	2.4	2.1	14.4	11.8
Average platforms		4.1	3.1	23.0	15.5
JDC Group	€633	1.5	1.2	21.4	15.8
Premium/(discount) financial brokers		(42.9%)	(48.8%)	86.3%	59.0%
Premium/(discount) to platform		(64.1%)	(61.2%)	(6.8%)	2.0%

Source: Refinitiv, priced at 14 July 2022

Exhibit 7: Financial summary

	€m	2019	2020	2021	2022e	2023e	2024e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		111.5	122.8	146.8	170.5	199.2	233.2
Cost of Sales		(79.8)	(89.1)	(105.1)	(124.0)	(147.1)	(174.9)
Gross Profit		31.7	33.7	41.7	46.6	52.1	58.3
EBITDA		4.2	5.1	8.3	11.6	15.1	19.8
Operating profit (before amort. and excepts.)		(145)	(0.1)	0.5	2.9	5.7	8.6
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		(0.1)	0.5	2.9	5.7	8.6	12.9
Net Interest		(1.6)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		(1.8)	(1.0)	1.4	4.2	7.1	11.4
Profit Before Tax (reported)		(1.8)	(1.0)	1.4	4.2	7.1	11.4
Reported tax		(0.1)	(0.1)	(0.5)	(0.8)	(1.4)	(2.3)
Profit After Tax (norm)		(1.8)	(1.2)	0.9	3.3	5.7	9.1
Profit After Tax (reported)		(1.9)	(1.2)	0.9	3.3	5.7	9.1
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(1.8)	(1.2)	0.9	3.3	5.7	9.1
Net income (reported)		(1.8)	(1.2)	0.9	3.3	5.7	9.1
Basic average number of shares outstanding (m)		13.0	12.6	13.7	13.7	13.7	13.7
Average Number of Shares Outstanding (m) diluted		12.3	12.8	13.3	13.3	13.3	13.3
EPS (€)		(0.14)	(0.09)	0.07	0.24	0.42	0.67
EPS - normalised (€)		(0.14)	(0.09)	0.07	0.25	0.43	0.69
DPS (€)		0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		28.4	27.5	28.4	27.3	26.1	25.0
EBITDA Margin (%)		3.7	4.2	5.7	6.8	7.6	8.5
Normalised Operating Margin (%)		-0.1	0.4	2.0	3.3	4.3	5.5
BALANCE SHEET							
Fixed Assets		59.4	59.5	78.0	74.5	70.8	67.2
Intangible Assets		49.9	47.9	66.4	63.8	61.0	58.3
Tangible Assets		2.7	5.1	5.6	4.7	3.8	2.9
Investments & other		6.8	6.4	6.0	6.0	6.0	6.0
Current Assets		42.9	32.3	43.7	54.5	68.5	86.7
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors		19.0	18.4	19.2	22.3	26.1	30.5
Cash & cash equivalents		21.1	11.7	21.9	29.1	38.9	52.0
Other		2.8	2.3	2.6	3.0	3.6	4.2
Current Liabilities		45.8	25.8	36.9	40.8	45.4	50.9
Creditors		28.5	19.9	23.8	27.6	32.3	37.8
Tax and social security		0.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings		12.6	1.1	1.0	1.0	1.0	1.0
Other		4.6	4.9	12.1	12.1	12.1	12.1
Long Term Liabilities		26.0	38.7	46.0	46.0	46.0	46.0
Long term borrowings		19.2	19.4	19.5	19.5	19.5	19.5
Other long-term liabilities		6.9	19.3	26.5	26.5	26.5	26.5
Net Assets		30.5	27.3	38.8	42.2	47.8	57.0
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		30.5	27.3	38.8	42.2	47.8	57.0
CASH FLOW (€m)							
Operating Cash Flow		(1.7)	3.3	5.6	10.8	13.7	17.5
Working capital		5.5	5.5	9.3	0.3	0.4	0.5
Net operating cash flow		3.8	8.9	14.9	11.1	14.1	17.9
Capex		(4.6)	(2.0)	(2.1)	(2.4)	(2.8)	(3.3)
Acquisitions/disposals		0.0	0.0	(11.0)	0.0	0.0	0.0
Net interest		0.0	0.0	0.0	(1.5)	(1.5)	(1.5)
Equity financing		0.0	0.0	10.6	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0
Other		10.1	(16.3)	(2.2)	0.0	0.0	0.0
Net Cash Flow		9.3	(9.4)	10.2	7.2	9.8	13.2
Opening net debt/(cash)		7.3	(2.0)	(11.6)	(1.4)	(8.6)	(18.4)
FX		0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	(0.2)	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(2.0)	(11.6)	(1.4)	(8.6)	(18.4)	(31.6)

Source: Company accounts, Edison Investment Research

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