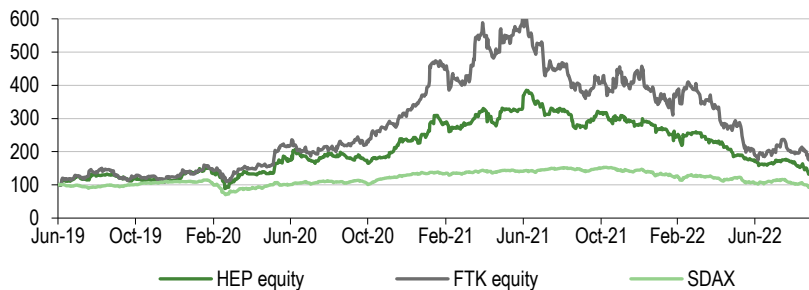


# Heliad Equity Partners

## NAV affected by flatexDEGIRO's de-rating

Heliad Equity Partners (HEP) posted a 35% decrease in net asset value (NAV) per share during Q222, driven mostly by the 51% stock price decrease of flatexDEGIRO (FTK) (alongside the sell-off across listed online brokers), which now makes up roughly half of HEP's portfolio. Meanwhile, revaluation of private holdings had a minor impact on HEP's NAV, with only FINN and Klarna closing new funding rounds in Q222. We note that HEP's management expects the weighted average revenue of its new investments since 2021 to grow 3.6x in 2022 vs the prior year. Management also highlighted that advanced talks on new funding rounds of some holdings may bring HEP's NAV per share to c €10 (up c 20% from end-June 2022), while the current HEP share price is c 53% lower.

### HEP's share price performance against FTK and SDAX



Source: Refinitiv, Edison Investment Research. Note: Total returns in sterling.

## Why consider HEP now?

HEP aims to provide 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).

## The analyst's view

HEP's portfolio of innovative private businesses may benefit from secular trends such as ongoing business digitalisation, expansion of e-commerce, increasing fintech penetration and clean energy. Weaker public equities (the fintech indices S&P Kensho Alternative Finance, S&P Kensho Future Payments, S&P Kensho Democratized Banking are c 40% down year to date) could affect valuations on new funding rounds in some of HEP's holdings in the short term. Having said that, we note that HEP focuses on investing in companies with a proven business model and a greater degree of visibility in terms of their path to profitability (and avoids early-stage VC investments). Additionally, around three-quarters of HEP's investments since 2021 have downside protection through liquidation preference and/or anti-dilution protection (with HEP being compensated in free new shares in the event of a down round).

Investment companies  
Venture capital

14 October 2022

**Price** €4.79  
**Market cap** €53m  
**NAV\*** €94m

NAV per share\* €8.40  
Discount to NAV 43.0%  
Yield 0.0%  
Ordinary shares in issue 11.2m  
Code HPBK  
Primary exchange Frankfurt (Scale)  
AIC sector N/A

\*At end-June 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).

### Analysts

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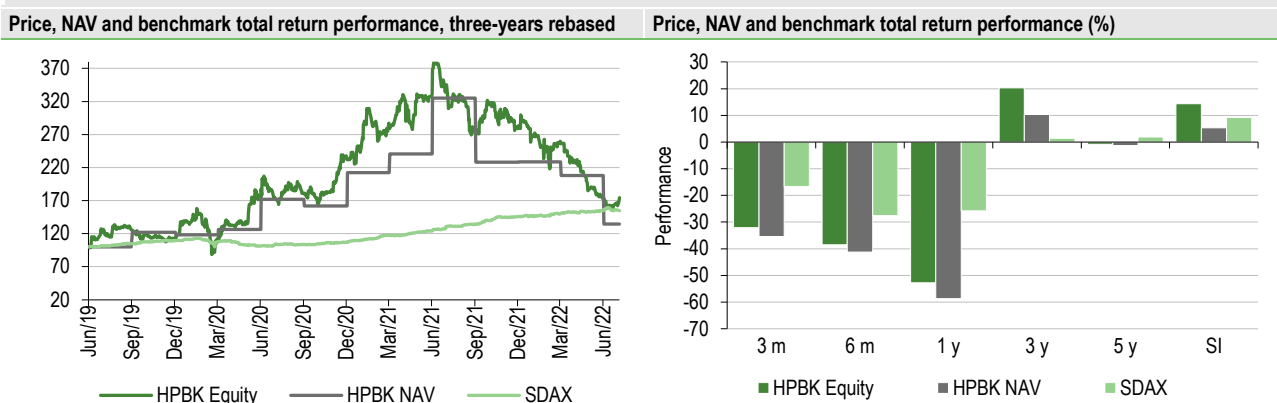
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## NAV decrease driven by FTK

HEP's NAV decreased by 35% in Q222, which has also affected long-term performance, with a five-year annualised NAV decrease at 1.3% compared to SDAX's 1.8% increase per year (in total return terms). This was primarily due to HEP's high weighting towards a single, relatively mature listed holding (FTK), with some additional negative impact from other minor listed holdings. At end-June 2022, HEP's portfolio consisted of 19 companies, valued at €111.5m (compared to €162.5m at end-March 2022). Most of the private holdings remain valued as at the latest financing round prior to end-March 2022, except for Klarna and FINN (which completed new funding rounds in Q222) and Celsius (written down given its distressed situation).

**Exhibit 1: HEP's performance to 30 June 2022 in euro terms**



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

**Exhibit 2: Five-year discrete performance data**

12 months ending	Share price (%)	NAV (%)	LPX Europe NAV index (%)	LPX Venture NAV index (%)	SDAX (%)
30/06/18	13.5	15.5	10.8	8.6	10.2
30/06/19	(51.3)	(39.8)	6.5	0.1	(4.8)
30/06/20	87.9	71.8	1.4	11.4	1.4
30/06/21	96.3	89.3	22.4	11.6	38.9
30/06/22	(52.8)	(58.7)	24.8	16.3	(25.8)

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

## Analysts remain confident in FTK's prospects

FTK's share price is down 59% ytd (at 13 October 2022), similar to other online brokers. This followed a stock rally of 370% in 2020 and H121 (reaching its peak in July 2021) on the back of rapidly increasing transaction volume and customer base, stimulated by growing popularity of online trading amid COVID-19 lockdowns and higher availability of capital from fiscal stimulus. With the current unfavourable conditions in equity markets, the customer interest is somewhat tuned down, with FTK reporting 282k new accounts in H122 compared to 532k in H121, which may have encouraged investors to re-assess the prospective growth path in the online brokerage business. Meanwhile, FTK operating performance appears robust compared to major peers, with its newly opened accounts being higher than for its three direct peers combined (Avanza, Fineco, Nordnet), according to FTK. While the average number of transactions declined 37% y-o-y in Q222 (broadly in line with peers, according to FTK), FTK's revenue per trade increased 24% y-o-y. Despite the growth moderation, analysts see significant upside potential for the stock, with the mean target price 115% above current share price, according to Refinitiv consensus (based on 11 contributors). The consensus estimates indicate a top-line growth at 10% pa and bottom-line growth at 19% pa in 2021–24.

With respect to other listed holdings, MagForce's stock price declined by 5% during H122, although it had dropped by 85% in July after the company filed for insolvency, which seems to have come as a surprise for the markets. In its 2021 annual report, the company pointed out that, based on its available credit lines, the business activity can be financed for FY22 and FY23 (it also successfully placed €3.5m bearer bonds in 2022). The company recently stated that it is in restructuring talks with investors.

Exhibit 3: HEP's NAV breakdown at end-June 2022							
Company	Business profile	Round of investment	Investment amount (€m)	Fair value at end-March 2022 (€m)	Fair value at end-June 2022 (€m)	As % of total portfolio (end-June 2022)	Quarterly change (%)
Klarna	Fintech – e-commerce payment solutions platform	Pre-IPO	1.6	1.6	0.2	0.2	(87.5)
Clark	Fintech – tech-driven customer-centric insurance advisor	Series C	12.6	12.5	12.5	11.2	-
Enpal	Green energy – photovoltaics leasing						
Razor Group	D2C – global consumer holding that acquires and scales Amazon e-commerce merchants						
Modifi	Supply chain – digital trade finance solution for SMEs						
InstaFreight	Supply chain – digital B2B logistics company combining transport management and freight forwarding						
NewtonX	Artificial Intelligence – B2B AI-driven knowledge business connecting companies with professionals to provide support in critical business decision-making	Series B					
Celsius**	Crypto/blockchain – developing an online financial platform to facilitate secure digital asset trading, lending and borrowing, as well as crypto payment services		30.6	25.7*	29.8	26.7	15.9*
FINN	Mobility – car subscription platform in the US and Europe						
WorkMotion*	HR tech – HR management platform						
Upscalio	D2C – company investing in brands that sell on e-commerce marketplaces such as Amazon or Flipkart in India	Series A					
Springlane	D2C – creator of a community as well as products and brands for people with an interest in food	Seed	8.8	10.1	10.1	9.1	-
flatexDEGIRO	Leading European online broker with more than two million customers in 18 countries		10.4	105.1	51.9	46.5	(50.6)
MagForce**	Healthcare – development of medical devices that generate magnetic hyperthermia to treat cancer	Listed	3.3	1.2	1.2	1.1	(5.4)
tonies	D2C – tech-driven audio direct-to-customer brand		3.0	2.0	1.3	1.2	(31.5)
Other		-	-	4.3	4.5	4.0	4.2
<b>Total</b>		-	-	<b>162.5</b>	<b>111.5</b>	<b>100.0</b>	<b>(31.4)</b>

Source: HEP. Note: \*WorkMotion was acquired during the quarter, therefore is not included in fair value as at end-March. The quarterly value change includes the acquisition cost. \*\*Post-balance sheet date insolvency.

## HEP sees near-term upside from new private funding rounds

The remaining portfolio components had a minor impact on HEP's NAV performance, as only two companies have closed new financing rounds in the period. FINN closed a US\$110m series B round (after securing US\$720m in asset-backed debt over the previous six months) at a US\$390m pre-money valuation, resulting in an upward revaluation within the HEP portfolio. On the other hand, Klarna (which made up only 1% of HEP's portfolio at end-March 2022) closed a new financing round of US\$800m, which valued the company at US\$6.7bn – 87% below the US\$45.6bn valuation in June 2021 but representing a valuation three times higher than in 2018.

Meanwhile, HEP's three largest private holdings (Enpal, Modifi, Springlane), which make up c 44% of its private portfolio, show positive operating developments. Enpal is benefiting from the spike in demand for photovoltaics in Germany, expecting FY22 revenues at €340–400m (4x the FY21 level) and reaching its breakeven point in FY22. Modifi expects to triple its top-line this year (according to HEP's management) and has extended its management team by several high-profile members, while Springlane targets €60m net revenues in FY22, which implies over 25% y-o-y growth.

Some indication of the overall good financial performance across HEP's portfolio is the fact that HEP sees a near-term upside potential for a c €1.5 increase in its NAV per share (up c 20% from end-June 2022) arising from private holdings which are in advanced talks on new funding at higher valuations.

HEP also reported a downward revaluation of Celsius in H122 related to its distressed situation, as the company was hit by the downturn in crypto markets coupled with internal risk management deficiencies (it filed for bankruptcy after HEP's reporting date). We note, however, that HEP had invested only US\$1.0m in Celsius.

## **New credit line providing funds for new investments**

HEP's only new investment during Q222 was its participation in a series B funding round at WorkMotion (as part of which HEP acquired preferred shares in the company). WorkMotion is an HR tech firm which offers a workforce management platform including hiring, onboarding and HR management across over 160 countries. In June 2022, it closed a US\$50m financing round (US\$40m equity, supplemented by debt) led by Canaan Partners, and which included follow-on investments from Activant Capital, XAnge and Picus Capital. HEP was a first-time investor alongside GR Capital.

At end-2021, HEP had €18.8m in short-term liabilities to banks representing cash collateral received to secure possible claims from put options on FTK's shares, which HEP purchased as part of a collar strategy it entered in H221 (with a term until end-March 2022). Part of these collar transactions was terminated in H122 (reducing HEP's liabilities by €10.5m), while the remaining part (representing a cash collateral of €9.4m) was extended. Meanwhile, HEP obtained a credit line from HypoVereinsbank of up to €23m (of which €10m was drawn at end-June 2022), with part of the FTK shares pledged as collateral. The drawn amount of the credit line and outstanding liabilities associated with the collar transactions translated into HEP's net gearing at 14% of NAV at end-June 2022. Together with its cash at end-June 2022, this translated into liquid resources available for investment of c €19m.

## **Peer group comparison**

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HEP's recent NAV performance is below the peer group's average, due to share price performance of FTK. The significant decrease in FTK's valuation has also influenced the longer-term results, with HEP's NAV total return being below average over three and five years. HEP's shares are trading at a 43% discount to NAV (43% after accounting for FTK's share price change after end-June 2022), which is wider than the peer average. It is worth noting that VC trusts (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 31.7% average peer discount to HEP's NAV at end-June 2022 (adjusted for the subsequent movement in FTK's share price), we arrive at a fair value per share of €5.74. HEP's ongoing charges ratio is higher than its peer group median, although we note the recent changes to HEP's fee structure (see [our initiation note](#) for details). HEP does not intend to pay dividends for now, contrary to VCTs, which normally distribute dividends on a regular basis.

**Exhibit 4: Peer group comparison at 6 October 2022\* 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 (%)
<b>Heliad Equity Partners</b>	<b>47</b>	<b>(58.7)</b>	<b>34.4</b>	<b>(6.5)</b>	<b>(43.0)</b>	<b>3.8</b>	<b>Yes</b>	<b>114</b>	<b>0.0</b>
Albion Enterprise VCT	107	6.2	25.7	60.3	(6.3)	2.5	Yes	100	5.4
Kings Arms Yard VCT	95	3.2	25.6	39.9	(14.2)	2.4	Yes	100	11.3
Northern 2 VCT	108	0.2	20.5	30.5	(7.3)	2.4	Yes	100	6.2
FinLab	48	(20.4)	42.3	82.0	(70.0)	3.1	No	100	0.0
British Smaller Companies VCT2	99	5.3	46.4	60.0	(7.8)	2.0	Yes	100	14.4
ProVen Growth and Income VCT	169	6.3	8.8	20.7	(8.9)	2.4	Yes	100	10.4
Augmentum Fintech	160	19.0	41.6	N/A	(40.3)	1.7	Yes	100	0.0
Vostok Emerging Finance	182	2.4	21.6	85.4	(48.4)	1.6	Yes	100	0.0
Molten Ventures	374	26.1	78.8	27.1	(82.1)	1.6	Yes	100	0.0
<b>Average (excl. HEP)</b>	<b>149</b>	<b>5.4</b>	<b>34.6</b>	<b>50.7</b>	<b>(31.7)</b>	<b>2.2</b>	<b>N/A</b>	<b>100</b>	<b>5.3</b>
<b>HEP's rank in sector</b>	<b>10</b>	<b>10</b>	<b>5</b>	<b>9</b>	<b>7</b>	<b>10</b>	<b>N/A</b>	<b>10</b>	<b>6</b>

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: end-June 2022 for HEP, FinLab, Vostok Emerging Finance, British Smaller Companies VCT2, Albion Enterprise VCT, Kings Arms Yard VCT, Northern 2 VCT; end-May 2022 for ProVen Growth and Income VCT; end-March 2022 for Molten Ventures and Augmentum Fintech.

## 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 FTK's share price performance and realisation path. Having said that, we have updated our scenario analysis which we included in our [initiation note](#) published in July 2022 (see Exhibit 5).

**Exhibit 5: HEP's prospective NAV TR under different scenarios**

	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e
<b>Average MOIC at 2.5x, FTK's share price at average sell-side target price</b>							
EPS (diluted, €)	1.67	(5.45)	0.88	1.09	1.36	1.42	1.91
IFRS NAV per share (€)	14.15	8.70	9.58	10.68	12.04	13.46	15.36
NAV TR		(39%)	10%	11%	13%	12%	14%
<b>Average MOIC at 3.0x, FTK's share price at average sell-side target price</b>							
EPS (diluted, €)	1.67	(5.25)	1.14	1.45	1.87	2.12	2.89
IFRS NAV per share (€)	14.15	8.90	10.03	11.49	13.36	15.48	18.37
NAV TR		(37%)	13%	14%	16%	16%	19%
<b>Average MOIC at 2.0x, FTK's share price flat</b>							
EPS (diluted, €)	1.67	(5.68)	0.62	0.73	0.87	0.74	1.01
IFRS NAV per share (€)	14.15	8.47	9.08	9.82	10.69	11.43	12.45
NAV TR		(40%)	7%	8%	9%	7%	9%

Source: HEP, Edison Investment Research

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