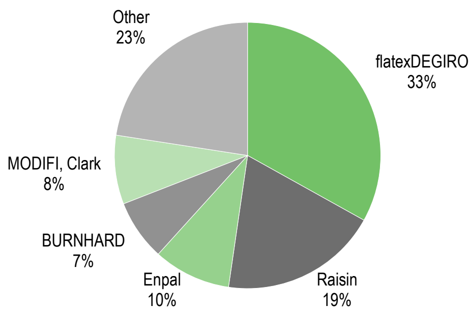
Heliad

Market environment turning slightly more positive

Investment companies
Venture capital

Heliad reported a net asset value (NAV) per share of €18.20 at end-March 2024, roughly unchanged compared to end-September 2023 (€18.17), as the 25% share price increase of the listed flatexDEGIRO (Heliad's largest holding) offset some fair value reductions in Heliad's private portfolio. Meanwhile, several of its portfolio companies announced important developments. This includes solid FY23 results from Raisin and Clark, the combination of Razor Group with Perch, FINN's €100m funding round and Enpal's €1.1bn debt raise. While venture capital (VC) deal activity and exit opportunities remain subdued, there are initial signs of a stabilisation and recovery.

Heliad's gross portfolio breakdown at end-March 2024



Source: Heliad

European VC offers an expanding opportunities pool

Despite the recent weakness in deal activity, we consider European VC as 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. The European VC ecosystem benefits from an expanding pool of opportunities, with deal values growing by 26% pa in 2018–22 (vs 11% for US VC), as well as a high number of vibrant science hubs. Median European VC deal sizes across all stages (except for pre-seed) were visibly below the US VC market in 2023, suggesting that Europe may still offer more attractive entry points.

Why consider Heliad now?

Last year's merger between FinLab and Heliad Equity Partners created a listed VC and growth investor with a €150m+ portfolio of 25+ holdings, most of which provide exposure to potentially disruptive secular themes (see our previous note for details), 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. We note that the combined value of these two investments and Heliad's stake in listed online broker flatexDEGIRO based on last closing price (when adjusted for Heliad's net other liabilities at end-March 2024) is higher than Heliad's current market capitalisation. 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.

04 July 2024

Price		**€9.50**
Market cap		**€80m**
NAV*		**€153m**
NAV per share*		€18.20
Discount to NAV		47.8%
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	€13.00	€8.60
NAV high/low	€18.76	€17.88

*At 31 March 2024.

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

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NAV broadly stable over the six months to end-March

Heliad's NAV per share stood at €18.20 per share at end-March 2024 (see Exhibit 1) and remained largely unchanged compared to €18.17 as at end-September 2023 (when the company first reported an NAV for the combined FinLab/Heliad Equity Partners entity). This is the result of the c 25% share price appreciation of flatexDEGIRO, which offset some fair value reductions in Heliad's private portfolio (most notably related to InstaFreight, which filed for bankruptcy in December 2023).

Heliad's shares currently trade at a c 48% discount to end-March 2024 NAV. Several other listed VC/growth equity investment companies (eg Molten Ventures and IP Group in the UK) also experienced wide discounts to NAV recently, though we note that these companies may not be fully comparable with Heliad given the differences in portfolio composition. This likely reflects investor anxiety related to: 1) the valuations of early-stage private companies amid interest rate normalisation and macroeconomic headwinds (though we note that the interest rate cycle is starting to turn), 2) the cash runways of portfolio companies, and 3) the amount of holding-level liquidity required to continue participating in subsequent funding rounds.

We note that flatexDEGIRO's share price increased further by 26% after end-March 2024, with the major move occurring after the announcement of Q124 results (which we discuss in more detail below). Moreover, we note the recent management board changes, with Frank Niehage stepping down from the CEO position effective 30 April 2024. This follows criticism of the CEO from Bernd Förtsch, the founder of flatex Bank and one of flatexDEGIRO's major shareholders (now holding a c 20% stake), who is also Heliad's majority shareholder. Dr Benon Janos (CFO) and Stephan Simmang (CTO) will act as interim co-CEOs, while the company looks for Niehage's successor. Bernd Förtsch was elected supervisory board member during the recent AGM. He has highlighted several strategic initiatives he believes should be implemented at the company, including, among others: expansion into investment products offering exposure to cryptocurrencies, the introduction of proprietary investment products, as well as the re-introduction of a more transparent pricing model.

Based on the last closing price of flatexDEGIRO's shares (after cautiously applying a 10% discount), we calculate that the market is applying a c 80% discount to the fair value of Heliad's private holdings. Here, we note that the company values its private holdings in line with the valuation of their last funding round.

Exhibit 1: Heliad's portfolio at end-March 2024

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	53.4	5.7	33%
	Raisin	Fintech	Sep-15	Series A	<5%	4.1	31.0	7.6	19%
	Enpal	Cleantech	Apr-21	Series C	<1%	7.5	15.2	2.0	9%
	BURNHARD	E-Commerce	Oct-12	Seed	<50%	11.9	11.9	1.0	7%
€5–10m	Modifi	Fintech	Aug-21	Series B	<10%	13.6	13.5	1.0	8%
	Clark	Insurtech	Jul-21	Series C	<1%				
€2–5m	WorkMotion	HRtech	Jun-22	Series B	<5%	26.2	25.1	1.0	15%
	C3 Tech VC I	VC Fund	Sep-18	-	<10%				
	Razor Group	E-commerce	Jul-21	Series B	<1%				
	NewtonX	AI	Oct-21	Series B	<5%				
	Cashlink	Web3	Nov-18	Seed	<20%				
	Invesdor	Fintech	Feb-15	Series A	<5%				
	FINN	Mobility	Jan-22	Series B	<1%				
€1–2m	Tonies	Consumer	Jun-21	Public	<1%	7.0	7.5	1.1	5%
	Patriarch Multi-Manager	Asset manager	Dec-12	-	100%				
	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	3.8	N/A	2%
	Total portfolio						**161.6**		
	Other net assets/(liabilities)						(8.5)		
	Net asset value (NAV)						153.1		
	NAV per share (€)						**18.20**		

Source: Heliad, Edison Investment Research

Update on private portfolio holdings

Raisin (19% of Heliad's end-March 2024 gross portfolio value), an open banking fintech that offers a digital platform for savings and investments, recently announced its FY23 results, almost doubling its revenue to €158m and achieving an EBITDA of over €20m, allowing it to reach break-even (with a net profit of €1m). Assets on its platform increased by 74% y-o-y to €57bn and it had more than 500k active consumers at end-2023. Close to €7bn of net new flows were invested by existing customers (ie who used the Raisin platform before 2023). The company also highlighted that Raisin's average customer triples the initial invested amount over time, translating into a consistently high net revenue retention of more than 100%. Moreover, Raisin onboarded a record-high number of 72 banks in 2023. We note that the company raised €60m in a Series E funding round in March 2023. Heliad's stake in Raisin was valued at €31.0m at end-March 2024, unchanged compared to end-September 2023.

Enpal (9% of Heliad's end-March 2024 gross portfolio value), a 'greentech' business and a provider of PV leasing solutions, announced in March 2024 that it raised €1.1bn debt to accelerate the rollout of its integrated financing offering for residential solar and heat pumps. The funding consists of €1bn senior refinancing commitments from Barclays Europe, Bank of America and Credit Agricole, as well as €118m of mezzanine debt commitments from Canada Pension Plan Investment Board. The funding consists of €1bn of senior refinancing commitments from Barclays Europe, Bank of America and Credit Agricole, as well as €118m of mezzanine debt commitments from Canada Pension Plan Investment Board.

We also note that the company plans to launch its own production of solar modules at its existing locations in Germany and Europe in response to the exit of some existing producers (eg Meyer Burger) amid the lack of support of local manufacturers and competition from China. Enpal is planning to facilitate a pan-European consortium for the domestic production of solar modules. It is also advocating for targeted support for the domestic solar industry, like the EU Chips Act, which would involve in particular direct investment and operating cost subsidies. Finally, Enpal plans to build Europe's largest virtual power plant through a joint venture with Entrix, an AI-powered optimisation and trading platform for energy storage.

With respect to Heliad's other portfolio companies, **Clark**, a European digital insurance broker, posted a 35% sales increase in 2023 to €135m and achieved a positive operating result for the first time. **Razor Group** acquired its US-based competitor, e-commerce aggregator Perch, in March 2024. This follows the previous acquisitions of Factory14, Valoreo and The Stryze Group. Razor Group simultaneously announced a US$100m Series D round led by Presight Capital, and the Perch deal valued the combined entity at US$1.7bn. Razor's management highlighted that the Perch deal adds significant scale to its product portfolio and paves the way for a US$1.0bn top-line business in the medium term. We also note that **FINN** raised €100m in a Series C round in January 2024, 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).

Heliad's 2023 annual report also included some historical details on results of investments in which Heliad held a stake of more than 20% at end-2023. This includes **Burnhard** (the owner of a D2C BBQ brand in which Heliad held a 47.33% stake at end-2023), which reported a net loss of €11.0m in 2022 (and a negative equity of €3.0m at end-2022). We note that Heliad led Burnhard's €20m funding round in September 2023 and that Heliad's management highlighted that Burnhard recently improved its profitability significantly through supply chain recovery and cost optimisation (though no recent profitability figures were disclosed).

New investment in ChefCoco

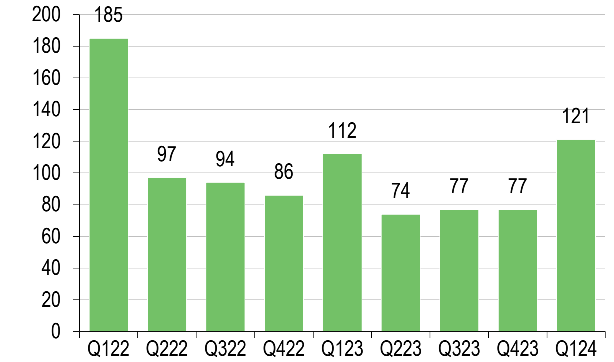
Heliad recently led a seven-figure euro pre-series A round for ChefCoco, a corporate meal service provider in Berlin. This investment is somewhat different from Heliad's main investment focus on potentially disruptive tech businesses. That said, Heliad highlighted that ChefCoco is benefiting from its unique approach to building and operating a central industrial-scale production kitchen, allowing it to realise economies of scale (supported by a 100% client retention rate). As result, the company is on track to reach profitability in the coming months. Heliad also underlined the business's strong and diverse founding team, with backgrounds including international corporations, start-ups and Michelin-starred restaurants.

FlatexDEGIRO reporting an earnings pick-up in Q124

FlatexDEGIRO, one of the leading European online brokers (making up 33% of Heliad's end-March 2024 gross portfolio value), reported a slight 1% y-o-y decline in the number of settled transactions in Q124 to 16.1m (and a 19% sequential rebound), despite the still subdued activity of retail investors and a lower number of trading days. In April and May 2024, the company saw increases in settled transactions of 36% and 10% y-o-y, respectively.

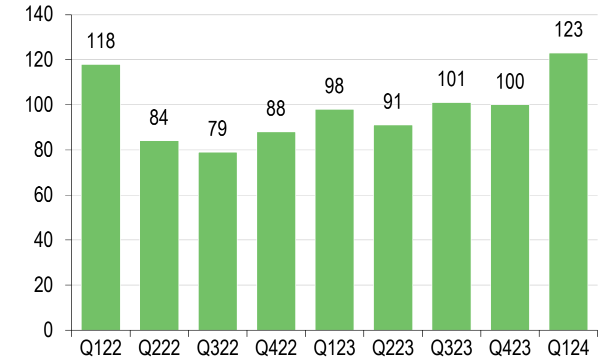
flatexDEGIRO reported a 25% y-o-y increase in revenue to €123m in Q124, assisted by a 10% y-o-y increase in commission income to €75m (with a 12% rise in commission per trade to €4.64, though management expects this to go down in Q224) and a 65% increase in interest income to €44m. The latter was supported by the recent interest rate normalisation, as the company is set up as a fully-fledged bank with a fully collateralised book. Its interest income includes interest earned on customer deposits recycled into margin loans and overnight central bank deposits. We note that the company gathered net cash inflows from clients of €1.8bn in Q124 (up 4% y-o-y) even though it does not pay any interest to customers (the company's total assets under custody, including securities, reached €58.0bn, up 29% y-o-y and 12% q-o-q).

Exhibit 2: flatexDEGIRO's gross customer additions (in thousands)



Source: flatexDEGIRO

Exhibit 3: flatexDEGIRO's adjusted revenues (€m)



Source: flatexDEGIRO

Gross client additions reached 121k in Q124 (up 8% y-o-y and 57% q-o-q), and the annualised client retention rate stood at 98% in Q124. Importantly, this has been achieved when marketing expenses fell by 33% y-o-y to €11.5m, translating into a fall in acquisition costs per client of 38% to €95 in Q124. Personnel expenses increased by c 16% y-o-y to €24.9m, due to an average 8% salary increase implemented in 2023, as well as additional headcount related to the BaFin audit. That said, management expects the year-on-year change to be lower in the coming quarters due to a high base effect.

As a result, flatexDEGIRO's EBITDA went up by 177% y-o-y to €54m (and was up 4% vs Q423), while net income went up by c 341% y-o-y €30m (though was c 3% below Q423). Management now expects FY24 results to come in at the upper bound of its earlier guidance of revenue and net income growth of 5–15% and 25–50%, respectively. The re-application of credit risk mitigation techniques led to a significant increase in its CET-1 ratio to 26.89% at end-2023 from 19.94% at end-2022. The company also highlighted that MSCI recently upgraded its ESG rating by two notches from BB to A in April 2024. flatexDEGIRO currently trades at an FY24e P/E ratio of 9.2x, based on the current LSEG consensus.

Heliad's balance sheet

At end-December 2023, Heliad had €10.4m of gross cash and equivalents and a net debt position of €4.5m. Its outstanding debt of €14.9m at end-2023 represents the drawn part of its €23m credit facility secured on Heliad's stake in flatexDEGIRO (valued at €53.4m at end-March 2024). The drawn amount represents c 9% of Heliad's end-March 2024 gross portfolio value. Although the company is not disclosing the gross cash and net debt figures in its quarterly updates, we note that Heliad had net other liabilities of €8.5m at end-March 2024.

Market backdrop: Light at the end of the tunnel for VC?

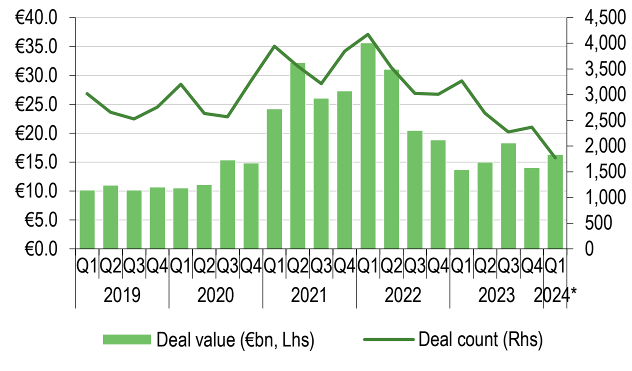
Last year, deteriorating macroeconomic conditions, along with a de-rating of public equity markets and a normalisation of monetary policy after the ultra-low interest rate environment of previous years, had an impact on both deal volumes and valuations in the VC market, given that VC-backed companies are long-duration assets and therefore more sensitive to a changing rate environment. As a result, VC markets were soft, with longer due diligence processes extending deal timelines (with time needed to complete a fund-raising now being around three to six months) and limiting exit activity.

That said, we note some tentative signs of revival in the broader IPO and private M&A markets. Reuters recently indicated, citing Dealogic data, that Q124 global M&A volumes increased by 30% y-o-y to US$755.1m, mostly on the back of a pick-up in mega-cap deals. The recovery is assisted by stabilising interest rates and improving equity markets. European VC deal value increased by 19% y-o-y to €16.3bn in Q124 (though deal count was down c 46% y-o-y, see Exhibit 4), based on PitchBook data as at end-March 2024, which was assisted by the €4.75bn megadeal of the cleantech business H2 Green Steel in January 2024. The second- and third-largest deals in the quarter included the €399.2m funding round of the fintech company Monzo and the €384.4m round of Mistral AI, which subsequently raised another €600m in equity and debt funding at a c €5.8bn valuation. The Q124 figure is still 54% lower than the Q122 level, hence activity remains modest for the time being. According to KPMG's Venture Pulse Q1 2024 report, VC deal value in Germany fell slightly to US$1.8bn in Q124 from US$1.9bn in Q423, with several factors keeping VC investors restrained. These factors include, among others, high energy costs, concerns related to global competitiveness, elevated geopolitical uncertainties, as well as a lack of exit opportunities.

That said, fund-raising volumes in recent years, coupled with cautious capital deployment in 2023, left VC funds with a significant amount of dry powder, which may support deal activity in 2024. Despite this, European VC fund-raising was quite resilient in Q124 at €4.6bn (across more than 47 vehicles) compared to full-year figures of €19.0bn in 2023 and €30.6bn in 2022, according to PitchBook.

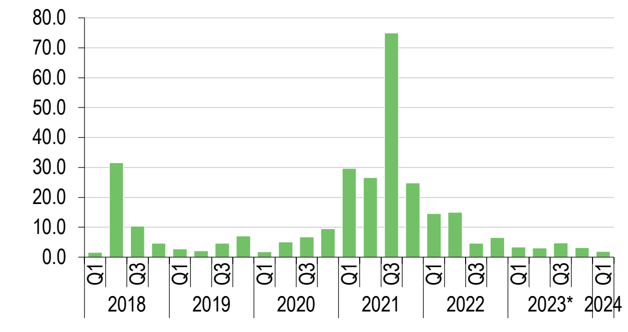
Meanwhile, European VC exits remained subdued in Q124 at €1.9bn (lower than the €3.4bn in Q123 and well below Q122 at €14.6bn, see Exhibit 5). European IPO markets remain difficult for unprofitable VC-backed businesses, making the sale to trade buyers a more likely exit route at present. That said, we note that the management of Molten Ventures highlighted recently that FY25 (ending March 2025) is showing promise of delivering a more normalised level of realisations and that it expects £100m realisation proceeds, meaningfully higher than in the last two financial years.

Exhibit 4: European VC deal value and count



Source: PitchBook. Note: *Data as at 31 March 2024.

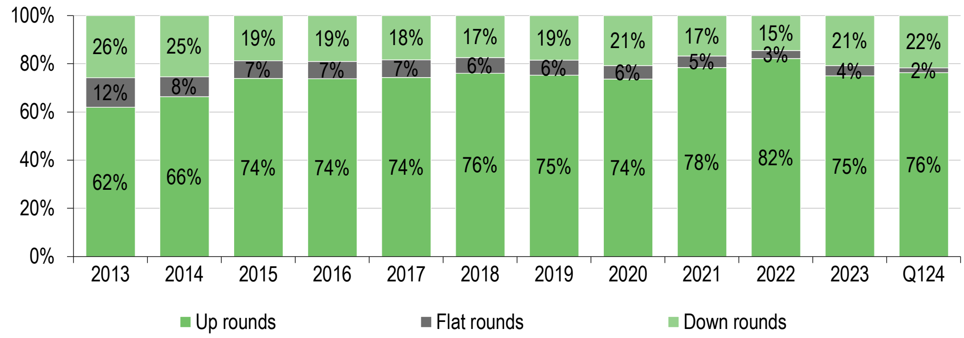
Exhibit 5: European VC exit value (€bn)



Source: PitchBook. Note: *Data as at 31 March 2024.

The share of down-rounds in the European VC market stood at 21.7% in Q124, which was only a slight increase from 20.8% in 2023 (vs 14.5% in 2022), according to PitchBook (see Exhibit 6). Some further valuation headwinds cannot be ruled out, given that many VC-backed companies delayed new funding rounds in recent months by reducing their cash burn rates. Still, it seems that the European VC valuation environment is gradually stabilising, with median deal sizes increasing across all stages in Q124. Moreover, the recent onset of the rate cut cycle of the European Central Bank (with a 25bp reduction of the main interest rate in June) may prove supportive to private company valuations. That said, we note that the US Fed's chair recently signalled only one rate cut until the end of 2024.

Exhibit 6: Share of European VC deal count by up/flat/down rounds



Source: PitchBook. Note: *Data as at 31 March 2024.

In the long term, we consider the European VC market a compelling route to gaining exposure to the European tech sector, especially given the limited options in European public markets (eg in software-as-a-service), companies staying private for longer and superior historical VC returns versus public markets. Furthermore, we note several government initiatives across Europe aimed at supporting the development of an innovative tech ecosystem, such as the UK's Science and Technology Framework (launched in March 2023) and the Mansion House reforms (unveiled in July 2023), or Germany's €1bn VC startup growth fund of funds launched in November 2023 with the federal government and development bank KfW as anchor investors.

Given that most of Heliad's private investments were made in 2021 or later (and are mostly valued close to investment cost), and the fact that both Raisin and Enpal do not seem to be considering IPOs in the near term, we do not expect any major portfolio exits at this stage. Because of this, and the fact that Heliad's management earmarked 70% of available liquidity for follow-on investments (with the remaining 30% used mostly for new Series A investments), we also anticipate that Heliad's new investments will be moderate in the near term. We note that Heliad's liquidity requirements for its ongoing expenses are relatively limited as it is self-managed and generates recurring income from third-party mandates, as mentioned above.

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