GBC AG
Investment Research

Research Report (Anno)

fintechgroup

Significant earnings increase in 2016 expected

-

Latest setback of share price offers favourable opportunity

Target Price: € 28.50

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) on page 19

Date of Completion: 12/07/2016 **Date of first Publication: 12/07/2016**

GBC AG Investment Research

Fintech Group AG*5a,5b,6a,11

Rating: BUY
Kursziel: € 28.50

Current price: 13.20
12/07/2015, 10:11 / ETR
Currency: EUR

Key Information:

ISIN: DE0005249601
WKN: 524960
Ticker Symbol: FLA

Number of shares³: 16.811
Marketcap³: 221.90
³in million / in mEUR

Free Float: 42.15 %

Transparency level:
Entry Standard

Market Segment:
Open Market

Accounting Standard:
IFRS

Financial Year: 31/12

Designated sponsor:
ICF Kursmakler
Hauck & Aufhäuser
M.M.Warburg & CO

Analysts:

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filker@gbc-ag.de

* List of possible conflicts of interest on page 20

Company profile

Sector: software, technology

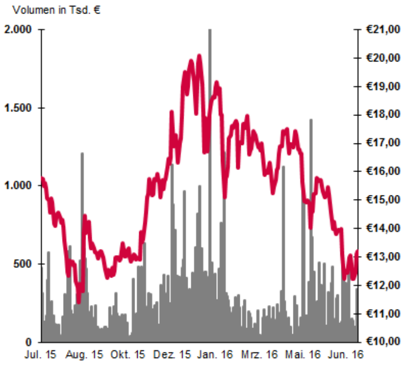
Focus: fintech, banking services

Employees: 447 (due date: 31/12/2015)

Established: 1999

Registered office: Frankfurt am Main

Board of management: Frank Niehage



FinTech Group AG together with its subsidiary flatex has been one of the market and innovation leaders in the German online brokerage market for ten years now. The continual growth in the number of customers and transactions as well as turnover demonstrate that disruptive business models are successful on the market. The company has now set the goal of becoming Europe's leading supplier of innovative technologies in the financial sector by means of a comprehensive transformation and growth process that also expands it beyond online brokerage. The company focuses on business models with long-term, above-average growth as well as rapid market penetration. As part of this growth programme, in March 2015, the FinTech Group acquired the majority of shares in the XCOM Group, one of the most successful software and technology suppliers for financial service providers. The XCOM subsidiary biw AG has a license to provide banking services (known as full banking). For more than 25 years, the XCOM Group has been one of the most important technology and outsourcing partners for the German banking industry and one of the most successful partners in the up-and-coming German fintech sector.

P&L in mEUR, financial year-end	31/12/2015	31/12/2016e	31/12/2017e	31/12/2018e
Net Sales	75.19	84.71	93.18	102.50
EBITDA	19.74	32.46	37.25	42.55
EBIT	17.24	29.46	34.00	39.05
Consolidated earnings from continuing operations (after minorities)	14.01	23.66	26.93	27.94

Key figures in EUR				
EPS from continuing operations	0.88	1.41	1.60	1.66
DPS	0.00	0.00	0.00	0.00

Key Figures				
Equity	85.86	109.51	136.45	164.39
Return on Equity	16.3%	21.6%	19.7%	17.0%
Price-Sales-Ratio	2.95	2.62	2.38	2.16
Price-Earnings-Ratio	15.84	9.38	8.24	7.94
Price-Book-Ratio	2.58	2.03	1.63	1.35

Financial calendar
August 2016: Annual Shareholder Meeting
September 2016: Half-year report

** Last research by GBC:
Date: publication/target price in EUR/rating
01/06/2016: RS / 26.85 / BUY
02/05/2016: RS / 26.85 / BUY
11/04/2016: RS / 26.85 / BUY
29/03/2016: RS / 26.85 / BUY
15/02/2016: RS / 26.85 / BUY
** The research studies indicated above may be viewed at www.gbc-ag.de, or requested from GBC AG, Halderstr. 27, D86150 Augsburg

EXECUTIVE SUMMARY

- For FinTech Group AG, FY 2015 was very much characterised by transformation into one of the leading companies for innovative financial technologies in Germany. With the acquisition of XCOM AG on 31.03.2015, the company substantially expanded its value chain, for which reason it can now offer a broad range of banking solutions for private customers and in the B2B sphere, especially with regard to up-to-date fintech solutions. Furthermore, not only does the company have a strong customer base with access to more than 200,000 private customers and numerous B2B customers, but it also combines technological expertise in the company to meet the requirements associated with changes in the banking sector.

- The development of figures for 2015 was characterised mainly by the acquisition of XCOM AG, including the full bank subsidiary biw Bank AG. However, the effects of adjusting the company structure and the streamlining of the operational setup with the successful sale of the loss-making AKTIONÄRSBANK or the out-licensing of CFD market making to Commerzbank were also noticeable. Sales revenues in FY 2015 were €75.19 million, which was substantially higher than in the previous year, when XCOM was not yet a member of the group.

- The result also improved significantly at the same time. EBITDA was €19.74 million and the EBITDA margin was 26.3%. Here, it must be noted that EBITDA was strongly affected by one-off events in the course of the acquisition, restructuring etc., which on balance caused a reduction of €7.18 million. Adjusted to take account of these effects, EBITDA would be €26.90 million and the EBITDA margin would be 40.1%.

- In our opinion, the high core profitability demonstrates the trend in profitability of the FinTech Group AG for the years ahead. While we expect sales revenues for FY 2016 to increase to €84.71 million, we also anticipate EBITDA amounting to €32.46 million, which is in the middle of the range given by the management. With the discontinuation of the charges from the relinquished business, post-tax earnings in 2016 should be considerably better and allow an EPS of €1.41.

- A number of factors are expected to drive growth in the years ahead. In B2C business, it is primarily the expansion of the product range (e.g. flatex flex credit, structured products with their own label etc.) as well as the regional expansion that produces growth in the number of customers and therefore also deposits and revenue from commission. In B2B business, the FinTech Group AG benefits amongst other things from the growing numbers of customers in the white label banking sphere, in which a large number of new customers have also been acquired this year. Furthermore, the company can now use the high level of customer deposits much more efficiently, thereby achieving an additional increase in profitability.

- **Overall, we believe that FinTech Group AG is very much on track to expand its position as one of the leading fintech companies on the German and European market. We expect to see to see double-digit growth in revenue and earnings in the years ahead. With this in mind, we are repeating our purchase recommendation and increasing the target stock price from €26.85 to €28.50.**

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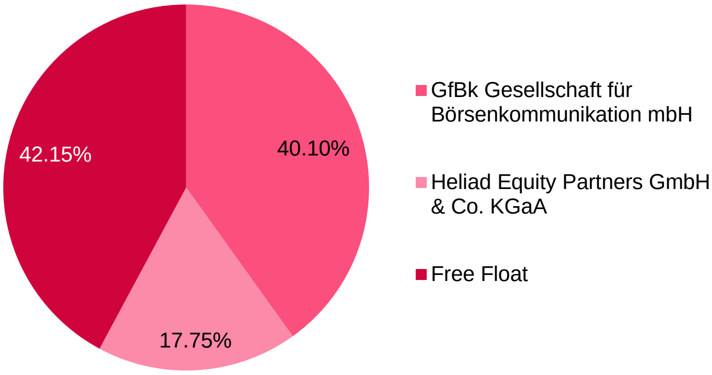
COMPANY

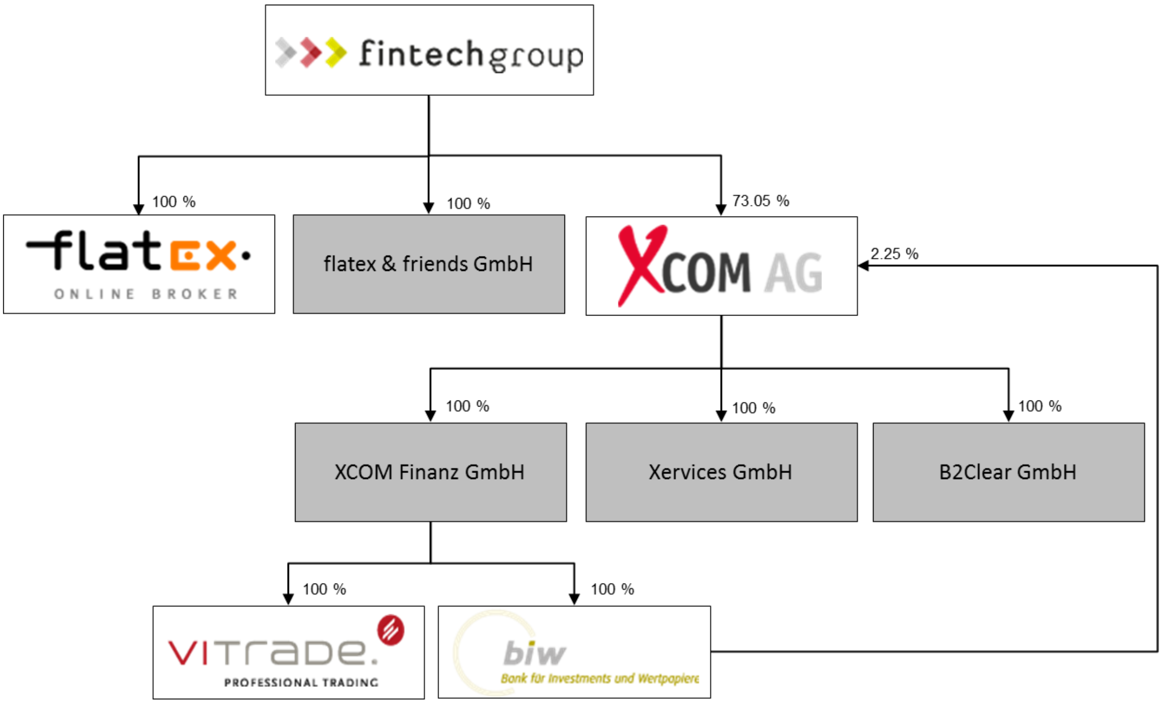
Shareholder structure

Shareholder in %	30/06/2016
GfBk Gesellschaft für Börsenkommunikation mbH	40.10 %
Heliad Equity Partners GmbH & Co. KGaA	17.75 %
Free Float	42.15 %
Total	100.00 %

Source: FinTech Group, GBC



Company structure



Source: FinTech Group, GBC

Management Board

Frank Niehage (CEO)

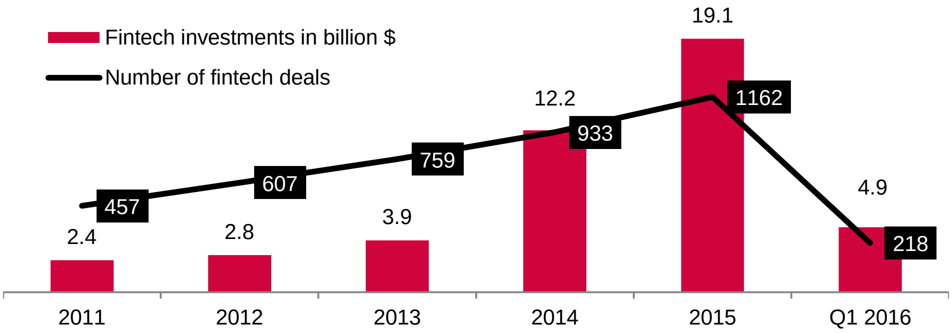
Frank Niehage has wide-ranging expertise in the financial services sector. Up to August 2014 he was Managing Director in the Investment Management Division of Goldman Sachs in Frankfurt. Previously, as CEO, he played a key role in the expansion of the German business at Sarasin private bank. Niehage's previous management positions include national and international roles at Commerzbank, Credit Suisse and UBS, as well as international law firm Beiten Burkhardt. In addition to being authorised to practise law in Germany, Niehage has a Master of Laws degree from the Law Center at the University of Houston, majoring in international economics.

MARKET AND MARKET ENVIRONMENT

In 2015, new records were achieved in the fintech sector. The volume of worldwide investment increased by 56.6% to USD 19.1 billion. The number of financed fintech companies increased further in 2015 to 1,162, whereas in the previous year 933 companies were financed in the sector. The disproportional increase in the number of financed companies, i.e. approximately 25% in relation to the overall investment volume, suggests that the sector is reaching an increasing level of maturity and the financing rounds are increasing.

It is now clearly recognisable that new technologies are coming into the financial sector and that existing processes are being progressively replaced. Consequently, companies from the traditional financial sector such as banks and insurance companies are now playing an important role in the financing of fintech companies. They increasingly have to address the technological challenge in order to maintain their competitiveness and market positioning in the future. There was a sustained momentum at the beginning of the year. In Q1 2016, VCs invested USD 4.9 million in 218 in fintech companies around the world, an increase of nearly 100% compared with the same period in the previous year. New record figures can also be expected for 2016.

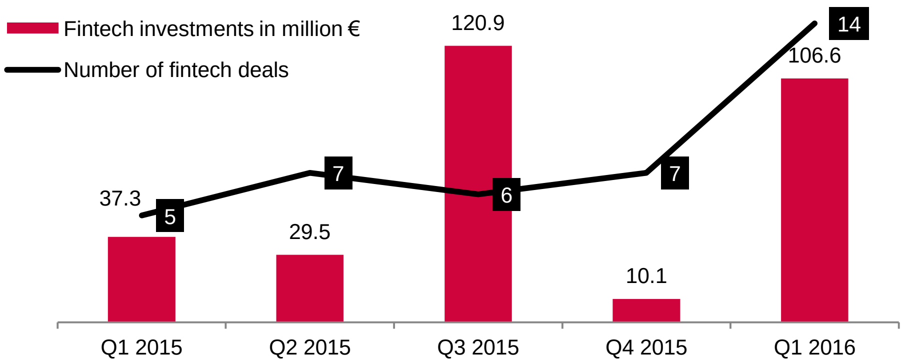
Worldwide fintech-financing and number of financings by VCs



Source: KPMG, CB Insights

The growth trend in fintech financing is sound in Germany as well. In Q1 2016, the figure was USD 106.6 million, which was not far below the highest figure ever, i.e. USD 120.9 million in Q3 2015. The number of deals, i.e. 14 in Q1, however, was a new record. Furthermore, the figure represents an increase of 186% compared with the previous year. Overall, the fintech movement is gaining increasing momentum in Germany too.

Quarterly investments in fintech companies in Germany by VCs



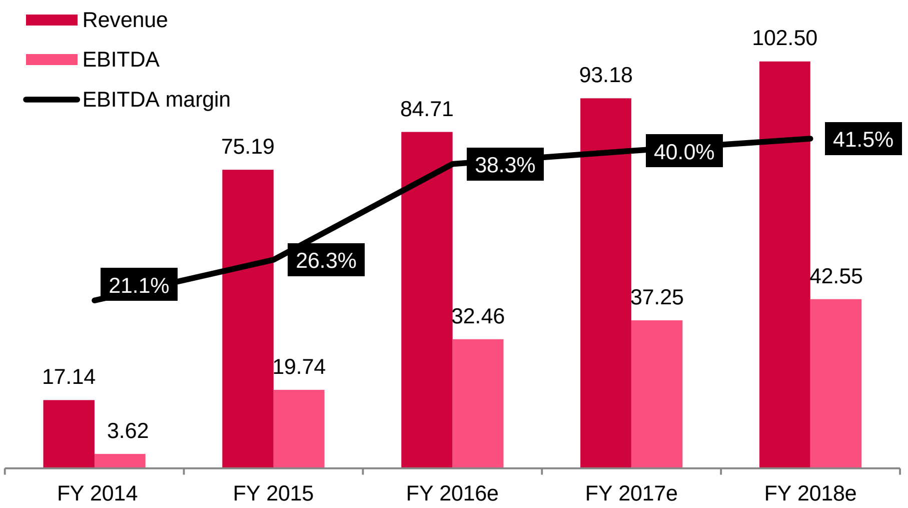
Source: KPMG, CB Insights

COMPANY PERFORMANCE AND ESTIMATES

Overview of key figures

P&L (in € millions)	FY 2015	FY 2016e	FY 2017e	FY 2018e
Revenue	**75.19**	**84.71**	**93.18**	**102.50**
Raw materials and consumables used	-13.57	-15.25	-16.68	-18.45
Personnel expenses	-23.79	-22.00	-23.00	-24.00
Marketing expenses	-2.88	-3.00	-3.25	-3.50
Other administrative expenses	-15.06	-12.00	-13.00	-14.00
Impairment of financial assets	-0.17	0.00	0.00	0.00
EBITDA	**19.74**	**32.46**	**37.25**	**42.55**
Depreciation and amortization	-2.50	-3.00	-3.25	-3.50
EBIT	**17.24**	**29.46**	**34.00**	**39.05**
Financial Results	-2.67	-3.00	-3.25	-3.50
EBT	**14.57**	**26.46**	**30.75**	**35.55**
Income tax expense	-0.97	-3.06	-3.57	-7.11
Consolidated earnings from continuing operations	**13.60**	**23.41**	**27.18**	**28.44**
Earnings from discontinued operations	-15.76	0.00	0.00	0.00
Minority interests	0.41	0.25	-0.25	-0.50
Consolidated earnings attributable to shareholders	**-1.75**	**23.66**	**26.93**	**27.94**
EBITDA	19.74	32.46	37.25	42.55
in % of revenue	*26.3 %*	*38.3 %*	*40.0 %*	*41.5 %*
EBIT	17.24	29.46	34.00	39.05
in % of revenue	*22.9 %*	*34.8 %*	*36.5 %*	*38.1 %*
Earnings per share in €	-0.11	1.41	1.60	1.66
Earnings per share from continuing operations (after minorities) in €	0.88	1.41	1.60	1.66
Dividend per share in €	0.00	0.00	0.00	0.00
Share count in million units	15.86	16.81	16.81	16.81

Development of Sales, EBITDA (in m€) and EBITDA-margin (in %)



Source: FinTech Group, GBC

Business development in FY 2015

Note: Until 2014, FinTech Group AG was trading as flatex Holding AG. Thus, the figures prior to 2014 refer to flatex Holding AG. Since the first half of 2015, XCOM AG has been fully consolidated, which has resulted in a substantial change in the key financial figures. Furthermore, the comparability of the figures for 2015 with previous years is very limited as the financial statements were prepared for the first time in accordance with IFRS.

P&L (in € millions)	FY 2012*	FY 2013*	FY 2014	FY 2015
Revenue	15.85	14.31	17.14	75.19
EBITDA (*margin*)	1.48 (*9.3 %*)	-0.48 (*neg.*)	3.62 (*21.1 %*)	19.74 (*26.3 %*)
EBIT (*margin*)	0.24 (*1.5 %*)	-1.23 (*neg.*)	3.22 (*18.8 %*)	17.24 (*22.9 %*)
Consolidated earnings from continuing operations (after minorities)	0.48	-1.14	5.59	14.01
EPS from continuing operations in €	0.05	-0.08	0.42	0.88
Consolidated earnings incl. discontinued operations**	0.48	-1.14	-7.75	-1.75

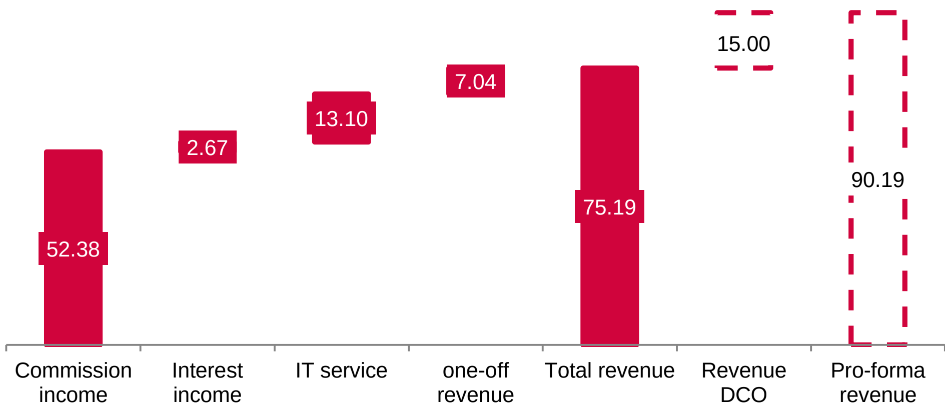
*Source: FinTech Group, GBC; *Figures refer to flatex Holding AG, **the discontinued operations include AKTIONÄRSBANK, CeFDeX and XCOMpetence*

Development of Sales

FY 2015 was marked by substantial changes for FinTech Group AG, especially due to the acquisition of XCOM AG in H1 2015. With the expansion of the companies to be consolidated, the company has completed a clear content-based development and now represents the value chain from technical expertise for the mapping of banking processes of every type to end customer business and B2B offers such as securities settlement, account and portfolio management or transaction processing. The FinTech Group has thus become established within a very short time as a leading company in the sphere of innovative finance technologies and financial services.

With the acquisition of XCOM AG, including biw Bank AG, on 31/03/2015, a substantial increase in sales amounting to €75.19 was reached. XCOM AG contributed to the achievement of this figure with a decisive inorganic effect. Therefore, a comparison with the previous year is not informative. It must also be noted that the company was only consolidated for a period of 9 months.

Development of revenues by segments (in m€)



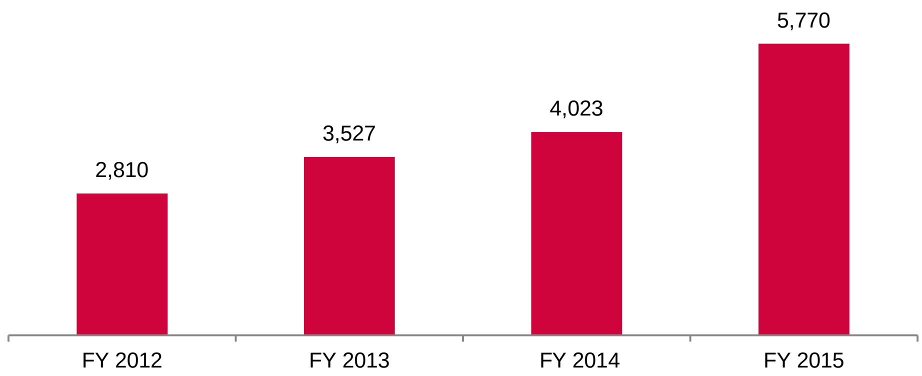
Source: FinTech Group, GBC; DCO = Discontinued Operations

When the figures are broken down according to types of revenue, it becomes clear that commission income amounting to €52.38 million accounts for the biggest share of sales revenue. It is due especially to transactions carried out by customers of flatex, ViTrade and biw, which reached a record value of 10.14 million transactions in 2015. A major portion, i.e. 7.10 million transactions, were carried out by flatex customers.

The increase in the volume of transactions is the result of a significant increase in the number of customers. It increased from 134,403 at the end of 2014 to 176,600 during the course of 2015. Contributory factors here include continual improvements in offers for customers (optimised user interface, expansion of the product range, new borrowing facilities etc.) as well as the expansion of flatex to the Austrian market.

The marked increase in the number of customers by 31% is also reflected in the increase in customer assets under management, which amounted to €5.77 billion at the end of 2015, 43% above the level in the previous year. This clearly demonstrates an increase in the average assets per customer. The aim of achieving a higher share of the wallet per customer has therefore already been achieved in 2015. Further improvements are planned in this regard.

Development of customer assets under management (in m€)*



*Source: FinTech Group, GBC; *figures before 2015 refer to biw Bank AG*

When considering the sales figures, it is important to remember that they included one-off income from licensing out the market-making CFD business to Commerzbank. According to our calculations, the one-off income amounted to approximately €7 million. It must, however, be noted that FinTech Group AG will cooperate in future with Commerzbank in the CFD business. XCOM AG operates the Commerzbank OTC trading system and flatex operates as a sales partner for the CFDs. An annual profit share has been agreed for this for the years ahead.

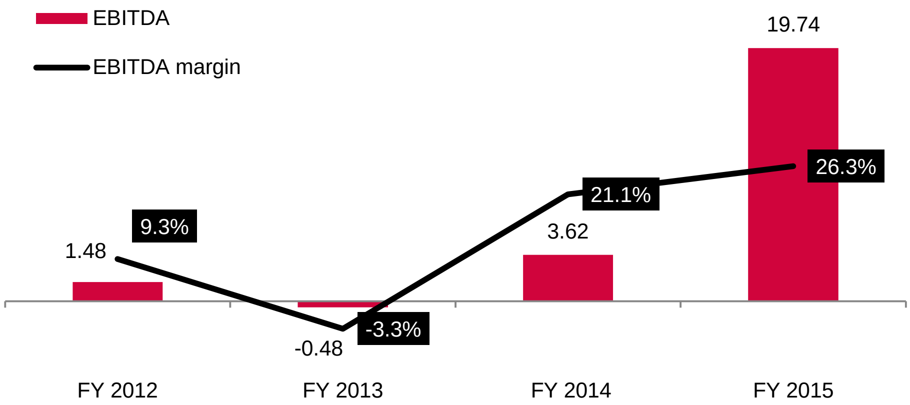
The contributions of AKTIONÄRSBANK, CeFDeX and XCOMpetence are no longer included in the reported sales revenues. Since AKTIONÄRSBANK was sold in mid-2016 and CeDFeX was wound up after transferring the CFD market making to Commerzbank, as of 31/12/2015, these companies are no longer reported as continuing business and therefore no further revenue contribution is being consolidated.

The three companies together generated sales revenue of €15 million in FY 2015. If they had been consolidated, the pro-forma group revenues would have amounted to approximately €90 million. The company therefore achieved the stated revenue target of €90 million. Our predictions of sales revenues amounting to €84.23 million were exceeded.

Development of Earnings

The takeover of XCOM AG also had a decisive impact on the results. EBITDA in FY 2015 was €19.74 million, which was substantially higher than the figure for the previous year, when XCOM was not yet included. The EBITDA margin also improved due to the consolidation of XCOM. It changed from 21.1% to the current figure of 26.3%, which is 5.2 percentage points higher. The management's EBITDA prediction of €20 million as well as our EBITDA prediction of €20.13 million has therefore been achieved.

Development of EBITDA (in m€) and of EBITDA-margin (in %)

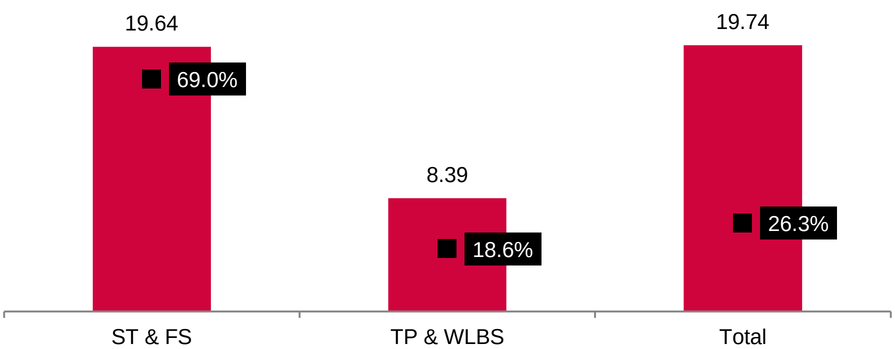


Source: FinTech Group, GBC

When the EBITDA is divided according to segments, it becomes clear that the Securities Trading & Financial Services (ST&FS) segment, under which flatex and ViTrade in particular fall, account for the largest part of the EBITDA, i.e. €19.64 million. The Transaction Processing & White-Label Banking Services (TP&WLBS) segment, which essentially includes XCOM AG, including biw Bank AG, achieved EBITDA of €8.39 million or an EBITDA margin of 18.6 %.

At group level, the EBITDA also suffered due to one-off expenditure in the ongoing business, which was incurred due to the takeover of XCOM AG, integration of the companies and restructuring measures. They were not entirely allocated to the operating segments. Instead, they were posted as "miscellaneous and consolidation" in the transition segment. The EBITDA contribution of the ongoing business was €-8.29 million here. In subsequent years, the EBITDA charge here should be substantially lower and in particular include ongoing holding costs.

Development of EBITDA (in m€) and EBITDA-margin (in %) 2015 by segments



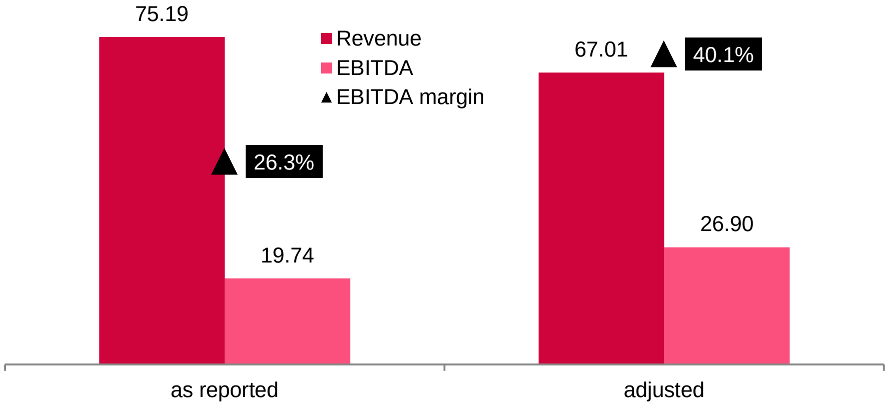
Source: FinTech Group, GBC

Across the whole group, the one-off expenses in FY 2015 were higher again. The company calculates them as being €15.34 million within the ongoing business. In addition to the factors already mentioned, they include, for example, severance pay for HR restructuring, general restructuring costs, legal and consultation costs or even one-off expenses from pensions within the framework of the switch to IFRS.

On the other hand, however, there was one-off income amounting to €8.18 million, in particular from licensing out the CFD market makings. The calculation of these opposing factors makes it clear that FinTech Group AG again achieved a substantially greater operating result than was reported.

While the adjustment of one-off income produces a sales level reduced to €67.01 million, the adjustment of one-off expenses shows that operating EBITDA was €26.90 million. This demonstrates an operating EBITDA margin of 40.1% and is therefore significantly higher than the reported IFRS value. In our opinion, the scale of the adjusted EBITDA margin shows that the company will be moving in the direction of profitability in the years ahead.

Revenue and EBITDA as reported and adjusted (in m€)



Source: FinTech Group, GBC

On account of the good sales and earnings situation, the consolidated result from the continued areas (after minority interests) was €14.01 million with EPS amounting €0.88 per share. Consequently, the company was also clearly profitable at the net level already in FY 2015.

However, the result of the discontinued business operations must also be taken into account, including the results of AKTIONÄRSBANK, CeFDeX as well as XCOMpetence. This contributed a total of €-15.76 million and will not arise again as of FY 2016 because all three companies are now no longer included in the group of consolidated companies of FinTech Group AG.

Taking into account the discontinued business, the consolidated result attributable to the shareholders of FinTech Group AG was €-1.75 million, giving a total EPS of €-0.11 million.

Balance sheet and financial situation

In € millions	31/12/2013*	31/12/2014*	31/12/2015
Equity	30.50	44.75	85.86
Equity ratio (in %)	59.9 %	47.7 %	7.1 %
Liabilities to customers	0.14	28.18	947.28
Total assets	50.89	93.89	1,208.24
Customer assets under management	3,527	4,023	5,770

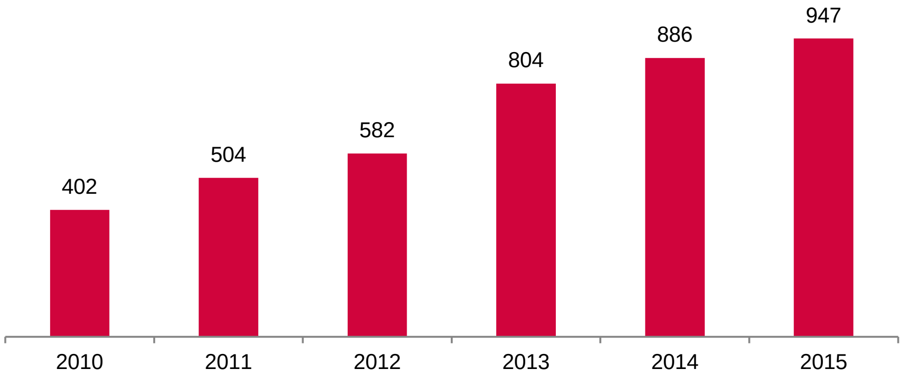
*Source: FinTech Group, GBC; *figures for 2013 and 2014 refer to flatex Holding AG*

In terms of the balance sheet, the takeover of XCOM AG and, at the same time, biw Bank AG produced a substantial increase in total assets, which is primarily due to the consolidation of biw Bank AG's customer deposits. Moreover, customer deposits increased further during the course of the year due to the increase in customers, especially at flatex. At the end of 2015, the value of customer deposits was €947.28 million.

Accordingly, there was a disproportionately low increase relative to equity. This means that the equity ratio of FinTech Group AG decreased to a normal banking level of 7.1%. In a sectoral comparison with other banks, the equity ratio is therefore now within normal parameters.

Equity is also the most important factor when dealing with the use of customer deposits, as the issued loans need to be backed with corresponding equity in accordance with the Basel regulations. Consequently, the equity of the banking subsidiary biw Bank AG in December 2015 was enhanced by a capital increase from €20 to 35 million in order to allow full use of the existing room for manoeuvre in the use of customer deposits for the lending business.

Development of liabilities to customers /customer deposits (in m€)*



*Source: FinTech Group, GBC; *figures before 2015 refer to biw Bank AG.*

At the end of 2015, the cash reserves at central banks amounted to €415.52 million. These cash reserves could not be actively used, and at present they are subject to negative interest due to the negative interest rates of the European Central Bank. With the departure from the deposit-protection fund at the end of 2015, it was possible to reduce these cash reserves massively during the first half of 2016 according to the company. Consequently, the funds can be used in a more attractive way by developing a diversified loan book. Possibilities here include the offer of flatex flex credit or the alternative deposit business through co-operation with ZINSPILOT. New opportunities in the sphere of technology-based credit solutions are also conceivable here, and there are ongoing discussions about this with potential partners.

SWOT-Analysis

Stärken	Schwächen
• Very strong customer base in B2C business through flatex and ViTrade • Strong B2B expertise through biw Bank • High tech capability in XCOM • Full banking licence gives plenty of room for manoeuvre • Large amount of development potential through high levels of currently unused volumes of customer deposits • Promising cooperations with strong partners (e.g. Commerzbank)	• High volumes of customer deposits are currently not being actively used, but currently in negotiations with partners to use these (technology-based peer-2-peer/consumer lending) • Current group structure is still complex but being reorganised • Interest not generating any appreciable returns due to the current low-interest environment, but the development of a diversified loan book (treasury) is planned.
Chancen	**Risiken**
• An improvement in the equity position at biw Bank AG would also open up opportunities to use the customer deposits that have not yet been actively used for consumer lending, for example • The regional expansion of the B2C business at flatex could help accelerate growth in customer numbers and customer deposits • Cooperations with strong partners could also help accelerate the speed of growth of FinTech Group AG • The sale of Aktionärsbank and the transfer of CFD market making will free up capital for other growth areas • Cost synergies though the use of a single banking licence in the Group should lead to much higher profits	• Other providers in the fintech sector could meet customer needs better and thus create competitive advantages • A stronger decline in the market could lead to losses in value of equities held by the company • The desired synergy effects between the Group companies could take longer to be realized than planned • Severe market fluctuations could temporarily slow customer growth so the medium-term growth objective could not be achieved

Estimates

P&L (in million €)	FY 2015	FY 2016e	FY 2017e	FY 2018e
Revenue	75.19	84.71	93.18	102.50
EBITDA (margin)	19.74 (*26.3 %*)	32.46 (*38.3%*)	37.25 (*40.0%*)	42.55 (*41.5%*)
EBIT (margin)	17.24 (*22.9 %*)	29.46 (*34.8%*)	34.00 (*36.5%*)	39.05 (*38.1%*)
Consolidated earnings from continuing operations (after minorities)	14.01	23.66	26.93	27.94
EPS from continuing operations (after minorities)	0.88	1.41	1.60	1.66

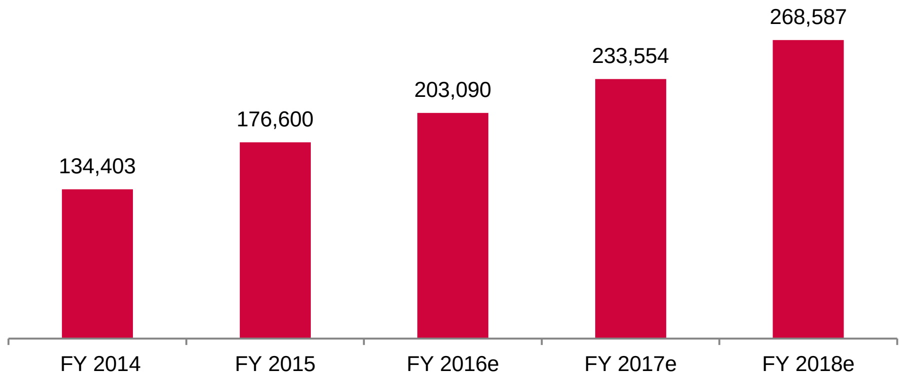
Source: GBC

Revenue estimates

In recent months, FinTech Group AG has taken numerous steps to make optimum use of the high level of customer deposits currently amounting to nearly €1 billion and to invest them profitably. At the same time, the company has been pushing ahead with measures to structure the offer of the online broker flatex in a more attractive way for customers and to expand it, which is also supporting dynamic growth in the number of customers. Finally, the company has also positioned itself for the B2B sector and expects to acquire numerous new customers from this in the years ahead. The resulting successes have already been announced in the first few months of 2016.

Concerning the B2C sector, the FinTech Group AG has already been able to increase the number of customers substantially by over 30% to 176,600 in FY 2015 especially due to high growth at flatex. The expansion to Austria played a role here since it acquired a larger proportion of new customers. After a competitor ceased trading, flatex was very successful in filling the gap on the supply side in Austria and making good use of it.

Number of customers



Source: GBC

Moreover, the product range has recently been extended in various places. By co-operating with ZINSPILOT, customers are now able to invest their funds as call money or term deposits in banks across the whole of Europe without flatex losing them as customers. Flatex customers can now make use of securities lending with an interest rate of just 3.9% via the flatex flex credit. Although both products were only launched a few weeks ago, deposits with a value of over €50 million have been brokered already via ZINSPILOT and flatex flex credit with a value of more than €30 million taken up. This shows the high requirements of customers for new, innovative banking products.

And last but not least, flatex now offers, in co-operation with Morgan Stanley, certificates and options under their own label. In this way, flatex customers are provided with one of the most extensive ranges of structured products in Germany, which can at the same time be traded with flatex at very low cost. The company expects a significant increase in sales revenues with structured products from the co-operation and, at the same time, a distinctly higher margin than with products of third party providers. The first certificates have already been launched and more will follow in the coming weeks and months.

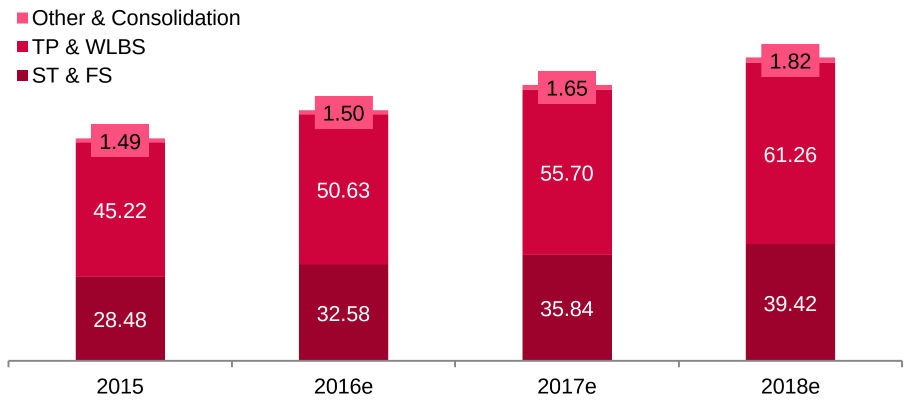
As a result of the sum of all the measures, we expect to see significant growth in the number of customers again in 2016. Approximately 10,000 new customers have already been acquired by flatex in the first half of 2016 according to the company. With this in mind, we expect the 200,000 customer mark to be exceeded with further increases in the years ahead.

The British referendum for an exit from the EU should also have a positive effect on FinTech Group AG. First of all, it should be noted that flatex processed a record number of trades after the day of the referendum without system failures, as was the case with other brokers. Secondly, a Brexit may mean that London-based financial institutions may relocate to continental Europe, which should benefit the B2B sector on account of the demand for IT infrastructure and financial technology. According to the company, discussions are already underway concerning this matter.

In the medium term, flatex has taken on the goal of becoming a market leader for processing transactions. The technological bases are already well established for this with the focus on growth as well as increasing transaction figures. The trading day following the Brexit vote provided good evidence to support this. 80,000 trades were processed on that day, three times more than on a normal trading day and thus a higher number than ever before in the company's history. The flatex systems survived this load with no problem and did not report any failures, in contrast to some competitors. This makes it clear that flatex can cope with the growth in customer figures without investing massively in expanding the IT systems. In this way, it should be possible to scale the business well for flatex with the above-mentioned measures and expansion of the services it offers.

Overall, we expect the ST&FS segment, driven in particular by flatex, to increase in FY 2016 to achieve sales revenue amounting to €50.63 million. We also expect double-digit growth rates for the segment in subsequent years, especially because in 2017 the full impact of sales from co-operation with Morgan Stanley and from flatex flex credit should be felt.

Expected development of revenue by segments (in m€)



Source: GBC

We likewise expect double-digit growth for the TP&WLBS segment due to organic and inorganic effects. While on the one hand, the one-off revenue from licensing out the CFD market making will arise in 2016, we must take into account the fact that XCOM AG was not consolidated until 31/03/2015. Accordingly, there was no revenue contribution in Q1 2015. This will only provide an inorganic effect in 2016. The further increase of shares in XCOM AG to over 75% will not have any impact on sales revenue because the company is already fully consolidated. However, due to the lower minority interests, the result attributable to the shareholders will probably improve.

However, further growth from the B2B segment should also result from this organically in 2016. The first announcements of success have already been posted by the FinTech Group in the first few months of 2016. For example, co-operation with mwb fairtrade Wertpapierhandelsbank has recently been increased. Although only the processing of fund business had previously been taken over from biw Bank AG, this has now been extended to the entire processing of securities. Furthermore, alongside the sale of the Aktionärsbank, its buyer has been acquired as a customer. XCOM AG and biw Bank AG are now taking over the technical and supervisory operation of the Obotritia bank. An extension of the white label banking business is a clearly defined goal of FinTech Group AG.

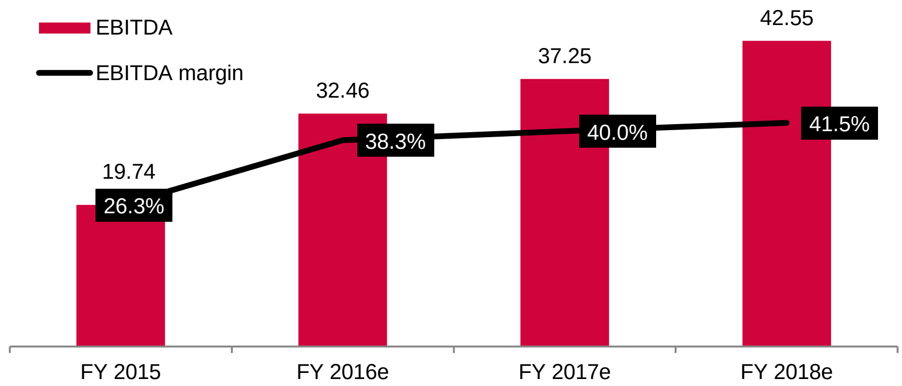
Last but not least, improving interest income is a further important aspect. With the departure from the deposit-protection fund and the strengthening of biw Bank AG's equity, it is now possible for the company to make productive use of a substantially larger proportion of customer deposits. There is great potential here, especially in subsequent years.

Earnings estimates

The result for 2015 was negatively impacted by a high, one-off charge. On balance, this accounted for €7.16 million in ongoing business. After adjustment for these effects, EBITDA already amounted to approximately €27 million in FY 2015. In FY 2016, the predominant cessation of these effects will also have a substantially positive effect on the reported EBITDA, and therefore the company could aim for an EBITDA margin of 40%. We definitely expect EBITDA of €32.46 million, which places us in the middle range of the company's guidance range of €30-35 million.

Alongside the expected growth at flatex, XCOM and biw, XCOM's inorganic contribution to income should also have a small, growing impact. However, positive effects should also emerge primarily from the optimised liability side, which will be reflected in increased profits.

Expected development of EBITDA (in m€) and EBITDA-margin



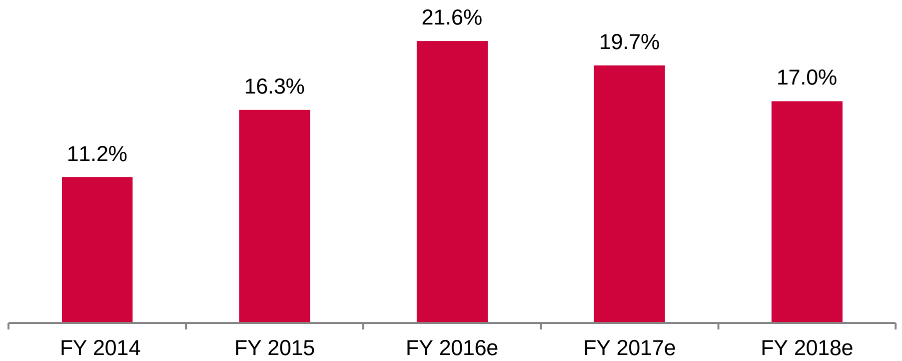
Source: GBC

From FY 2017, we expect to see a 40% EBITDA margin. The margin increase may result from the development of the loan book among other things, which generates high-margin interest. For FY 2018, we also expect the absolute EBITDA threshold of €40 million to be exceeded.

With regard to the tax burden, we do not expect a substantial increase in the next two years. While the effective tax ratio in FY 2015 was 6.7%, we expect lower ratios of 11-12% for 2016 and 2017. The background to this is the existing losses carried forward, which will probably not be used up for 2-3 years. We do not anticipate an effective group tax ratio of approximately 30% until after 2018.

With the latest increase in shares of XCOM AG from the previous level of 66% to the current level of over 75%, minority interests should decrease again in the years ahead. This will improve the result attributable to the shareholders of FinTech Group AG and will bring about a corresponding increase in the EPS.

Expected development of return on equity (in %)



Source: GBC

Overall, we are convinced that FinTech Group AG will be able to generate further increases in results and margins in the current year and in the years ahead. A substantial increase can also be expected for FY 2016 with regard to the return on equity as the essential basis for our valuation model. After a value of 16.3% was recorded in 2015, we expect a value of 21.6% for 2016. In the subsequent years, we anticipate in our model calculation, based on the increasing return on equity capital in the course of higher profitability, a slight fall in the return on equity capital, whereupon it should then be above the level of 2015 on an ongoing basis.

VALUATION

Model selection

We used a residual income model to value FinTech Group AG, which uses the difference between return on equity and cost of equity to determine the rate of return for the valuation period. Here we formulated specific expectations for annual net profit or loss for the valuation periods of 2016 to 2018 and the resulting changes to equity. The generated rate of return can be derived from this. The rate of return generated in a period is the residual income for the financial year to be derived as a product with the equity. The expected residual income is then discounted with the cost of equity to the valuation date. In order to determine the final value, we place a premium on the current book value.

$$Fair\ value\ of\ company = EK_0 + \sum_{t=1}^{T} \frac{(ROE_t - r)EK_{t-1}}{(1+r)^t} + \frac{P_T - EK_T}{(1+r)^T}$$

EK =	Equity	ROE =	Return on equity
P =	Premium on the book value	r =	Cost of equity
t=	Valuation period	T=	final valuation period

Determination of cost of capital

The relevant discount rate to be used in the residual income model is the cost of equity. In order to determine the cost of equity, the market risk premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations from the Fachausschuss für Unternehmensbewertung und Betriebswirtschaft (FAUB, Special Committee for Business Valuation and Business Management) of the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, the average returns for the previous three months are used and the result is rounded up to the nearest 0.25 basis points. The value currently used for the risk-free interest rate is 1.00 % (before: 1.50%).

We set a reasonable expectation for a market risk premium using the historical market risk premium of 5.50%. This is supported by historical analyses of equity market returns. The market premium reflects in a percentage the improved return expected from equity markets relative to low-risk government bonds.

The unadjusted beta (raw beta) currently is 0.71 (source: ThomsonReuters). Since the figure increased significantly compared to our Research Report (Initial Coverage) from 07/12/2015 (before: unadjusted: 0.48, adjusted: 0.65) we have not adjusted the beta figure. Therefore we used the unadjusted beta of 0.71 to determine the cost of equity.

The cost of equity of 4.9% (before: 5.1%) (beta multiplied by the risk premium plus risk-free interest rate) was calculated using the assumptions made. In order to determine the final value we also used a cost of equity of 4.9%.

Valuation model and valuation result

	2015	2016e	2017e	2018e	Final Value
Equity	85.86	109.51	136.45	164.39	
Profit or loss for the period		23.66	26.93	27.94	
Return on equity		21.6%	19.7%	17.0%	17.0%
Cost of equity		4.9%	4.9%	4.9%	4.9%
Rate of return		16.7%	14.8%	12.1%	12.1%
Book value factor		4.4	4.0	3.5	3.5
Residual income		14.34	16.24	16.50	405.85
Present value of residual income		14.02	15.14	14.66	360.56

In view of the solid development opportunities for the next few years, FinTech Group AG should be able to generate sustained return on equity of 17%. Assuming a cost of equity of 4.9%, the final value should generate a long-term rate of return of ~3.5. With a final value that assumes 0% converted growth, this corresponds to a valuation of 3.5 times book value. In order to calculate the final value we have thus set a premium over book value of 3.5.

Present value of the residual income 2016 - 2018 in € millions	43.81
Present value of the residual income final value in € millions	360.56
Total present value in € millions	**490.23**
Minority shareholdings*	10.90
Value of equity in € millions	**479.33**
Outstanding shares in millions	16.81
Fair value per share in €	**28.50**
Current share price in €	13.20
Growth potential	116.0 %

**the increase of ownership in XCOM AG to more than 75% is considered already*

The total discounted residual income is €490.23 million. In view of the 16.81 million outstanding shares, the fair value per share is €28.50. We are therefore slightly increasing our previous target price of €26.85. In view of the current share price of €13.20, there is an upward potential per share of over 100%. This therefore results in a clear BUY rating.

In our opinion, the latest fall in the share price is largely due to the sale of shares of SafeCharge amounting to 5%. However, this has no operational impact for FinTech Group AG - the fall can be regarded as a mere technical effect. Furthermore, the banking sector as a whole is currently under pressure associated with fears about the effects of Brexit. Nevertheless, FinTech Group AG is expected to benefit from this scenario, as has already been explained. The potential of the share has in this respect increased once again with the latest fall in price.

ANNEX

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GBC AG Investment Research

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