Research Report (Anno)

Success of reorganisation becomes clearly visible in FY 2016

-

Further increase in efficiency and economies of scale in 2017

Target Price: €28.00 (before: €27.00)

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 18

Date of Completion: 24/05/2017 **Date of first publication: 24/05/2017**

GBC AG Investment Research

Fintech Group AG*5a,6a,11

Rating: BUY
Target Price: €28.00

Current Price: 18.38
23.05.2017,17:36 / ETR

Currency: EUR

Key Information:

ISIN: DE0005249601
WKN: 524960
Ticker symbol: FLA

Number of share³: 16.811
Marketcap³: 308.98
³in million / in mEUR

Free Float: 36.8%

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 19

Unternehmensprofil

Sector: software, technology

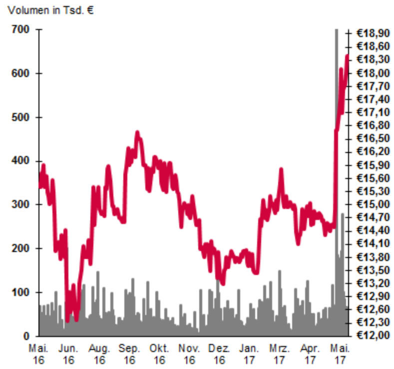
Focus: fintech, banking services

Employees: 448 (due date: 31/12/2016)

Established: 1999

Registered office: Frankfurt / Main

Board of management: Frank Niehage (CEO), Muhamad Chahrour (CFO)



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	31/12/2016	31/12/2017e	31/12/2018e
Net sales	75.02	95.02	108.00	115.00
EBITDA	19.74	30.62	35.00	40.00
EBIT	17.24	25.47	29.00	33.50
Consolidated earnings from continuing operations (after minorities)	13.19	16.39	18.55	21.70
Key figures in EUR				
EPS from continuing operations	0.83	0.97	1.10	1.29
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
Equity	85.86	90.63	108.93	130.63
Return on Equity	15.4%	18.1%	17.0%	16.6%
Price-Sales-Ratio	4.12	3.25	2.86	2.69
Price-Earnings-Ratio	23.43	18.86	16.66	14.24
Price-Book-Ratio	3.60	3.41	2.84	2.27

Financial Calendar
05/07/2017: Annual Shareholder Meeting
September 2017: HY-report

****latest research by GBC:**
Date: publication/ target price in EUR / Rating
01/03/2017: RS / 27.00 / BUY
14/12/2016: RS / 27.00 / BUY
20/10/2016: RS / 29.00 / BUY
05/10/2016: RS / 29.00 / BUY
12/07/2016: RS / 28.50 / 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

- FinTech Group AG can look back on very successful business development in FY 2016, a year in which the measures introduced in the past two years increasingly materialised, resulting in rising revenues and improved results. Sales revenues were up to € 95.02 million from 2015, representing a sizeable increase of 26.7%. A key driver was the considerable increase in the number of customers. Customers increased to 212,040 in 2016, an increase of 20.1%. A significant portion of this growth was achieved by flatex. The broker was also able to successfully continue with its expansion in 2016, with a larger product portfolio and a regional expansion being also key contributors.

- In terms of achievements, FinTech Group AG also managed to significantly increase its EBITDA in 2016. The EBITDA for 2016 was € 30.62 million, an increase of 55.1% from the previous year. Most notably, the Transaction Processing & White-Label-Banking (TP&WLB) segment contributed significantly to a positive earnings trend. After a total of € 8.39 million was generated in this sector in the previous year, 2016 values were at € 28.33 million. The main reason for this very positive development, in addition to the obvious revenue growth, is that results in the previous year were still impacted by extensive restructuring. With figures adjusted to take into account the one-time impact of the previous year, the increase in EBITDA accounted for 13.8%.

- We are expecting a further increase in sales revenues of € 108 million in FY 2017. This means that we are expecting to slightly exceed the guidance issued by the company. Revenue growth drivers should include, above all, a continued increase in customer and transaction numbers, which will in turn be addressed by expanded product offerings. We are also expecting further growth in the B2B business, after having already acquired two new customers in the banking outsourcing field at the end of 2016, which will lead to anticipated further cooperation. We are also expecting equally positive results from our interest earnings, which should result from making more active use of customer deposits.

- In terms of costs, in 2017, but especially in 2018, downsizing the corporate structure from 5 to 2 of the most crucial subsidiaries will make a notable difference. This should reduce material costs by up to seven digits. Last but not least, we continue to expect an unchanged EBITDA value of € 35.00 million, which also means that we will be slightly above the executive board's guidance report, which estimates an amount of € 32 to 34 million.

- **On the whole, the numbers for FY 2016 were very satisfactory and the prospects for 2017 are positive. Numerous measures and developments should lead to further improvements. In this respect, we would like to confirm our positive assessment of FinTech Group AG shares, and as a part of our residual income model, we have appraised the value of each share at € 28.00. Compared to our previous target value of € 27.00, this represents an increase. The rating, based on the high rate potential of over 50%, remains unchanged at BUY.**

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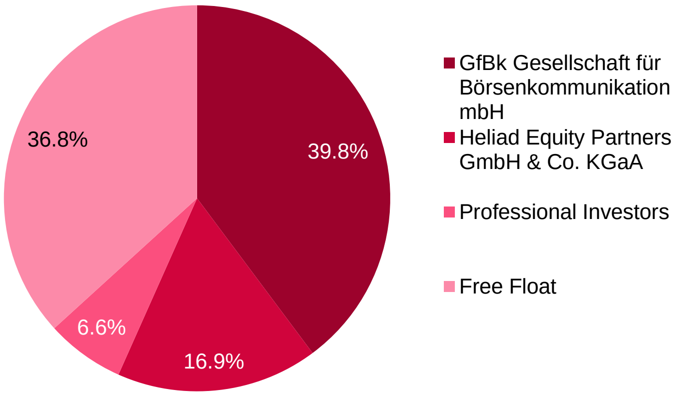
Company

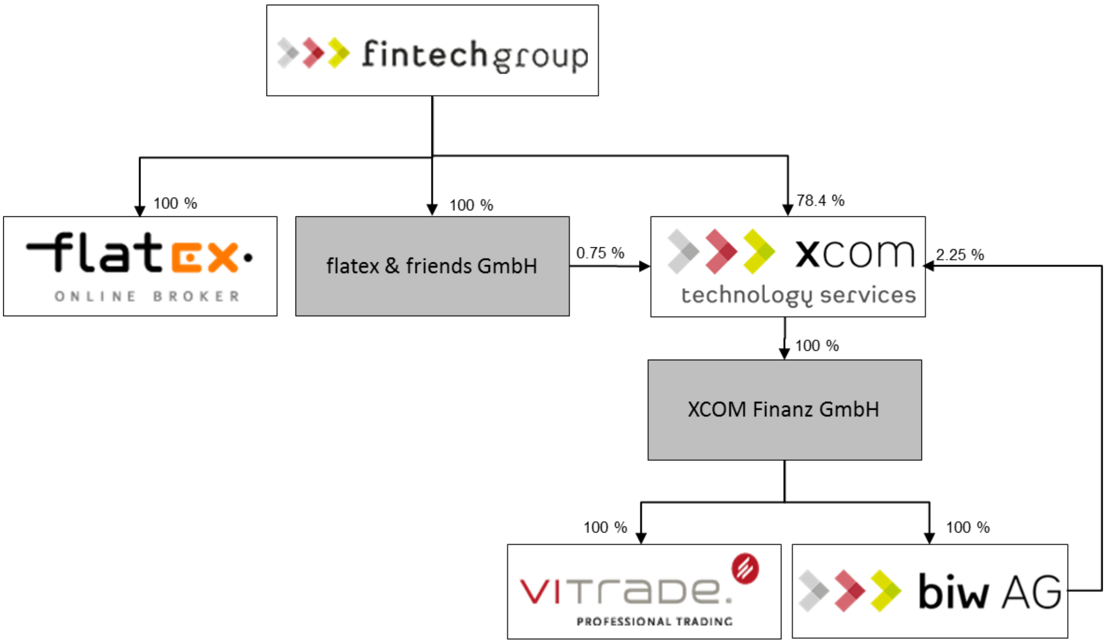
Shareholder Structure

Shareholder in %	31/03/2017
GfBk Gesellschaft für Börsenkommunikation mbH	39.8%
Heliad Equity Partners GmbH & Co. KGaA	16.9%
Professional Investors	6.6%
Free Float	36.8%
Total	100.0%

Source: FinTech Group, GBC

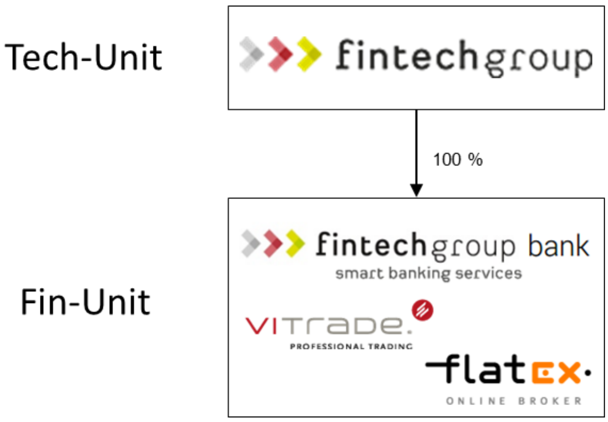


Company Structure (due to: 31/03/2017)



*Source: FinTech Group, GBC; *economically 96.6% of the shares of XCOM AG are controlled by FinTech Group AG*

Company Structure (planned)



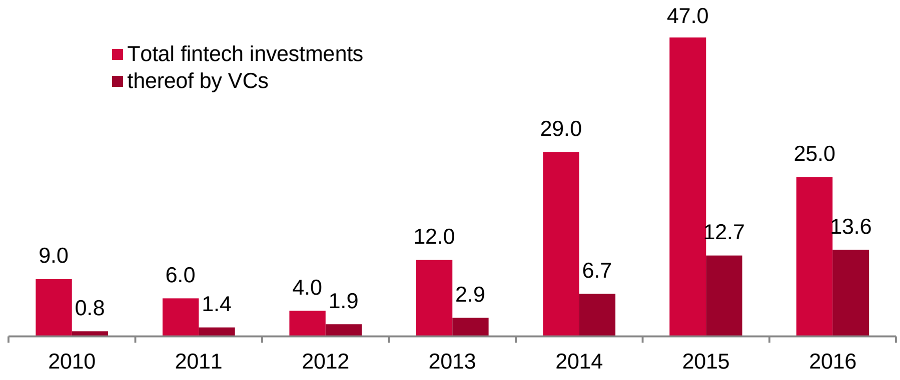
Source: FinTech Group, GBC

MARKET AND MARKET ENVIRONMENT

In view of the continued political instability in the past year, global investment volume in fintech companies in 2016 dropped considerably. At 25 billion USD, this was well below levels in the previous year. However, it should also be noted that 2015 exhibited unusually strong growth, and that there was a lot of movement in the private equity field in particular. In the venture capital field, where it is easier to perceive investment momentum, there was also a definitive growth in financing volume in 2016, to 13.6 billion USD. This points to the fact that the development of fintech is far from reaching saturation point, and that innovative and disruptive business models are still in high demand and the traditional financial services field is succumbing to increasing pressure.

Even though global lending volumes have dropped, the number of deals stayed consistently high at 1,076 and was only just 12% below the previous year's levels. This also demonstrates that the development of new business models and technologies continues to gain momentum and is progressing well.

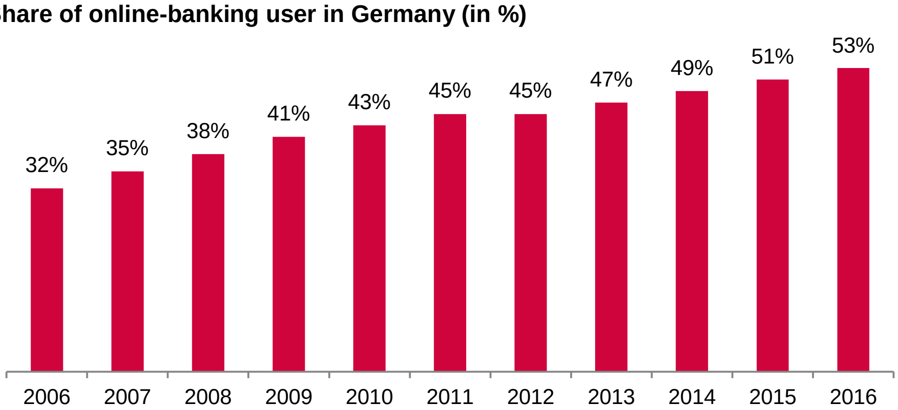
Worldwide investments in fintech companies (in billion USD)



Source: KPMG, CBInsights, GBC

In particular, FinTech Group AG's business model continued to establish firm foundations in 2016. The continued increased use of online banking by 53% of Germany's population highlights the fact that banking businesses are expanding their digital presence. FinTech Group, with its two banking and technology segments, is in a good position to participate in this market growth and to take an active and leading role in this market within Germany.

Share of online-banking user in Germany (in %)



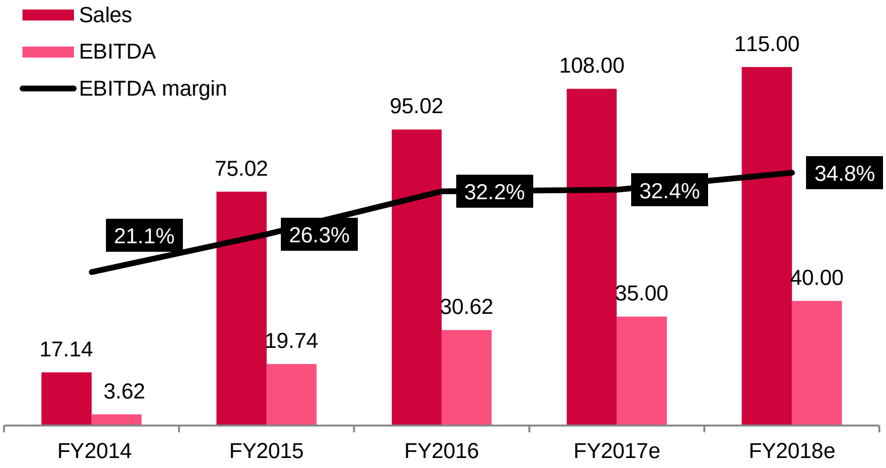
Source: GBC, Eurostat

COMPANY PERFORMANCE AND ESTIMATES

Overview of Key Figures

P&L (in € millions)	FY2015	FY2016	FY2017e	FY2018e
Sales	**75.02**	**95.02**	**108.00**	**115.00**
Cost of Materials	-13.57	-25.48	-28.72	-30.15
Personnel expenses	-23.79	-19.49	-22.68	-23.00
Administrative expenses	-17.93	-19.43	-21.60	-21.85
EBITDA	**19.74**	**30.62**	**35.00**	**40.00**
Depreciation & Amortisation	-2.50	-5.16	-6.00	-6.50
EBIT	**17.24**	**25.47**	**29.00**	**33.50**
Financial result	-2.67	-1.23	-2.50	-2.50
EBT	**14.57**	**24.24**	**26.50**	**31.00**
Income Tax Expenses	-0.97	-3.96	-7.95	-9.30
Earnings from continued operations	**13.60**	**20.28**	**18.55**	**21.70**
Earnings on discontinued operations	-15.76	-7.97	-0.25	0.00
Minorityi interests	-0.41	-3.90	0.00	0.00
Earnings attributable to shareholders	**-1.75**	**8.42**	**18.30**	**21.70**
EBITDA	19.74	30.62	35.00	40.00
in % of sales	*26.3%*	*32.2%*	*32.4%*	*34.8%*
EBIT	17.24	25.47	29.00	33.50
in % of sales	*23.0%*	*26.8%*	*26.9%*	*29.1%*
Earnings per share in €	-0.11	0.50	1.09	1.29
Earnings per share on continued operations (after minorities) in €	0.83	0.97	1.10	1.29
Dividend per share in €	0.00	0.00	0.00	0.00
# of shares in million	15.863	16.811	16.811	16.811

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



Source: FinTech Group, GBC

Business Development FY2016

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.

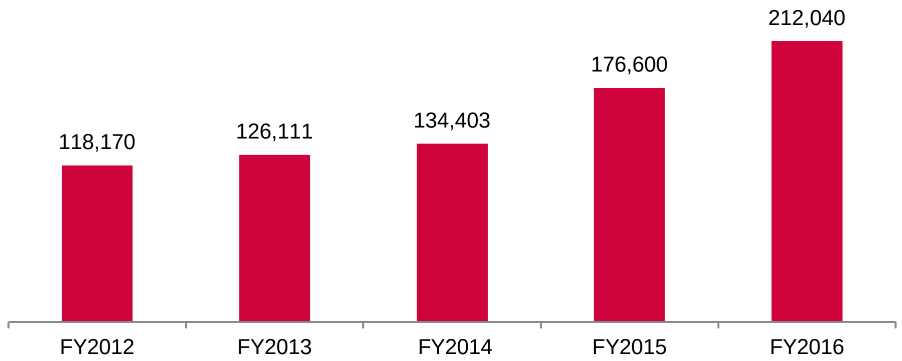
P&L (m€)	FY2014	FY2015	FY2016
Sales	17.14	75.02	95.02
EBITDA (*Margin*)	3.62 (*21.1%*)	19.74 (*26.3%*)	30.62 (*32.2%*)
EBIT (*Margin*)	3.22 (*18.8%*)	17.24 (*22.9%*)	25.47 (*26.8%*)
Earnings from continued operations	5.59	13.19	16.39
EPS from continued operations (in €)	0.42	0.83	0.97

Source: FinTech Group, GBC

Development of sales

FinTech Group AG demonstrated a very successful FY 2016, along with a sales increase of 26.7%, to € 95.02 million. A key driver was that the number of customers increased considerably, by 20.1%, to 212,040. By year-end, 175,434 customers were registered with flatex, 17.1% more than the previous year. One the one hand, increased offerings, together with stronger marketing activities, had an impact; on the other hand, the expansion into Austria also bore fruit, as flatex could position itself as one of the leading brokers. In terms of products, Morgan Stanley's structured product offerings, as well as the "flatex flex credit", had much appeal. Both new products contributed measurably to our positive development in 2016. At the same time, the number of transactions increased from 10.14 million to 10.46 million.

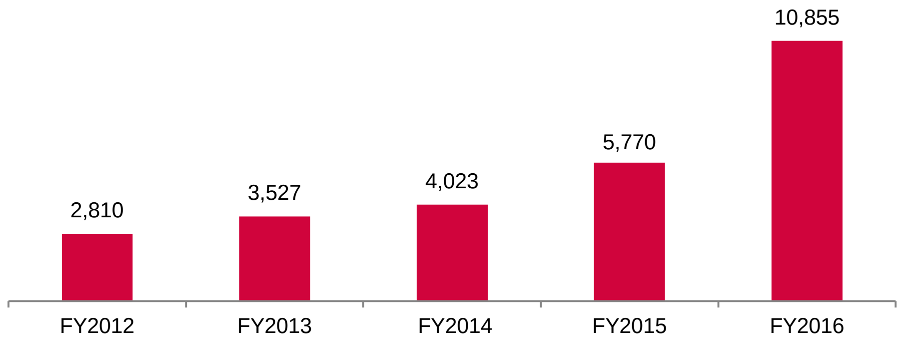
Development of number of customers



Source: FinTech Group, GBC

Along with the increased number of customers, the client assets managed by flatex exhibited above average growth, climbing from € 5.14 billion to € 6.50 billion, an increase of 26.5%. The increase in managed customer volume was even more significant across the entire Group. Its value actually almost doubled, to € 10.86 billion. In addition to the positive developments with flatex, new B2B projects had a particularly positive impact. Worth noting, first and foremost, is the new customer Equatex, a company that manages employee participation plans for over 300,000 customers in Germany, many of which are DAX companies.

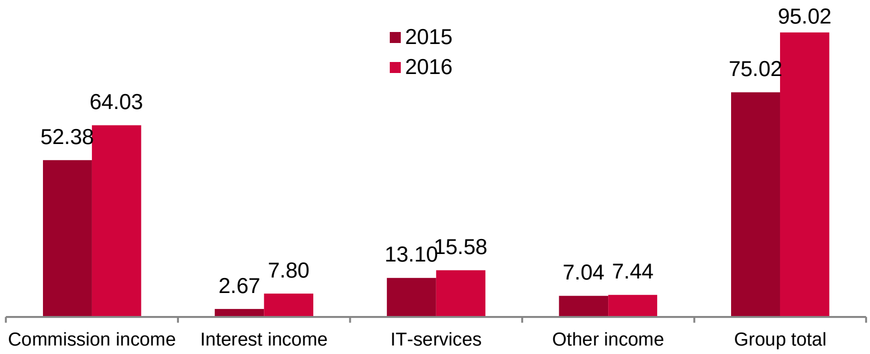
Development of customer assets under management (in m€)*



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

This has resulted in a momentous 22% increase in commission revenues, accounting for a significant portion of gains over 2015 numbers. Yet there was a surge in all product areas. XCOM AG, which represents the field of IT services, experienced a dynamic revenue growth of 18.9%, climbing to € 15.58 million. This is also reflected in the technological innovative strength of the company, which not only provides for continuous further development within the Group, but also contributes significantly to customer acquisition. It is anticipated that this will be more significant in 2017 in the Transaction Processing and White-Label-Banking Services segment, as two more key customers were acquired in this sector, BAWAG and Kommunalkredit, both of which are likely to have a notable impact on business in 2017 (see prognoses and model assumptions). Interest income also grew considerably. Even though the HETA loan transaction resulted in a positive one-time effect in the amount of approximately € 2 million, it is clear that the treasury established in 2016 is resulting in increased earnings. These effects should become more evident in 2017.

Development of sales by sources of earnings (m€)



Source: FinTech Group, GBC

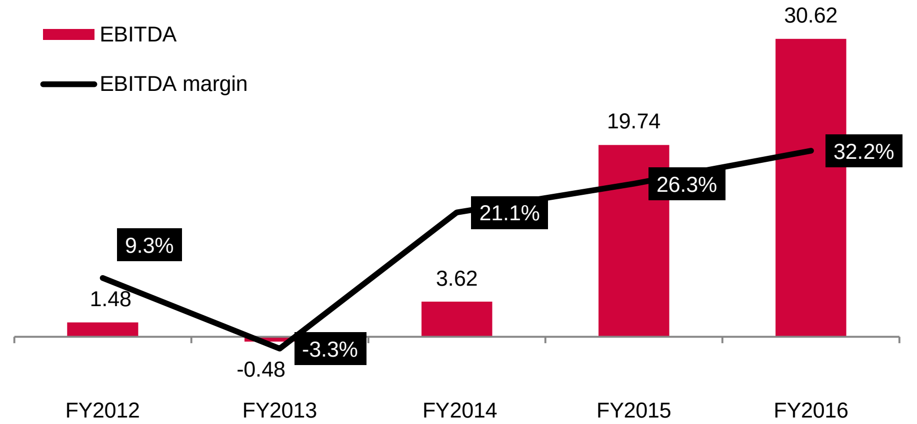
With respect to the different segments, the Transaction Processing & White-Label-Banking Services (TP&WLB) and Securities Trading & Financial Services (ST&FS) segments were able to contribute towards good sales performance. Given the above-mentioned circumstances, the 56.5% growth in TP&WLB was particularly momentous. It is important to note here that XCOM AG had only been fully consolidated for nine months in 2015.

ST&FS revenue dropped from € 28.48 million to € 19.38 million. However, it is important to note that in the previous year, a one-time special income of € 8 million was attributed to the out-licensing of CFD market-making. When adjustments were made for this income, a stable revenue situation was recorded.

Development of earnings

Following the restructuring of FinTech Group AG over the past two years, significant improvements were also achieved with respect to earnings. This restructuring not only included streamlining the structure of the Group and closing or selling unprofitable business areas, it also included investing a lot of effort into standardising systems and making processes more efficient. Together with the considerable revenue growth, the amount of measures undertaken also contributed positively to profit development. Whereas EBITDA in 2014 was only slightly positive, at € 3.62 million, in 2016 it was at € 30.62 million. The EBITDA margin of 32.2% also marked a high point, and highlights the company's good profit situation following the reorganisation.

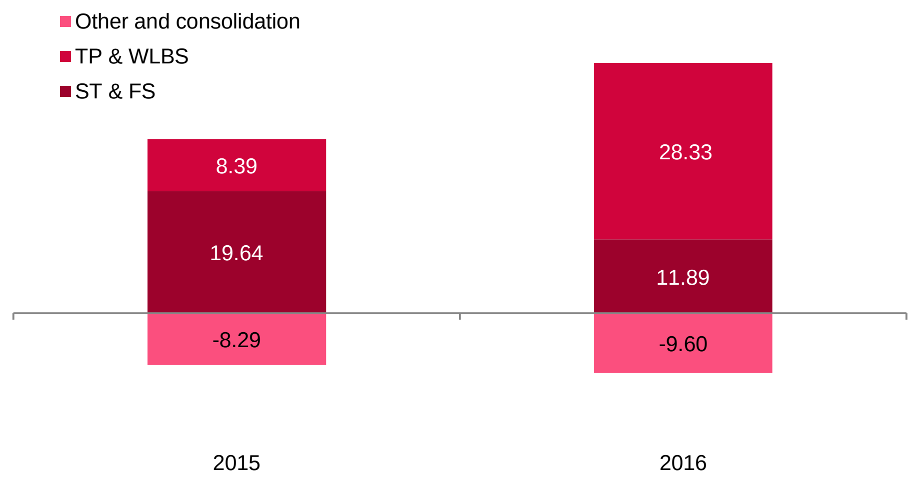
Development of EBITDA (in m€) and EBITDA margin (in %)



Source: FinTech Group, GBC

The most significant leap in earnings was achieved by the TP&WLBS segment; earnings climbed from € 8.39 million to € 28.33 million. It should be taken into consideration that XCOM AG had only been consolidated for nine months in 2015, and also had sustained heavy restructuring costs that same year. Company-wide, one-time costs in FY 2015 within continued business operations amounted to € 15.34 million. This amount included, e.g. compensation for personnel restructuring, general restructuring costs, legal and consultancy fees, and also one-time pension expenditures as a part of the IFRS transition.

Development of EBITDA by segments (in m€)

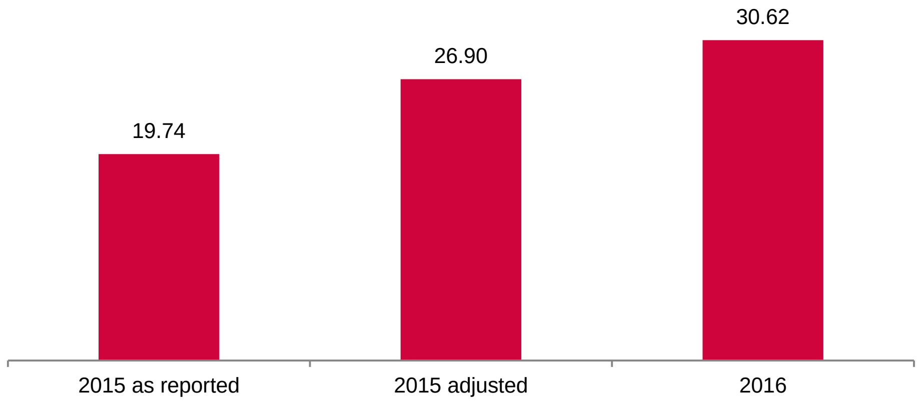


Source: FinTech Group, GBC

By contrast, there were, however, also one-time earnings totalling € 8.18 million in the ST&FS segment. These were primarily linked to the out-licensing of CFD market-making. This one-time earning explains the drop in the segment's 2016 results. Accordingly, when adjustments were made for this income, there was a slight growth in earnings.

An overall analysis and adjustment of one-off effects clearly demonstrates an organic growth in earnings. When all effects are taken into consideration, the adjusted EBITDA was at € 26.90 million in FY 2015. An EBITDA of € 30.62 million was obtained in FY 2016, which corresponds to a 13.8% increase.

Development of EBITDA as reported and adjusted (in m€)



Source: FinTech Group, GBC

The success of the restructuring is still more obvious at the net revenue level. In this way, the earnings from continued operations and after non-controlling interests improved from € 5.59 million in FY 2014 to € 16.39 million in FY 2016. This highlights the significant increase in profitability.

Discontinued operations still had a negative impact on 2016 year-end results. Shareholder banks still had an impact in 2016, albeit to a much lesser extent from the previous year. The discontinued operations accounted for € -7.97 million, as compared to € 15.76 million in the previous year. On the other hand, no further major financial strains are expected in 2017, particularly since the shareholder bank was divested midway through 2016. Accordingly, the year-end results should experience a significant surge, and the EBITDA should reflect a jump in profitability, even at the net level.

Conclusion

On the whole, FinTech Group AG's 2016 year-end results were extremely satisfactory. Progress was clearly made at all operational levels. Furthermore, we see great promise in the fact that strong and successful foundations have been laid for future business growth. The downsizing process, which will continue into 2017, as well as the development of new products and the acquisition of new customers, have served to anchor the revenue base and have reduced cost ratios. The result is an appreciable improvement in profitability, paving the way for further business development in coming years.

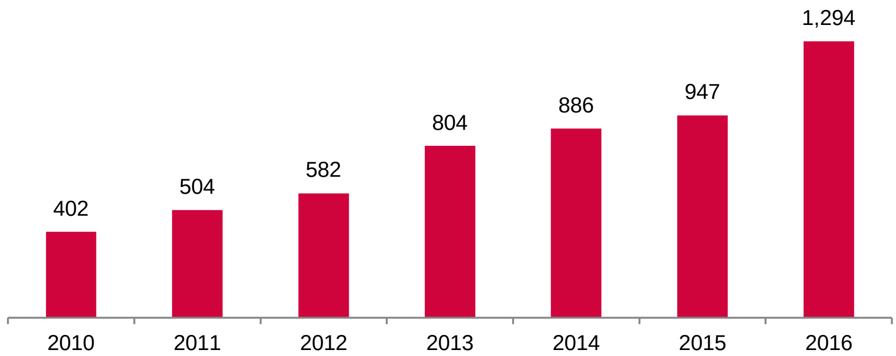
Balance sheet and financial situation

in m€	31/12/2014*	31/12/2015	31/12/2016
Equity	44.75	85.86	90.63
Equity ratio (in %)	47.7%	7.1%	5.9%
Liabilities to customera	28.18	947.28	1.428.56
Total assets	93.89	1.208.24	1.533.99
Customer assets under management	4,023	5,770	10,855

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

Following the successful business expansion, FinTech Group AG's balance sheet totals in FY 2016 have increased by 27%, to € 1.43 billion. This significant growth is the result of the increased volume of customer deposits. By the end of 2016, customer deposits were at € 1.29 billion, € 350 million higher than the previous year.

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



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

A large portion of the customer deposits, € 415 million, was still deposited at the European Central Bank at the end of the previous fiscal year. Due to the negative interest levels, interest expenses totalled approximately € 1.5 to 2.0 million. To promote the active use of these customer deposits and make them profitable, various measures were initiated in 2016. One of these measures included investing parts of the EZB deposits in a diversified portfolio of highly reliable, short-term securities. Although the current interest rates are very low, this process should still create value, since this makes it possible to at least partially avoid negative interest rates. As of December 31, 2016, cash reserves with the central bank decreased to approximately € 178 million. The effects of the interest rates should be noticeable in 2017. Above all, the treasury business will experience very positive results if interest rates rise in the immediate future. Simply by reinvesting the current customer deposits at a rate of 2% would result in an interest income of € 20 million annually.

Furthermore, the loan book should also be further developed. An initial first successful step in this direction was taken with the introduction of the "flatex flex credit" which had already brought in more than € 80 million by year-end. The goal is to pay out € 120 million to customers through this offering by the end of 2017. In addition, further credit products are to be created, with the goal of reaching a credit portfolio of € 250 million by the end of 2017. By 2016 year-end, a total of € 131 million in credit had been paid out to customers, 144% more than on the closing date of the previous year. The measures taken to make customer deposits more profitable are already being reflected in FinTech Group AG's balance sheets and should also increasingly contribute to a rise in interest income in the coming quarters. To date, this area has played a minor role; now the interest income will increasingly contribute to this area's success.

SWOT-Analysis

Strengths	Weaknesses
• Very strong customer base in B2C business through flatex with increasing dynamics • Strong B2B expertise through biw Bank • High tech capability in XCOM • Full banking license gives plenty of room for manoeuvre • The disposal of loss contributing business units will strengthen the net profit in the future • Squezze-out of XCOM increases the net profit by the omission of minority interests	• High volumes of customer deposits are currently not being actively used. By setting up a credit book and an active treasury this issue gets addressed • The still complex group structure currently gets reorganised and should contribute to significant cost reductions in the future. • Interest not generating any appreciable returns due to the current low-interest environment, but the development of a diversified loan book (treasury) is planned.
Opportunities	**Threats**
• By using the customer deposits of currently more than 1 billion € actively a high, additional earnings potential could be unveiled • The regional expansion of the B2C business at flatex could help accelerate growth in customer numbers and customer deposits • Further co-operations with strong partners could also help accelerate the speed of growth of FinTech Group AG • The planned reduction of complexity of the group structure is planned to generate cost reductions of up to 2 million € per year.	• 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 is not achieved

Estimates

P&L (in million €)	FY2015	FY2016	FY2017e	FY2018e
Net sales	75.02	95.02	108.00	115.00
EBITDA (margin)	19.74 (*26.3%*)	30.62 (*32.2%*)	35.00 (*32.4%*)	40.00 (*34.8%*)
EBIT (margin)	17.24 (*23.0%*)	25.47 (*26.8%*)	29.00 (*26.9%*)	33.50 (*29.1%*)
Net profit from continued operations and after minority interests	-1.75	8.42	18.30	21.70
EPS in € from continued operations and after minority interests	-0.11	0.50	1.09	1.29

Source: GBC

Sales Estimates

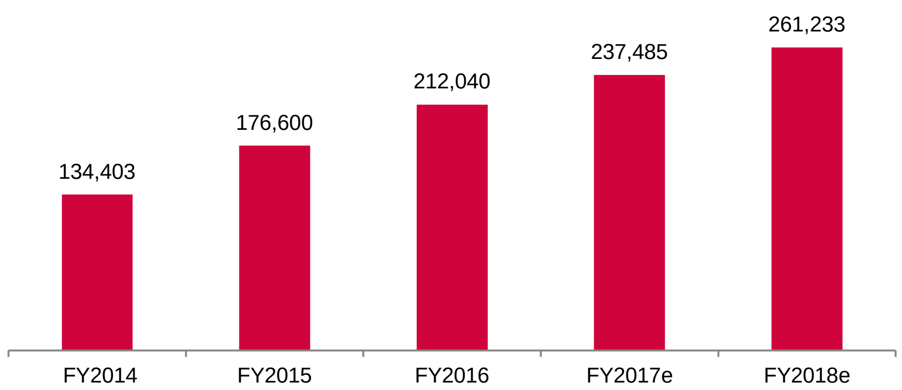
For FY 2017, the FinTech Group AG executive board expects continued growth and has issued a guidance report projecting revenues between € 100 and 105 million. Climbing premiums and interest income should factor into positive growth, which should then translate to an increase in customer and trade figures.

We feel these assumptions are very realistic, since, once the reorganisation is complete, revenue growth in particular will accelerate. To ensure this, the company is planning to further expand its product offerings in the end-user business, making it more attractive to customers and thereby increasing customer activity.

For example, the issuance of private customer credits will be fully digitized, which will speed up the tendering process, making it more cost effective. The 2017 product portfolio will also include offering credit cards. We have already been granted the corresponding Mastercard licence. Another important factor that will increase our commercial appeal and result in higher business volume is our expansion into cooperative projects, such as our involvement with Morgan Stanley in the field of structured products, or in the area of call money with Zinspilot.

These projects give us reason to foresee a considerable growth in the amount of customers in 2017. On this note, the company is planning to grow its customer base with flatex to 25,000 over the course of the year. The new year is already off to a momentous start, with a monthly increase in customers of 5,000 in the first quarter. The average number of new customers in 2016 was 2,000 per month.

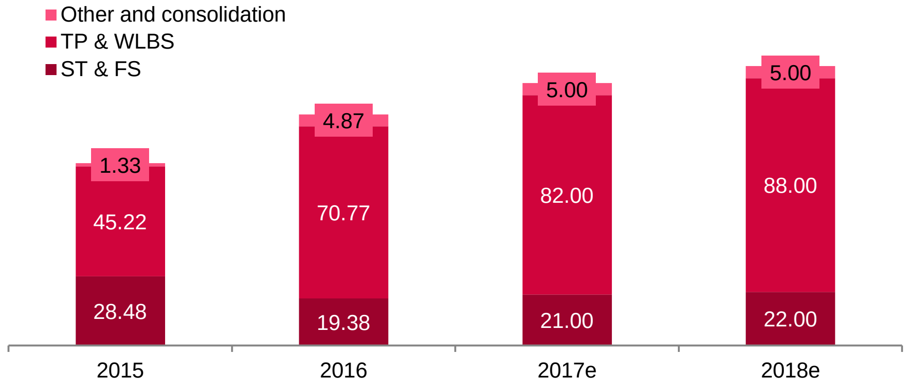
Number of customers



Source: GBC

We can also assume further growth in the B2C segment. Two new customers had already been acquired at the end of 2016 in the BPO field (processing of payment transactions, credit and securities transactions); they will take on these business activities in 2017. In addition, FinTech Group AG is currently in negotiations with three further opportunities, which could potentially lead to collaborative efforts in 2017. We are expecting an annualised revenue of approximately € 5 million from new customer projects.

Expected development of sales by segments (in m€)



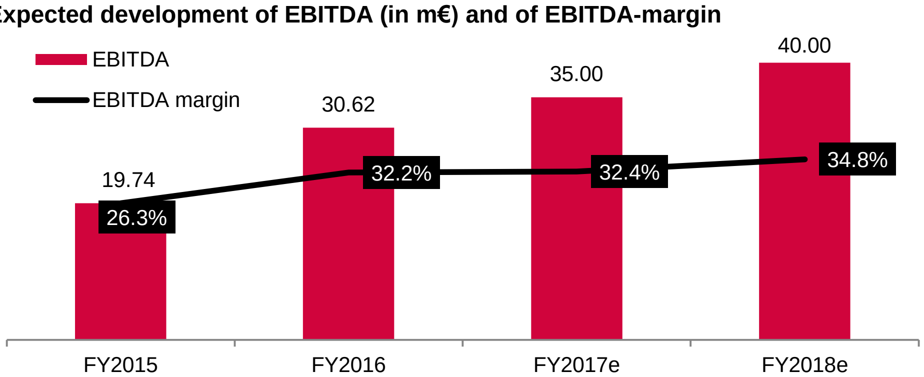
Source: GBC

Against this background we assume that FinTech Group AG will reach revenues of € 108 million and we expect to exceed the upper guidance margins. We especially expect considerable growth of up to € 82.00 million in the TP&WLBS segment. To this end, the new B2B customer relationships, as well as an expected increase in interest income from the treasury and credit business initiated in 2016, should have a considerable impact. We are expecting a further rise in revenue in FY 2018, to € 115.00 million.

Earnings estimates

The reorganisation process of the past two years will be finalised in 2017. As a part of this process, the five crucial subsidiaries of the Group will be merged into two. By mid-2017, FinTech Group AG will consist of a technical unit and, with the FinTech Group Bank AG, a financial unit. This further downsizing not only represents a seven-figure reduction in material costs, it will also make processes more efficient. Last but not least, it also represents a sizeable tax benefit.

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



Source: GBC

This downsizing step alone will increase profits in the following years; however, the effects will not be fully felt until 2018, since the company must still assume the downsizing costs in 2017, which are expected to come to approximately € 1 million.

Above all, it must be assumed that this earnings trend will continue to climb, taking into consideration the expected increase in business volume. It should be noted that FinTech Group AG's business in other sectors is highly scalable and should only trigger minor fixed cost increases.

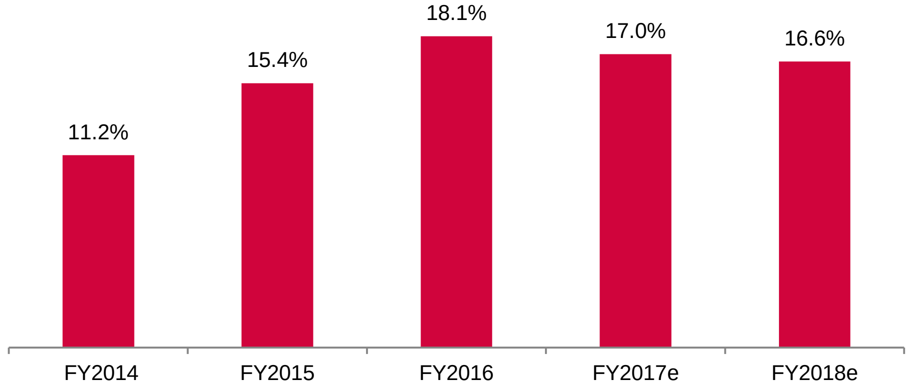
Based on this, our previous EBITDA forecast of € 35.00 million remains unchanged, even though FinTech Group AG's guidance projected € 32 to 34 million. We therefore feel that we will be able to slightly exceed the guidance forecast.

An increase in net earnings should be more noticeable. Through the total control of XCOM AG, which will be acquired on completion of the squeeze-out process, minority shares will be completely dropped in 2017. Furthermore, the results from discontinued operations should once again be noticeably lower than forecast. We assume that these will only total a maximum of € 0.25 million in 2017.

All in all, we anticipate year-end results to be at € 18.30 million after minority interests, representing an EPS of € 1.09. Compared to 2016, this corresponds to a doubling in earnings. In terms of net profits, our net revenue is also slightly above the levels projected in the guidance report issued by management in April 2017.

Based on the expected positive development of our annual net profit, we can also assume that we will continue to obtain a high level of return on equity, which represents a considerable value driver of our valuation model. Based on a return on equity of 18.1% in 2016, we are expecting returns of 17.6% and 17.1% for 2017 and 2018, respectively. Net value-added, expressed as capital profitability, should remain at a high level.

Expected development of return on equity (in %)



Source: GBC

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 2017 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 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 1.25 % (before: 1.00%).

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 (5 years) currently is 0.55 (source: comdirect).

The cost of equity of 4.3% (before: 4.9%) (beta multiplied by the risk premium plus risk-free interest rate) was calculated using the assumptions made. In order to determine the terminal value we also used a cost of equity of 4.3%.

Valuation model and valuation result

	2016	2017e	2018e	Terminal Value
Equity	90.63	108.93	130.63	
Profit for the period	8.42	18.30	21.70	
Return on Equity		17.0%	16.6%	16.6%
Cost of Equity		4.3%	4.3%	4.3%
Rate of Return		12.8%	12.3%	12.3%
Book value factor		4.0	3.9	3.9
Residual income		11.56	13.44	397.39
Present Value of residual income		11.26	12.55	371.26

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 16.6%. Assuming a cost of equity of 4.3%, the final value should generate a long-term rate of return of ~3.9. With a final value that assumes 0% converted growth, this corresponds to a valuation of 3.9 times book value. In order to calculate the final value we have thus set a premium over book value of 3.9.

Equity 2016 plus present value of residual income 2017 – 2018 in € millions	114.44
Present value of residual income final value in € millions	371.26
Total present value in € millions	**485.71**
Minority shareholdings	15.06
Value of Equity in € millions	**470.64**
Share outstanding in millions	16.81
Fair value per share in €	**28.00**
Current share price in €	18.25
Growth potential	53.4%

The amount of discontinued residual income totals € 470.64 million. Taking into consideration a total of 16,811,000 outstanding shares, the shareholder value has been calculated at € 28.00 per share. Compared to our previous target value of € 27.00, this represents an increase. Taking into consideration the current share price of € 18.38, this will result in an upside potential of over 50%, despite the obvious share price increase over the past few weeks. This clearly implies that analyst ratings will stay at BUY.

ANNEX

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