GBC AG
Investment Research

# Research Report (Anno)

fintechgroup

# High profitability level achieved in rapidly growing market environment; continuation of growth path expected; target price raised

## Target Price: €41.70 (formerly: €35.00)

## 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 § 85 WpHG und Art. 20 MAR on page 16**

**Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"**

**Date and time of completion of this research: 28/08/2018 (4:52 pm)**
**Date and time of first distribution: 29/08/2018 (09:00 am)**
**Target price valid until: max. 31/12/2019**

GBC AG Investment Research

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

**Rating: BUY**
**Target Price: €41.70**

Current Share Price: 29.15
17/08/18 / XETRA / 11:57 am
Currency: EUR

**Key Data:**

ISIN: DE000FTG1111
WKN: FTG111
Ticker Symbol: FTK

Number of shares³: 17.511
Marketcap³: 510.44
³ in m / in m EUR

Free Float: 61.0 %

Transparency Level:
Entry Standard

Market Segment:
Open Market

Accounting Standard
IFRS

Financial Year-End: 31/12.

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

**Analysts**:

Cosmin Filker
filker@gbc-ag.de

Marcel Goldmann
goldmann@gbc-ag.de

* possible conflicts of interest on page 17

**Company Profile**

Sector: Software, Technology

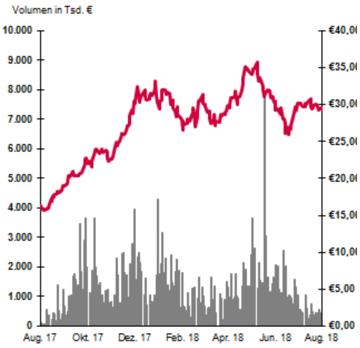
Focus: fintech, banking services

Employees: Ø 453 (2017)

Established: 1999

Registered office: Frankfurt / Main

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




For ten years, FinTech Group AG and its subsidiary flatex have been a market and innovation leader in the German online brokerage market. The continuously rising number of customers, transactions and sales are proof of their experience in implementing disruptive business models in the market. Now the company has the goal as part of a comprehensive transformation and growth process, also beyond online brokerage, of becoming the leading European provider of innovative technologies in the financial sector. The focus is on business models with sustained, above-average growth and rapid market penetration. As part of this growth trend, in March 2015 the FinTech Group acquired a majority stake in the XCOM Group, one of the most successful software and technology providers for financial services providers. The XCOM subsidiary biw AG holds a licence to provide banking services (a so-called “full-service bank”). For over 25 years, the XCOM Group has been one of the most important technology and outsourcing partners for the German banking community and one of the most successful partners in Germany’s emerging FinTech scene.

| P&L in mEUR \ financial year end | 31/12/2016 | 31/12/2017 | 31/12/2018e | 31/12/2019e |
|---|---|---|---|---|
| Net sales | 95.02 | 107.01 | 125.00 | 143.75 |
| EBITDA | 30.62 | 32.07 | 44.00 | 53.19 |
| EBIT | 25.47 | 26.48 | 38.40 | 47.19 |
| Net profit (after minorities) | 8.42 | 16.80 | 25.83 | 31.81 |
| **Key figures in EUR** | | | | |
| EPS | 0.50 | 0.96 | 1.48 | 1.82 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 |
| **Key figures** | | | | |
| Equity | 90.63 | 112.72 | 138.55 | 170.36 |
| Return on Equity | 9.3% | 14.9% | 18.6% | 18.7% |
| Price-Sales-Ratio | 5.37 | 4.77 | 4.08 | 3.55 |
| Price-Earnings-Ratio | 60.62 | 30.38 | 19.76 | 16.05 |
| Price-Book-Ratio | 5.63 | 4.53 | 3.68 | 3.00 |

| Financial Calendar |
|---|
| 30/09/2018: Half-Year Report 2018 |

| **latest research by GBC: |
|---|
| Date: publication/ target price in EUR / Rating |
| 15/12/2017: RS / 35.00 / BUY |
| 19/10/2017: RS / 30.50 / BUY |
| 14/09/2017: RS / 28.00 / BUY |
| 24/05/2017: RS / 28.00 / BUY |
| ** The research studies indicated above may be viewed at www.gbc-ag.de, or requested from GBC AG, Halderstr. 27, D86150 Augsburg |

GBC AG Investment Research

## EXECUTIVE SUMMARY

- In the past fiscal year, FinTech Group AG finalised the sharpening of its profile by the merger and packaging of individual business units. The “Make 2 out of 5” strategy achieved a significant streamlining of the group structure and reorganised the business units according to the Financial Services (FIN) and Technologies (TECH) business model.

- However, the company is continuing to act through the known flatex and ViTrade brands as one of the largest online brokers in Germany and, in addition, offers in the TECH sector a modular technology platform (FTG:CBS) for private and special-purpose banks. FinTech customers can perform all-important technology-based and regulatory processes with FTG:CBS. FinTech Group AG continues to be active in both B2C and B2B in a high-growth market environment, which is characterised by a growing share of online brokerage and an increasing use of technology in the banking world.

- Accordingly, over the past fiscal years the company posted a positive performance both in sales and income. In 2017 sales revenue climbed 12.6% to €107.01 m (previous year: €95.02 m). The basis for this is the continuing increase in the number of customers to 253,825 (previous year: 212,040), whereby both more transactions were executed and an expansion of the loan book achieved. On the other hand, the B2B business remained slightly below expectations, though it is expected to link to previous growth by acquiring new customers.

- With an EBITDA margin of 30.0% (EBITDA: €32.07 m), FinTech Group AG has a high profitability level. This should further increase in future in the environment of rising sales revenue. Economies of scale in administrative and staff expenses and in securities transactions are important drivers.

- For the current fiscal year, the company anticipates sales of €120 m and with it a continuation of the growth dynamics and a significant improvement in EBITDA to €40 m. FinTech Group AG also plans to increase the number of customers in both B2C and B2B and has taken a number of measures to do so. They include the rolling out of new products, planned geographical expansion and the unchanged positioning of the flatex brand as innovation and cost leader.

- In our sales and profit forecasts, we follow the company guidance, though we consider it to be somewhat too conservative. In light of what we consider to be good development opportunities of the coming year, FinTech Group AG should be able to earn sustained returns on equity of at least 18.6%. Within a residual income model, we have calculated a fair enterprise value per share of €41.70 (previously: €35.00). The reason for the increase is the first-time consideration of the significantly higher 2019 forecasts as the basis for the calculation of the final value and is thus to be considered as a roll-over effect. In light of a current stock price of €29.40, this means upward potential per share of over 40%. This clearly suggests a BUY rating.

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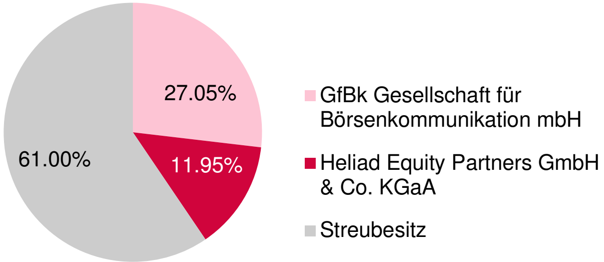
# Company

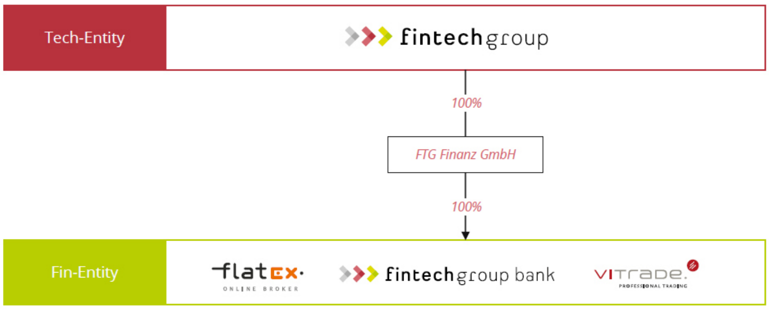
## Shareholder Structure

| Shareholder in % | 31/07/2018 |
|---|---|
| GfBk Gesellschaft für Börsenkommunikation mbH | 27.05% |
| Heliad Equity Partners GmbH & Co. KGaA | 11.95% |
| Free Float | 61.00% |

*Source: FinTech Group, GBC*




## Company Structure




*Source: FinTech Group AG*

In the 2017 fiscal year, as part of the introduced "Make 2 out of 5" strategy, the merger and packaging of individual company parts achieved a significant streamlining of the Group structure. Together with the merger of flatex GmbH with FinTech Group Bank AG after the balance sheet date, the company now has only two units. The Financial Services (FIN) segment largely represents the former Securities Trading & Financial Services business unit and the new Technologies (TECH) segment largely the former Transaction Processing & White-Label Banking Services business unit.

## Business model

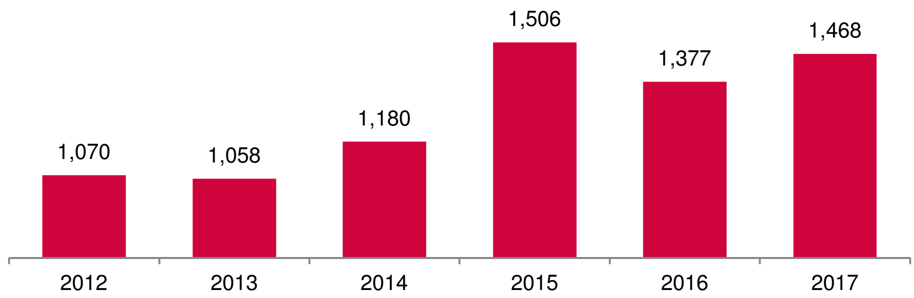
Within the two FIN and TECH the FinTech Group AG business units, the business model comprises B2C and B2B products and services:

| Financial Services (FIN) | Technologies (TECH) |
|---|---|
| • **B2C** (online brokerage through internal brands flatex and ViTrade)<br>• **B2B** (general clearing member/business process outsourcing, employee participation, cash logistics)<br>• **B2C** (Credit & Treasury) | • **B2B** (neutral standard platform for private and special-purpose banks, via SaaS and banking as a service the entire product portfolio of a technology provider and a full-service bank is covered)) |

## MARKET AND MARKET ENVIRONMENT

FinTech Group AG largely depends in the FIN segment on the number of customers and the number of executed transactions. The most important driver for this business unit, which represents roughly 83% of FinTech sales revenue, is the general trend on capital markets. In general, the company profits from the currently unchanged low interest level, due to the environment of a lack of investment alternatives in a high demand for securities. Characteristic for this is the rising number of transactions on stock markets in recent years. According to the Deutsche Börse Group, between 2012 and 2017 trading activity in Germany rose significantly from €1,070 bn to €1,468 bn or 37.2%. Euronext (+44.0%) or the London Stock Exchange (+31.5%) paint a similar picture.

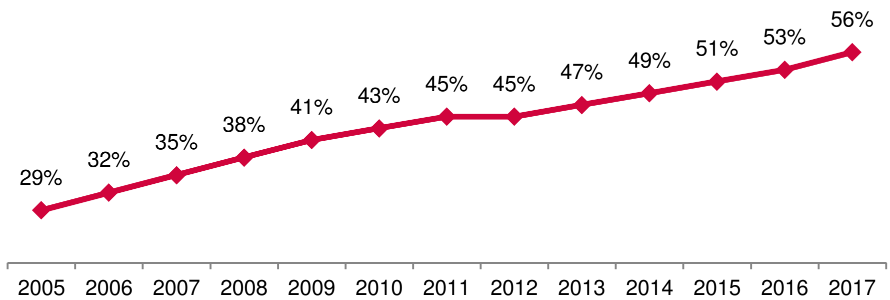
**Deutsche Börse Group trading activity (in € bn)**




*Source: Gruppe Deutsche Börse; GBC AG*

Especially in market phases of high volatility, generally increasing trading gains additional momentum. This was especially the case at the beginning of the current 2018 fiscal year, when in the environment of rising price volatility transactions substantially increased and made two consecutive record months possible. On the other hand, the company emerged as a winner in rapid bank consolidation and increasing digitalisation. This can be seen from the growing number of customers in recent years, as the basis of a rising number of transactions.

**User share of online banking in Germany**




*Source: Eurostat; GBC AG*

In general, the company profits from an increasing willingness by customers to use digital bank services. Thus, between 2005 and 2017 the share of persons who use online banking has almost doubled from 29% to 56%. The pure online broker flatex is particularly profiting from this trend. This is assisted by the comparatively broad product range in a positive cost structure compared to the market.

## COMPANY DEVELOPEMNT

### Overview of Key Figures

| P&L (in €m) | FY 2016 | FY 2017 | FY 2018e | FY 2019e |
|---|---|---|---|---|
| **Sales** | **95,02** | **107,01** | **125,00** | **143,75** |
| Cost of materials | -25,48 | -30,99 | -33,53 | -37,38 |
| Personnel expenses | -19,49 | -23,14 | -25,63 | -28,75 |
| Administrative expenses | -19,43 | -20,81 | -21,85 | -24,44 |
| **EBITDA** | **30,62** | **32,07** | **44,00** | **53,19** |
| Depreciation & Amortisation | -5,16 | -5,59 | -5,60 | -6,00 |
| **EBIT** | **25,47** | **26,48** | **38,40** | **47,19** |
| Financial result | -1,23 | -1,29 | -1,50 | -1,75 |
| **EBT** | **24,24** | **25,20** | **36,90** | **45,44** |
| Income tax expenses | -3,96 | -8,18 | -11,07 | -13,63 |
| **Earnings from continued operations** | **20,28** | **17,02** | **25,83** | **31,81** |
| Earnings on discontinued operations | -7,97 | -0,22 | 0,00 | 0,00 |
| Minority interests | -3,90 | 0,00 | 0,00 | 0,00 |
| **Net profit** | **8,42** | **16,80** | **25,83** | **31,81** |
| | | | | |
| EBITDA | 30,62 | 32,07 | 44,00 | 53,19 |
| *in % of sales* | *32,2%* | *30,0%* | *35,2%* | *37,0%* |
| EBIT | 25,47 | 26,48 | 38,40 | 47,19 |
| *in % of sales* | *26,8%* | *24,7%* | *30,7%* | *32,8%* |
| Earnings per share € | 0,50 | 0,96 | 1,48 | 1,82 |

*Source: FinTech Group AG; GBC AG*

## Business Development FY 2017

| P&L (m€) | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|
| Sales | 75.02 | 95.02 | 107.01 |
| EBITDA (Margin) | 19.74 (*26.3%*) | 30.62 (*32.2%*) | 32.07 (*30.0%*) |
| EBIT (Margin) | 17.24 (*22.9%*) | 25.47 (*26.8%*) | 26.48 (*24.7%*) |
| Net profit* | -1.75 | 8.42 | 16.80 |

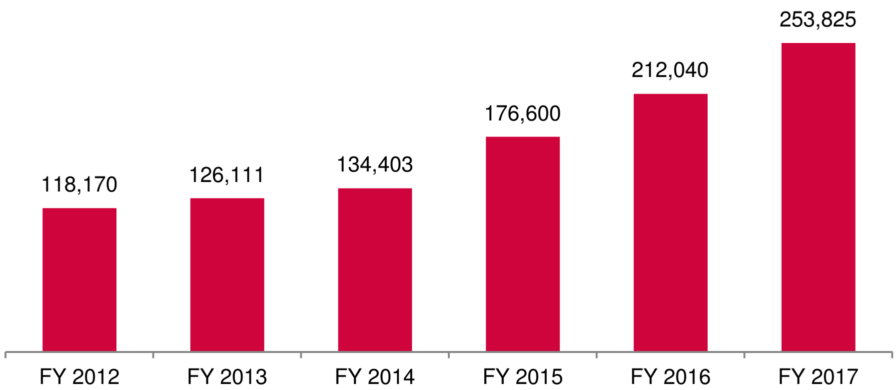
*Source: FinTech Group AG, GBC; *after minorities*

### *Development of sales FY 2017*

In the 2017 fiscal year FinTech Group AG fully met its announced targets, and by so doing continued its growth path. The earned sales revenue of €107.01 m is equivalent to revenue growth of 12.6%, or slightly above the company guidance of €100-105 m stated in the 2016 annual report. Broken down by individual business units, the company's success is especially evident in adding new customers in B2C. Especially the brokerage brand flatex, with which FinTech Group AG in Germany by its own account has a market share of approximately 20% and is the market leader in Austria with a share of 50%, was responsible for the substantial increase in the total number of customers by 19.7% to 253,825 (previous year: 212,040).

As a result, the customers of FinTech Group AG, not least of all due to the extensive product range and the comparatively competitive transaction prices (€5.90 per transaction) posted especially high trading activity. With an average of over 44 transactions per customer, in 2017 a total of 11.27 m transactions (previous year: €10.46 m) were processed, or an increase of 7.7%. Consequently, income from commissions on this expanded basis rose significantly by 21.0% to €77.49 m (previous year: €64.03 m).

**Number of customers (in m)**

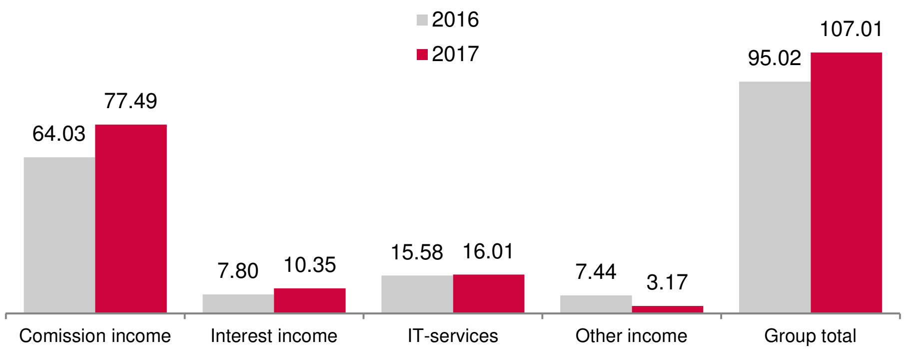



*Source: FinTech Group AG; *figures prior FY 2014 refer to biw Bank AG*

Analogous to the higher number of customers, the loan business was also characterised by strong growth. The volume of the largely fully collateralised loans (mainly flatex flex credit on the basis of the eligible securities portfolio of the third-party securities accounts) climbed markedly in 2017 to €201.91 m (previous year: €130.97 m). Accordingly, interest income also shot up strongly by 32.7% to €10.35 m (previous year: €7.78 m).

Development in B2B technologies was slightly less dynamic compared to the B2C business. The two new clients acquired in the past fiscal year, which did not generate appreciable sales until the second half of the year, partially offset the loss of an important customer. Consequently, sales with IT services increased slightly and comparatively constantly by 2.7% to €16.01 m (previous year: €15.58 m). After the balance sheet date, the company acquired the next customer in this segment, Andorra's Vall Banc, further expanding the sustained revenue base.

**Sales revenue by group (in € m)**



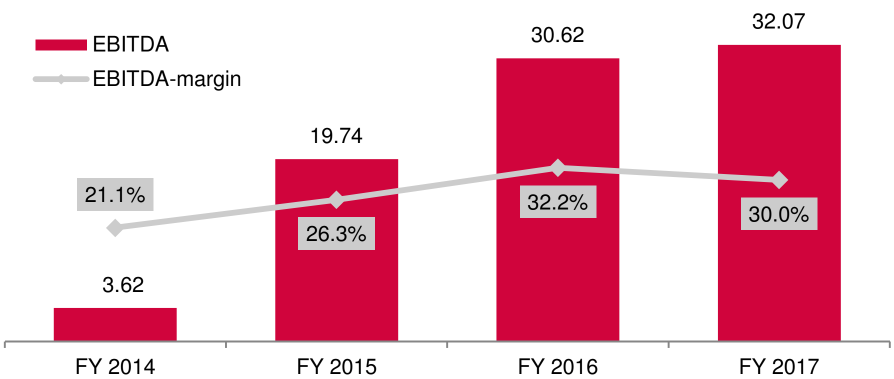

*Source: FinTech Group AG; GBC AG*

With the implemented "Make 2 out of 5" strategy and the associated downsizing of the Group structure, the company reported for the first time using the two newly created FIN and TECH segments. Also, in segment reporting the highly dynamic development of the B2C business wholly included in the FIN segment is evident. As presented, the loss of an essential B2B customer could only be partially offset by new customers. This heterogeneous development led to a significant increase in FIN sales by 21.4% to €89.11 m (previous year: €73.39 m) and in parallel to a decline of TECH sales by -9.2% to €30.64 m (previous year: €33.73 m).

### *Earnings development FY 2017*

The company was in a position to maintain the consistently high margin level in the individual profit segments, and also posts at the overall Group level a comparatively constant EBITDA margin of 30.0% (previous year: 32.2%). The described reduction of other income counteracted a better profitability performance. The achieved EBITDA is in the lower end of the forecast range of €32-34 m contained in the 2016 annual report

**EBITDA (in €m) and EBITDA-margin (in %)**

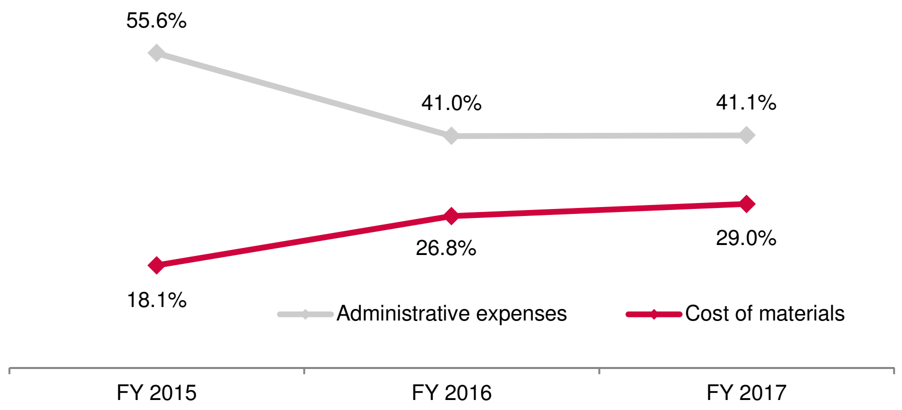



*Source: FinTech Group AG; GBC AG*

Nonetheless, in the past fiscal years FinTech Group AG achieved a significant and sustained improvement of Group profitability. Here it is important to consider the cost burdens from the structuring programme, which according to our information totalled about €1.0 m and led to a corresponding negative impact on earnings.

With the finalisation of the Group structuring, FinTech Group AG, especially administration and HR, should continue to present a lean cost picture in the coming fiscal years. Therefore, the company should be able to leverage economies of scale with continued rising sales revenue and a comparatively constant development of its gross profit margin, especially in this unit. This has already been proved in the past fiscal years, with a downward trend of the administration and personnel cost ratio from 55.6% (FY 2016) to 41.1% (FY 2017).

**Cost ratios trend**




*Source: FinTech Group AG; GBC AG*

Also for after-tax profit (after minority interests) of €16.80 m (previous year: €8.42 m) the company guidance was completely met, as a result of which the profit for the year of over €15 m was signalled. It must be considered here that the company, outside the typical financing business of banks using the assets from customer deposits, etc., shows only a very small financing requirement. Accordingly, financial expense at €-1.29 m (previous year: €-1.23 m) plays only a subordinate role.

Furthermore, in the 2017 fiscal year no extraordinary charges were incurred from the discounted business segments, which still had a negative impact on the previous year's profit of €7.97 m. This explains the significant jump in after-tax profit compared to EBITDA. We had anticipated this conspicuous profitability leap on the net level in our previous studies.

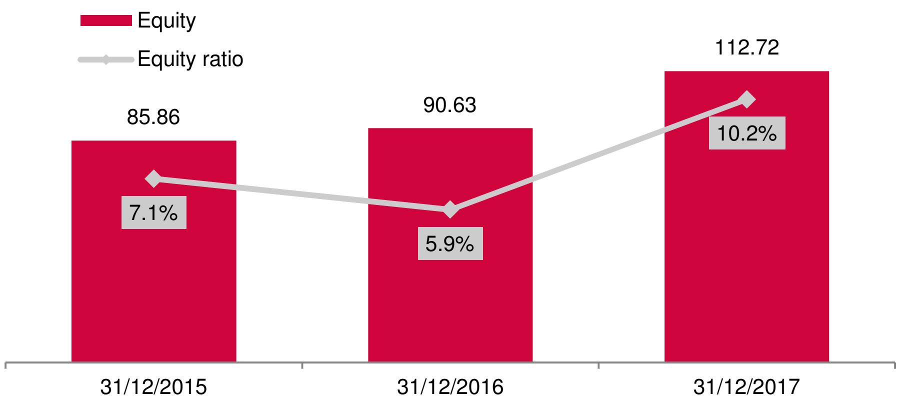
## Balance sheet and financial situation as at 31/12/2017

| in €m | 31/12/2015 | 31/12/2016 | 31/12/2017 |
|---|---|---|---|
| Equity | 85.86 | 90.63 | 112.72 |
| Equity ratio (in %) | 7.1% | 5.9% | 10.2% |
| Liabilites to customers | 947.28 | 1.339.85 | 885.11 |
| Total Assets | 1.208.24 | 1.533.99 | 1.107.43 |
| Loans to customers | 53.73 | 130.97 | 201.91 |
| Customer assets under management | 5,770 | 10,855 | 11,794 |

*Source: FinTech Group, GBC*

The past fiscal year brought substantial changes in the asset position of FinTech Group AG. Above all was the significant expansion of equity to €112.72 m (31/12/16: €90.63 m), as a consequence of the positive after-tax profit, on the one hand, and, on the other hand, the capital increase of €18.16 m from December 2017 (issuance of approx. 700,000 shares). The capital increase without subscription rights was completely subscribed by the previous business partner Morgan Stanley, in which the American bank holds a share of around 4% in FinTech Group AG. This strategic step is especially interesting against the background that Morgan Stanley currently acts as partner in the issuing of ETPs. The increased equity resulted in an appreciable reduction of the balance sheet total, thereby significantly improving the equity ratio to 10.2% (31/12/17: 5.9%).

**Equity (in €m) and equity ratio (in %)**




*Source: FinTech Group AG; GBC AG*

The lower balance sheet total is essentially due on the liabilities side to the reduction of amounts owed to customers to €885.11 m (31/12/16: €1,339.85 m). From mid-March 2017, Flatex introduced negative interest to customer deposits which led to changes in the disposal of deposits. Besides the deliberately created reduction of cash contributions there was an increase in investments in securities, with a resulting decrease in contributions in cash.

On the assets side, this led to a corresponding reduction of available for sale assets to €177.52 m (31/12/16: €514.34 m). Prior to this, FinTech Group AG had invested part of the liquidity from high customer deposits in short-term securities with very good credit rating. Thus, the sale of these securities and the resulting reduction of this balance sheet item is associated with the decrease of customer deposits. FinTech Group AG continues to strive for the profitable use of available customer deposits. Special mention must go to the expansion of the lending business to €201.91 m (31/12/2016: €130.97 m), which has become an important revenue driver.

## FORECASTS AND VALUATION

| P&L (in €m) | FY 2016 | FY 2017e | FY 2018e | FY 2019e |
|---|---|---|---|---|
| Sales | 95.02 | 107.01 | 125.00 | 143.75 |
| EBITDA (margin) | 30.62 (*32.2%*) | 32.07 (*30.0%*) | 44.00 (*35.2 %*) | 53.19 (*37.0%*) |
| EBIT (margin) | 25.47 (*26.8%*) | 26.48 (24.7%) | 38.40 (*30.7%*) | 47.19 (*32.8%*) |
| Net profit | 8.42 | 16.80 | 25.83 | 31.81 |
| EPS in € | 0.50 | 0.96 | 1.48 | 1.82 |

*Source: GBC*

According to the updated company guidance for the current 2018 fiscal year, FinTech Group AG anticipates a continuation of the growth trajectory with sales revenue of €120 m, EBITDA of around €40 m and after-tax profit of around €24 m. In the medium term, the targets of €150 m for sales, €50 m for EBITDA and €30 m for after-tax profit will be achieved.

These financial goals are based, on the one hand, on the basis of a continued positive trend in the B2C business. In the past fiscal years FinTech Group AG has brilliantly positioned the brands “flatex” and “ViTrade” in online brokerage. Despite external market influences the company posted new records every fiscal year in number of customers with its innovative product range and competitive pricing policy. At the end of fiscal year 2017 the number of flatex customers at 207,995 (previous year: 175,434) was 18.6% up on the figure for the previous year.

The forecast for the current fiscal year continues to predict a substantial increase (10% - 20%) of customers and transactions. The intensification of the existing partnerships, for example, with the new strategic shareholder Morgan Stanley, will enable the introduction of new products in Germany and foreign markets. In this regard, it is planned to further continue the geographical expansion outside the DACH region, last seen successfully when entering Austria. It is expected to double the number of transactions in the medium to long term.

Not least of all, the company also profits from short-term market trends. For example, the significantly higher volatility at the beginning of the year resulted in a strong increase in the number of transactions. In January and February a record of over 2 m securities transactions were settled via flatex, or over 40% more than the previous year. Even if market volatility is currently significantly lower, it is however evident, that FinTech Group AG can also profit from market-driven special situations.

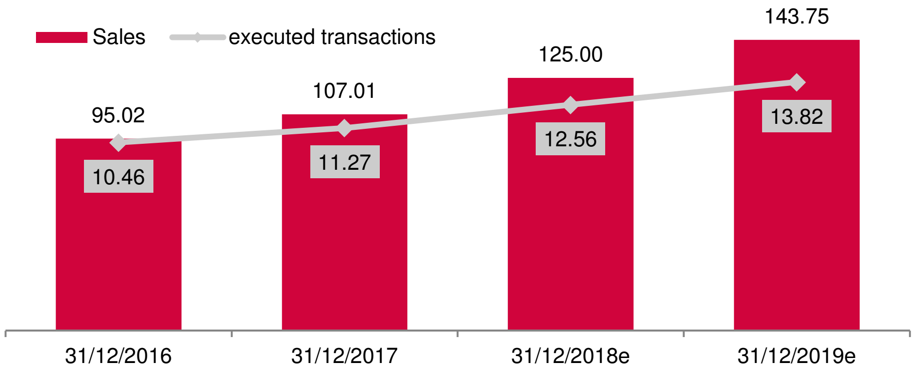
Furthermore, the strongly expanded loan volume will be further increased. The success of “flatex flex credit” on whose basis lending volume was increased to €201.91 m (31/12/16: €130.97 m), will be further expanded. In this regard, there is also a plan to permit third-party customers to borrow. Also, new products such as flatex policy loan were developed, in which life insurance policies can be deposited as collateral to develop new customer groups. In the medium term, FinTech Group AG plans to develop the collateralized loan book to over €500 m.

In its B2B unit, FinTech Group AG has a modular platform FTG:CBS for a highly scalable product, which should meet growing customer demand against the background of increasing regulatory and banking requirements. Since the beginning of the current fiscal as the Andorran Vall Banc has been acquired; the company is currently engaged in advanced negotiations with new clients. It is the company’s declared goal to annually acquire 3-5 new B2B customers. This was done to increase the recurring revenue base over the long term.

## Sales forecasts

Building on the presented business strategy we consider the revenue guidance communicated by the company to be achievable. Analogously to the management expectations for the current fiscal year, we estimate a sharp increase in the number of transactions to over 12.5 m transactions and for the coming fiscal year, retaining the pace of growth, to over 13.8 m transactions. This forms the basis for our sales forecast of €125.00 m (FY 2018), respectively €143.75 m (FY 2019).

**Sales forecast (in € m) and number of transactions (in m)**

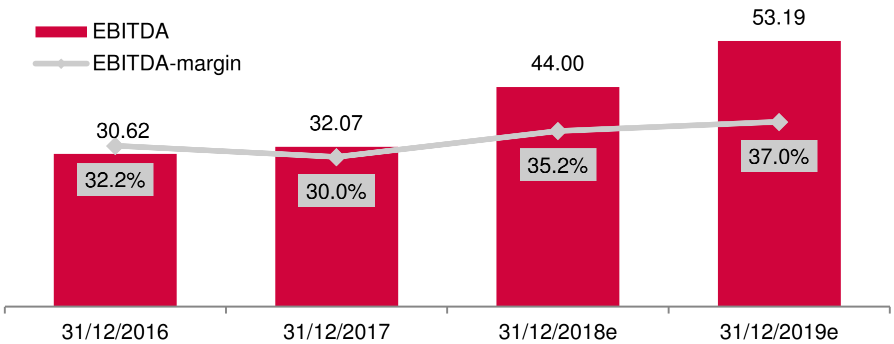



*Source: GBC AG*

## Earnings forecasts

After FinTech Group AG finalised the streamlining of the Group structure in the past fiscal year, no corresponding extraordinary charges (ca. €1.00 m) should be incurred in the current fiscal year. On the contrary, from the current fiscal year the savings from the restructuring should amount to approximately €1.00 m annually. In addition, we estimate that the company, as a result of increased sales revenue, especially in administrative and HR costs, will profit from economics of scale.

**EBITDA (in €m) and EBITDA-margin (in %)**

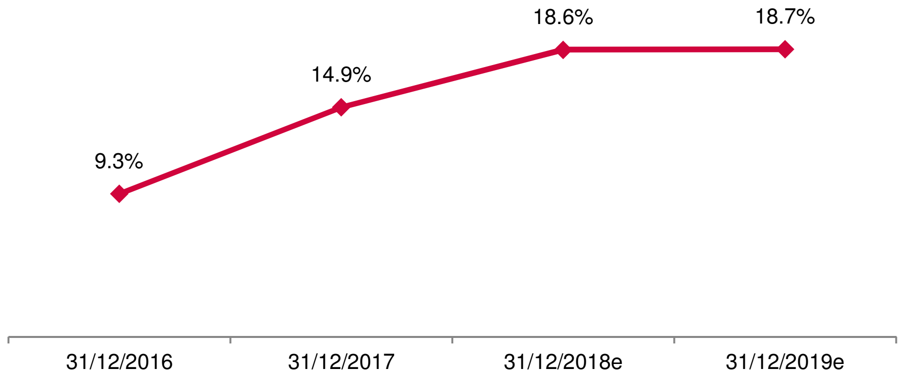



*Source: GBC AG*

Additionally, the growing number of transactions with economies of scale will result in a reduction of transaction costs, which should have a positive effect on the cost-of-materials ratio. We have included these factors in our profit forecasts, which are slightly above the company guidance.

With respect to after-tax profit our forecasts are also slightly above the company guidance. On this basis we assume an improvement of the already high level of equity return. Having amounted to 14.9% in the past fiscal year 2017, we expect for the two next fiscal years a sustainable increase of over 18.5%.

**Forecasts Return on Equity**




*Source: GBC AG*

## Valuation

### *Model selection*

For the valuation of FinTech Group AG, we have selected a residual income model, in which the excess return of the estimated periods is calculated from the difference between equity return and equity costs. For the estimated period from 2018 to 2019, we formulated concrete expectations for the profits for the year and the resulting changes in equity. The anticipated returns on equity can be derived from this. The excess return of a period can be used as a product with the equity to derive the residual income of the fiscal year. The expected residual income is therefore discounted with the equity costs on the valuation date. To calculate the final value, we apply a premium to the current book value.

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

| | | | |
|---|---|---|---|
| EK = | Equity | ROE = | Return on Equity |
| P = | Premium on book value | r = | Cost of Eqiuty |
| t= | Valuation period | T= | Final valuation period |

### *Calculation of capital costs*

The equity costs are the relevant discount rate for use in the residual income model. For the calculation of the equity costs, the market risk premium, the company-specific beta and the risk-free interest rate are used.

According to the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft [Special Committee for Business Valuations and Business Management] (FAUB) of the IDW, the risk-free interest rate is derived from current yield curves for risk-free bonds. The basis for this rate are the zero bond interest rates according to the Svensson method published by the Deutsche Bundesbank. To smooth short-term market fluctuations, the average returns of the prior three months are used and the result rounded to 0.25 basis points. The currently used value of risk-free interest rate equals 1.25% (to date: 1.25%).

As a reasonable expectation of a market risk premium, we use the historical market risk premium of 5.50%. This is supported by historical analyses of stock market returns. The market premium reflects what percent of the stock market is expected to generate a better yield than low-risk government bonds.

According to our calculations, the unadjusted beta (5 years) is currently 0.54.

By applying these premises we calculate equity costs of 4.2% (to date: 4.3%) (beta multiplied by risk premium plus risk-free interest rate). To determine the final value, we have also used equity costs of 4.2%.

## Valuation model and valuation result

| | 2017 | 2018e | 2019e | Terminal value |
|---|---|---|---|---|
| Equity | 112.72 | 138.55 | 170.36 | |
| Profit of the period | 16.80 | 25.83 | 31.81 | |
| Return on Equity | | 18.6% | 18.7% | 18,7% |
| Cost of Equity | | 4.2% | 4.2% | 4,2% |
| Rate of Return | | 14.4% | 14.5% | 14.5% |
| Book value factor | | 4.4 | 4.4 | 4.4 |
| Residual income | | 16.27 | 20.04 | 617.41 |
| Present Value of residual income | | 15.99 | 18.90 | 582.34 |

In light of our opinion of good development opportunities in the coming year, FinTech Group AG should earn sustained returns on equity of at least 18.6%. Under the assumption of equity costs of 4.2% in the final value, sustained excess returns should be achievable with factor ~14.5%. At growth approaching 0% assumed for the final value, this corresponds to a valuation at 4.4 times the book value. Thus, to calculate the final value we have used a premium over the book value of 4.4.

| | |
|---|---|
| **Total present value in €m** | **729.96** |
| Minorities | 0.00 |
| **Value of Equity in €m** | **729.96** |
| Outstanding shares in m | 17.51 |
| **Fair value per share in €** | **41.70** |

**The sum of the discounted residual income equals €729.96 m. In view of 17.51 m outstanding shares, this results in a fair per share company value of €41.70. Thus we are raising our previous target price of €35.00. The reason for the increase is the first-time consideration of the significantly higher 2019 forecasts as the basis for the calculation of the final value and is thus to be considered as roll-over effect. In light of a current stock price of €29.40, this means upward potential per share of over 40%. This clearly suggests a BUY rating.**

# ANNEX

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| | |
|---|---|
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The analysts responsible for this analysis are:
**Cosmin Filker, Dipl.Betriebswirt (FH), Deputy Chief Financial Analyst**
**Marcel Goldmann, M.Sc., Financial Analyst**

Other person involved:
**Manuel Hölzle, Dipl. Kaufmann, Chief Financial Analyst**

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GBC AG
Halderstraße 27
D 86150 Augsburg
Tel,: 0821/24 11 33-0
Fax,: 0821/24 11 33-30
Internet: http://www,gbc-ag,de

E-Mail: compliance@gbc-ag.de

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GBC AG
Halderstraße 27
86150 Augsburg
Internet: http://www.gbc-ag.de
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de