GBC AG Investment Research

# Smartbroker Holding AG*5a,5b,11

**Rating: Buy**
**Target price: € 17.70**
**(previously: € 37.55)**

Current price: 8.44
24/03/2023 / Xetra /
(17:36 pm)
Currency: EUR

**Master data:**

ISIN: DE000A2GS609
WKN: A2GS60
Ticker symbol: SB1
Number of shares [3]: 15.68
Market cap [3]: 132.34
Enterprise Value[3]: 119.84
[3] in million / in EUR million
Freefloat: 32.3%

Transparency level: -

Market segment:
Freiverkehr
(Open Market)

Accounting:
HGB

Financial year: 31/12

Designated Sponsors:
mwb fairtrade

**Analysts**

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* Catalogue of possible conflicts of interest on page 8

Date (time) completion:
27/03/2023 (9:00 am)

Date (time) first distribution:
27/03/2023 (10:30 am)

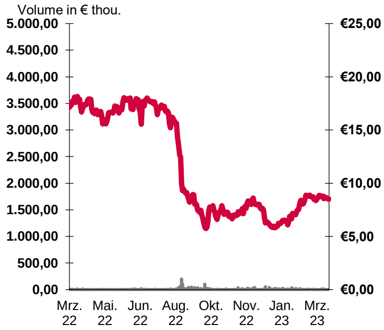
Validity of the price target:
until max. 31/12/2023

**Company profile**

Industry: Fintech / Internet service provider
Focus: online brokerage, online advertising, financial community/financial news

Employees Smartbroker group: >200 (as of 03/23)
Foundation: 1998
Headquarters: Berlin

Executive Board: André Kolbinger (CEO), Roland Nicklaus (CFO), Oliver Haugk, Michael Bulgrin, Stefan Zmojda




The Smartbroker Group operates Smartbroker - a multi-award-winning online broker that is the only provider in Germany to combine the extensive product range of traditional brokers with the extremely favourable conditions of neobroker and to provide access to the capital market free of charge. With around 267,000 securities accounts and estimated client assets under custody of around € 9.0 billion (GBCe), the Berlin-based financial services provider is already one of the leading providers on the neobroker market around three years after the launch of the Smartbroker. Smartbroker Holding AG and its subsidiaries stand for more than 20 years of experience in the distribution of investment products. At the same time, the company operates four stock market portals with a wide reach (wallstreet-online.de, boersenNews.de, FinanzNachrichten.de and ARIVA.de). With most recently around 2.60 billion page views (as of 31 December 2022), the group is by far the largest publisher-independent financial portal operator in the German-speaking world and maintains the largest financial community. More than 500,000 users are registered in the wallstreet-online.de forums alone.

| P&L in € m | 31/12/2021 | 31/12/2022* | 31/12/2023e | 31/12/2024e | 31/12/2025e |
|---|---|---|---|---|---|
| Revenue | 48.20 | 52.80 | 52.70 | 66.75 | 76.30 |
| EBITDA | 3.56 | 9.10 | 1.04 | 13.97 | 20.68 |
| EBIT | 0.35 | 8.20 | -5.48 | 5.76 | 13.05 |
| Net result | -0.54 | -10.80** | -4.10 | 3.70 | 8.72 |

**according to preliminary key financial figures of Smartbroker Holding AG*
***influenced by a special depreciation of around € 13.0 million on capitalised development costs*

| Key figures in EUR | | | | | |
|---|---|---|---|---|---|
| Earnings per share | -0.04 | -0.69 | -0.26 | 0.24 | 0.56 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| Key figures | | | | | |
|---|---|---|---|---|---|
| EV/Revenue | 2.49 | 2.27 | 2.27 | 1.80 | 1.57 |
| EV/EBITDA | 33.66 | 13.17 | 115.23 | 8.58 | 5.79 |
| EV/EBIT | 342.40 | 14.61 | neg. | 20.81 | 9.18 |
| KGV | neg. | neg. | neg. | 35.77 | 15.18 |
| KBV | | 2.65 | | | |

| Financial calendar |
|---|
| 03/05/2023: 35th MKK (Munich) |
| 15/05/2023: Spring Conference (Frankfurt) |
| July 2023: Annual Report 2022 |
| Sept. 2023: Baader Conference (Munich) |
| Nov. 2023: Equity Forum (Frankfurt) |

| **last research from GBC: |
|---|
| Date: Publication / Target price in EUR / Rating |
| 20/06/2022: RS / € 37.55 / BUY |
| 30/03/2022: RS / € 38.60 / BUY |
| 09/08/2021: RS / € 37.70 / BUY |
| 09/03/2021: RS / € 29.00 / BUY |

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg.

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**FY 2022 closed with robust business performance and realignment of fintech business; Smartbroker relaunch should provide significant revenue and earnings growth going forward; forecasts and target price lowered; Buy rating maintained**

## Business development in the past financial year 2022

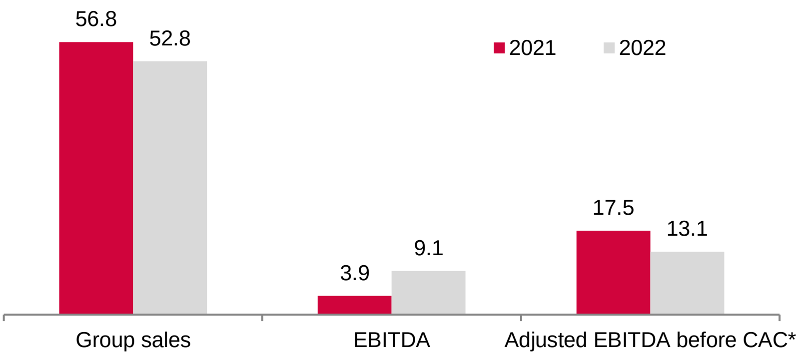
On 16 March 2022, Smartbroker Holding AG (Smartbroker) announced its preliminary business figures for the past financial year 2022. According to these figures, the group was able to close the past financial year with an increase in HGB turnover of 9.5% to € 52.80 million (previous year: € 48.20 million) despite a difficult market environment. Compared to the pro forma revenue (pro forma consolidation of Smartbroker AG, formerly wallstreet:online capital AG, as of 1 January 2022, instead of regular HGB consolidation as of 1 August 2022) of the previous year in the amount of € 56.80 million, however, there was a moderate decline in revenue.

At the earnings level, EBITDA adjusted for new customer acquisition costs for Smartbroker of around € 4.00 million (previous year: € 13.10 million) was € 13.10 million (previous year: € 17.10 million), which fell by 25.1% compared to the previous year.

Despite the continued high investments in the development and expansion of the brokerage business, which, in addition to development costs incurred, primarily related to marketing and personnel and the completed realignment of the fintech division, EBITDA after customer acquisition costs rose significantly to € 9.10 million (previous year: € 3.90 million). This significant increase in earnings was mainly due to the decline in customer acquisition costs relating to the Smartbroker (approx. € 4.0 million in 2022 vs. € 13.1 million in 2021).

All in all, the company fell slightly short of the target corridor of the guidance adjusted in August 2022 (revenue € 54.0 million to € 57.0 million, operating EBITDA € 10.0 million to € 12.0 million). Our revenue (€ 62.33 million) and earnings (EBITDA of € 10.04 million) forecast was not achieved, in particular due to the postponement of the Smartbroker relaunch. Our estimates were still made on the basis of a Smartbroker 2.0 market launch in 2022.

**Preliminary figures for the 2022 financial year (in € million)**




*Sources: Smartbroker Holding AG; GBC AG * Adjusted EBITDA before Smartbroker customer acquisition costs (CAC)*

The moderate decline in Group revenue resulted in particular from a declining business volume in the transaction business. In this business area, segment revenues fell by 12.0% to € 18.70 million (previous year: € 21.30 million) compared to the previous year, mainly due to a decline in trading activity (18 trades in 2022 vs. 29 trades in 2021 per customer) of brokerage customers.

On the other hand, despite a reduced marketing budget and historically difficult capital market conditions, the company was again able to increase the number of securities accounts managed to 267,000 by the end of 2022 (previous year: 246,000 accounts). In the same period, the assets under custody grew to € 9.20 billion (previous year: € 8.80 billion).

Furthermore, in the traditional business (media/portal business), segment revenues of € 34.10 million were almost stable compared to the previous year (PY: € 35.50 million). In our opinion, long-term contracts with financial institutions, advertising agencies and the B2B software business (ARIVA.DE AG) contributed to this robust development. In addition, according to the company, the precise targeting of the portals on above-average attractive readers also led to a stable business development.

## Smartbroker Group outlook for the 2023 financial year

The Smartbroker management is positive about the current 2023 financial year. The company expects a consolidated turnover of between € 51.0 million and € 56.0 million and an EBITDA (operating EBITDA) adjusted for new customer acquisition costs of between € 1.0 million and € 4.0 million. An even better operating earnings outlook is countered by the extensive costs expected by the management for the development of the Smartbroker 2.0 and additional migration costs (planned for the second half of 2023).

At the end of 2022, Smartbroker announced that it would cooperate with Baader Bank for the transaction processing and the custody account management for Smartbroker 2.0 going forward. In addition, the development work for Smartbroker 2.0 has progressed according to plan in recent months. The company expects further investments of around € 6.0 million in the current year in order to complete the Smartbroker 2.0 project, which is currently being implemented, and is fully financed for this purpose. Gross cash holdings amounted to more than € 27.0 million at the end of 2022.

The relaunch of the Smartbroker is planned for mid-2023. After the scheduled reduction of marketing expenses for the current year 2023 (planned marketing expenses of € 2.0 million), the Group intends to ramp up new customer marketing again afterwards. The migration of existing Smartbroker customers to the new infrastructure is scheduled to begin shortly after the product launch in summer 2023. According to the company, the realignment of the transaction business should contribute to the Smartbroker becoming the group's main profitable growth driver from 2024.

## GBC assessment and evaluation

Based on the postponement of the Smartbroker 2.0 introduction and the realignment of the brokerage business (change of partner bank, etc.), we are adjusting our previous estimates for the current financial year and also doing so for the following years. Against the background of the current difficult market environment, we have deliberately chosen our new estimates conservative.

For the current financial year 2023, we now expect revenues of € 52.70 million (previously: € 84.02 million) and an EBITDA of € 1.04 million (previously: € 14.05 million) and are thus at the lower end of the forecast range communicated by the company. For the following financial year 2024, we calculate revenues of € 66.75 million (previously: € 98.57 million) and EBITDA of € 13.97 million (previously: € 28.73 million). In the 2025 financial year, which we have included in our detailed estimation period for the first time, revenue and EBITDA should continue to increase to € 76.30 million and € 20.68 million respectively.

| P&L in € m | FY 22 | FY 23e (new) | GJ 23e (old) | GJ 24e (new) | GJ 24e (old) | FY 25e |
|---|---|---|---|---|---|---|
| Revenue | 52.80 | 52.70 | 84.02 | 66.75 | 98.57 | 76.30 |
| EBITDA | 9.10 | 1.04 | 14.05 | 13.97 | 28.73 | 20.68 |
| EBIT | -8.20 | -5.48 | 11.05 | 5.76 | 25.53 | 13.05 |
| Net result | -10.80 | -4.10 | 7.65 | 3.70 | 17.77 | 8.72 |

*Sources: Smartbroker Holding AG; forecasts GBC AG*

Overall, we continue to see the Smartbroker Group well positioned to expand its market position in both business segments (Portal Business, Brokerage Business). The planned introduction of Smartbroker 2.0 (including apps and product enhancements) should significantly increase the company's future growth momentum from the 2024 financial year onwards. Due to the high scalability of the brokerage business model, the expected growth in earnings should also lead to a disproportionate increase in Group profitability.

**Based on our lowered estimates, we have also lowered our previous target price to € 17.70 (previously: € 37.55 per share) within the framework of our DCF valuation model. In addition to the reduced forecasts, the rise in the cost of capital as a result of the increase in the risk-free interest rate (from 0.40% to now 1.50%) has led to a price target reduction. In view of the current share price level, we thus continue to assign a "Buy" rating and see significant share price potential.**

## EVALUATION

### Model assumptions

Smartbroker Holding AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2023, 2024 and 2025 in phase 1, the forecast is made from 2026 to 2030 in the second phase by applying value drivers. Here, we expect increases in revenue of 10.0% (previously: 10.0%) and an EBITDA margin of 29.1% to 34.60% (previously: 31.1% to 39.10%). We have included the tax rate of 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value, we assume a growth rate of 2.0%.

### Determination of the cost of capital

The weighted average cost of capital (WACC) of Smartbroker Holding AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. The average yields of the previous three months are used to smooth short-term market fluctuations. The currently used value of the risk-free interest rate is 1.50% (previously: 0.40%).

We set the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.34 (previously: 1.34) is currently determined.

Using the assumptions made, we calculate a cost of equity of 8.85% (previously: 7.70%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 100.0%, the weighted average cost of capital (WACC) is 8.85% (previously: 7.70%).

### Valuation result

The future cash flows are discounted on the basis of the entity approach. We have calculated the corresponding cost of capital (WACC) at 8.85% (previously: 7.70%). The resulting fair value per share at the end of the 2023 financial year corresponds to a target price of € 17.70 (previously: € 37.55). Our lowering of the price target results primarily from the significantly lowered forecasts for the current financial year and for the following years. The higher cost of capital due to the increase in the risk-free interest rate (from 0.40% to 1.50%) also had the effect of lowering the target price.

## *DCF model*

### Smartbroker Holding AG - Discounted Cash Flow (DCF) analysis

**Value driver of the DCF model according to estimate phase:**

| **consistency - Phase** | |
|---|---|
| Sales growth | 10.0% |
| EBITDA margin | 27.1% |
| Depreciation to fixed assets | 23.2% |
| Working capital to sales | 4.2% |

| **final - Phase** | |
|---|---|
| Eternal growth rate | 2.0% |
| Eternal EBITA margin | 26.1% |
| Eternal effective tax rate | 30.0% |

**Three-phases model:**

| **phase** | **estimate** | | | **consistency** | | | | | **final** |
|---|---|---|---|---|---|---|---|---|---|
| in € m | FY 23e | FY 24e | FY 25e | FY 26e | FY 27e | FY 28e | FY 29e | FY 30e | Terminal Value |
| Sales | 52.70 | 66.75 | 76.30 | 83.93 | 92.32 | 101.55 | 111.70 | 122.88 | |
| *Sales change* | -0.2% | 26.7% | 14.3% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 2.0% |
| *Sales to fixed assets* | 1.50 | 2.15 | 2.78 | 3.38 | 4.04 | 4.83 | 5.80 | 6.93 | |
| EBITDA | 1.04 | 13.97 | 20.68 | 24.43 | 28.25 | 32.60 | 37.54 | 42.52 | |
| *EBITDA margin* | 2.0% | 20.9% | 27.1% | 29.1% | 30.6% | 32.1% | 33.6% | 34.6% | |
| EBITA | -5.48 | 5.76 | 13.05 | 18.07 | 22.49 | 27.31 | 32.66 | 38.05 | |
| *EBITA margin* | -10.4% | 8.6% | 17.1% | 21.5% | 24.4% | 26.9% | 29.2% | 31.0% | 26.1% |
| Taxes on EBITA | 1.64 | -1.73 | -3.91 | -5.42 | -6.75 | -8.19 | -9.80 | -11.42 | |
| *Taxes to EBITA* | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% |
| EBI (NOPLAT) | -3.84 | 4.03 | 9.13 | 12.65 | 15.74 | 19.12 | 22.86 | 26.64 | |
| Return on capital | -9.3% | 10.6% | 26.7% | 41.1% | 55.4% | 71.6% | 90.3% | 111.2% | 100.0% |
| | | | | | | | | | |
| Working capital (WC) | 2.74 | 3.14 | 3.36 | 3.52 | 3.88 | 4.27 | 4.69 | 5.16 | |
| *WC to sales* | 5.2% | 4.7% | 4.4% | 4.2% | 4.2% | 4.2% | 4.2% | 4.2% | |
| *Investment in WC* | 3.26 | -0.40 | -0.22 | -0.17 | -0.35 | -0.39 | -0.43 | -0.47 | |
| Operating fixed assets (OAV) | 35.22 | 31.09 | 27.40 | 24.86 | 22.82 | 21.04 | 19.27 | 17.74 | |
| *Depreciation on OAV* | -6.52 | -8.21 | -7.63 | -6.36 | -5.77 | -5.30 | -4.88 | -4.47 | |
| *Depreciation to OAV* | 18.5% | 26.4% | 27.8% | 23.2% | 23.2% | 23.2% | 23.2% | 23.2% | |
| *Investment in OAV* | -6.34 | -4.08 | -3.94 | -3.82 | -3.73 | -3.51 | -3.11 | -2.94 | |
| Capital employed | 37.96 | 34.23 | 30.76 | 28.39 | 26.70 | 25.30 | 23.96 | 22.90 | |
| | | | | | | | | | |
| EBITDA | 1.04 | 13.97 | 20.68 | 24.43 | 28.25 | 32.60 | 37.54 | 42.52 | |
| Taxes on EBITA | 1.64 | -1.73 | -3.91 | -5.42 | -6.75 | -8.19 | -9.80 | -11.42 | |
| Total investment | -3.08 | -4.48 | -4.16 | -3.99 | -4.08 | -3.90 | -3.54 | -3.41 | |
| *Investment in OAV* | -6.34 | -4.08 | -3.94 | -3.82 | -3.73 | -3.51 | -3.11 | -2.94 | |
| *Investment in WC* | 3.26 | -0.40 | -0.22 | -0.17 | -0.35 | -0.39 | -0.43 | -0.47 | |
| *Investment in goodwill* | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| Free cash flows | -0.40 | 7.76 | 12.61 | 15.02 | 17.43 | 20.51 | 24.20 | 27.70 | 327.77 |

| | | |
|---|---|---|
| Value operating business (due date) | 266.19 | 281.98 |
| *Net present value explicit free cash flows* | 85.12 | 84.88 |
| *Net present value of terminal value* | 181.08 | 197.10 |
| Net debt | -11.32 | -18.61 |
| Value of equity | 277.52 | 300.58 |
| Minority interests | 0.00 | 0.00 |
| Value of share capital | 277.52 | 300.58 |
| Outstanding shares in m | 15.68 | 15.68 |
| Fair value per share in € | **17.70** | 19.17 |

**Cost of Capital:**

| | |
|---|---|
| *Risk-free rate* | 1.5% |
| *Market risk premium* | 5.5% |
| *Beta* | 1.34 |
| Cost of equity | 8.8% |
| *Target weight* | 100.0% |
| Cost of debt | 3.0% |
| *Target weight* | 0.0% |
| Taxshield | 25.0% |
| | |
| WACC | **8.8%** |

| **Return on Capital** | **WACC** | | | | |
|---|---|---|---|---|---|
| | **8.2%** | **8.5%** | **8.8%** | **9.1%** | **9.4%** |
| **99.5%** | 19.24 | 18.40 | 17.64 | 16.95 | 16.31 |
| **99.7%** | 19.27 | 18.43 | 17.67 | 16.97 | 16.34 |
| **100.0%** | 19.31 | 18.46 | **17.70** | 17.00 | 16.37 |
| **100.2%** | 19.34 | 18.49 | 17.73 | 17.03 | 16.39 |
| **100.5%** | 19.37 | 18.53 | 17.76 | 17.06 | 16.42 |

# APPENDIX

**I.**

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**The respective recommendations/ classifications/ ratings are associated with the following expectations:**

| | |
|---|---|
| BUY | The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is >= + 10 %. |

| | |
|---|---|
| HOLD | The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is > - 10 % and < + 10 %. |
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