EDISON

Scale research report - Update

JDC Group

Diversified financials

17 August 2021

Seeking a higher level of growth

Bancassurance advisory and service platform JDC Group (JDC) reported8strong H121 results and has raised FY21 revenue and EBITDA guidance to what we still believe to be conservative levels. Large client wins are starting to feed into the platform and the pipeline of new major clients looks promising. Based on 2021/22e consensus EV/sales and EV/EBITDA, the valuation does not seem demanding compared to its other platform peers.

A very strong H121

JDC reported strong H121 results. Q221 revenues showed accelerating growth of 19.2% y-o-y after 14.4% in Q121 and 11.4% in FY20. The development of revenues also compares well to the growth of the insurance activities of JDC's competitor Hypoport. With the relatively fixed cost structure (opex was up only 6.3%), operating leverage is also starting to show, with EBITDA increasing 38.6% to €4.3m. At the bottom line, JDC was able to report a net profit of almost €1m (H120: €0.2m). With a strong H121 and a continued good outlook for the remainder of 2021, JDC now expects revenues of €140–145m (was €138–142m) and EBITDA of >€8m (was >€7m) in FY21. Given that ~55% of revenues are usually made in the second half of the year this guidance looks rather conservative.

Taking platform growth to the next level

JDC recently signed the deal with the large insurer Provinzial as announced in February, adding around one million potential new customers to the Insurtech platform, which could bring over €100m in revenues for JDC. Provinzial is the first of the Deutsche Sparkasse insurance companies to choose JDC's platform and similar companies could follow suit. Furthermore, other large client wins, like the agent networks of large insurers, are in the pipeline. Some of the contracts from this pipeline could materialise in H221, which could boost platform growth above 25% compared to the 20%+ growth rates seen during the last quarters.

Valuation: Higher growth justifies a higher valuation

While we recognise that a peer comparison is not easy given its diversified profile, we note that JDC trades at a discount of 85% on FY22e consensus EV/sales compared to platform peers and 40% compared to financial brokers. Given the high growth profile and the trigger from new probable contract wins from the pipeline, we believe JDC's valuation remains undemanding despite the recent share price appreciation.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)	Yield (%)
12/19	111.5	4.2	(0.14)	0.0	28.6	N/A
12/20	123.3	5.2	(0.09)	0.0	18.7	N/A
12/21e	140.6	8.0	0.18	0.0	34.2	N/A
12/22e	158.8	9.6	0.34	0.0	28.5	N/A

Source: JDC Group, Refinitiv consensus at 12 August 2021

Price	€20.1
Market cap	€258m

Share price graph

Share details

Code	A8AX
Listing	Deutsche Börse Scale
Shares in issue	13.1m
Last reported net debt at end-H121	€5.9m

Business description

JDC Group is a leading German insurance platform, providing advice and financial services for professional intermediaries, banks but also directly for end customers. JDC's digital platform, for end clients and for the administration and processing of insurance products, is also provided as a white label product.

Bull

- Strong position to support digital investment.
- New client wins.
- Profitable consolidation opportunities.

Bear

- Capital market weakness from third wave COVID-19 related uncertainty or another cause affecting investment results in advisory.
- Low interest rates and regulatory uncertainty affect the insurance industry.
- Transfer of contracts to JDC platform could stall.

Analyst

Edwin De Jong +44 (0)20 3077 5700
financials@edisongroup.com
Edison profile page

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EBITDA up almost 40% in H121

JDC reported strong H121 results. Revenue growth is accelerating, up 19.2% in Q221 versus 13.9% in Q420, 14.4% in Q121 and 11.4% in FY20.

H121 revenues increased 16.6% to €68.6m. The Advisortech segment, which includes JDC's platform business, reported 13.9% revenue growth to €56.4m, another step up from 11.1% in 2020. This compares favorably to its competitor, Hypoport, which reported a 12% increase in revenues to €23.7m in its Insurtech division in H121.

The key accounts, which will be the growth driver for JDC Group in the coming years, generated 20.9% revenue growth, compared to 8% higher net policy premiums on Hypoport's insurance platform.

JDC's Advisory business recorded 23.5% revenue growth to €17.3m driven by a weak comparative base in 2020 due to the pandemic and strong financial markets.

Exhibit 1: H121 results highlights (P&L)

€'000s	FY20	FY19	y-o-y change	H121	H120	y-o-y change
Total revenue	**122,834**	**111,471**	**10.19%**	**68,611**	**58,820**	**16.65%**
-Advisortech	102,579	92,285	11.15%	56,449	49,565	13.89%
-Advisory	30,859	29,910	3.17%	17,291	13,998	23.52%
-Holding	-10,604	-10,724	-1.12%	-5,129	-4,743	8.14%
Initial commission	85,547	75,118	13.88%	47,159	40,152	17.45%
-Insurance products	64,125	56,861	12.78%	35,749	29,368	21.73%
-Investment funds	16,028	13,587	17.97%	8,394	8,340	0.65%
-Shares/Closed-end funds	5,394	4,670	15.50%	3,016	2,444	23.40%
Follow-up commission	21,242	20,223	5.04%	11,655	10,292	13.24%
Overrides	6,451	6,649	-2.98%	3,917	3,553	10.24%
Services	3,478	3,405	2.14%	2,140	1,707	25.37%
Fee-based advisory	2,757	3,091	-10.81%	1,940	1,365	42.12%
Other income	3,359	2,985	12.53%	1,800	1,751	2.80%
Capitalised services	1091	998	9.32%	578	480	20.42%
Other operating income	339	617	-45.06%	37	148	-75.00%
Commission expenses	(90,542)	(81,433)	11.19%	(50,373)	(42,568)	18.34%
Commission expense as % of revenues	73.71%	73.00%	-95bp	73.42%	72.37%	-105bp
Personnel expenses	(18,737)	(17,417)	7.58%	(9,820)	(8,934)	9.92%
Other operating expenses	(9,860)	(10,070)	-2.09%	(4,690)	(4,812)	-2.54%
EBITDA	**5,125**	**4,166**	**23.02%**	**4,343**	**3,134**	**38.58%**
D&A	(4,628)	(4,311)	7.35%	(2,429)	(2,187)	11.07%
EBIT	**497**	**-145**	**-442.76%**	**1,914**	**947**	**102.11%**
Pre-tax profit	(1,031)	(1,753)	-41.19%	1,174	220	433.64%
Net income	(1,163)	(1,813)	-35.85%	980	190	415.79%
EPS (€)	**-0.09**	**-0.14**	**-36%**	**0.08**	**0.01**	**700%**

Source: JDC Group financial accounts

The commission expense ratio, the part of the reported commissions that flows back to the initiator of the commission-generating financial product, was relatively stable at 73.4% of total revenues, compared to 73.7% in 2020 and 72.4% in H120. Gross margin increased 12.4% to €9.0m.

Opex increased by only 6.3% to €16.9m. One-off costs in H120 of €0.3m related to restructuring, expenses to enable working from home and the group's head office move did not reoccur, partly offset by higher IT costs. High revenue growth and a much slower growing cost base resulted in EBITDA rising by almost 38.6% to €4.3m and EBIT more than doubling to €1.9m. At the bottom line, JDC was able to report net profit in H121 of almost €1m (H120: €0.2m).

Given the strong H121 and a continued good outlook for the remainder of 2021, JDC now expects revenues of €140–145m (was €138–142m) and EBITDA of >€8m (was >€7m). Given that the majority of revenues and earnings usually are made in the second half of the year this guidance seems to be rather conservative.

H121 operational cash flow was €4.9m compared to €2.8m in H120, driven by the higher results and improved working capital. Total cash flow was positive at €2.9m, despite €0.6m of acquisition costs, versus a negative €12.2m in H120, driven by the redemption of bonds.

Outstanding bonds (€19.4m) and bank debts (€1.1m) are in part offset by a cash position (€14.6m), resulting in net debt of €5.9m. JDC also has 505k of own shares due to an earlier buy-back programme (4% of outstanding shares), which makes the financial situation pretty solid.

Looking for a new level of growth

The company's key client business has been the largest driver behind the 20%+ growth in JDC's top line for many quarters now and it is also getting sizable in euro terms, with €11.2m in revenues in H1 (16% of total revenues). The deal with the German savings bank insurer Provinzial, for which the joint venture agreement was signed last July, has not led to any material revenues so far (and is unlikely to do so this year), as the operation has to be set up first. This is a very sizable deal however and in total it could lead to €100m in additional annual revenues, according to the company (compared to €122.8m JDC revenues in 2020). As such, the deal with Provinzial alone could result in the platform growing by 20% in coming years.

The expected transfer of contracts to JDC's platform based on recent new client wins justifies the company's longer-term outlook of a doubling of revenues to 2025 (€246m) and increase in EBITDA of several times (we would expect roughly 4x or >€20m).

However, with a fully developed interface (API) to the German savings banks' insurance platform S-Versicherungsmanager (insurance manager) which will become the central distribution platform for public insurance companies, JDC is also very well positioned to gain client wins from the other public insurance companies (similar to Provinzial in other German regions. These potential wins could deliver more revenues than Provinzial.

Furthermore, we expect that JDC is also negotiating with non-bank related insurance companies. JDC's platform could be very well suited for the agents liaised with these insurance companies. Agents represent roughly 50% of the total German insurance commission pool of roughly €25bn. As such, this could become another growth pillar.

Overall, we expect that JDC is looking to increase its level of platform growth further to 25%+. At this point JDC can transfer ~330k contracts on an annual basis, of which c 120k are new customers. Operationally it can do this by adding staff, which has not been a bottleneck so far. While the largest part of the operation is digital, employees are still needed to verify accounts and for help desks.

Operational capacity can be a limitation however. New transfers from Finanzguru, a multibanking app with over 500,000 users, a very interesting new client group, have been constrained because of the limited staff capacity, especially at Finanzguru.

Valuation not demanding

Within the Advisortech division, the IFA business is the largest part with roughly 77% of revenues. In this segment, JDC competes with companies offering financial products such as investment funds, closed funds, insurance and financing products through independent brokers to downstream brokers or end-clients. In Germany, these are private companies like Fonds Finanz Maklerservice and BCA, as well as commercial banks. The much larger AON, and aggregators in the UK like Moneysupermarket.com, can be seen as relevant comparisons for the advisory part of the business, although they lack a platform and that is what makes JDC stand out. Compared to these companies, JDC trades at a premium on EV/EBITDA but at a steep discount on EV/sales.

JDC's key accounts, which already account for 20% of Advisortech revenues, are becoming more important. This part of the business is best comparable to Hypoport, which also offers an independent advisory platform service but for mortgages (JDC: insurance). Compared to Hypoport, JDC trades at a steep discount on both EV/sales and EV/EBITDA and Hypoport already is relatively mature with a large market share. US-listed Goosehead operates a more B2B-oriented insurance platform in the United States; it also trades at a large premium compared to JDC on both metrics.

Although we realise that a peer comparison for JDC is not easy given its diversified profile, we note that the company trades at a discount of 85% on FY22e consensus EV/sales compared to platform peers and 40% compared to financial brokers. We believe that JDC is more comparable with the platform peers, as the platform already generates the majority of JDC's revenues. Given the high growth profile and a trigger from new contract wins from the pipeline, the valuation still looks undemanding despite the recent share price appreciation.

Furthermore, we note that with JDC now also profitable at a bottom-line level, it could become attractive for investors that can only invest in profitable companies looking for growth opportunities.

The most important risks are changes to the regulatory environment in Germany and Austria, but negative capital market returns would also put pressure on JDC's results, as part of the earned commissions are dependent on assets under management.

Exhibit 2: Peer table valuation

	Market cap (local currency, m)	FY21e EV/Sales	FY22e EV/Sales	FY21e EV/EBITDA	FY22e EV/EBITDA
Aon	61667.3	4.8	4.5	15.4	14.3
MLP	829.6	2.9	2.7	28.1	24.9
Moneysupermarket.com	1371.5	4.1	3.8	13.3	11.4
Netfonds	77.0	0.5	0.4	13.7	11.2
Average financial brokers		*3.1*	*2.9*	*17.6*	*15.4*
Goosehead	4977.9	24.0	17.1	90.0	57.4
Hypoport	3409.1	6.3	5.4	40.5	31.7
Average platforms		*15.1*	*11.2*	*65.2*	*44.5*
JDC Group	**257.5**	1.9	1.7	34.2	28.5
Premium/discount financial brokers		-36%	-40%	94%	85%
Premium/discount to platform		-87%	-85%	-48%	-36%

Source: Refinitiv, priced at 12 August

EDISON

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia