

## Lloyd Fonds

### Fund management

8 May 2019

### Growing fast

Lloyd Fonds is accelerating its transformation into a leading asset manager in Germany with the proposed acquisition of highly regarded SPSW Capital. This follows the recent sales launch of its new business model, focused on open-end retail funds and targeting assets under management to exceed €5bn by 2023 (€1bn+ in 2019). While repositioning makes financials difficult to assess, this move gives reassurance as growth in assets under management is the stated driver of future earnings.

### Busy execution of 'Strategie 2019+'

Following the recent acquisition of Lange Assets & Consulting (€350m assets under management), the proposed takeover of SPSW Capital brings further scale (€650m assets under management) and complementary expertise to Lloyd Fonds' reorientation towards open-end investment products. The deal (mid double-digit million range in shares and c €40m cash) is due to complete by next year, effecting also a new CEO (current company chairman as well as co-founder of SPSW) and a change of name to Lloyd Capital. Meanwhile, the sales launch for initial four retail funds is newly underway, supplemented by a reworking of the Lloyd Fonds brand. Repositioning has been supported by key management changes, including a chief investment officer from April, two new anchor shareholders, notably DEWB, a long-established listed private equity company, and first expansion from the company's Hamburg base with branch openings in Munich and Frankfurt.

### 2018 results as forecast

In view of such operational change, analysis of recent financial performance offers limited guidance. In addition, repositioning brings substantial one-off costs, eg in infrastructure, IT, and above all new staff. In 2018 these amounted to €2.5m, moving net profit firmly into loss, albeit in line with guidance and despite a late surge in real estate sales. Finances remained sound with €12m year-end net cash.

### Valuation: Long-term appeal

After early investor appreciation of Lloyd Fonds' reorientation (share price more than doubled shortly after the arrival of new shareholders a year ago), consolidation is understandable in the absence of a quick earnings fix (guidance of 2019 break-even, albeit with risk of one-off costs) and possibly no dividend payout. Evident strategy execution as planned enhances the prospect of exposure to the open-end funds market, which is attractive in terms of size, expected growth and high margin.

#### Historic financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	11.4	1.8	0.17	0.07	32.4	1.3
12/16	9.5	3.2	0.35	0.16	15.7	2.9
12/17	7.5	1.2	0.15	0.00	36.7	N/A
12/18	7.9	(1.0)	(0.16)	0.00	N/A	N/A

Source: Lloyd Fonds accounts

Price	€5.50
Market cap	€55m

#### Share price graph

#### Share details

Code	L10A
Listing	Deutsche Börse Scale
Shares in issue	10.1m
Net cash at December 2018	€12.3m

#### Business description

Lloyd Fonds is repositioning as a leading asset manager with its own range of retail funds, digital portfolio management and individual direct asset management. It has over 20 years' experience as an asset and investment manager in a range of alternative real assets, primarily in the areas of shipping and real estate.

#### Bull

- Proposed broadening of business to become an active asset manager.
- Ambitious targeted AUM growth.
- New, experienced management and sound finances.

#### Bear

- Execution risk in repositioning the company.
- Markets for current activities remain challenging.
- Regulatory risks.

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## Review of 2018 results

We reiterate that the current wholesale shift in Lloyd Fonds' activities mitigates concern about the financial performance of activities soon to be superseded, although there is of course considerable risk in execution of the repositioning strategy. Moreover, the refocusing of management and array of one-off items, both accounting and restructuring-related, make it difficult to assess underlying performance, notwithstanding acknowledgement of persistent market pressures.

2018 saw early guidance missed for the second year in a row. This time the shortfall was anticipated after H1 results and was largely attributed to €2.5m (€1.0m in prior year) restructuring-led costs rather than underlying trading, although shipping markets in particular did remain challenging. This accounts for the sharp rise in other operating costs (net), notably a doubling in H2 (see Exhibit 1), since the category's other material items, asset impairments and valuation gains, broadly cancelled each other out. Predictably, there was an encouraging fall in H2 labour costs owing to 20% reduced headcount and lower severance payments (the comparative was inflated by settlement costs associated with the premature exit of the CEO following strategic disagreement). Lower depreciation reflected a change of accounting policy with the expense transferred to the finance result, while associates in 2017 was flattered by a €1.5m tax refund.

### Exhibit 1: Financial performance

Year end December (€m), HGB	H117	H217	FY17	H118	H218	FY18
<b>Revenue</b>	<b>3.9</b>	<b>3.6</b>	<b>7.5</b>	<b>3.1</b>	<b>4.8</b>	<b>7.9</b>
Material costs	(0.3)	(0.2)	(0.5)	(0.2)	(0.3)	(0.5)
Labour costs	(2.1)	(2.7)	(4.8)	(2.0)	(2.3)	(4.3)
Depreciation/impairment	(0.3)	(0.2)	(0.5)	(0.1)	Neg.	(0.1)
Other operating costs (net)	(1.7)	(1.6)	(3.3)	(1.9)	(3.3)	(5.2)
Associates	1.7	0.4	2.1	0.4	0.1	0.5
<b>EBIT</b>	<b>1.3</b>	<b>(0.8)</b>	<b>0.5</b>	<b>(0.8)</b>	<b>(1.0)</b>	<b>(1.8)</b>
Finance income	0.1	1.3	1.4	0.4	0.7	1.1
Finance expenses	(0.4)	(0.3)	(0.7)	(0.2)	(0.1)	(0.3)
<b>Pre-tax profit/(loss)</b>	<b>0.9</b>	<b>0.3</b>	<b>1.2</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(1.0)</b>
<b>Net profit/(loss)</b>	<b>1.0</b>	<b>0.4</b>	<b>1.4</b>	<b>(0.8)</b>	<b>(0.7)</b>	<b>(1.5)</b>

Source: Lloyd Fonds accounts

As for real estate, after a quiet H1, two sizeable transactions in December 2018 (see Exhibit 2) justified management confidence about macro factors and its own focus on affordable housing where fundamentals are appealing. Disposals of offices in Eindhoven and hotels in Hamburg and Sylt realised pre-tax annual returns of 10% and 11.5% respectively for fund investors over a decade's ownership. More is expected this year and next. Shipping, the other prime field, saw some improvement in charter rates but markets remain subdued with container tanker fleet oversupply. The company mitigates this by pooling the majority of its 12 managed container ships, thereby stabilising income and optimising utilisation, and has agreed a flexible debt service until 2020.

### Exhibit 2: Sales and PBT by segment

Year end December (€m), HGB	H117	H217	FY17	H118	H218	FY18
<b>Revenue</b>						
Real estate	0.9	0.6	1.5	0.5	2.5	3.0
Share	22%	17%	20%	16%	52%	38%
Shipping	2.2	2.2	4.4	1.9	1.6	3.5
Share	57%	61%	59%	61%	33%	44%
Other assets	0.8	0.8	1.6	0.7	0.7	1.4
<b>Total</b>	<b>3.9</b>	<b>3.6</b>	<b>7.5</b>	<b>3.1</b>	<b>4.8</b>	<b>7.9</b>
<b>Pre-tax profit</b>						
Real estate	(0.1)	0.3	0.2	0.1	2.4	2.5
Shipping	2.0	1.3	3.3	1.9	0.8	2.7
Other assets	0.7	0.7	1.4	0.7	0.5	1.2
Central costs	(1.7)	(2.1)	(3.8)	(3.2)	(4.2)	(7.4)
<b>Total</b>	<b>0.9</b>	<b>0.3</b>	<b>1.2</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(1.0)</b>

Source: Lloyd Fonds accounts

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