SYMMETRY INVEST A/S

JDC Group AG (JDC)

DATE	03/05/2021
TARGET:	43 EUR
Price:	12,1 EUR
UPSIDE:	255 %

SYMMETRY INVEST A/S

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LEADING GERMAN INSURTECH COMPANY DISRUPTING AND CAPTURING A HUGE MARKET OPPORTUNITY

Ticker	JDC:ETR
ISIN	DE000A0B9N37

Currency	EUR
Target	43
Latest	12,1
Shares outstanding (mil.)	12,7
Market cap (mil. EUR)	154

- The German insurance market is significantly under-digitalised which is about to change.
- JDC Group is emerging as the clear market leader despite still only having a 0,3 % market share. In other categories market leaders have ended up with several % market shares.
- Business at a clear inflection point with significant B2B partnerships starting to go live with revenue acceleration and margin expansion to follow
- The business has huge scale advantages and JDC is constantly widening the gap to competition.
- Founder-led management team with significant skin in the game supported by institutional shareholders with high reputation.
- The business model is built around ongoing recurring revenues with sticky costumers and end-user relationships
- Trading at 1x revenue (4x gross profit) and less than 10x normalised EBITDA we find the stock way to cheap as its just now starting to inflect into its multi-year accelerating growth story.
- Peer company Hypoport trading at 8x revenue and 60x EBITDA showing the potential re-rating JDC could get when the market realises the story here.

This report was originally written in may 2021. In September 2021 the content has been significantly upgraded, financials models have been adjusted and additional info have been added to the report!

We originally wrote-up JDC Group back in May 2021 and held a call with management in June 2021 (https://www.symmetry.dk/wp-content/uploads/2021/06/zoom_0.mp4). As the story have developed rapidly since then we decided to give the original report a significant overhaul and bring it "up-to-date" with whats going in the company at the moment.

If we could only pick one stock within our whole portfolio that we think have the highest changes of becoming a 100-bagger we would pick JDC Group. While the company is still emerging rapidly into a categori leader it have all the attributes needed to become a signifcantly larger company:

- Competing in a highly fragmented market with a less than 0,5 % market share today
- Emerging as the fastest growing player in the market and capturing significant market shares
- Delivering a superior proposition to customers and end users by using new technology and innovative solutions.
- Planting a lot of seeds with B2B distribution partners that over the next 5 years will signifcantly broaden its reach and potential
- Still trading at a low multiple of sales and gross profits despite revenue growth accelerating and margins expanding.

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[1] JDC presentation

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Content

About JDC Group

The best way to describe JDC is a mix between a SAAS business and a BPO business. They call themselves an Insurtech business as its basically digitalizing insurance (like Fintech around digitalizing finance).

While the front end and the solutions are digital and highly embedded with partners etc. the backend is still more like a BPO business (despite rapidly automating using technology). A lot of people find that negative (and I also did in the beginning when I started to follow JDC), but now I understand that this creates a significant moat around the business and give them true scale advantages. Half of JDC employees currently work with data administration.

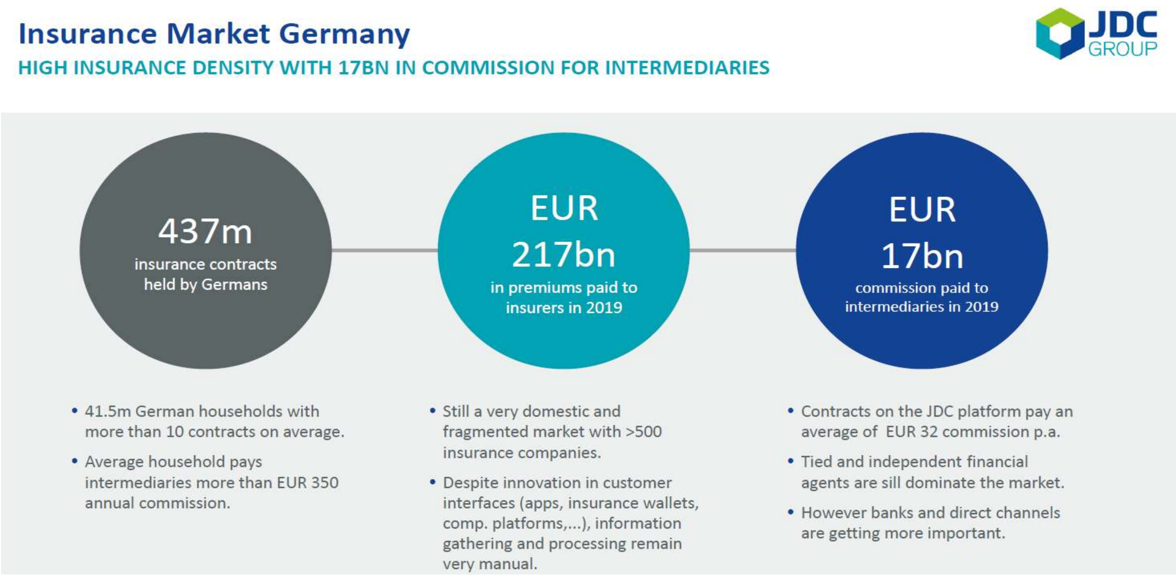
They win all the tenders because they have the full solution from digital front end, wallets and apps, easy price comparison etc. but at the same time they also have all the API and back-office solutions needed to run this including data processing, regulatory, legal, compliance, GDPR, collection etc.

"So the fact they had to break the neck of a lot of these providers is great. You have this fancy front end. You say you do everything digital. And then you have literally 200 intern scanning documents in the back trying to catch up because you didn't think your product all the way through digital from in the context of some of the carriers still working in the 20th century.
So what did players like CLARK do? And I think that's where players like JDC have just build the infrastructure. So it's much harder for you to replicate it as they've really thought about what are the different steps that actually typically are manual, but how can they automate them?
Still an example, like a lot of carriers still send you postal mail. So what do you do with that postal mail? How can you create a super efficient process, where even if you receive postal mail on 300,000-plus worker mandate customers that you can still have a nimble service team with 20 people or nimble operations team of 20 people?
And that's where even some of the big banks that try to build these solutions themselves. The struggle is to get that insurance back office operation stuff right is a lot of tedious work. So that, for example, if you change your address, you don't have to send postal mail to the 10 different carriers that you have your policies with.[2]"

[2] Interview with industry expert

The market

JDC Group is operating in the German insurance market (while also having some income from funds and also some business in Austria etc. our main focus is on the German insurance opportunity). The German insurance market is mainly a brokered market.



[3]

The average german household have more than 10 insurance contracts and pay intermediaries more than 350 EUR in yearly commission. That commission is more than 17 billion EUR just in P&C. If we add life, health and other verticals we think the market is closer to 25-30 billion EUR just in commissions. That's the market JDC is tapping into.

One of the things that makes this market so attractive to us is that's its just 10 years behind other European countries on digitalization (especially Scandinavian where I live). But we have seen the playbook play out in other countries and in our opinion it's a certainty that digitalization will happen here as well.

One of the main reasons for the lack of digital adoption in Germany comes from the lack of IT development within the insurance companies themselves but also withing all the distribution channels. Distribution of insurance in Germany is still mainly coming from tied agents' networks while channels like bancassurance and price comparison sites etc. are significant behind other countries.

JDC as an InsurTech company is bridging that gap between what policyholders would expect from their insurance companies and what the brokers they use can currently deliver.

According to management only 3 % of Germans buy insurance directly from insurance companies. The vast majority use some kind of intermediary likes brokers, agents, price comparisons, banks, fintech's etc.

Back in 2009 there was close to 200.000 independent insurance brokers. That have come down a lot due to regulatory burdens and fintech/insurtech competition.

The important part for JDC is that they support all parts of the distribution channels. While they have a significantly higher share in some parts (like in bancassurance it seems they could be the de-facto standard for all savings banks etc.) they do benefit from industry consolidation and digital adoption overall.

The German insurance market should continue to grow with GDP + inflation in the future at 3-5 % a year so the market opportunity for JDC is a moving target.

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[3] JDC presentation

The JDC solution

JDC is the backend solution to the intermediaries in the insurance sector. JDC IS NOT AN INSURANCE COMPANY. It doesn't matter if you are a small insurance agent, a larger broker, a fintech company, a bank or a big corporate – when you want to sell/distribute insurance a lot of administration and compliance will follow.

JDC have developed their own iCRM digital solution that can act as the "hub" between the more than 200 insurance companies in Germany that want to use intermediaries and then all the intermediaries that wants to earn commission by selling insurance.

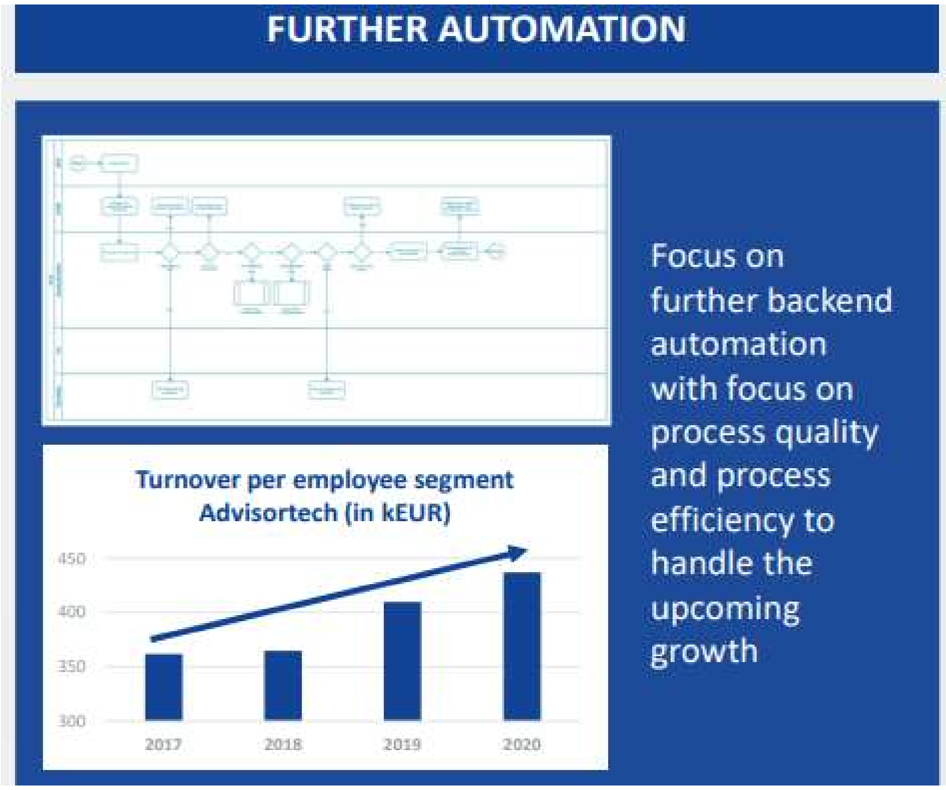
iCRM have established all the necessary contracts, documents and workflow with the majority of German insurance companies. They can manage all the contracts, collect commission, handle reporting, compliance, accounting etc. and then distribute the majority if the commission to the intermediaries. JDC normally takes a cut of between 25-30 % of the commissions.

[4]

It requires a lot of manpower, IT investments and knowledge to handle all these contracts and workflow. Scale really matters. That's why most brokers or distributors rely on the broker pools for this. Its simply more cost effective for them to give out 20-30 % of their commission in exchange for taking care of all the administrative burdens.

JDC is constantly working to optimize the technology on both sides of iCRM. Between the insurance companies and JDC, they develop solutions and automation around workflow optimization like PSD2 that was recently introduced. The more contract flow (revenue per employee) JDC can capture here the bigger the moat to competition.

[4] JDC presentation



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JDC have over the last few years seen good scale advantages here by doing more automation on the backend. On the Q1 conference call Ralph indicated a target of 750K per employee and said they are looking at 1 million EUR per employee as a goal. You need investments in tech and scale on revenue to achieve this and JDC is one of the only ones that can do so.

On the other hand, JDC is also actively building tech between iCRM and the intermediaries as we will show later.

[5] JDC presentation

[6]

While JDC is all about becoming the biggest aggregation hub for Insurance in Germany the tech is developed with different solutions to the end users and JDC is using several different go-to-market strategies.

They have their technical platform called Jung, DMS & CIE (JDC). That is the broker pool business the company is build around. This is what the iCRM is built on and where they collect all the commissions, handle all the contracts etc.

The 3 other parts of JDC to the right (Allesmeins, Geld and Finum) is all using the JDC broker pool. Basically, they can be seen as 3 different front ends on top of the pool.

JDC is one of the biggest and most technological advanced broker pools in Germany. That is one of the main reasons we see them taking market share. A broker pool in itself is not an exciting business (think about a netfonds or fondsfinans). It's a fairly low margin business growing with the underlying growth in the insurance market. Individual brokers and agents join a broker pool that can handle their administration. Often, it's a commodity where price is the determent factor.

The JDC broker pool is the legacy that JDC is built on. It has been growing at 8-12 % a year with JDC taking some market share with 4-6 % EBIT margins. A decent business but not something to get really excited about. One of the interesting things that have happened over the last few years is that brokers have demanded more tech enabled pools. This has benefitted the bigger broker pools and have led these to take market share.

[6] JDC presentation

Maklerpool-Hitliste 2020

A minor mistake in the webside. IT should say PE 2020 and procent chance from 2019 below

Rang	Gesellschaft	Einordnung	PE 2019 in Mio. Euro	Veränderung zu 2018 in Prozent
1	Fonds Finanz	Maklerpool	175,30	12,59
2	Netfonds Gruppe	Pool, Haftungsdach, Servicegesellschaft	113,28	21,01
3	Jung, DMS & Cie.	Maklerpool, Haftungsdach	111,50	17,37
4	Domcura Gruppe	Assekuradeur	91,00	7,82
5	Fondsnet	Maklerpool, Haftungsdach	77,82	34,93
6	Fondskonzept	Pool, Haftungsdach, Servicegesellschaft	76,20	8,55
7	Blau Direkt	Maklerpool	60,26	25,92
8	Qualitypool	Maklerpool, Servicegesellschaft	59,00	80,43
9	BCA	Pool, Haftungsdach, Servicegesellschaft	55,08	8,17

[7]

As can be seen above some of the larger brokers pools have actually been growing faster last year and taking market share from the smaller ones. It should be noted that some of the pools are a lot into financial products that is more volatile due to equity markets etc.

We think consolidation in the broker pool market will continue to be a thing and expect JDC to be a natural consolidator in the market given the advantaged tech solutions they have.

The JDC broker pool have more than 16.000 independent advisors using the pool where JDC collect commissions on behalf of them. But JDC have then also 3 other areas to aggregate revenue to the broker pool.

1) They have their direct client platform geld.de – That is basically an online price comparison site where JDC themselves can get insurance contracts into their broker pool (and earn 100 % of the commission). This is a small part of JDC and is not a growth driver
2) Finum is their own dedicated sales network in Germany and Austria. Here JDC employ around 300 agents that use the JDC broker pool to sell insurance and financial products. Again, JDC earn all the commission.
3) The Advisortech business where JDC is building digital apps, wallets, open API integrations etc. This is by far the most interesting area of JDC and what is really setting JDC apart from the competition in the standard broker pool business.

[7] Maklerpool-Hitliste 2020 - Finanznachrichten auf Cash.Online (cash-online.de)

JDC have created a digital insurance wallet and app called Allesmeins. This is total 360-degree overview of insurance contracts and needs. End users can use this to see all their insurance contracts in a single app (remember most German households use 4 different carriers so it's a big need to be able to get a consolidated view). They can then look at their needs, see if they need upgrades, do price comparisons to check for accurate pricing and even file claims directly.

[8]

What JDC figured out was that it was way to expensive to actually do all the marketing and sales directly to the end users. As an industry expert told us many times "insurance is sold not bought". Most people need to have someone holding their hand while choosing their insurance contracts. JDC therefore decided that the most cost effective and scalable way to reach scale was to deliver white-label solutions and API integrations to the people that actually have the distribution points with end users. If you are a bank, a digital website or a big corporate JDC then customize the Allesmeins app and let the partners market the product in their own name.

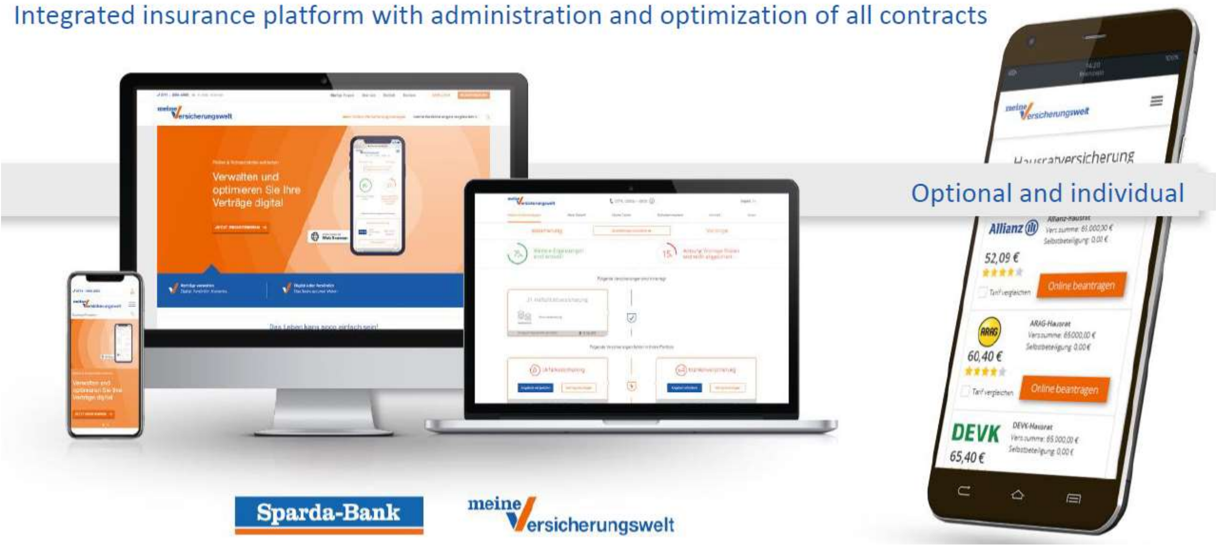
This B2B2C model have been working really well so far as JDC normally give back 75 % of the commission earned to the distribution partners. These partners can earn real income and deliver a superior customer experience.

Think about it:

Before a client may go into a bank subsidiary and get sold 2 insurance products from their standard insurance partner with everything handled on paperwork etc. When the bank has rolled out the Allesmeins app the bank advisor can instead say: *"listen we have gotten this beautiful new app where you can transfer all your insurance contracts (not just the ones we have sold you) and you can get a much better view of your solution and I can help you with your insurance needs".* Not only will the bank earn the commission on the insurance contracts they sold, in most cases they will earn the commission on all the insurance contracts when the customer takes all their other contracts into the app, despite the fact that they only sold a fraction of the contracts.

On the next page we have shown some pictures of this white-label solution:

[8] JDC presentation



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This platform is extremely scalable for JDC. The customization to each partner is low and the sales & marketing afterwards is 0 as the partner sells to the end user. When these contracts ramp its pure profit generators to JDC. In the first part of the contract JDC need to invest on “customer success” ie. training and deployment to make sure the partner gets a good experience and start to ramp it. The good thing is that insurance is an annual renewable product so the commission is recurring revenue where the partner (and thereby JDC) just built a larger and larger portfolio.

[9] JDC presentation
[10] JDC presentation

We talked to an industry expert around the advantages of this solution for both JDC and the partners that use it:

> *"But we will be solving that pain point for you, which as a start-up, be it like Finanzguru, which is one of the big, call it, banking aggregation platforms or the largest in Germany. So they have half a million customers, 300,000-ish monthly active users. So you basically can think up all your bank accounts. The power of the platform that JDC is, that you can try to leverage that technology to also then deliver to your customers an insurance-centric solution without having to reach out to all the different carriers, build relationships yourselves, figure out all the operational overhead and all the things that go and happen behind the scenes.*
> *And that's also where the broker pools today differentiates themselves. Are you a broker pool that just offers what the broker pools offered 10 years ago, i.e., oh, like here's the carriers space that we offer, here's all the carriers we work with. You get access to all this through us and we manage this. Or do I also offer you sort of some sort of technology solution that you can leverage in this plug and play through an API. And that's one of the reasons why, for example, a start-up would rather work with the JDCs because they offer a bit of that technology-first solution versus just being a super powered broker pool as of 20 years ago.*[11]

JDC have invested a lot of money into these solutions over the last 5 years. That is the main reason why JDC was operating at a loss prior to 2021 as they reinvested all the profits from their broker pool into technology to secure this market position they have now.

JDC is going all in on these B2B2C partnerships now. They are not investing more money into their direct channels. Mainly because the money is better spent elsewhere but also because they don't want to compete with their partners. They think it is prudent for them to keep some small direct exposure because this is the easiest way to test new product features, get quick feedback etc. before rolling it out to partners.

[11] Interview with industry expert

JDC is making their product available for all the different channels in the market. Their ultimate dream is to become the insurance hub of choice where the majority of German insurance contracts runs through.

As JDC works with all the channels its not so important for them if market share changes between the channels as they have partners in all of them.

[12]

As can be seen above JDC is able to support everything from Banks (white-label bankassurance products) to direct insurance networks, big corporates and pure-online players. While a bank or a corporate may want the whole software package including the app, wallet etc. pure digital players like Finanzguru that build their own front end just want an API integration into iCRM to manage the contracts.

It is an advantage for JDC that they are able to meet the needs of the clients and that the products are suitable for it.

Q: What are some and the pros and cons of AllesMeins?
A: JDC's AllesMeins product is incredibly interesting as it offers the traditional (offline) brokers a hybrid (tech-enabled) solution that makes it possible for their respective end customers to benefit both from the relationship-based (personalized) advisory that they offer while still reaping the benefits of a tech-enabled platform, so this is definitely a massive market opportunity[13]

[12] JDC presentation
[13] Interview with expert

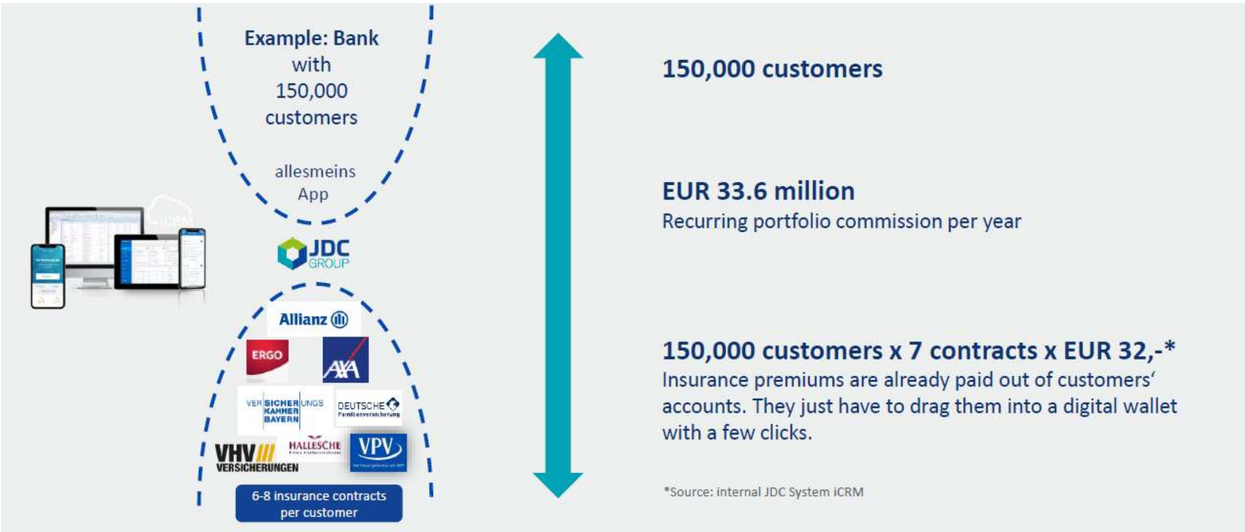
The fact that JDC is also able to support fast-growing incumbents like Finazguru while at the same time landing big old-school banking networks speaks to the adaptability of the solutions.

JDC Group wins leading multibanking app Finanzguru as new platform customer

1. With the help of JDC's platform technology, the stars of "Höhle der Löwen" (German equivalent to US TV show "shark tank") will add insurance business to their multibanking app.
2. Finanzguru will operate on JDC's data management with its integrated API infrastructure and interfaces to more than 200 insurance companies
3. Insurance as a new business line will soon be offered to more than 500,000 multibanking app customers.

[14]

What's the potential then for the partners:



[15]

Let's take an average savings bank in Germany as an example. They have 150.000 customers. Each have on average 7 contracts that pay on average 32 in commission. That's a potential of more than 33 million EUR in additional revenue/profits. A big number for a small to medium sized savings bank in Germany.

That bank would be highly incentivized to move their customers insurance contracts into the new "bank app" they have through Allesmeins. People don't trust an insurance salesman or a stock broker etc. but when your local bank advisor is telling you about mortgage, stocks or insurance people listen. They can tailor the insurance needs to the clients when they talk about their whole financial situation.

[14] JDC press release
[15] JDC presentation

Competitors

The main competitors to JDC are still in the broker pool business as mentioned on the previous pages. These are the fondsfinans, netfonds, blau-direct etc. Here JDC compete with these players about getting the independent advisors to use their broker pool. We do not think JDC has any big competitive advantage over the other big 2-3 players in the market but we think that the bigger players due to technology and scale will keep taking market share from the smaller pools. At the same time, we think the bigger players will be rolling up the smaller ones at low valuations to achieve more scale economics.

Then there are bigger well-funded players that go direct to consumers like Clark or Wefox. Clark is funded by Tencent and Wefox by softbank so they are well capitalized players. Clark previously tried to do B2B deals but failed and pulled out of that market (and JDC took all their major customers). Today both of them is mainly B2C focused so not directly competing with JDC but indirectly competing with the partners of JDC.
While these players have advantages in being digital first, well-funded and good at understanding LTV/CAC metrics etc. on acquiring customers they also lack the personal relationship with the end customer. For some customers that doesn't matter but for many it still does.

> *The disadvantage they (Clark, Wefox etc.) have is that they offer a digital-only solution. And you have also the ability to communicate with a human, but that human is not tied to you, right? So every time you contact someone like a digital broker, you're assigned to whoever responds to your chat inquiry or whoever picks up basically your case. So you always have someone else potentially servicing you.*
>
> *What differentiates in my mind JDC? And I think that's where they kind of neatly position themselves in, is that so, for example, allesmeins, and again, from also a consumer perspective, I'm fascinated about the space as investor, but also as consumer. Like with allesmeins, basically, you have all the benefits of a digital solution, but in the same time, you can still work if you have a trusted offline broker, that traditional broker, you could still work with them or her, right, assuming that they use that platform, obviously.*[16]

As the expert above notes the fact that JDC delivers all the technical solutions a customer expect today together with that personal relationship should be a big advantage.

After Clark pulled out of the B2B side the biggest competitors here would be Moneymeets, Hypoport and Friendsurance. Moneymeets and Friendsurance is incredible small competitors. Friendsurance really only work as the captive/exclusive arm of Deutsche Bank now. The fact is that JDC is currently winning all the tenders in the market and quickly capture all the attractive deals.

From a competitive standpoint we still mostly look at Hypoport. Hypoport is an amazing company that build the digital solutions for the loan & mortage market in Germany. A few years ago, they acquired different companies in the insurance space with a plan of targeting that market as well. But so far, they are still consolidating the technology, getting their product ready etc. based on our conversations with people in the industry Hypoport is not expected to be ready with anything competitive in the next 18-24 months.

JDC know that they have this huge competitive advantage and is determined to sign as many deals as possible to capture the market before any competition. Hypoport is the competitor to keep an eye on, but so far nothing to worry about.

[16] Interview with industry expert

Financials

As we have mentioned a few times before our primary hunting grounds for investments is in businesses that reached important inflection points in their "transformation" or development/growth journeys. To us this happened back in February 2021 to JDC when they signed their LOI with Provinzial

[17]

As can be seen above JDC was a nice stable growing business from 2015 to 2017 with their traditional broker pool business. In 2018 and 2019 they started to see the first traction with their B2B business that together with some M&A accelerated growth before Covid dampened it a little bit last year.

At the same time JDC was investing a lot of money into developing their technology to support this B2B expansion. While revenue was growing, margins only really started to expand in 2020.

[17] JDC presentation

Going into 2021 we thought the business was about to reach this inflection point where a lot of these B2B deals would accelerate revenue growth while the company would expand its margins by achieving economy of scale. So far in 2021 this has started to become obvious.

	Q2 2021 kEUR	Q2 2020 kEUR	Change in %	1 HJ 2021 kEUR	1 HJ 2020 kEUR	Change in %
Revenue	32,644	27,381	19.2%	68,611	58,820	16.6%
thereof Advisortech	25,848	22,449	15.1%	56,449	49,565	13.9%
thereof Advisory	9,038	6,928	30.5%	17,291	13,998	23.5%
thereof Holding / Conso.	-2,242	-1,996	-12.3%	-5,129	-4,743	-8.1%
EBITDA	1,506	939	60.4%	4,343	3,134	38.6%
EBIT	225	-144	> 100%	1,914	947	> 100%
EBT	-146	-504	71.0%	1,174	220	> 100%
Net profit	-235	-509	53.8%	980	190	> 100%

[18]

The revenue growth accelerated from 15 % YoY in Q1 2021 to 19 % YoY in Q2 with probably more to come in Q3 and onwards. At the same time margins have started to expand with EBITDA growing 60 % YoY in Q2 and 39 % YoY in H1.

The important thing here is to understand that there is 0 contribution from the Provinzial deal here as the first savings banks will start to onboard in Q4 2021. And many of the other B2B partnerships is still early in its J-curve development. We think revenue growth will accelerate further as all these deals start to go live with accelerating momentum for the business.

The company have a fairly clean balance sheet. They have over the last 5 years operated with only modest amounts of debt. At the end of June 2021, the net debt was around 5 million EUR or around 0,5 x EBITDA. Since then, the company have raised 10 million EUR in a directed share issue and used around 13-15 million EUR for M&A.

JDC Group is a highly cash flow generative business. Historically they have used the positive cash from operations to invest in their technology or for accretive M&A but also done opportunistic share repurchases. JDC operate with negative working capital and capitalized investments in percentage of revenue is only a few percentage points.

[18] JDC financial report

Management and shareholders

JDC is run and operated by the founders Sebastian Grabmaier and Ralph Konrad:

[19]

Ralph and Sebastian founded a company called Aragon more than 15 years ago. The main focus was in the beginning on the financial services industry. After the business got hit by the financial crisis, they changed their focus and become more focused on Insurance. Sebastian and Ralph then took out personal loans to buy out the other co-founders of Aragon.

In 2015 the business changed name to JDC Group with a clear focus on the digital insurance space.

Later Stefan Bachmann as the former head of insurance for Google in Europe also joined JDC.

[20]

In 2019 the big Canadian insurance company Great West Life bought a big strategic position in the company that gave Ralph & Sebastian the opportunity to pay back their personal loans. In 2021 the former board member Klemens Hallmann that previously held a 9 % stake in the company decided to sell his stake to several institutional shareholders (including Symmetry Invest). Also, in September 2021 the company issued a 4 % shareholding position directly to strategic partner VBV.

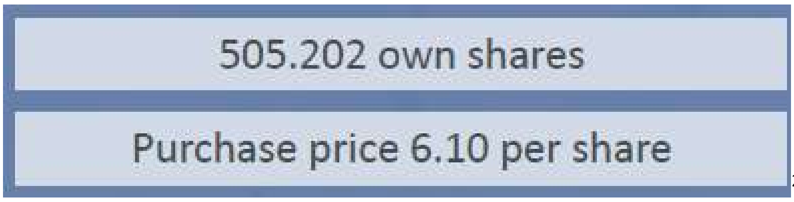
[19] JDC presentation
[20] JDC presentation

Capital allocation

While the company back when it was named Aragon clearly burned to much money and made strategic mistakes the recent history as JDC (after 2015) have seen great capital allocation skills. When we talk to management, we also get a clear feeling that they understand this.

From 2015 to 2020 the company mainly bought smaller broker pools that supplemented the business and helped it get scale. It also bought the direct price comparison site Geld.de. The most significant capital allocation has been the investment into technology and solutions that have enabled JDC to become the technological leader in the space.

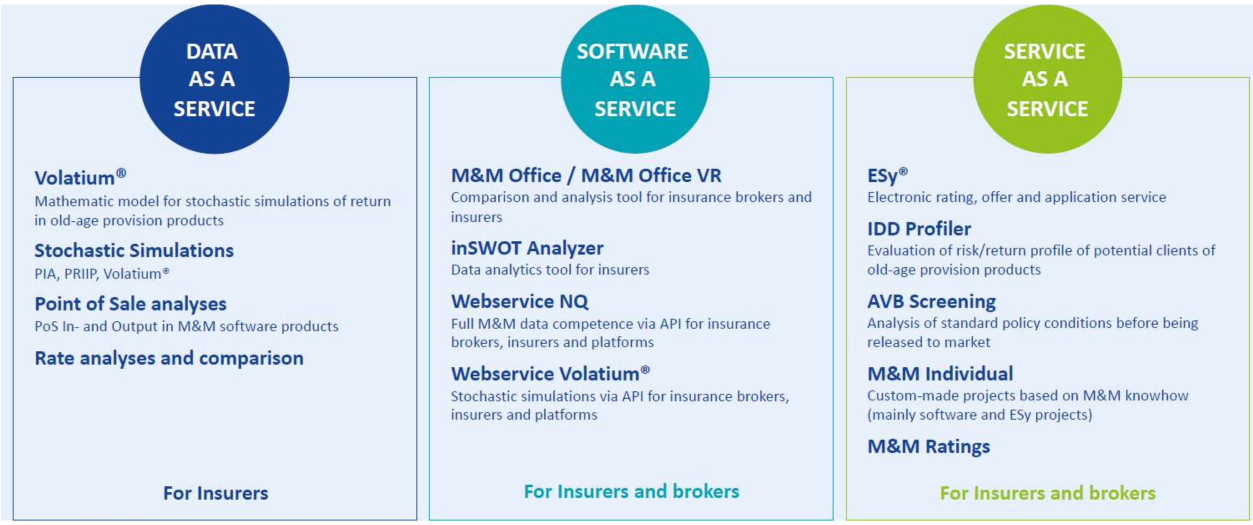
The management team also showed great capital allocation skills when they managed to buy back 3,5 % of the shares outstanding during the covid drawdown. They managed to buy the shares at around 6 EUR per shared. The company recently issued the same number of shares at 19,7 EUR just 15 months later.



[21]

In the middle of 2021 JDC took another major step by acquiring Morgen & Morgen. Morgen & Morgen is besides being a good business in itself a strategic important acqustion for JDC for 2 main reasons.

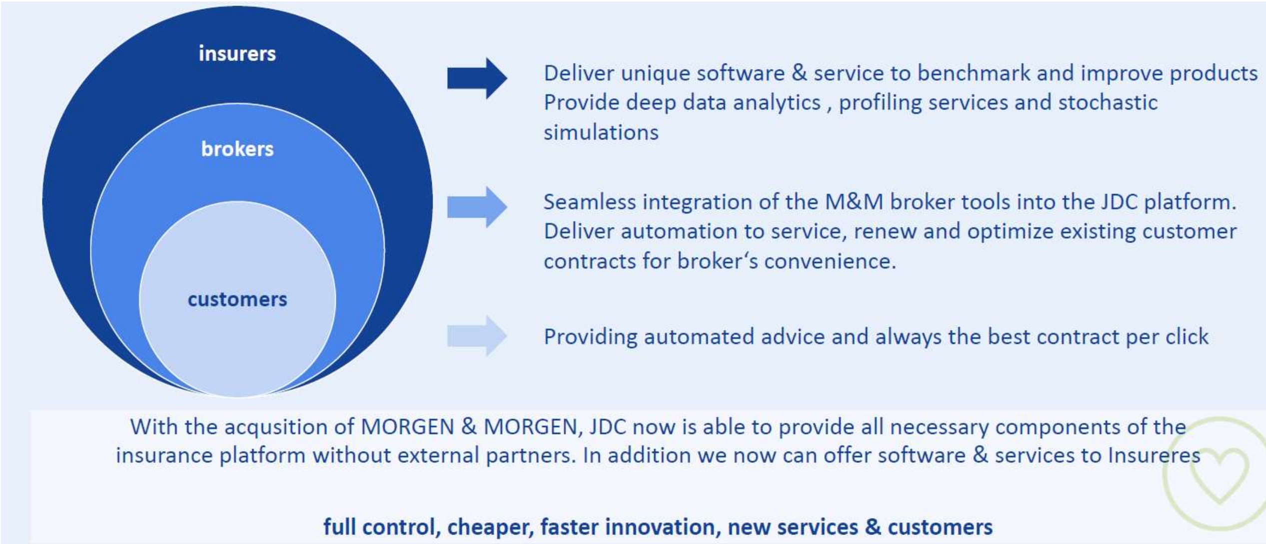
1) The only major piece of the technology stack JDC didn't own themselves was the price comparison engine where they bought 3. Party software. Morgen & Morgen is one of the leading price comparison tools in the market. JDC then effectively now own all of its major tech, which will save money and speed up development
2) With the deal JDC got access to 50 highly skilled IT developers including 10 mathematicians. As JDC have grown so fast one of the big obstacles for them have been to hire more strong tech developers. This deal solves that issue.



[22]

[21] JDC presentation
[22] JDC presentation

One of the other key attributes with the deal is the revenue synergies. While Morgen & Morgen have one of the leading insurance products in the market, they mostly sell to the top 5 insurance companies. JDC already have contracts with +200 insurance companies and can help M&M sell their products then.



[23]

JDC paid around 12 million EUR for Morgen & Morgen or around 2x revenue. The multiple was around 13-15x EBITDA pre-synergies and around 8-10x after cost synergies (the fact that JDC can use Morgen & Morgen as in-house solution). Revenue synergies comes on top of that.

Another interesting opportunity is to be aggressive rolling up the smaller and mid-sized broker pools in the market. We think JDC as one of the biggest players with their technological advantages can be the natural consolidator. With a rising share price and clean balance sheet they should also have the currency to do so.

So the shops, you can get all of the financial products, you have the big players. And what I expect is that in the next years that we see a consolidation, I guess from 20 broker pools we have at the end 5 or 6 because it's very important to be a big player because with big sales stories, you get higher commissions, you get higher super commissions. And you need this money because the margins are not so high, but they need this money to invest in technology, to invest in people, to invest in growth. And the midsized broker pools, they are not able to win in this game.[24]

[23] JDC presentation
[24] Tegus call: Competitor

We think JDC will keep looking at this opportunity but will be disciplined on the price they pay. Edison Research estimated that JDC could buy these pools with at 28 % FCF yield pre synergies:

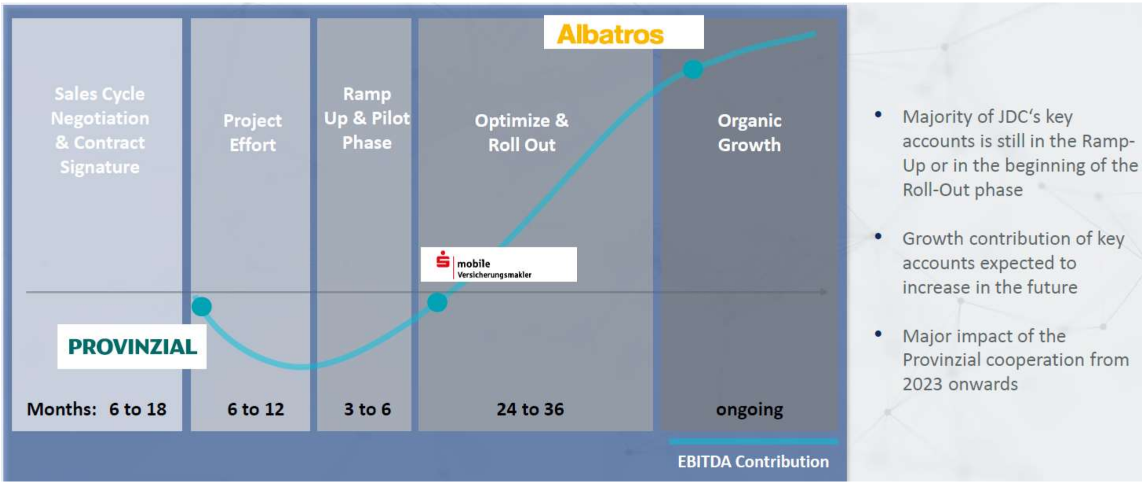
> Management indicates that it is able to acquire portfolios of contracts at c 2.5x recurring revenues, which implies an EBITDA return of c 28% on the investment. The two large portfolio acquisitions discussed above (from Unister and Aon) were in line with this pricing objective. The value of contracts acquired is capitalised on the balance sheet and is amortised over the expected useful life (of between 5-15 years), which means that EBIT will have a tendency to lag EBITDA. We would suggest that investors ignore this non-cash contract value amortisation and instead focus on the expected cash return on investment (a pre-tax 28% in the example above) and any signs that the persistency of the contracts is falling short of that expected, with adverse effects on cash flow and likely impairment of the intangible carrying value. [25]

At these low multiples and with good cost synergies and low-priced debt it's hard not to see the opportunity here. But I also understand that management will only do deals that makes real sense and not distract them from the big B2B opportunity.

[25] Edison Research note

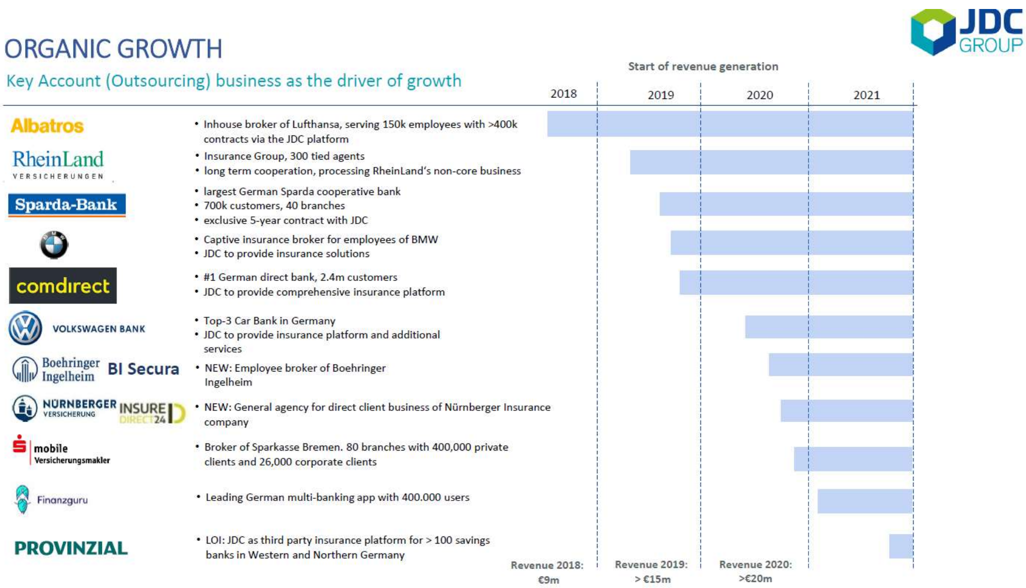
Forecasts

JDC is hard to forecast because there is so many optionality's in the business. What we really like is that the core underlying business just perform stronger and stronger with revenue acceleration and margin expansion. We then have these expanding B2B deals and blue-chip partnerships on top of that.



[26]

One of the main factors to understand is the nature of these longer term B2B partnerships that JDC have made over the last several years. These contracts operate as a J-curve project where it takes time to onboard and optimize but over time contribute significantly with high margin recurring revenue streams to JDC.



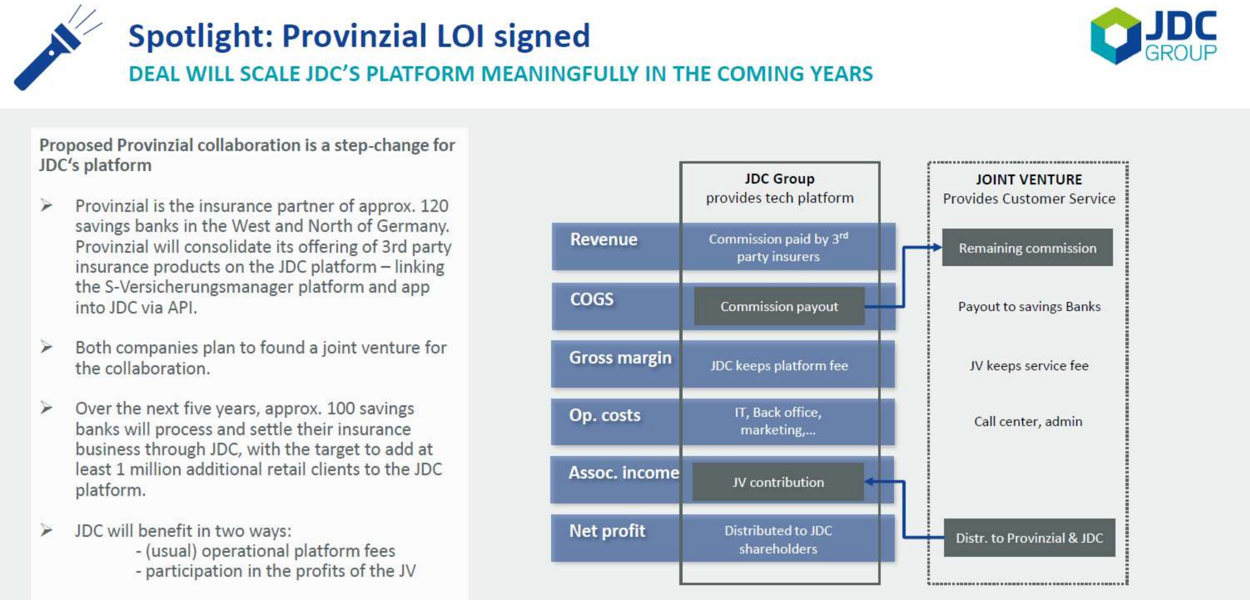
[27]

Most of the contracts that JDC has made over the last few years is still mostly in the early phase of that J-curve. And the major partnerships with the savings banks etc. have not even started to ramp yet. This is also one of the reasons that management can be so confident about the future. They can see with Albatros and Sparekassen Bremen that contracts do ramp up over time and with the current signed pipeline they have high visibility into future revenue growth.

[26] JDC presentation
[27] JDC presentation

One of the major optionality in JDC that is still significantly underappreciated by the market is the opportunity with the savings banks in Germany.

In Februar 2021 JDC signed a major LOI with Provinzial (final contract signed in June 2021) to support all the 100 savings banks under Provinzial with a digital insurance product. Provinzial expect that with only 5-10 % penetration of the customer base and only 3 contracts per customer (out of normally 7 contracts) the revenue potential is +100 million EUR a year. But it could end up significantly higher.



[28]

As we have written before, banks are just a really good place to sell Insurance. People trust their bank advisor; he already sells other related products and you have the connection. In more digitally mature countries like Denmark the % of contracts sold with bancassurance is a lot higher than in Germany.

"And on the other hand, a lot of people trust their bank. They trust their banker. And then you go into the bank, you discuss about something. And then someone tells you, oh, by the way, people in your age, in your family and personal situation, typically get this insurance. Don't you want to get it? Will they still want to have a solution that's also paired with a digital wallet, right? Like do you want to go in and have everything off-line? Probably not. But I think we would both agree, if you have that human consultation but then at the same time, by the time you leave the branch, everything is uploaded into a neat app like powered like allesmeins or whatever, how neat is that? Because you get the best of both worlds. And that's where I think also the digital-only players pays a lot more pressure, right? Because previously it was either, oh, you want to go the 1980s way of offline broker? Or do you want to go just digital? And people are like, well, I kind of want digital, but I also kind of want consultation. And that wasn't really offered today. And allesmeins basically offers this, right? Because they tell you it's a fully digital platform, but we still have your dedicated broker that we've been working with for the past two years or even decades for some customers.[29]"

[28] JDC presentation
[29] Interview with industry expert

The deal with Provinzial will start to roll out in Q4 2021 with the major rollout happening in 2022 with major revenue uptake starting from 2023. But the thing is, Provinzial is not the only public insurer for the savings bank. They only support 100 out of the 380 savings banks in Germany.

Yes. This question is very interesting because I'm working for Hypoport as XXX. And I will say this is very impressive that they get this deal because Provinzial is one of the insurance at the saving banks sector in one of the parts of Germany. And if you start in this with Provinzial, then you can go further with other saving banks in the south of Germany or in the north of Germany. So because you have the entry. And so what I think is that JDC has, with this deal, the chance to get more market shares in the savings bank sector.[30]

JDC proved this on Monday when they announced a major strategic partnership with the largest public insurance company in Germany – VBV - that will now use JDC for their more than 100 savings banks. Management have not put numbers out on this deal yet but we think it could be double the size of Provinzial. JDC have now basically secured their position as the standard solution for all the savings banks in Germany:

> Versicherungskammer Bayern Versicherungsanstalt des öffentlichen Rechts (Versicherungskammer), the largest public insurance company in Germany, will subscribe for all the new shares and acquire a strategic interest in JDC Group AG.
>
> JDC Group AG intends to use the gross issue proceeds, which will be in the region of EUR 10.7 million, for further organic and inorganic growth.
>
> As part of Versicherungskammer's strategic investment in JDC Group AG, the companies are planning a long-term collaboration in connection with S-Versicherungsmanager, a central IT system that provides sales support to public insurance companies serving retail customers of savings banks. Contact: [31]

Besides making this collaboration around the IT systems VBV also invest 10 million EUR into JDC as a sign of confidence in them.

We think investors still have a hard time getting their head around the opportunity here because the potential is so big and most investors want to “see the revenue” before they invest.

We think the partners are voting with their valets. All major B2B deals are going to JDC at the moment and they are significantly closing in on becoming this huge insurance hub.

[30] Tegus call: Competitor
[31] JDC release

Valuation

it's hard to make exact estimates for the next 5-10 years for JDC as there is still is so many optionality's in the business. The good part is that they already have signed a lot of deals and the revenue is recurring commissions. As such, we have a base growth rate that we feel quite sure about and then some more positive scenarios that we feel could happen.

Management last year came out with the goal of doubling revenue to 2025 and multiply the EBITDA. That was with only really low contribution from Provinzial and excluding M&A and new deals. We have already seen the revenue growth accelerate to 20 % in Q2 2021 and this is still without any contribution from the big bancassurance deals and no contribution from Morgen & Morgen.

The Provinzial deal is set up as a JV where JDC will recognize the +100 million EUR in revenue and pay out 90 million of that to the JV. As the JV will have the vast majority of expenses JDC will earn around a 9 % EBITDA margin of that revenue. The JV is after paying expenses and commission to the savings banks expected to earn a profit that is split 50/50 between JDC and Provinzial. Management expects a few percentage points of profits here on the revenue or a total profit of around 10-12 % of the revenue the Provinzial deal generate. The JV income will be recognized as financial income in JDC but for simplicity we have included it together with the EBITDA here.

We expect the company to hit 150 million EUR in revenue in FY21 with around a +6 % EBITDA margin. For the next 5 years we have 3 different scenarios for the revenue. A 20 % CAGR, 25 % CAGR and 30 % CAGR. Our base case of 25 % CAGR we think is achievable with the current signed pipeline and any new deals or M&A will be upside. JDC has managed to grow EBITDA margins from negative in FY18, to 2,2 % in FY19, to 4,7 % in FY20 and +6% in FY21. We expect a gradual increase up to 12 % at maturity. We expect around 2/3 EBITDA to net profit conversion (after capex and taxes).

20% growth	FY21	FY22	FY23	FY24	FY25	FY26
Revenue	150	180	216	259	311	373
EBITDA	9	15	19	26	34	45
margin %	6,0%	8,3%	8,8%	10,0%	10,9%	12,1%
			Valuation (20x EBITDA)			900
			Per share value EUR			69,2
			NPV per share (15 % WACC)			**34,4**

25% growth	FY21	FY22	FY23	FY24	FY25	FY26
Revenue	150	188	234	293	366	458
EBITDA	9	16	21	30	41	56
margin %	6,0%	8,5%	9,0%	10,2%	11,2%	12,2%
			Valuation (20x EBITDA)			1120
			Per share value EUR			86,2
			NPV per share (15 % WACC)			**42,8**

30% growth	FY21	FY22	FY23	FY24	FY25	FY26
Revenue	150	195	254	330	428	557
EBITDA	9	17	23	35	49	70
margin %	6,0%	8,7%	9,1%	10,6%	11,4%	12,6%
			Valuation (20x EBITDA)			1400
			Per share value EUR			107,7
			NPV per share (15 % WACC)			**53,5**

[32]

[32] Symmetry model

In our base case scenario JDC will be worth around 86 EUR per share in FY26 or a far value of around 43 EUR per share today using 15 % discount rate.

In our 20 % growth rate scenario the stock is worth around 35 EUR today in fair value and in our more bullish scenario the fair value is 54 EUR per share.

We would argue that even in our 30 % growth scenario JDC would only end up with a **2 % market share in FY26.** With JDC now making significant deals will all the major distribution channels in Germany we could see a scenario that is significantly larger (5-10 % market share) 5-10 years out. Remember Hypoport already achieved larger share in the mortgage market. As such, we could see upside to our 30 % growth scenario and also longevity for the growth to continue beyond FY26.

Another factor is that we are using a 20x EBITDA multiple as our base case. That is what we internally are comfortable underwriting here. But we could see a scenario where the multiples will expand a lot beyond that. Some people would argue that a 20x EBITDA multiple is low for a business growing 25-30 % with recurring revenue streams in a huge TAM.

Valuation

Fiscal Period: December	2018	2019	2020	2021	2022	2023
Capitalization [1]	926	1 970	3 244	3 626	-	-
Entreprise Value (EV) [1]	975	2 059	3 400	3 750	3 720	3 675
P/E ratio	40,5x	80,8x	119x	109x	82,4x	63,1x
Yield	-	-	-	-	-	-
Capitalization / Revenue	3,48x	5,84x	8,37x	8,02x	6,83x	5,85x
EV / Revenue	3,67x	6,11x	8,77x	8,29x	7,00x	5,93x
EV / EBITDA	24,9x	39,4x	53,3x	52,5x	41,2x	32,6x
Price to Book	5,94x	11,1x	14,7x	14,8x	12,5x	10,4x
Nbr of stocks (in thousands)	6 247	6 252	6 299	6 300	-	-
Reference price (EUR)	148	315	515	576	576	576
Announcement Date	03/25/2019	03/23/2020	03/29/2021	-	-	-

[1] EUR in Million   Estimates [33]

As can be seen above Hypoport has also consistently traded at significantly higher 25-50 x EV/EBITDA multiples or 40-100 x P/E multiples. This shows that German investors are willing to pay high multiples for category leaders. While we are not yet willing to underwrite such a high multiple expansion, we think there is a real scenario that it could happen as JDC will be growing a lot faster than Hypoport the next few years. I such a scenario we could get to a 100 EUR fair value for the stock today!

[33] 4-traders.com