18-6-2023

It has been two years since we last wrote up on JDC Group. As this is still one of our top3 holdings and as the business is making huge underlying progress not recognized by the market, we think it's about time to catch up with the story:

(For anyone who wants to get up to speed on what JDC does, here is the initial report: JDC May2021 report)

First – what have happened since then?

Negative:

- The Ukraine war and subsequent inflation led to lower consumer sentiment in Germany in Q3 and Q4 2022. This lowered consumers' willingness to buy new life-insurance products and investment funds. As the stock market also declined it lowered AUM on their platform which reduced recurring trailer fees.
- The signing and rollout of the major banking deal with VKB has dragged out and getting delayed

But the good part is that VKB will eventually be signed (They are a big shareholder in JDC). Also, the fund business will revert to growth from Q3 as the stock market is up a lot since then. It's important when looking at the numbers to understand that the fund business is only around 12 % of the revenue now in 2022. The insurance business (+80 % of revenue) still had a good year in 2022 growing double digit despite lower sales of life-insurance in Q4.

The main value driver for our investment thesis is the Insurtech/Advisortech business. That is 80 % of the revenue in FY22. The remaining 20 % is the more volatile D2C Advisory business.

The positive:

- Extension of major customer contracts with Albatros and Finanzguru
- Signing of a 5-year deal with R+V (1-year pilot project just turned into a 4-year full contract)
- Initiating JV (Summitas Gruppe) with Bain and Canada Life for rolling up commercial brokers
- Succesfull ramping with Provinzial
- Signing and rolling out PlugInsurance with eVorsorge
- Seeing Hypoport capitulating as a real competitor
- Acquisition of top-ten advisors

But let's take these one-by-one:

Extension with major customers Albatros and Finanzguru:

We think the competitive market position for JDC is stronger than ever before. JDC have over the last 3 years won ALL tenders and competitive deals out there with major customers. As they are simply the one company that have the best technology to support this.

As we wrote in our initial report, the major customer segment will be the key driver for accelerating the growth to 20-30 % sustainable going forward. So far, they have been on track on that part:

Even in FY22, that was a hard year for selling new life-contracts, the major customer segment managed to grow 28 % YoY.

This trend continued in Q1 2023 with growth of 36 % YoY. We expect this growth to continue. As the IFA and Advisory business will revert to growth from Q3 when comparisons become easier, the whole company growth will accelerate a lot.

A lot of the growth from the major customer segment is related to many of the deals still being really early on the J-curve. The banking deals are still only contributing with small numbers that will pick up from Q3 onwards. More legacy deals like Albatros and Finanzguru are driving the growth.

Albatros and Finanzguru recently extended their deal with JDC, Albatros after a competitive tender.

Finanzguru

Finanzguru – contract renewed. Successful cooperation transferred into a long-term agreement. Finanzguru now with 1,5m App Users – most successful bank account consolidation app in Europe. Already more than 100.000 contracts on the JDC platform.

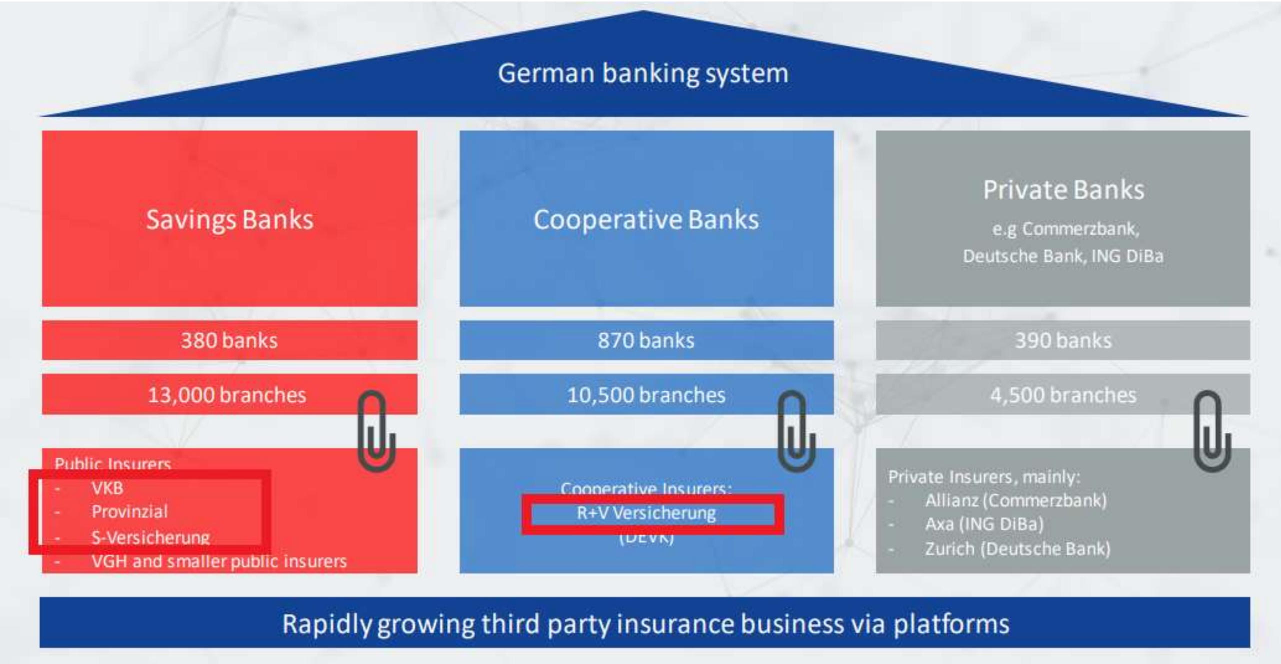
This is not only important to sustain the revenue growth, but also makes sure that no competitor have won a deal from JDC (JDC have all the big customers). And as the former head of Insurance for Hypoport said after joining JDC: “JDC keeps winning these deals because the technology is far superior”. As there are high switching costs and no competitor out there with a proven solution, we think JDC have basically won the market. Now it’s all about building the market.

Signing of 5-year deal with R+V (1-year pilot project just turned into a 4-year full contract)

In early 2022 JDC announced a pilot project with the largest insurer for the cooperative banking network in Germany, R+V. The project was designed as a 1-year pilot in 4 banks to test if the JDC solution could also work in the cooperative banks.

R+V - contractual pilot phase has been successfully completed. Contract is now fixed for another 4 years.

JDC recently disclosed that the pilot project was succesfull and that R+V is now on a 4-year contract with0 plans to roll out the solution into their banking groups. The cooperative banking network has around the same number of branches as the savings banks. If succesfull, this deal could become several hundred million Euros in annual revenue:



Initiating JV (Summitas Gruppe) with Bain and Great West for rolling up commercial brokers

JDC last year disclosed the intention to start a JV together with Bain Capital and Great West to roll up commcercial insurance brokers and transfer the contracts to JDC platform.

As with all of JDC projects, there is often 12-24 from the start of a project to the first revenue kicks in. And then 2-3 years of ramp-up before significant contribution. Most stock market investors do not have that time-horizon. The Summitas deal is amazing for JDC as they only have to contribute 10 % of the equity in the JV. But as all the contracts will be transferred to the JDC platform, they will still have all the revenue running through their P&L and keep a 10-12 % margin on it. So how much revenue will eventually come here? It will depend on how many brokers the JV eventually can acquire. They have deep pockets, it's just a matter of negotiation a good price. JDC estimates that in the mid-term, at least 40-50 million EUR in annual revenue can be generated.

Succesfull ramping with Provinzial

After signing the Letter of Intent (LOI) with Provinzial in February of 2021 the deal is now starting to pick up speed with contract transfers continue to rise consistently. Now more than half of the savings banks in the Provinzial network has been signed and the biggest one "Kreissparkasse Köln" is fully onboarded.

S-Versicherungsmanager – onboarding of savings banks in progress (> 60 contractual agreements). Onboarding of Kreissparkasse Köln ongoing. Business is picking up speed.

Why is this important? Because in my initial report in May 2021 we only had the LOI and promises of what this could turn into. We did not have a signed deal or a live project. Remember this Provinzial contract had basically been thrown around for +5 years (with Clark and Provinzial etc.) before JDC snapped it up and made it a reality.

Asked on the last conference call if they still expected to have 5 million EUR in revenue this year from the contract, the CEO responded: "actually we are budgeting more like 10-15 million". When signing the deal, they talked about 100 million in revenue in 2025.

The other reason why this is so important is that it shows proof of concept. If their bancassurance solutions works with the savings banks in the Provinzial network, there is no reason why it should not work with VKB either? Or with the cooperative banks with R+V.

Signing and rolling out Plug-InSurance with eVorsorge

In April of 2022 JDC announced the intention to launch Plug-Insurance together with eVorsorge.

eVorsorge is one of the leading players within digital pension plan-schemes and savings plans for larger companies. But they lagged a solution to target SMB's. Together with JDC they signed a JV and in October 2022 the pilot project was launched (and has recently gone live in 2023).

The start of this project has already been promising. On the Q1 2023 conference call management said that the first broker has handed them 800 contracts with nearly 600.000 EUR in early commission. And the project can be picking up speed from here.

This is just another sign of JDC using their technology and knowledge to partner up with other leading players to satisfy unmet needs in the market. This program was not even included in my original estimates.

Seeing Hypoport capitulating as a real competitor

One of the main competitive worries we always had with JDC was that Hypoport constantly stated their intentions to catch up with JDC and win the market. Hypoport is a company that (at the time) was several times larger than JDC and had already won the market for digitalizing mortgages and loans in Germany. Their head of the Insurance business was a senior guy called Marcus Rex

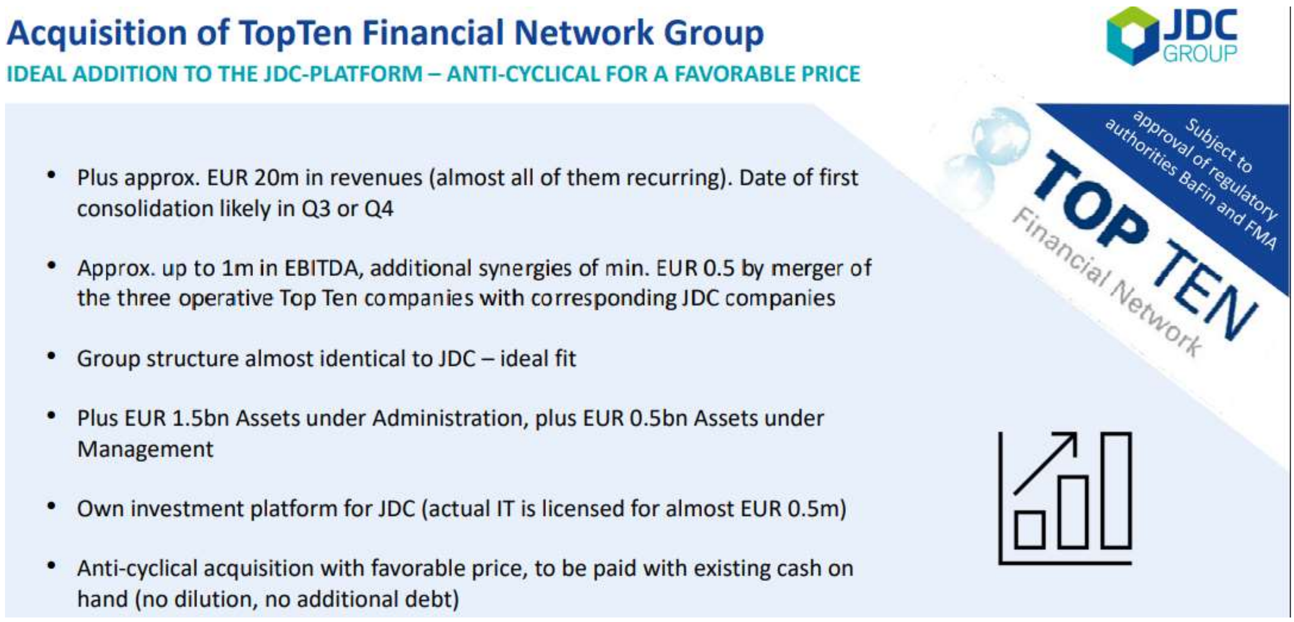
But what have happened over the last few years? Hypoport have kept struggling in Insurance and have not won a single of the big tenders and contracts out there. They have also been delayed several times with their SmartInsur platform. Recently the company got killed in their legacy mortgage business leaving the company no choice but focus on cost cutting. JDC used this opportunity to snap up Marcus Rex. It seems that Hypoport is significantly retreating on their insurance ambitions and mainly focus on credit insurance and change of ownership insurance etc. Areas more closely related to their mortgage and property business.

As of now we don't really see Hypoport as a real competitor to JDC anymore.

Acquisition of top-ten advisors

While we are not a huge fan of the fund management business (and our main bull case is on the insurance side) – we understand from JDC management that it's important to also have a good fund business aside the insurance offering to reap synergies and have a complete offering. While the business offers great long-term unit economics, the revenue is more volatile as its mostly tied to AUM and those influenced by stock market valuations.

JDC have long aspired to get a better tech stack and solution for their fund management solution. In February 2023 they announced the purchase of TopTen. The deal is quite attractive. TopTen has around 20 million in revenues and 1 million EBITDA pre-synergies. Our understanding is that the purchase price is around 5-10 million EUR. Post synergies (0,5) and IT-savings (0,5 – JDC can stop licensing this tech) the purchase price goes down to less than 5x EBITDA.



The fund business has declined to only 10-15 % of revenue over the last few years for JDC. Even after consolidating top-ten in 2023, the fund business will maximum be 20-25 % of revenue and significantly reduce in size over the following years as the insurance business grows much faster.

18-6-2023

Projections:

It is extremely difficult to forecast JDC into the future as they have so many projects and contracts that is still so early in the J-curve. But as we try to show, while the forecasts are wide, even the downside scenarios look good to us. These contracts are signed and ramping, so it's more a matter of how much and how fast things will happen, not a question of if it will happen or not.

Below is a base assumption on how it can look like:

	FY22	FY23	FY24	FY25	FY26	FY27	FY28
IFA business	100	104	110	117	123	130	138
Advisory	35	35	40	42	44	46	48
Direct/elimination	-9	-10	-11	-12	-13	-13	-15
Major customers	29	36	44	53	63	76	90
Provinzial	1	12	30	55	85	93	100
VKB			3	10	18	40	75
R+V		1	3	10	18	40	75
Summitas			5	10	20	40	60
Plug-InSurance		1	3	5	8	10	12
TopTen		3	22	23	24	25	27
Total	156	182	250	313	391	488	610
Growth YoY		**16,8%**	**37,0%**	**25,2%**	**25,1%**	**24,8%**	**25,0%**
Insurance	136	158	206	266	342	436	556
Fund	20	24	44	46	49	52	54
Insurance market	25.000	25.750	26.523	27.318	28.138	28.982	29.851
Market share %	0,5%	0,6%	0,8%	1,0%	1,2%	1,5%	1,9%

While the company said the Provinzial deal should deliver 100 million EUR in 2025, we only include 55 million and then go out to 2028 before assuming the full 100 million. While VKB and R+V in theory have the potential to be larger than Provinzial (due to banking network size) we model them at 75 here.

It is also worth putting this in context to the size of the market. It is our understanding that the P&C market is around 250 billion with 20 billion in early commissions. The life-insurance and pension market are around the same size, but as some of that is not accessible and some is paid with upfront and not recurring commissions, we only include 5 billion of that into the TAM.

Based on our projections JDC will be able to grow its market share from currently around 0,5 % to around 2 % in 2028. While JDC of course never will be able to catch 50+ % of the market, management sees no reason why ultimately JDC can't take +10 % of the market as the leading marketplace-aggregator-platform (Hypoport have taken significantly larger share in mortgage/loans – to our understand, +20 %).

18-6-2023

Our projections above is for the revenue to grow around 25 % per year for 2024-2028 (base-case). This assumes no additional M&A besides TopTen (despite management still looking to consolidate the market).

We have also simulated a 20 % and a 30 % case below.

20% growth	FY23	FY24	FY25	FY26	FY27	FY28
Revenue	180	234	281	337	404	485
EBITDA	12	18	24	32	41	53
margin %	6,7%	7,7%	8,5%	9,5%	10,1%	10,9%
			Valuation (20x EBITDA)			1060
			Per share value EUR			81,5
			NPV per share (15 % WACC)			**40,5**

25% growth	FY23	FY24	FY25	FY26	FY27	FY28
Revenue	182	250	313	391	488	610
EBITDA	12,5	19	27	38	51	68
margin %	6,9%	7,6%	8,6%	9,7%	10,4%	11,1%
			Valuation (20x EBITDA)			1360
			Per share value EUR			104,6
			NPV per share (15 % WACC)			**52,0**

30% growth	FY23	FY24	FY25	FY26	FY27	FY28
Revenue	185	259	337	438	569	740
EBITDA	13	20	29	43	63	90
margin %	7,0%	7,7%	8,6%	9,8%	11,1%	12,2%
			Valuation (20x EBITDA)			1800
			Per share value EUR			138,5
			NPV per share (15 % WACC)			**68,8**

We are using a 20x exit multiple in our model. As JDC have shown around 80 % EBITDA to FCF conversion (low capex and negative working capital) this would correspond to a P/E or FCF multiple around 25x. We do not find that excessive for a high growth company with a market leading position. And also, we do not include cash generated over the 5-years but only value the terminal here.

In our base case the stock could be worth 100 EUR per share in 2028 or a 5x from the 20 EUR today! Using a 15 % discount rate we get to a fair value today around 50 EUR, significantly higher than the 20 EUR its trading at.

While things definitely can go wrong, we like the odds here. The projections are based on technology that's already developed and deals that's already signed. It's a matter of execution to get there.

A side note: The stock is significantly more liquid than official Bloomberg statistics show as most trading volume occurs in dark pools. In some days we have bought +45.000 shares in a single day while the official volume was around 3.000 shares traded!.

18-6-2023

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