METZLER Capital Markets

wallstreet:online (WSO1 GY) | Media

July 22, 2021

Feedback from our virtual group meeting with w:o CFO

Yesterday, we hosted a (virtual) group meeting with w:o CFO Roland Nicklaus. During this meeting, we mainly discussed the regulatory situation of (German) neobrokers. Background to this is that last week, the European Securities and Markets Authority (ESMA) released a statement, warning about risks arising from payment for order flow (PFOF), and requesting the National Competent Authorities to prioritize this topic in their supervisory activities for 2021 or early 2022. Mr. Nicklaus gave a confident presentation, demonstrating that the PFOF received by the Smartbroker is completely MiFID II compliant: In contrast to other neobrokers, Smartbroker customers can independently choose between all available trading exchanges in Germany and receive relevant disclosures (e.g. trading volumes, bid ask spreads, fees related to the trade). While we cannot rule out a ban of PFOF (already existing in the Netherlands), Mr. Nicklaus confirmed our impression that this not the primary goal of the ESMA. However, even if such a worst case scenario were to occur, the business model of the Smartbroker would not change according to the CFO. Smaller price increases might then be implemented (also by other brokers), but all secular growth trends would remain fully intact.

Valuation: We keep our estimates virtually unchanged. Our (unchanged) PT of EUR 35 is derived from our DCF valuation.

Fundamentals (in EUR m)	2018	2019	2020	2021e	2022e	2023e
Sales	8	9	28	57	73	89
EBITDA	3	4	5	7	19	30
EBIT	3	4	2	6	18	29
EPS adj. (EUR)	1.94	1.06	0.25	0.28	0.86	1.39
EBITDA adj.	3.5	3.7	7.5	6.6	18.9	30.1
DPS (EUR)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (EUR)	11.56	15.08	2.10	2.38	3.25	4.64
Net Debt incl. Provisions	-9	-4	-7	-4	-14	-33

Ratios	2018	2019	2020	2021e	2022e	2023e
EV/EBITDA	-1.2	1.9	46.3	47.0	15.9	9.4
EV/EBIT	-1.2	1.9	103.1	52.4	16.5	9.7
P/E adj.	1.6	6.0	60.7	77.4	25.4	15.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	44.7	43.3	16.0	11.7	26.0	33.7
EBIT margin (%)	43.8	43.1	7.2	10.5	25.0	32.7
Net debt/EBITDA	-2.7	-1.2	-1.5	-0.6	-0.7	-1.1
ROE (%)	30.3	8.2	12.4	12.6	30.6	35.4
PBV	0.3	0.4	7.1	9.2	6.7	4.7

Sources: Refinitiv, Metzler Research

Buy unchanged

Price* EUR 21.90

Price target EUR 35.00 (unchanged)

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m)	315
Enterprise Value (EUR m)	311
Free Float (%)	37.0

Performance (in %)	1m	3m	12m
Share	-15.8	6.8	150.3
Rel. to SDAX	-15.8	6.6	94.4

Sources: Refinitiv, Metzler Research

Changes in estimates (in %)	2021e	2022e	2023e
Sales	0.0	0.0	0.0
EBIT	-1.9	0.0	0.0
EPS	4.9	0.0	0.0

Sponsored Research

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We hosted a (virtual) group meeting with wallstreet:online CFO Roland Nicklaus. During this meeting, we mainly discussed the regulatory situation of (German) neobrokers. Background to this is that last week, the European Securities and Markets Authority (ESMA) released a statement, warning about the risks arising from payment for order flow.

Background on Regulation - Statement from ESMA

Last week, the ESMA published a new statement on payment for order flow (PFOF), the practice of brokers receiving payments from exchanges for directing client order flow. In this statement, the ESMA stated that PFOF is causing an conflict of interest - PFOF incentivizes brokers to choose the execution venue offering the highest payments, rather than the venue that achieves the best outcome for the brokers' clients. In this context, the ESMA also reminds that for the execution of retail clients' orders, the best possible outcome is to be determined in terms of total consideration, representing the price of the financial instruments and the costs relating to execution. In addition, they also observed that some brokers are presenting execution venues providing PFOF in a more prominent and appealing manner which also raises investor protection concerns. According to the ESMA, PFOF will not be acceptable if it results in "distorting or biasing the provision of the relevant service to the client" otherwise PFOF would not be compatible with the current MiFID II regulations. Hence, firms must be required to clearly disclose the existence, nature and amount of PFOF to the client on an ex-ante and ex-post basis.

As a result of these findings, the ESMA requests National Competent Authorities (NCAs), especially in those Member States in which PFOF has been observed, to prioritise this topic in their supervisory activities for 2021 or early 2022. These activities should "aim at assessing the actual impact of PFOF on firms' compliance with the best execution, conflicts of interest and inducements requirements including whether firms receiving PFOF are able to demonstrate that they consistently achieved the best possible result for retail clients when executing their orders, also taking into account, where relevant, firms' cross-border activities". If needed, according to the current legislation, NCAs have the discretion to prohibit PFOF where they find that MiFID II rules on conflict of interests and inducements are not met. This has already been done in the UK and in the Netherlands in the past.

Why now?

The debate about PFOF is not new and was first raised years ago. In some countries, a ban on PFOF has also been introduced. The reason for the current debate is certainly the ongoing share boom among retail investors worldwide, partly as a result of the global Covid-19 pandemic, but also due to low/ negative interest rates, and the increased availability of easy and consumer-friendly ways to access the stock market. This target group is often less informed about fee structures and therefore in need of special protection. At the same time, the number and the market share of neobrokers has also increased significantly, who have taken advantage of the situation with seemingly very low fees. The best-known examples are Trade Republic (Germany) and Robinhood (US), which in the past also attracted attention with numerous (negative) news (Gamestop etc.).

CFO feedback on regulation

We highlight the key statements from w:o CFO Roland Nicklaus regarding the current discussion around the ESMA statements:

- Mr. Nicklaus started the discussion highlighting that PFOF was **not** invented by neobrokers. Instead, also traditional banks, commercial banks and even insurance companies receive payments for order flow. Thus, any regulation with regard to PFOF would impact the entire brokerage market and not only selected neobrokers.
- In its statement, the ESMA wrote that "*PFOF is the practice of brokers receiving payments from third parties for **directing** client order flow to them as execution venue*". However, Mr. Nicklaus clearly stated that the Smartbroker does **not** direct any orders. When placing an order, Smartbroker customers can independently choose between all available trading exchanges in Germany (twelve in total). This clearly distinguishes the Smartbroker from other neobrokers like Trade Republic. Here, customers can only trade on the Lang & Schwarz trading exchange.
- In addition, the ESMA also stated that "*PFOF from third parties ...causes a clear conflict of interest between the firm and its clients because it incentivises the firm to choose the third party offering the highest payment, rather than the best possible outcome for its clients."* In reference to this, Mr. Nicklaus stated the recent results of the "Stiftung Warentest", which regularly evaluates the German brokerage landscape. According to the Stiftung Warentest (Germany's largest independent consumer association), it could not be determined that the absence of fees at the Smartbroker is accompanied by a larger trading margin when buying and selling equities or other related financial instruments. The statements of the ESMA can therefore not be confirmed for the Smartbroker.
- According to the ESMA, "*the execution venues providing PFOF are presented in a **prominent or more appealing manner***". Mr Nicklaus made clear that this is not the case for the Smartbroker. Customers that want to place an order can see the full list of venues incl. trading volumes, bid ask spreads and the overall fees related to the trade. Hence, Mr. Nicklaus stated that with the current setup, w:o does have nothing to fear at the moment as the Smartbroker is not choosing a third party over another.
- In line with statements other (listed) brokers already made, Mr. Nicklaus does **not** believe that it is the intention of the ESMA to ban PFOF, but instead to considerably increase transparency, especially as neobrokers were recently strongly gaining market share. However, we also discussed the impact of a ban on w:o and the brokerage market: According to the CFO, a ban would not dramatically change the business model of the Smartbroker. This is also driven by the fact that PFOF account for less than 50% in terms of Smartbroker trading revenues (or 5-10% in terms of H1/21 Group revenues). Smaller price increases might be implemented following a ban (also by other brokers!), but all secular growth trends (low/negative interest rates, low shareholder ratio in Germany) remain intact. He thus, believes that smaller price increases per trade (e.g. EUR 1-2) would not change anything with regard to the prolonged upturn.
- Mr. Nicklaus stated that the relevant German regulator BaFin has already contacted wallstreet:online - asking for further information in all of these areas. How long this review will then take is uncertain. Mr. Nicklaus, however, high-

lighted that they feel very confident with the existing setup of the Smartbroker.

In a nutshell: In our view Mr. Nicklaus gave a very confident presentation and also confirmed our impression that it is not the primary goal of the ESMA to ban PFOF going forward. However, we cannot rule out the possibility that such a scenario could occur after all. At this point, we would like to point out again that such a ban already exists in the Netherlands. The impact of such a ban remains difficult to assess, also because none of the German brokers clearly discloses how high the exact share of PFOF in terms of trading revenues is. Nevertheless, we got the impression that the Smartbroker offers a high price transparency and that customers can choose completely independently between a wide range of trading venues - PFOF are hence, MiFID II compliant. Thus, in our view, the Smartbroker should not be the main focus of the German authority BaFin.

Churn rates of Smartbroker

We also discussed the customer retention and churn rates of the Smartbroker. Background to this is that the US neobroker Robinhood recently published retention figures in its IPO prospectus - showing that many customers are displeased with Robinhood's offering (e.g. in FY 2020 0.9m churned accounts vs. ending balance of 12.5m accounts). Mr. Nicklaus stated that churn rates at the Smartbroker are close to zero. The reason for this is that in contrast to neobrokers such as Robinhood or Trade Republic, Smartbroker is acquiring more experienced customers/traders that already had existing accounts - e.g. more than 90% of Smartbroker customers did transfer their security accounts. In addition, the Smartbroker offers the full product spectrum of services - including access to all available trading exchanges in Germany. Hence, customers have no reason to switch to a different broker again, unlike brokers that only offer access to a single trading exchange.

Successful completion of owner control procedure

In addition to our discussion on the regulatory situation, we also briefly talked about the owner control procedure. Recently, Wallstreet:online announced that the owner control procedure for the acquisition of further shares in w:o capital has been successfully completed. This now enables w:o to acquire a further 19.3% stake in w:o capital. This acquisition increases the shareholding in wallstreet:online capital AG to >95%. Thus, the operations of w:o capital (including the Smartbroker) can be fully consolidated going forward. In our view, this is positive news - especially as the owner control procedure was a lengthy process (already started in March 2020) and thus, there were uncertainties regarding the future consolidation of w:o capital.

Extended licensing planned

w:o also announced that a license as a securities institution ("Wertpapierinstitut") is being pursued, extending the existing KWG license. This is intended to expand and professionalize the possibilities in the area of financial services. The necessary documents are to be submitted to the German authority BaFin promptly. According to Mr. Nicklaus, the processing of these documents on average takes approximately three quarters. In our view, this step again highlights w:o's ongoing transformation from a pure portal operator to a digital financial services provider.

Key Data

Company profile

CEO: Matthias Hach CFO: Roland Nicklaus Berlin, Germany

wallstreet:online was founded in 1998 and is headquartered in Berlin. Through its “Social & Media” division, the Company operates wallstreet-online.de, Germany’s largest finance community, which, together with three further finance portals, generates approx. 320m page impressions per month (April 2021). wallstreet:online AG is also the operator of the Smartbroker. Smartbroker was launched in December 2019, and has established itself as Germany’s #1 neobroker by assets under management and #2 by number of clients. In addition, the company operates an independent online financial intermediary business through its Classic Transaction division.

Major shareholders

Andre Kolbinger / AKD Private Equity (56.5%), Management & Supervisory Board (7.5%)

Key figures

P&L (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Sales	**8**	**49.9**	**9**	**10.0**	**28**	**229.9**	**57**	**101.1**	**73**	**28.4**	**89**	**22.6**
EBITDA	**3**	**71.4**	**4**	**6.6**	**5**	**22.1**	**7**	**46.3**	**19**	**186.2**	**30**	**58.9**
EBITDA margin (%)	44.7	14.3	43.3	-3.1	16.0	-63.0	11.7	-27.2	26.0	122.9	33.7	29.6
EBIT	**3**	**80.4**	**4**	**8.3**	**2**	**-45.0**	**6**	**192.5**	**18**	**206.8**	**29**	**60.3**
EBIT margin (%)	43.8	20.3	43.1	-1.5	7.2	-83.3	10.5	45.5	25.0	138.9	32.7	30.8
Financial result	**0**	**n.m.**	**-1**	**-362.5**	**3**	**480.5**	**-1**	**-120.2**	**-1**	**0.1**	**-1**	**-5.1**
EBT	**4**	**92.4**	**3**	**-17.4**	**5**	**50.9**	**5**	**19.0**	**18**	**226.3**	**29**	**61.9**
Taxes	-0	-237.0	-1	-164.5	-1	10.4	-1	-34.8	-5	-291.5	-9	-61.9
Tax rate (%)	-11.6	n.a.	-37.2	n.a.	-22.1	n.a.	-25.0	n.a.	-30.0	n.a.	-30.0	n.a.
Net income	3	82.1	2	-41.3	4	87.1	4	14.5	12	204.5	20	61.9
Minority interests	0	n.a.	0	n.a.	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Income after minorities	**3**	**82.1**	**2**	**-41.3**	**4**	**87.1**	**4**	**14.5**	**12**	**204.5**	**20**	**61.9**
Number of shares outstanding (m)	2	63.4	2	7.8	14	699.0	14	0.0	14	0.0	14	0.0
EPS adj. (EUR)	**1.94**	**11.5**	**1.06**	**-45.5**	**0.25**	**-76.6**	**0.28**	**14.5**	**0.86**	**204.5**	**1.39**	**61.9**
DPS (EUR)	**0.00**	**n.a.**	**0.00**	**n.a.**	**0.00**	**n.a.**	**0.00**	**n.a.**	**0.00**	**n.a.**	**0.00**	**n.a.**
Dividend yield (%)	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.

Cash Flow (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Gross Cash Flow	**3**	**60.4**	**3**	**-15.4**	**4**	**36.3**	**5**	**49.6**	**14**	**159.1**	**21**	**57.7**
Increase in working capital	**-0**	**n.a.**	**2**	**n.a.**	**4**	**n.a.**	**1**	**n.a.**	**1**	**n.a.**	**1**	**n.a.**
Capital expenditures	**0**	**n.a.**	**0**	**100.0**	**0**	**19.0**	**2**	**376.4**	**2**	**-19.7**	**1**	**-36.2**
D+A/Capex (%)	35.5	n.a.	4.0	n.a.	523.5	n.a.	30.0	n.a.	40.0	n.a.	76.9	n.a.
Free cash flow (Metzler definition)	**3**	**401.9**	**0**	**-93.3**	**-1**	**-399.0**	**2**	**484.0**	**11**	**354.9**	**20**	**83.6**
Free cash flow yield (%)	60.0	n.a.	1.8	n.a.	-0.3	n.a.	0.7	n.a.	3.4	n.a.	6.2	n.a.
Dividend paid	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Free cash flow (post dividend)	**3**	**401.9**	**0**	**-93.3**	**-1**	**-399.0**	**2**	**484.0**	**11**	**354.9**	**20**	**83.6**

Balance sheet (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Assets	**21**	**326.7**	**36**	**73.3**	**51**	**42.0**	**52**	**1.6**	**65**	**25.4**	**86**	**32.0**
Goodwill	**0**	**225.8**	**0**	**0.0**	**20**	**n.m.**	**20**	**0.0**	**20**	**0.0**	**20**	**0.0**
Shareholders' equity	**19**	**840.1**	**27**	**40.6**	**30**	**11.3**	**34**	**13.5**	**47**	**36.1**	**67**	**43.0**
Equity/total assets (%)	92.9	n.a.	75.4	n.a.	59.1	n.a.	66.0	n.a.	71.6	n.a.	77.5	n.a.
Net Debt incl. Provisions	**-9**	**-178.0**	**-4**	**51.4**	**-7**	**-46.0**	**-4**	**40.6**	**-14**	**-260.1**	**-33**	**-135.5**
thereof pension provisions	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**
Gearing (%)	-48.0	n.a.	-16.6	n.a.	-21.7	n.a.	-11.4	n.a.	-30.1	n.a.	-49.6	n.a.
Net debt/EBITDA	-2.7	n.a.	-1.2	n.a.	-1.5	n.a.	-0.6	n.a.	-0.7	n.a.	-1.1	n.a.

Sources: Refinitiv, Metzler Research

Disclosures

Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation * Previous	Current	Current price **	Price target *	Author ***
Issuer/Financial Instrument (ISIN): wallstreet:online (DE000A2GS609)					
25.05.2021	n.a.	Buy	24.70 EUR	35.00 EUR	Diedrich, Tom

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

** XETRA trading price at the close of the previous day unless stated otherwise herein

*** All authors are financial analysts

wallstreet:online

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HOLD	The price of the analysed financial instrument is expected to largely remain stable in the next 12 months.
SELL	The price of the analysed financial instrument is expected to fall in the next 12 months.

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BUY	The analysed financial instrument is expected to perform better than similar financial instruments.
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All prices for financial instruments stated in this document are, unless otherwise stated, closing prices for the trading day preceding the respective stated publication date on the market which we regard as the most liquid market for the respective financial instrument.

Scope of application

This document was prepared in the Federal Republic of Germany in line with the legal provisions valid there. It may therefore be possible that this document does not comply with all provisions relating to the preparation of such documents in other countries.

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	Stephan Bonhage	Small/Mid Caps, Construction	525
	Tom Diedrich	Media, Retail	239
	Alexander Neuberger	Industrial Technology, Small/Mid Caps	4366
	Holger Schmidt	Software, Technology, Telecommunications	4360
	Jochen Schmitt	Financials, Real Estate	4359
	David Varga	Basic Resources	4362
	Jürgen Pieper	Automobiles, Senior Advisor	529
	Hendrik König	Strategy / Quantitative Research	4371
	Sergii Piskun	Quantitative Research	237
	Eugen Keller	Head of FI/FX Research	329
	Juliane Rack	FI/FX Strategy	1748
	Sebastian Sachs	FI/FX Strategy	526
	Thomas Weber	FI/FX Strategy	527
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Sales	Eugenia Buchmüller		238
	Uwe Hohmann		366
	Hugues Jaouen		4173
	Alexander Kravkov		4172
	Jasmina Schul		1766
Trading	Sven Knauer	Head of Equity Trading	245
	Kirsten Fleer		246
	Stephan Schmelzle		247
	Thomas Seibert		228
Corporate Solutions	Dr. Karsten Iltgen	Head of Corporate Solutions	510
	Thomas Burkart		511

FI/FX	Mario Mattera	Head of FI/FX	687
FI Sales	Minush Nori	Head of Fixed Income Sales	689
	Sebastian Luther		688
	Claudia Ruiu		683
	Gloria Traidl		280
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	Bettina Koch		291
	Susanne Kraus		658
	Andreas Tanneberger	Head of Fixed Income Trading	685
	Silke Amelung		289
	Christian Bernhard		266
FX Sales	Thomas Rost	Head of FX	292
	Tobias Martin		614
	Steffen Völker		293
FX Trading	Rainer Jäger		276
	Andreas Zellmann		610
Currency Management	Özgür Atasever	Head of Currency Management	281
CM Advisory	Achim Walde		275
	Harwig Wild		279
CM Operations	Dominik Müller	Head of Operations	274
	Christopher Haase		1617
	Florian Konz		1773
	Simon Wesch		350