

## The NAGA Group

**Software**
**02 November 2017**

### Revenue growth and continued executions

NAGA saw 90% growth in pro forma revenue to €3.7m from trading activities and a 74% increase in total sales to €4.3m in H117, compared with H216. In Q417, management is planning to launch its second product, SWITEX (in-game items trading), and issue NAGA Coins (a cryptocurrency) for up to \$400m, with 55% of the total offered to the public by working with a third party. The proceeds from the initial token sale (ITS) and the remaining 45% of the tokens will not be consolidated into NAGA's balance sheet. The stock is currently trading at 24.3x EV/sales based on annualised H117 numbers. In August 2017, the Chinese conglomerate, Fosun, which owns c 26% of NAGA, committed to invest an additional €3.3m, or 25% of its total investment commitment of €12.3m.

### SWITEX: Scheduled for launch in Q417

Exclusively powered by Deutsche Börse, SWITEX is a market for trading in virtual goods from the gaming world. The business model is to share revenues with game publishers currently not benefiting from the secondary trading of in-game items on the grey market. NAGA owns 60% of SWITEX and Deutsche Börse 40%.

### NAGA Coins: Token for the NAGA ecosystem

From July 2017, SwipeStox customers can invest in Bitcoin. The company is working with an external partner to issue NAGA Coins, of up to \$220m, to the public. The NAGA token-sale will not create any shareholdings. It will be a pure unit of account and therefore represents an extension of the product range. The NAGA Wallet will be launched during the token sale process, by connecting with cryptocurrency exchanges around the world.

### H117 sales up 74%; losses in start-up phase

The company launched its first product, SwipeStox, in June 2016. Compared with H216, pro forma revenue from trading activities went up by 90% to €3.7m and total sales (including commissions from third parties) increased by 74% to €4.3m in H117. The net loss of €3.9m was comparable to H216. The company had €0.3m cash on hand and €1.7m in trade receivables as of 30 June 2017. A cash call looks imminent given the cash burn of €3.2m in H117.

### Valuation: Trading at a premium to peers

NAGA is currently trading at 24.3x EV/sales based on annualised H117 figures and 13.5x price/book based on H117 results (including €17.4m in intangible assets). Given NAGA's short operating history, blockchain and fintech companies still in the ramp-up phase and not yet in profit may be the most appropriate comparators.

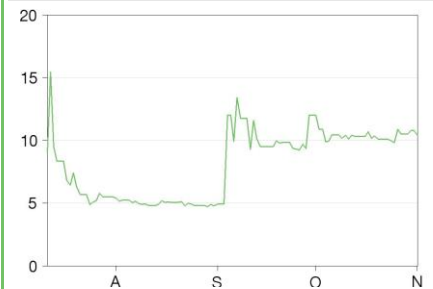
#### Consolidated financial summary

Year end	Revenue* (€m)	EBIT (€m)	PBT (€m)	EPS* (€)	P/E (x)	Yield (%)
12/15	0.60	(0.77)	(0.78)	(15.6)	N/A	N/A
12/16	3.23	(6.40)	(6.49)	(131.6)	N/A	N/A

Source: Company accounts. Note: \*Based on 50,000 shares in 2015 and 50,001 shares in 2016. Consensus forecasts are not available.

**Price** €10.44  
**Market cap** €219m

#### Share price graph



#### Share details

Code N4G  
 Listing Deutsche Börse Scale  
 Shares in issue 21m  
 Last reported net cash as at 30 June 2017 €0.3m

#### Business description

The NAGA Group is a fintech start-up in social trading with two flagship products: SwipeStox (for securities trading) and SWITEX (for in-game items trading), a joint venture with the Deutsche Börse. Headquartered in Hamburg, the company will have 85 employees, following the acquisition of Hanseatic Brokerhouse Group, now NAGA Markets.

#### Bull

- The major shareholder Fosun may be successful in bringing NAGA to the Chinese market.
- German fintech companies may benefit from Brexit.
- Social trading and robo-advisor may gain significant traction in Germany.

#### Bear

- China's recent crackdown on cryptocurrency trading may have adverse effects on NAGA
- NAGA's business model may be copied by Silicon Valley tech giants.
- Competition is likely from existing players in finance and gaming.

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## H117 growth driven by brokerage and SwipeStox

NAGA was founded in 2015 with the amalgamation of several app developers. NAGA started to generate revenue in Q216 with SwipeStox (a social trading platform), currently its only live product. The company has submitted an application to acquire Naga Markets (former Hanseatic Brokerhouse Global Markets), domiciled in Cyprus in Q317, and renamed it NAGA Markets (a classic brokerage business). The average daily trading volume on SwipeStox and NAGA Markets over the past 12 months is approximately €168m.

Compared with H216, NAGA saw 90% growth in revenue to €3.7m from trading activities and a 74% increase in total sales (including commissions from third parties) to €4.3m in H117. The net loss of €3.9m was comparable to H216, given the increase in expenses in line with expanding business activities. The company had €0.3m cash on hand and €1.7m in trade receivables as of 30 June 2017.

### Exhibit 1: H117 vs H216 results (pro forma)

€000s	H117	H216	Change	Comment
Revenue	3,741	1,970	90%	Increase in trading volume with NAGA Markets* and SwipeStox.
Activated programming services (commissions)	589	512	15%	Feed-in commissions from external brokers via SwipeStox.
Total sales	4,330	2,483	74%	
Other operating income	305	239	28%	
Commission expenses	1,576	691	128%	Increase in trading activity.
Personal expenses	1,245	837	48%	Increase in business activity.
Marketing & advertising expenses	292	131	123%	Increase in promotional campaigns.
Other operating expenses	2,768	2,459	13%	
Earnings before amortisation	(1,246)	(1,396)	(10%)	
Amortisation	(2,384)	(2,340)	(0%)	Mostly due to the amortisation of Swipy Technology valued at €20m.
Profit before taxes	(3,631)	(3,736)	(3%)	
Net financial incomes (expenses)	(93)	(70)	(32%)	
Income (loss) before taxes	(3,724)	(3,806)	(2%)	
Income taxes	(173)	(84)	(106%)	
Net profit/(loss)	(3,897)	(3,890)	(0%)	
Intangible assets	17,413	19,164	(9%)	Most of the book value from the acquisition of Swipy Technology in 2015.
Other non-current assets	278	283	(2%)	
Total non-current assets	17,691	19,447	(9%)	
Trade receivables	1,743	195	794%	
Other current assets	1,058	1,087	(3%)	
Cash and cash equivalents	257	3,471	(93%)	Further fund-raising likely.
Total current assets	3,058	4,753	(36%)	
Total assets	20,749	24,200	(14%)	
Total non-current liabilities	107	214	(50%)	
Trade payables and other current liabilities	2,153	1,187	81%	
Convertible bonds	0	3,205	(100%)	Convertible bonds converted into 1,970,402 shares in March 2017.
Other current liabilities	2,326	5,011	(54%)	
Total current liabilities	4,479	9,403	(52%)	
Total liabilities	4,586	9,617	(52%)	
Shareholders' equity	16,162	14,583	11%	Convertible bonds converted into 1,970,402 shares in March 2017.
Cash flows from operating activities	(2,409)	(249)	(867%)	Mainly due to increase in trade receivables.
Cash flows from investing activities	(850)	(668)	(27%)	
Cash flows from financing activities	45	3,838	(99%)	Issue of convertible bonds for €3.24m in December 2016.

Source: The NAGA Group. Note: \*The acquisition of Hanseatic Brokerhouse Group (aka NAGA Market) is not yet completed.

## Issuance of NAGA Coins in Q417

On 27 October 2017, the company announced that up to \$220m of NAGA Coins will be issued to the public in an initial token sale (ITS) in Q417 by working with a third-party partner. NAGA will create a total of up to 400 million NAGA Coins, at \$1 per coin, and offer 55% of this to the public. The maximum number of issued tokens will not or cannot exceed the ceiling of 400m units, controlled by the built-in smart contract based on the Ethereum blockchain.

The funds raised from the public will not be consolidated into NAGA's balance sheet. The NAGA token-sale does not create any shareholdings. It will be a pure unit of account and therefore represents an extension of NAGA's product range. NAGA Coins will be accepted within the NAGA ecosystem. It is planned that the NAGA Coin will be traded under the ticker "NGC" on the world's major crypto exchanges.

The ITS will be performed by the third-party partner and Naga will charge licensing fees for the use of its software and/or will be reimbursed for development costs and other expenses.

The remaining 45% of the tokens will be held by the third-party partner. However, these tokens will be used inter alia to compensate the parties involved in the ITS process such as advisors. The proceeds from the token sale will be used for NAGA's business and technology development, marketing and advisory services. Furthermore, Naga hopes to directly benefit from any marketing performed by the token issuing entity, as the promotion of the Naga coin is directly targeted to fuel the SwipeStox and Switex user and revenue growth.

Buyers can purchase NAGA coins using other cryptocurrencies (such as Ethereum, Bitcoin, Litecoin) or with euros or US dollars via the NAGA Wallet from 20 November 2017. For this purpose, a bonus of 30% for the first 20 million tokens is awarded for seven days ("Pre-sale"), before a further 200 million tokens are sold ("Main-Token-Sale") from 1 December 2017 onwards.

## **New structure of the executive board**

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On 22 September 2017, the company announced a restructuring of the executive board. The board is now made up of three members without a chairman. The founder and previous chairman, Yasin Sebastian Qureshi, is now responsible for innovation, strategy and business analysis. Christoph Brück is the legal counsel and responsible for the SWITEX project. Former CTO, Benjamin Bilski, remains in charge of technology. Management indicates that the purpose of the reorganisation is mainly to share the responsibility of communication with Asia, predominately the Fosun Group. Before this, Mr Qureshi did the majority of travelling to the Far East.

## **Valuation**

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NAGA's share price has almost quadrupled since it listed on 10 July 2017. The company is currently valued at 24.3x EV/sales based on annualised H117 numbers of approximately €9m and 13.5x price/book based on H117 results (including €17.4m intangible assets).

The free float is limited, at 1m shares, or c 4.8% of the total shares outstanding. The remaining 20,008,048 shares are subject to a lock-up period of six months post IPO, and another six months unless the sale of shares is approved by Hauck & Aufhäuser Privatbankiers, the IPO underwriter and the designated sponsor.

Given NAGA's short operating history and blockchain focus, blockchain companies such as Digital X may be suitable comparators in the near term. These companies are still young, small in scale, not yet in profit and are often listed on exchanges with lighter regulatory burdens (such as OTC in the US). Fintech companies still in the ramp-up phase and not yet profitable may also be appropriate comparators.

**Exhibit 2: Publicly listed blockchain, online trading, fintech and mobile social media companies**

Company	Ticker	Geography	Business
Digital X	DCC:ASE	Australia	ICO advisory and blockchain consultancy
Bitcoin Services	BTSC:OTC US	US	Blockchain consultancy and implementation service
BTL Group	BTL:CN Venture	Canada	Blockchain consultancy service
IG Group	IGG:LN	Europe	Trading of CFDs/spread betting
CMC Markets	CMCX:LN	Europe	Trading of CFDs/FX/spread betting
Alpha FX Group	AFX:LN	UK	Currency trading, news commentary and market analysis
Cinnober Financial Technology	CINN:SS	Europe	Platform developers for financial transactions
Change Financial	CCA:ASE	Australia	Money transfers via mobile phones with Debit Mastercard
MyBucks	MBC:GR	Africa	Financial products/services to the low and middle-income consumers, predominantly in sub-Saharan Africa
Momo Inc	MOMO:NASDAQ	China	Mobile social media and gaming
YY Inc	YY:NASDAQ	China	Mobile social media, gaming and e-learning
GREE	3632:Tokyo	Japan	Social media, gaming, advertising and investment in start-ups

Source: Edison Investment Research

In the long term as NAGA continues to grow its revenue base, the valuation of online brokers (eg IG Group and CMC Markets), fintech companies (eg Cinnober Financial Technology), mobile social media and gaming apps (eg Momo and GREE) may provide good reference points.

**Exhibit 3: Peer group valuations**

	Market cap (m)	P/E (x)		EV/SALES (x)		EV/EBITDA (x)	
		2017e	2018e	2017e	2018e	2017e	2018e
IG Group	£2,320	13.1	13.7	3.8	3.8	8.3	8.6
CMC Markets	£406	12.4	13.0	2.4	2.4	7.4	7.7
Alpha FX Group	£161	32.4	26.8	11.8	9.6	23.6	19.4
<b>Trading &amp; investment advisory average</b>		<b>19.3</b>	<b>17.8</b>	<b>6.0</b>	<b>5.3</b>	<b>13.1</b>	<b>11.9</b>
Cinnober Financial Technology	SEK2,142	N/A	119.5	4.6	3.6	N/A	78.3
Change Financial	A\$46	N/A	N/A	13.7	2.6	N/A	N/A
MyBucks	€173	N/A	49.5	5.3	4.0	65.1	18.5
<b>Fintech companies in P2P and investments</b>		<b>N/A</b>	<b>84.5</b>	<b>7.9</b>	<b>3.4</b>	<b>65.1</b>	<b>18.5</b>
GREE	JPY189,446	21.2	17.9	1.3	1.2	6.3	5.2
Momo Inc	\$6,287	19.9	14.4	4.2	3.1	14.7	10.5
YY Inc	\$5,758	15.5	12.8	3.2	2.6	12.2	9.8
<b>Mobile social media &amp; gaming average</b>		<b>18.7</b>	<b>15.0</b>	<b>2.9</b>	<b>2.3</b>	<b>11.1</b>	<b>8.5</b>
		2016 P/E (x)		2016 EV/sales (x)		2016 Price/book (x)	
Bitcoin Services	\$29	N/A	N/A	173.3		128.3	
Digital X	A\$26	N/A	N/A	62.6		3.9	
BTL Group	C\$96	N/A	N/A	223.8		60	
<b>Blockchain companies average</b>		<b>N/A</b>	<b>N/A</b>	<b>153.2</b>		<b>64.1</b>	

Source: Bloomberg. Note: Prices as at 23 October 2017.

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