October 31st, 2022
Research report

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The NAGA Group AG

Stronger focus on profitability

Rating: Hold (prev.: Buy) | **Price:** 1.358 € | **Price target:** 3.40 € (prev.: 11.20 €)

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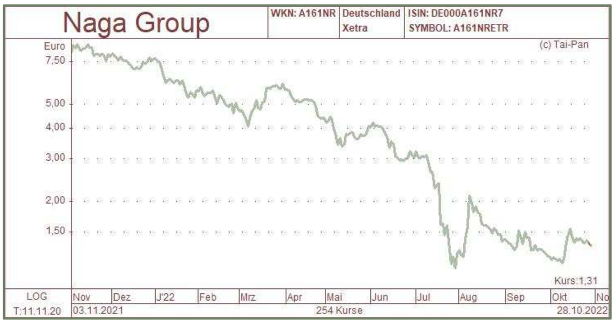


Basic data

Based in:	Hamburg
Sector:	FinTech
Headcount:	147 (2021)
Accounting:	IFRS
ISIN:	DE000A161NR7
Ticker:	N4G:GR
Price:	1.358 Euro
Market segment:	Basic Board
Number of shares:	54.0 m
Market Cap:	73.4 m Euro
Enterprise Value:	46.8 m Euro
Freefloat:	ca. 19.7 %
Price high/low (12 M):	8.91 / 1.01 Euro
Øturnover (Xetra 12 M):	190,900 Euro

Short profile

The Hamburg-based NAGA Group has positioned itself as an online broker and has its own securities trading bank based in Cyprus and licensed in the EU. At the heart of the business model is the NAGA Trader financial platform, which combines trading functionalities with elements of a social network. Community members can build a network of contacts, view the track record of other traders, and automatically copy the transactions of successful players.

In the last two years, the company has significantly expanded its range of products: While the NAGA Pay app offers banking services, the new NAGAX platform addresses the crypto market with a comprehensive trading and information offering. Thus, the NAGA's range is increasingly developing into a "one-stop shop" for the financial sector. Building on this progress, the international marketing of the solutions is currently being promoted. But in a difficult market environment, the management has also focused more strongly on profitability and is currently implementing measures to increase efficiency.

FY ends: 31.12.	2019	2020	2021	2022e	2023e	2024e
Sales (m Euro)	7.6	24.4	52.9	63.4	76.1	98.4
EBITDA (m Euro)	-9.2	4.5	-4.2	-2.7	2.2	9.1
Net profit	-12.0	-0.6	-10.1	-19.4	-6.5	-1.8
EpS	-0.31	0.03	0.05	-0.36	-0.12	-0.03
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	-52.7%	219.6%	117.1%	20.0%	20.0%	29.3%
Profit growth	-	-	-	-	-	-
PSR	9.63	3.01	1.39	1.16	0.96	0.75
PER	-	-	-	-	-	-
PCR	-	45.5	-	-	-	11.2
EV / EBITDA	-	10.4	-	-	21.8	5.2
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Executive Summary

- **Versatile financial platform**: NAGA has developed a versatile financial platform that allows users to invest in more than 1,000 markets and instruments through a single account. The spectrum ranges from CFDs and ETFs to equities, foreign currencies and cryptocurrencies. A central characteristic of the offer is the innovative social trading functionalities, which also stimulate customer acquisition and trading. NAGA handles transactions in the EU through its own Cyprus-based broker NAGA Markets, while its subsidiary Naga Global is responsible for business outside the EU.

- **Expansion of the range of services:** A central element of the expansion strategy in the last two years has been the expansion of the range of services. With the app NAGA Pay, the company now also offers various banking services, and the NAGAX platform, newly launched this year, offers a comprehensive trading and information service for the crypto market. Now, especially the expansion of the international marketing of these solutions is on the agenda. In the future, the software could also be made available to partners in return for licence fees as part of a SaaS model, which would enable acceleration of growth with comparatively low risks.

- **Market in consolidation phase:** After a strong boom in the aftermath of the Covid-19 crash, the significant drop in stock market prices this year and, most recently, also declining trading activities by investors have triggered a consolidation phase in the brokerage and FinTech market. The focus is now no longer one-sidedly on achieving the highest possible growth, but also on quickly reaching the break-even point. Neobroker Robinhood, for example, announced in August that it would cut 23 percent of its workforce to reduce its high operating losses.

- **Significant increases:** Last year, NAGA improved its revenues by 117 percent to EUR 52.9 m and generated an EBITDA deficit of EUR -4.2 m. Higher revenues and significantly positive EBITDA had actually been reported in advance, but auditors took issue with the accounting for crypto assets and with the capitalisation practice of marketing expenses to attract customers. As a result, the company will likely report a negative EBITDA again this year due to growth, and write-downs on crypto inventories (which amounted to EUR 11.2 m at the time the annual report was prepared) will also have a negative impact. However, revenues are expected to continue to rise; after eight months, revenues were 25 percent higher year-on-year at EUR 39.7 m.

- **Great recovery potential:** In a challenging market environment, it is currently difficult to achieve high growth rates, which is why the focus at NAGA has shifted more towards profitability. The management has initiated cost reductions and is currently working on further improving efficiency in marketing. Combined with continued international expansion, this should enable both further growth and the rapid crossing of the break-even point in cash flow. We see a good chance that NAGA will succeed in this and now derive a price target of EUR 3.40 from the extensively revised expansion model, which is far above the greatly reduced market price. For the time being, however, our rating is "Hold" until it becomes clearer whether NAGA can achieve its own growth targets (40 percent p.a.) and generate positive cash flows at the same time.

SWOT analysis

Strengths

- Experienced management team with high competence in FinTech and brokerage.
- Broadly positioned and well-engineered finance platform with high cross-selling potential and excellent scalability thanks to extensive automation.
- Successful growth strategy based on a large network of partners, progressive internationalisation and synergetic additions to the range of services.
- With the app NAGA Pay and the crypto platform NAGAX, the company has positioned itself strongly in two high-potential market segments over the past two years.
- Several renowned anchor shareholders.

Weaknesses

- Accounting problems and revised figures have led to reputational damage in the current year.
- High marketing expenses have so far caused a clearly negative free cash flow.
- Revenues and profitability depend heavily on trading activities, which in turn are determined by capital market developments, and the company has only limited influence on this.
- Very high proportion of intangible assets in the balance sheet (67.4 percent as at 31.12.21).
- As a FinTech provider, NAGA operates in a complex regulatory environment.
- Dependence on a small management team, especially founder Bilski.

Opportunities

- The network effect ensures that the platform becomes more and more attractive as the number of users increases.
- The new solutions NAGA Pay and NAGAX could provide a powerful stimulus to growth momentum, especially in the event of a turnaround on the capital market.
- By expanding its range of services, the company is diversifying its sources of income and thus creating a broader foundation.
- A further dynamic increase in revenues is likely to be associated with significant economies of scale and rising margins.
- Synergistic acquisitions could additionally support the expansion course.
- After a massive correction, the share has great recovery potential if the successful expansion can be continued.

Threats

- The difficult market environment could continue for longer and further intensify the competitive intensity in the brokerage market.
- The cash flow break-even could be reached later than expected, and further capital measures might then be necessary.
- Simultaneous expansion in several foreign markets creates increased complexity and numerous country-specific risks.
- If the brokerage business does not develop as planned, it can lead to considerable goodwill write-offs.
- Stricter regulation of FinTech could drive up costs or prevent individual business models altogether.
- In a highly dynamic market environment, NAGA could miss or misjudge important trends.

Profile

Innovative FinTech provider

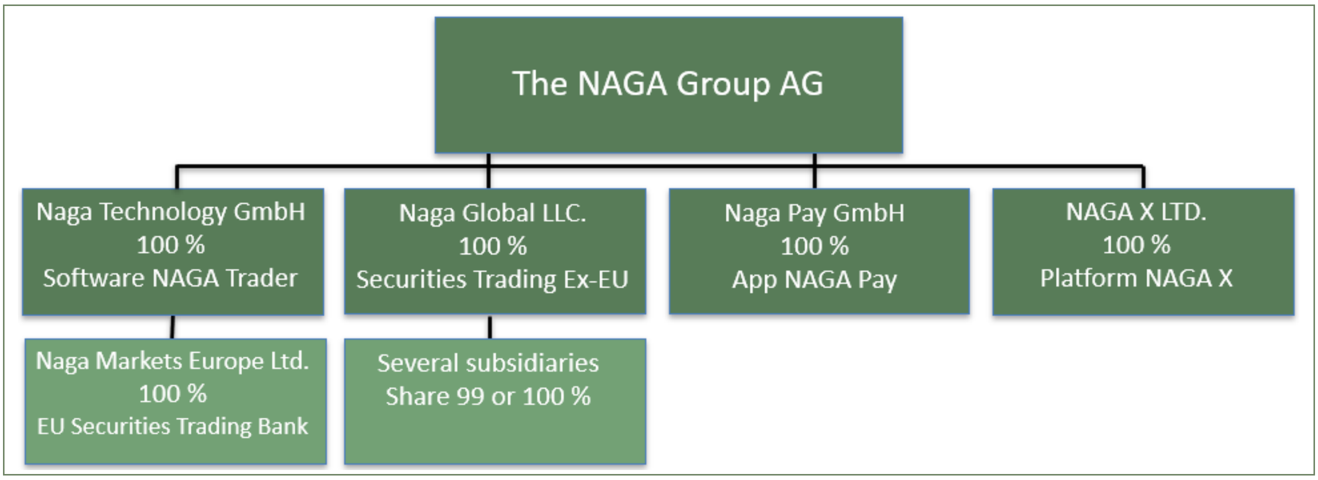
The NAGA Group AG, headquartered in Hamburg, was founded in October 2015 and listed on the stock exchange in July 2017; the share has been listed on the Basic Board of the Frankfurt Stock Exchange since October (it was previously listed on the Scale segment). The company has set itself the goal of developing new technologies for the financial industry − keyword financial technology, or FinTech for short − and replacing traditional practices and business models with their market launch. At the centre of the activities is the innovative financial platform NAGA Trader, which combines a variety of financial services in a single app and thus has a strong unique selling point. The focus is on online brokerage for various asset classes and markets. Accordingly, the company generates revenues mainly from trading income and transaction fees.

Own securities trading bank

The transactions in the EU are processed via the company's own broker NAGA Markets. The wholly owned subsidiary, based in Cyprus, is the main operating entity and holds the necessary European securities trading bank licence from the Cypriot regulators. The brokerage business outside the EU is the responsibility of the wholly owned subsidiary Naga Global LLC. which in turn has several subsidiaries (NAGA GLOBAL (CY) Ltd., NAGA Global West Africa Ltd. and NAGA FINTECH CO. Ltd.), which among other things set up training centres in important foreign markets or provide support in customer acquisition. In addition, the company has founded two subsidiaries for central expansion projects: While NAGA Pay GmbH has developed the app of the same name and launched it on the market, NAGA X Ltd. is responsible for the majority of activities in the crypto sector (see chapter Strategy). An overview of NAGA's main active operating companies is shown in the chart at the bottom of this page. For a complete overview of all subsidiaries, please refer to the annual report.

Wide range of trading functionalities

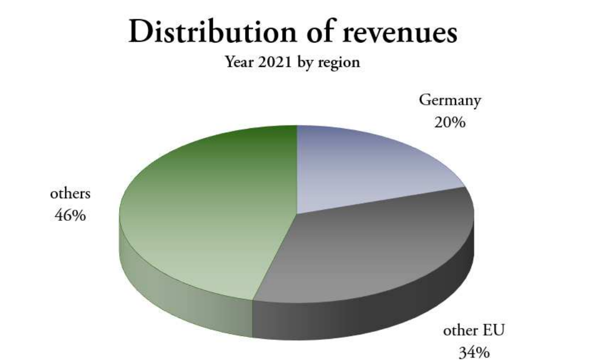
The NAGA Trader financial platform has been gradually expanded in recent years and now covers a wide range of trading functionalities. A single account can be used to invest in more than 1,000 instruments and markets. The trading universe includes in particular CFDs, shares, ETFs, foreign currencies and cryptocurrencies. NAGA has positioned itself in this business as a discount broker with favourable conditions and, as a pure online provider, does not have traditional branch offices. Accordingly, a high value is



NAGA's main active subsidiaries; source: Company placed on technical functionalities. The standard includes very fast order execution, the possibility of use via various channels (smartphones, web browsers or special trading software such as MetaTrader) or free trading signals.

Focus on social trading

A special feature of NAGA Trader is the combination of the extensive trading functionalities with elements of a social network. On the platform, users can build an extensive network of contacts, view the track record of other traders and automatically copy the transactions of successful players. This offer has met with a strong response: In 2021, the total number of copied transactions was already over 4.8 m, an increase of more than 180 percent on the previous year. In total, NAGA handled more than 10 m transactions last year, generating brokerage revenues of EUR 48.8 m. In addition, there were revenues from proprietary trading with the NAGA Coin (EUR 4.1 m), so that the company achieved total revenues of EUR 52.9 m. Approximately 20 percent of this revenue was generated with customers from Germany and 34 percent with customers from other EU markets, so that 46 percent of the revenues were already generated outside the EU.



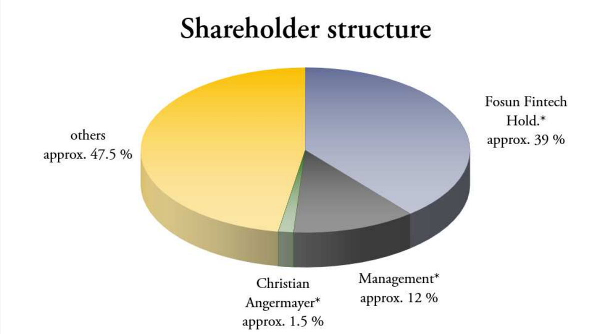
Source: company

Own software

The nucleus of NAGA's financial platform is the company's own software, which was introduced with Swipy Technology GmbH (today: Naga Technology GmbH) in May 2016. The software was co-developed by NAGA co-founder Benjamin Bilski, who holds the position of CEO on the company's three-member board. The team is completed by Andreas Luecke as Head of Legal and Michalis Mylonas, who is responsible for regulatory affairs and finance and also acts as CEO of NAGA Markets.

Fosun largest shareholder

The management holds a substantial portion of the NAGA shares, approx. 12 percent. The largest shareholder is Fosun Fintech Holdings, an offshoot of the Chinese industrial and financial conglomerate Fosun, with around 39 percent (incl. affiliated shareholders). Last year, NAGA carried out two major capital increases, in which the well-known entrepreneur Christian Angermayer also participated. He holds approximately 1.5 percent of the outstanding shares; further shares are held by investment vehicles initiated by him. The company puts the current free float at around 19.7 percent.



*At 31.12.21. *Including shares of related companies or affiliated shareholders; Source: company*

Strategy

Comprehensive range of services

NAGA's original strategy was to build a comprehensive platform that offers customers easy access (via one account) to various services in the areas of trading, investment, cryptocurrencies, games, payment and training. However, the very broad approach turned out to be too ambitious, so that in 2019 the company shifted the focus to the core functionalities; in this context, among other things, the development of a trading platform for in-game items was put on hold. Since then, trading and online brokerage clearly took centre stage, although the basic idea of making numerous (financial) services accessible via a uniform platform remains in place, and highly synergetic areas, such as payment functionalities, are still being newly developed.

Positioning as a neo bank

The NAGA Pay app was introduced to the market in 2020 to tap into new customer segments and was extensively revised and relaunched again last year. Together with its partner Contis Ltd., a provider of a banking-as-a-service platform, NAGA offers various banking services here. The range of services includes an IBAN account, the possibility of payment transfers and the use of a VISA credit card. Especially innovative is the option available since September to specify in the app whether the amount is to be debited from the cash balance (fiat) or from crypto assets when making purchases with the credit card. The trading functionalities developed by NAGA can also be used from the app.

Crypto market as a focus for expansion

The expansion of trading functionalities and possible applications for crypto assets is another important focus of the strategy. For this purpose, the company has developed the new platform NAGAX, which uses a licence from Estonia, was introduced to the market last March and combines in the usual form trading functionalities with the information range of a social network. However, NAGAX's range of services goes well beyond this: In addition to a spot market with more than 50 coins and a wallet for cryptocurrencies, the platform also offers crypto derivatives with leverage, staking options and the generation and trading of non-fungible tokens (NFTs). The solution is the result of the company's extensive experience over the past few years following the issuance of its own token in 2017. The token placement, as well as the market development so far, had been done together with a partner, the NAGA Development Association Ltd. (NDAL), which was responsible for the operation of the NAGA wallet and crypto exchange before the development of NAGAX. NAGA AG acquired the customer base built up in the course of this from NDAL last year and migrated it to its own new platform.

R&D as a core competence

With NAGAX, the company has once again demonstrated its innovative strength − research & development has been part of NAGA's core DNA since its founding, with blockchain and crypto being a development focus from the very beginning. But the core offering NAGA Trader is also constantly being expanded and improved. Last year alone, the company reportedly released more than 100 new features. The high effort that NAGA puts into this is also reflected in the figures: In the 2021 financial period, a total of around EUR 3.5 m was spent on R&D, which corresponded to 6.6 percent of the revenues generated.

Expansion of the network

For a steady expansion of the information offered, NAGA has already launched the NAGA Popular Investors, NPI, programme in 2020 (the original name was NAGA Pro), which offers traders and similar market players a traffic-strong platform for the presentation of their activities. If a provider meets the criteria defined by NAGA for acceptance as an NPI partner, the company offers the provider a monthly basic remuneration as well as access to a comprehensive service package, which includes privileged access to the large community and the use of numerous tools (trading tools, messenger, copy function, webinar system, etc.). For partners, this programme offers the opportunity to reduce customer acquisition costs and overhead costs by relying on an established platform with a large user base. NAGA, on the other hand, benefits from these "digital influencers" in the form of a cost-effective expansion of content and a stimulation of trading activities.

Further internationalisation

International expansion is another pillar of the growth strategy. NAGA primarily targets markets outside the EU, which are less saturated and often also characterised by more liberal regulation of financial services. To support these global activities, the company applied for and received a Seychelles brokerage licence in October this year. NAGA now serves customers from more than 100 countries and the platform is already available in 14 languages. The company is supporting its international expansion with the establishment of local branches, so far in Thailand and Nigeria, and has already submitted licence applications for other countries (including Australia). By expanding its local presence in promising markets, NAGA wants to strengthen customer proximity and ultimately enable dynamic growth with lower customer acquisition costs. To this end, suitable local partners are also to be involved.

Software-as-a-Service

According to a report from October, such a partnership is emerging for the Brazilian market. Subsidiary NAGA X has signed a memorandum of understanding with Guide Investimentos, part of the FOSUN Group, which operates one of the largest digital asset management platforms in the country, to build a crypto trading platform in a joint venture. The exact structure of the collaboration is still open, but it is planned that the JV will be a first use case for the software-as-a-service model developed by NAGA. In this model, NAGA offers its own platforms on a white-label basis in return for licence fees and thus aims to accelerate the development of further countries and to increase and diversify revenues – with a comparatively low own risk. Partners have access to the content and trading signals generated by the growing community but retain access to their clients and trading flow.

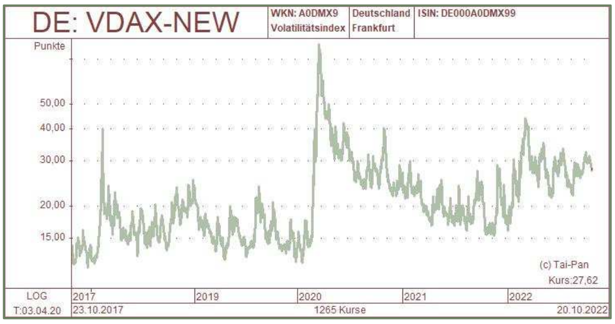
Acquisitions possible

In addition to partnerships, NAGA is looking at suitable acquisitions to support its international expansion. The current focus is on the British market, from which the company withdrew for the time being at the end of last year for licensing reasons. In general, management considers the European and Southeast Asian markets to be interesting regions for potential acquisitions.

Market environment

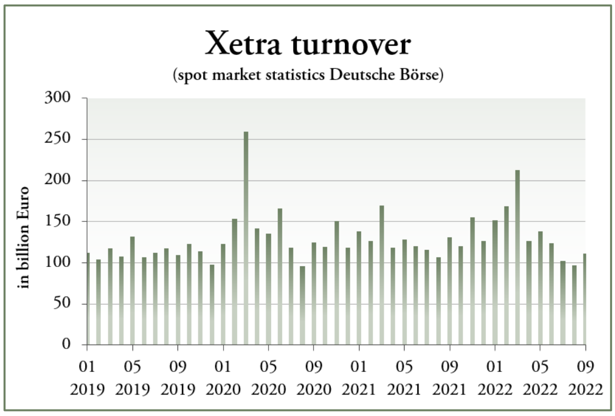
Volatility as a driver

NAGA's revenues are primarily derived from online brokerage and thus depends on the trading activities of customers, which in turn are strongly determined by price fluctuations on the markets. The higher the volatility on the capital market, the greater the volume of orders, usually. In the last two years, two major events have triggered phases of above-average volatility: First, the onset of the global Covid-19 pandemic in January/February 2020 and then Russia's invasion of Ukraine in February of this year (see the following figure).



Opposing effects

These events had a strong impact on investors' trading activities, as can be seen, for example, from Deutsche Börse's Xetra turnover statistics (see figure below). For example, Xetra turnover in March 2020 was 120 percent higher than the previous year's level at around EUR 260 billion, and the volume of EUR 212 billion in March 2022 again represented an increase of 25 percent on the previous period's reference value (EUR 169 billion). Overall, volatility has been fairly high throughout 2020, as illustrated by the VDAX. The year 2021 has been much calmer, so that Xetra turnover on a twelve-month basis was EUR 1.55 trillion, around 9 percent below the previous year's figure. The first half of 2022 saw at first significant increases again, but the volatility effect was increasingly outweighed by an opposing influencing factor: When prices fall significantly, investors' trading activities tend to decline, and lower prices also depress the volume of turnover. As a result, Xetra turnover in July 2022 was down year-on-year for the first time (-11.6 percent), and in September the decline even amounted to -15.3 percent.



Source: Deutsche Börse

Crypto market: Sharp correction

The market for crypto assets has also been very strongly affected by the consolidation trend in the last twelve months. According to CoinMarketCap, the global market capitalisation of cryptocurrencies initially rose from EUR 771 billion at the end of 2020 to just under EUR 3 trillion at its peak in November last year, only to shrink again to around EUR 930 billion by October 2022. Many so-called small cap coins have recorded losses in the high double-digit percentage range during this period.

CFDs: Two strong years

The overall market trends were also clearly felt in NAGA's most important market segment, the trade in Contracts for Differences (CFDs). Following a downward trend established over several years with a declining trading volume in Germany, which was exacerbated in 2018 by a tightening of regulation at the European level, the Covid-19 crash in 2020 and the dynamic market recovery later in the year led to an explosive increase in revenues of 95 percent to EUR 2.09 trillion. The number of transactions even increased by 110 percent to 91.9 million in the first pandemic year, and CFD accounts grew by 32 percent to around 261,000. In principle, this positive trend has continued in 2021, but no longer for all key figures. The continued market recovery led to a further increase in trading volume by 10 percent to 2.3 trillion. However, the overall slowdown in market activity (see VDAX) caused a decline in the number of transactions by 22 percent to EUR 71.8 m. Nevertheless, the number of accounts has continued to increase, by around 12 percent to just under 292,000 (data source: CFIN /CFD Association). The start of the year 2022 has also been positive, with a new CFD record trade volume of EUR 636.9 billion. Subsequently, however, the bearish trend on the markets may have depressed revenues − at least that is what the current figures of major suppliers suggest (see the following paragraph).

Source: CFIN/CFD-Organisation

Provider revenues fluctuate

The fluctuating market development is also reflected in a similar way in the business figures of the major providers in the CFD market. After a weak 2019, the listed European industry heavyweights IG Group, Plus500 and CMC Markets saw their revenues increase by rates ranging from 31 percent (IG) to 146 percent (Plus500) in 2020 (or in the case of IG and CMC, the 2020/21 financial year). The market slowdown in the following year then led to a decline in revenues of 18 and 29 percent respectively for Plus500 and CMC, while IG was still able to achieve growth of 14 percent even in 2021. In view of the bearish trend on the markets, providers are currently still finding it difficult to generate significant growth. While the IG Group was able to increase revenues by 11 percent in the first quarter of the financial year 2022/23 (as at end of August), Plus500 had to accept an 8 percent decline in revenues in the third quarter of 2022 (as at end of September) (CMC has not yet provided quarterly figures). It is particularly noteworthy that the number of active Plus500 customers has fallen by 19 percent to around 135,000 within a year (source for all figures: companies' reporting).

Trading activities decline

The business figures of the listed German online brokers are also currently showing clear cyclical influences. The FlatexDEGIRO group had been able to increase the number of transactions by 138.7 percent to 75.0 million in 2020 (on a pro forma basis after the acquisition of DEGIRO) and then by a further 21 percent to 91 million in the subsequent period. In the third quarter of the current business year, however, the volume of 15.3 million was 16 percent below the previous year's figure. The figures published by Smartbroker Holding AG also show declining customer activity: Annualised trades per account have already declined to 22 in the first half of 2022, down from 29 in 2021 (source: companies' reporting).

Profitability moves more into focus

Market developments are also putting pressure on the neo-brokers, the shooting stars of the last few years. In August, industry pioneer Robinhood reported a 44 percent year-on-year decline in revenues to USD 318 m for the second quarter of the current financial year. Although the loss was significantly reduced within a year, at USD -295 m, it was almost at the same level as the revenues. The considerably diminished refinancing possibilities in the market and the poor performance of the share, which has now lost three quarters of its value compared to the IPO price, are now forcing drastic steps. In the wake of the figures, the company announced that it would reduce its workforce by 23 percent. This is exemplary for a change of course in the industry. In response to the changed conditions, the focus is no longer on achieving the highest possible growth, but rather on reaching the break-even point.

IPO of eToro cancelled

In the market for social trading, the gloom on the capital market has also left clear traces − not only in the operating results, but also in the valuation of the companies. In March last year, NAGA competitor eToro had agreed an IPO via a reverse subsidiary merger with listed special purpose acquisition company (SPAC for short) FinTech Acquisition Corp V. The transaction was valued at USD 10 billion, nearly 10 times the net revenues expected in 2022. Although eToro continued to develop positively in operating terms following the agreement − according to the company, the number of registered users increased from 17.5 to 26.9 million last year and there was even an increase of more than 100 percent in customer accounts from 1.0 to 2.4 million − the transaction was no longer feasible within the targeted parameters. This finally led to the cancellation of the project at the beginning of July this year.

Financials

Considerable acceleration

The focus of activities on the core areas, the intensification of marketing and the expedited international expansion have already led to a considerable acceleration of business development in 2020, which has been adequately reflected in all important KPIs (Key Performance Indicators). Thus, the company was able to increase the number of transactions processed by 117 percent to 6.3 million, resulting in a trading volume that roughly tripled from EUR 41 to 120 billion. An important driver of this positive development was the copy function, increasingly used by customers, which led to an increase in copied transactions of over 142 percent to 1.7 million. As a result, trading revenues from the brokerage business were multiplied from EUR 5.6 m to EUR 24.3 m in 2020. Including minor revenues from services (EUR 94,000, previous year: EUR 2.0 m), consolidated revenues of EUR 24.4 m were achieved, corresponding to an increase of 220 percent compared to the previous year.

Capitalisation of marketing expenses in 2020 retroactively reduced

Originally, the company also reported an improvement in EBITDA for 2020 from EUR -9.2 m to EUR 6.6 m and in net income (after minority interests) from EUR -12.0 m to EUR 1.3 m. For the first time, a significant amount of expenses attributable to directly acquired customers was capitalised in the process. In part, however, this was also done for existing customer relationships, which the auditors criticised during the audit of the 2021 annual financial statements. As a result, the company has retroactively adjusted the expense and earnings figures for 2020. The increase in marketing expenses by EUR 2.1 m (and the associated reduction in capitalisations) led to slightly lower depreciation (reduction by EUR 0.2 m) and, on balance, to a lower EBITDA of EUR 4.5 m, resulting in a new net result after minority interests of EUR -0.6 m.

Correction of preliminary figures for 2021

For 2021, NAGA had reported a 126 percent increase in revenues to EUR 55.3 m and an EBITDA of EUR 12.8 m on a preliminary basis in January of this year. These figures had to be revised with the audit. On the one hand, the auditors did not see a sufficient basis for a capitalisation for a substantial part of the expenses in "affiliate marketing", which is why the investments (and the resulting intangible assets) were reduced by the volume in question and the marketing expenses were increased accordingly. Secondly, the auditors have required a different accounting treatment for the NAGA Coin (NGC) trade and the resulting inventories. This relates to the recognition of unrealised profits from price increases, which was not accepted by the auditors. Instead, the inventories were valued at amortised cost (instead of year-end market value), which reduced EBITDA.

Brokerage revenues doubled

However, the impact of the change in the recognition of part of the revenues from the sale of NAGA Coins on group revenues in 2021 was not particularly large; after this correction, revenues still amounted to EUR 52.9 m, resulting in a growth of 117 percent compared to the previous year. Of this, EUR 4.1 m came from the sale of NGC and EUR 48.8 m from the traditional brokerage business, which means that revenues in this area doubled compared to the previous year. This was accompanied by further strong increases in the central KPIs. The company was able to increase the number of real money transactions by 60 percent to over 10 million, of which more than 4.8 million were due to copied trades. The increased trading activities led to a clearly disproportionately high growth in trading volume, which more than doubled to over EUR 250 billion. The number of new registrations on the NAGA platforms has also increased by more than 100 percent compared to the previous year, rising from 122,000 to 277,000.

Business figures	**2020**	**2021**	***Change***
Revenues	24.4	52.9	*+117%*
- Brokerage	*24.3*	*48.8*	*+101%*
- NGC trading	*0.0*	*4.1*	*-*
- Services	*0.1*	*0.0*	*-100%*
EBITDA	4.5	-4.2	-
EBIT	0.9	-9.5	-
Net profit	-0.6	-10.1	-

In m Euro and percent; source: Company

EBITDA clearly negative

The impact of the necessary changes in accounting practice on the result was more serious. The elimination of part of the unrealised profits and the significantly lower volume of capitalisations (both compared to the figures calculated in advance) meant that the reported EBITDA was ultimately clearly negative at EUR -4.2 m. The main reason for this was the sharp increase in marketing and advertising expenses from EUR 8.7 m to EUR 32.5 m. But there were also significant increases in all other important operating cost categories, due to the strong growth. Personnel expenses rose from EUR 4.1 m to EUR 8.0 m and development expenses from EUR 2.5 m to EUR 3.5 m, while other operating expenses increased from EUR 4.5 m to EUR 8.0 m. Finally, the trading costs and direct expenses of trading revenues, which reflect the acquisition costs of NGCs sold from current assets, transaction costs as well as costs for trading platforms and the hedging of high-risk trades, added up to EUR 8.5 m (previous year: EUR 3.5 m).

High loss

As a result of the capitalisation of customer acquisition and development costs, depreciation and amortisation also increased significantly, from EUR 3.4 to 5.3 m, which is why in 2021, the deficit in EBIT of EUR -9.5 m (previous year: EUR +0.9 m) turned out to be even significantly higher than in EBITDA. On balance, this led to a net profit for the year of EUR -10.1 m (previous year: EUR -0.6 Mio) with a negative financial result (EUR -1.7 m), a positive tax result due to deferred taxes (EUR +0.5 m) and a minority interest of EUR -0.7 m.

Capital increases cover high outflows

The earnings situation is also reflected in the cash flow, with a cash outflow of EUR -12.9 m from operating business in 2021 (previous year: EUR +1.6 m). The investment cash flow is also clearly negative at EUR -41.6 m (previous year EUR -5.2 m), although in addition to the outflows for investments in intangible assets (acquisition of new customers, expansion of the NGC portfolio), EUR 27.1 m are also attributable to the purchase of money market fund shares, which means that a substantial part of the liquidity was invested in the short term. The high level of liquidity resulted primarily from the execution of two capital increases in the last financial period (with a cumulative net volume of EUR 53.6 m) and the placement of convertible bonds to the investor Yorkville (net inflow of EUR 7.6 m), which was largely responsible for the inflow from financing activities in the amount of EUR 57.8 m. Overall, reported group liquidity increased from EUR 5.2 m to EUR 8.6 m over the course of the year, with money market fund shares to be added here.

Equity ratio: 92 percent

Despite the high net loss for the year, the capital increases carried out and the complete conversion of all outstanding convertible bonds led to an increase in equity from EUR 110.1 m to EUR 163.1 m. With a simultaneous significant decrease in liabilities and provisions from EUR 18.0 to 14.3 m, the equity ratio increased from 85.9 to 92.0 percent and is thus at a very high level. On the assets side, the balance sheet total continues to be largely attributable to intangible assets (EUR 119.6 m) and here above all to goodwill (EUR 94.9 m).

Extensive depreciation in 2022

Intangible assets on the balance sheet date also included a portion of the NAGA Coins held. In total, crypto assets amounting to EUR 7.1 m were reported under fixed assets. Further crypto holdings with a balance sheet value of EUR 3.9 m were included in current assets. The slump in the crypto market in the current year and the resulting sharp fall in the NGC price will lead to considerable write-downs in the current year. In the annual report, the company put these at a total of EUR 8.0 m for the fixed and current assets existing at the beginning of the year; in addition, impairments of EUR 3.2 m will be incurred on inventories built up in the first half of the year. By the end of the financial year, management expects a slight recovery in the NGC price and consequently does not anticipate any further write-downs.

New forecast

The devaluation will significantly burden the company's half-year result. The operating business, on the other hand, has developed favourably so far this year, even if the revenue target range originally issued for the year − the management had formulated a revenue target of EUR 95 to 105 m for 2022 in November last year (albeit on the basis of the previous accounting practice for trading with NGC) − will no longer be achievable due to the slump on the crypto market. Although no revenue from the crypto business has been factored in for the time being, NAGA expects to exceed the previous year's revenue. However, EBITDA will be negative, which is due not only to the market impact but also to the change in accounting with regard to the capitalisation of marketing expenses. The forecast from November last year, on the other hand, had envisaged a positive EBITDA of EUR 25 to 30 m.

Focus on profitability

Due to the changed market situation, which has shifted the focus on the capital market away from a pronounced growth fixation towards profitability and cash flows, and the generally more difficult framework conditions in the trading business, the company is working intensively on reducing operating costs and increasing marketing efficiency. With the annual report, the company was already able to report that it had succeeded in reducing monthly costs by 30 percent in the current year. In September, NAGA thus achieved the best monthly result in the company's history with a positive operating cash flow of over EUR 1 m. Significant progress has also been made in marketing, which has been reflected in a 40 percent reduction in customer acquisition costs. At the same time, the response to NAGA's offering remains high, with 50,000 new registrations on the platform in July and August alone.

Temporarily lower dynamics

Nevertheless, the company has to pay tribute to the gloom in the environment and to reduced advertising spending, which is currently reflected in declining revenues from quarter to quarter. While revenues in the first three months had been 54 percent above the previous year's figure at around EUR 18 m, and growth of 46 percent to EUR 15.5 m was still reported for the second quarter, cumulative revenues in July and August were 34 percent below the 2021 reference figure at EUR 6.2 m. Added up over the eight-month period, however, NAGA still increased revenues by 25 percent to EUR 39.7 m.

Equity story

Range of services expanded

NAGA has recently made large investments to expand the portfolio of services offered in the financial sector. The progress made with this is remarkable. Not only does the company now have a social trading system with a wide range of functionalities, which is also an excellent tool for stimulating and expanding the online brokerage business, but new platforms with banking functions and for trading and custody of crypto assets have been introduced as well. The company has thus tapped into two new market segments with great potential and has taken a major step towards its goal of offering customers access to a broad range of financial services via a single account, thus becoming a "one-stop shop" in the financial market.

Comfortable liquidity

Last year, capital market developments still provided a strong tailwind for the implementation of the plans, which the company used with three major placements (convertible bonds and two share issues) with a cash inflow of more than EUR 60 m. By now, the market trend has clearly reversed, and the crypto segment addressed by the new NAGAX platform has suffered particularly badly. This has made it much more difficult to achieve high growth rates, and the overall focus in the FinTech sector has shifted towards profitability. NAGA's management has reacted to this and initiated significant cost reductions. Although some of the liquid assets have been lost due to losses in the value of crypto assets, the liquidity position should still be comfortable enough to provide sufficient scope for implementing the necessary course towards profitable growth.

Efficiency pressure as an opportunity

It is said that in every crisis, there is also an opportunity, and with regard to NAGA, this is likely to consist in the fact that very careful consideration is now being given to which marketing measures offer the highest added value. In general, we are confident that the company can significantly increase efficiency once again, as the backbone of the platforms − a large community in the financial sector that independently generates the necessary content − offers a strong basis for marketing measures. As the number of users continues to grow, the company benefits from the classic network effect − the more participants the social community has, the more attractive it becomes for new customers.

International expansion

This basis should also facilitate further international expansion. To this end, the company is increasingly addressing markets in which regulation is less restrictive than in the EU and competition is not yet as intense. Currently, there are already signs of entry into the Brazilian market. The company has found a strong local partner with whom to build a crypto platform. The cooperation is not yet binding, and it also has to be clarified whether NAGA will make its own solutions available as part of a software-as-a-service agreement in return for a licence fee. The management sees this construct as a promising and comparatively low-risk way to grow faster internationally. According to the company, there are already parties from two other countries that are interested in the SaaS model.

High leverage

If the international marketing of the company's own solutions is successfully expanded, high economies of scale are possible. The platforms already offer a wide range of functions and are available in many different languages (14 in total), so that transferring them to new countries should involve comparatively manageable effort. Additional revenues − especially in the form of licence fees − are therefore likely to be very high in margins. A turnaround in the capital market is also likely to have a high leverage effect on NAGA's results. If the investors were to increase their trading activities again and also exploit the potential of NAGA's significantly expanded range of services to a greater extent, this would probably also be associated with a strong increase in revenues, which would only be offset by costs increasing at a significantly lower rate.

Momentum could turn again

The decline in investor trading activity in a difficult capital market environment and the slump in crypto assets had already put the NAGA share under heavy pressure in the current year. The accounting problems then caused a downright sell-off in July. Naturally, the management must now first gradually regain the confidence of investors. However, should the expansion strategy take effect and further growth lead relatively quickly to sustainably positive cash flows, the share is likely to be revalued on the market. Starting from the lower level, such a scenario would undoubtedly offer high price opportunities.

DCF valuation

Transition year 2022

The year 2022 is a turning point for the capital market; for the first time in a long time, a major recession is looming, which, in combination with significantly rising interest rates, has triggered a sustained decline in share prices on the stock market. The crypto market is particularly affected by this, as it is characterised by high volatility due to its still young history and the sometimes very speculative nature of the assets. It will therefore take time for the investments that NAGA has made in building the crypto trading platform NAGAX to pay off. Since the expected revenues have not materialised for the time being and, in addition, investor trading activities have generally declined significantly over the course of the year, the company has had to withdraw its revenue forecast, but still aims to increase revenues for the entire year compared to the previous year. However, EBITDA will still be negative, and the net result is likely to be significantly burdened by write-downs on crypto assets.

Update of estimates

In our last update on NAGA in April, we still expected the company to achieve revenues at the lower end of the revenue forecast issued at that time (EUR 95 to 105 m), but we had also expected very high (capitalisable) expenses for customer acquisition for the current year (which would thus have only proportionately burdened EBITDA via depreciation). The limits for this accounting practice were set much tighter by the auditors during the audit for 2021 than was previously the practice in NAGA's reporting, so that the expenses are now a direct burden to a greater extent. In addition, in the difficult market environment, there was a stronger focus away from the pronounced emphasis on high growth towards quickly reaching the break-even point. This will dampen revenue development in the current year, but from 2023 onwards it may become clearly visible in the results. For the current year, we now expect revenues of EUR 63.4 m (+20 percent), EBITDA of EUR -2.7 m and net income of EUR -19.4 m (due to high write-downs on crypto inventories).

High growth targeted

The company is currently working on increasing marketing efficiency and is also pushing ahead with internationalisation, which could be accelerated with partnerships (currently for Brazil, for example), with the SaaS model and possibly also with suitable acquisitions. We assume that the process will be pursued in a very cost-conscious manner in order to reach the cash flow break-even as quickly as possible, yet the company is still confident of significant gains in market share and thus of high revenue growth. The annual report states that the management expects growth in the core business of 40 per cent p.a. in the detailed forecast period (which covers the next four years).

Peak growth of 35 percent

In our revised estimation model, we calculate somewhat more cautiously and have initially − in view of the possible continuation of difficult economic conditions − "only" assumed an increase in revenues of 20 percent for the next year. We then allow the rate of increase to rise to 35 percent by 2025 as part of further penetration of markets outside the EU and then, due to the growing baseline and as part of a conservative approach, let it fall back to 5 percent by the end of the detailed forecast period.

EBITDA break-even in 2023

To achieve this growth, the company will have to make further high investments in customer acquisition. The annual report states that NAGA currently expects costs of EUR 63 to 96, depending on the region, to gain a new user for the platforms. We calculate with the average and have also assumed that efficiency increases and the development of markets with lower competitive intensity will allow a moderate reduction in the next three years (until costs rise again from 2025 onwards, as expected). Overall, however, we expect the costs increase to be disproportionately low over time, enabling break-even on an EBITDA basis as early as 2023 and finally a positive net result in 2025. Subsequently, further growth should be accompanied by significantly increasing margins due to the excellent scalability of the platform business. At the end of the detailed forecast period in 2029, we are therefore confident that the company can achieve a target EBIT margin of 19.4 percent, resulting in EBIT of EUR 41.5 m.

No further dilution

We assume that the results are achievable without a further share issue, as we believe that the current liquidity position offers sufficient scope for this. The company could raise further equity capital in the future. But this could then be used to accelerate the growth process, for example in the form of takeovers, which we have not yet taken into account in our model.

Margin discount for terminal value

The table at the bottom of this page shows the development of the key cash flow figures resulting from these assumptions in the detailed forecast period until 2029. Further details on the balance sheet, income statement and cash flow statement can be found in the Annex. To determine the terminal value, we continue to apply a safety margin of 25 percent to the EBIT margin at the end of the detailed forecast period and subsequently assume a "perpetual" cash flow growth rate of 1.0 percent p.a.

Discount rate 8.4 percent

We discount the free cash flows resulting from these assumptions with WACC (Weighted Average Cost of Capital) at an interest rate on borrowed capital of 6.0 percent. The cost of equity is determined using the Capital Asset Pricing Model (CAPM). Our risk-free interest rate is – at 1.5 percent – the long-term average of the German current yield and for the market risk premium we use the average value for Germany, which is currently 5.8 percent (source: Survey: Market Risk Premium and Risk-Free Rate used for 81 countries in 2020). In combination with a beta of 1.5, a target debt ratio of 30 percent and a tax rate for the

m Euro	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029
Sales	63.4	76.1	98.4	133.3	166.4	188.5	203.9	214.2
Sales growth		20.0%	29.3%	35.5%	24.8%	13.3%	8.2%	5.1%
EBITDA	**-2.7**	**2.2**	**9.1**	**18.5**	**29.6**	**37.4**	**44.8**	**47.4**
EBIT	-20.4	-9.3	-2.5	6.5	16.9	27.6	37.0	41.5
Tax rate	0.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Adjusted tax payments	0.0	-2.8	-0.8	2.0	5.1	8.3	11.1	12.5
NOPAT	**-20.4**	**-6.5**	**-1.8**	**4.6**	**11.8**	**19.3**	**25.9**	**29.1**
+ Depreciation & Amortisation	17.8	11.5	11.6	12.0	12.7	9.9	7.8	5.9
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	-2.7	5.0	9.8	16.6	24.6	29.2	33.7	35.0
- Increase Net Working Capital	-7.6	-5.4	-3.2	-3.3	-2.5	-0.9	1.0	1.1
- Investments in fixed assets	-10.9	-12.5	-12.8	-12.1	-10.1	-8.0	-5.9	-4.4
Free cash flow	**-21.2**	**-13.0**	**-6.2**	**1.2**	**11.9**	**20.2**	**28.8**	**31.6**

SMC estimation model

tax shield of 30 percent, this results in a WACC rate of 8.4 percent.

Price target: EUR 3.40 per share

In our preferred scenario (WACC of 8.4 percent and perpetual growth of 1.0 percent), our assumptions result in a market value of equity of EUR 184.1 m. Converted to the current number of shares (54 million), this results in a fair value per share of EUR 3.41, from which we derive EUR 3.40 as a new price target. The sharp reduction compared to our last estimate from April (EUR 11.20) is due to the comprehensive revision of the expansion model, with which we have taken into account the potentially difficult framework conditions for a longer period of time and the stronger focus on achieving the cash flow break-even quickly (at the expense of the pace of growth). Compared to the massive drop in the share price, there is thus nevertheless a high recovery potential for the share.

High estimation risk

In addition to the fundamental fair value calculation, we assess the estimation risk on a scale from 1 (very low) to 6 (very high). NAGA Group has a modular, versatile software platform and an established foothold in the brokerage market. However, the current year has also made it clear that capital market developments are a strong determinant of business development that is difficult to predict. Moreover, the future success of the new offers NAGA Pay and NAGAX is still difficult to assess. In sum, we see a clearly above-average forecast risk, which we express with 5 points.

Sensitivity analysis	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
7.4%	4.88	4.50	4.18	3.91	3.67
7.9%	4.34	4.03	3.77	3.54	3.34
8.4%	3.88	3.63	**3.41**	3.21	3.05
8.9%	3.49	3.28	3.09	2.93	2.79
9.4%	3.16	2.98	2.82	2.68	2.55

Sensitivity analysis

For our sensitivity analysis, we have varied the input parameters WACC and perpetual growth. The calculated fair value lies between EUR 2.55 per share in the most restrictive case (WACC of 7.4 percent and perpetual growth of 0 percent) and EUR 4.88 in the most optimistic case.

Conclusion

The weak development of the capital markets and the accompanying pressure on broker and FinTech shares had already put the NAGA share under pressure in the course of 2022. With the news about the necessary correction of the figures and with the withdrawn forecast for 2022, the downward momentum has then temporarily accelerated again.

However, the data on NAGA's trading results in the first eight months of the current financial year indicate that its core business is intact. Management is working on improving marketing efficiency and on further internationalisation with the aim of better balancing growth and profitability in the future in order to generate positive cash flows relatively quickly. This was achieved in September with an operating cash flow surplus of EUR 1 m – the best monthly result in the company's history.

In our view, it still remains to be seen at what pace things will progress if the difficult conditions persist, and when the break-even on a cash flow basis will be achieved.

For the time being, our growth estimates are more cautious than those of the management (which are aiming for rates of 40 percent p.a. in the near future), but we expect EBITDA break-even as early as 2023. In the long term, we believe the company can generate high margins, even if the underlying development scenario is still quite speculative. From this we derive the updated price target of EUR 3.40, which is far above the sharply declined price level.

For now, it remains to be seen how quickly significant progress can be achieved in the current environment. Our rating is "Hold" for the time being, until there are indications that the company can meet its growth targets and combine this with positive cash flows.

Annex I: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
ASSETS									
I. Total non-current	120.3	116.5	117.5	118.7	118.8	116.2	114.3	112.5	111.0
1. Intangible assets	119.6	115.6	116.5	117.6	117.5	114.7	112.7	110.6	108.9
2. Tangible assets	0.6	0.7	0.7	0.9	1.0	1.2	1.4	1.6	1.8
II. Total current assets	57.0	42.3	37.0	42.7	50.1	65.8	83.4	101.0	116.3
LIABILITIES									
I. Equity	163.1	142.7	136.1	134.4	138.5	147.4	158.5	169.1	177.6
II. Accruals	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
III. Liabilities									
1. Long-term liabilities	0.2	0.2	0.2	3.2	3.2	3.2	3.2	3.2	3.2
2. Short-term liabilities	13.7	15.6	17.8	23.4	26.8	30.9	35.7	40.8	46.1
TOTAL	**177.4**	**158.8**	**154.5**	**161.4**	**168.9**	**182.0**	**197.7**	**213.4**	**227.3**

P&L estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales	52.9	63.4	76.1	98.4	133.3	166.4	188.5	203.9	214.2
Total output	55.7	64.4	78.1	100.4	135.3	168.4	190.5	205.9	216.2
Gross profit	47.2	54.3	64.4	82.7	111.3	138.5	156.6	169.2	177.7
EBITDA	-4.2	-2.7	2.2	9.1	18.5	29.6	37.4	44.8	47.4
EBIT	-9.5	-20.4	-9.3	-2.5	6.5	16.9	27.6	37.0	41.5
EBT	-11.2	-20.4	-9.3	-2.5	5.9	16.3	27.2	36.9	41.6
EAT (before minorities)	-10.8	-20.4	-6.5	-1.8	4.2	11.4	19.0	25.8	29.1
EAT	-10.1	-19.4	-6.5	-1.8	4.2	11.4	19.0	25.8	29.1
EPS	0.05	-0.36	-0.12	-0.03	0.08	0.21	0.35	0.48	0.54

Annex II: Cash flows estimation and key figures

Cash flows estimation

m Euro	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
CF operating	-12.9	-10.3	-0.5	6.6	12.2	21.0	27.3	34.0	35.5
CF from investments	-41.6	9.1	-5.5	-12.8	-12.1	-10.1	-8.0	-5.9	-4.4
CF financing	57.8	0.0	0.0	6.0	0.6	-1.9	-7.4	-14.6	-20.0
Liquidity beginning of year	5.2	8.6	7.4	1.4	1.2	2.0	11.0	22.9	36.4
Liquidity end of year	8.6	7.4	1.4	1.2	2.0	11.0	22.9	36.4	47.5

Key figures

percent	2021 act.	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales growth	117.1%	20.0%	20.0%	29.3%	35.5%	24.8%	13.3%	8.2%	5.1%
EBITDA margin	-7.9%	-4.2%	2.8%	9.2%	13.9%	17.8%	19.9%	22.0%	22.1%
EBIT margin	-18.1%	-32.2%	-12.3%	-2.6%	4.9%	10.1%	14.6%	18.2%	19.4%
EBT margin	-21.2%	-32.2%	-12.2%	-2.6%	4.5%	9.8%	14.4%	18.1%	19.4%
Net margin (after minorities)	-19.1%	-30.6%	-8.6%	-1.8%	3.1%	6.9%	10.1%	12.7%	13.6%

Disclaimer

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II) Preparation and updating

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis:-

The present analysis was finished on 31.10.2022 at 7:00 and published on 31.10.2022 at 7:50.

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Strong Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
Speculative Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).
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	than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

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Date	Investment recomm.	Target price	Conflict of interests
29.04.2022	Buy	11.20 Euro	1), 3)
19.01.2022	Buy	12.00 Euro	1), 3)
29.11.2021	Buy	12.70 Euro	1), 3), 4)
09.11.2021	Buy	11.70 Euro	1), 3), 4)
24.08.2021	Buy	8.00 Euro	1), 3), 4)
21.05.2021	Buy	8.90 Euro	1), 3), 4)
15.03.2021	Buy	8.90 Euro	1), 3)
15.01.2021	Buy	7.30 Euro	1), 3)
16.12.2020	Buy	5.30 Euro	1), 3), 4)
11.11.2020	Buy	4.40 Euro	1), 3)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: two updates and three comments.

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

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