March 5th, 2024
Research update

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The NAGA Group AG

Merger catapults NAGA into new dimensions

Rating: Speculative Buy (prev.: Hold) | **Price:** 0.641 € | **Price target:** 1.40 € (prev.: 2.80 €)

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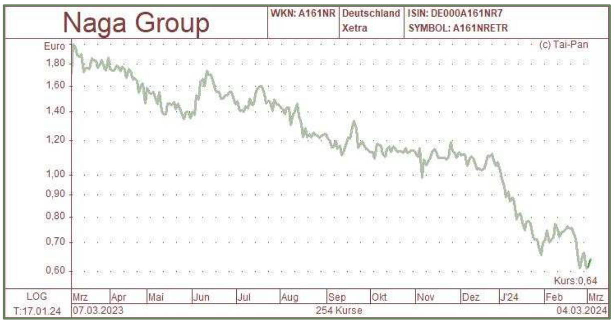
Current development



Basic data

Based in:	Hamburg
Sector:	FinTech
Headcount:	117
Accounting:	IFRS
Ticker:	N4G:GR
ISIN:	DE000A161NR7
Price:	0.641 Euro
Market segment:	Scale
Number of shares:	54.0 m
Market Cap:	34.6 m Euro
Enterprise Value:	40.4 m Euro
Free Float:	19.7 %
Price high/low (12 M):	2.79 / 0.60 Euro
Øturnover (12 M Xetra):	13,300 Euro

Merger with Capex expected to close in Q2

In December, NAGA signed a binding term sheet for a merger with the FinTech company Key Way Group Ltd, the operator of the Capex.com trading platform. Corresponding negotiations had already been announced in January last year, following which due diligence was carried out. These agreed terms now provide for the contribution of the Key Way Group shares as part of a non-cash capital increase in return for the issue of around 170.6 million new shares. In addition, a share option plan for managers amounting to up to 20 percent of the new share capital is to be launched. With around 54 million NAGA shares currently outstanding, the shareholders of Key Way Group will thus become the clear majority shareholders of the new NAGA Group. The exchange ratio is based on a valuation report prepared by PwC Germany which will soon be submitted to the shareholders together with the invitation to the Extraordinary General Meeting for a vote, although the largest shareholders have in principle already given their approval for the transaction. Once authorities and regulators give the green light, the merger can be finalized and

FY ends: 31.12.	2021	2022	2023e	2024e*	2025e*	2026e*
Sales (m Euro)	52.9	52.0	45.5	75.6	101.7	128.2
EBITDA (m Euro)	-4.2	-11.2	7.0	7.4	14.5	24.0
Net profit (m Euro)	-10.1	-33.3	-2.4	-5.5	3.6	13.3
EpS (Euro)**	-0.23	-0.62	-0.01	-0.02	0.02	0.06
Dividend per share (Euro)	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	117.1%	-1.7%	-12.4%	66.2%	34.5%	26.1%
Profit growth	-	-	-	-	-	272.6%
PSR**	0.66	0.67	0.76	1.97	1.46	1.16
PER**	-	-	-	-	41.6	11.2
PCR**	-	-	-	-	18.3	7.7
EV / EBITDA**	-	-	5.8	20.9	10.7	6.4
Dividend yield**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**from 2024 on an as-if-basis with Key Way Group; **from 2024 hypothetically fully diluted* this is expected to be within the second quarter. Both parties, however, have been approved in the past by a number of regulators around the world. The newly formed company is also aiming for a listing on the Nasdaq.

An established player

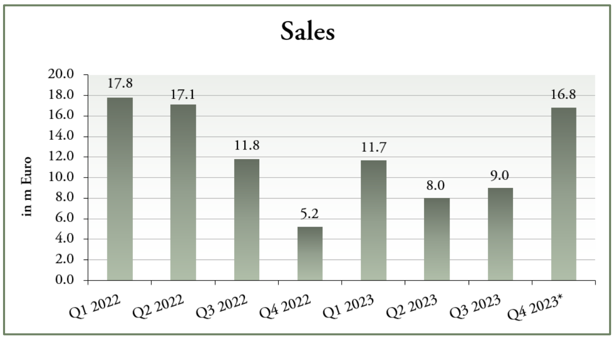
In a volatile market environment, Key Way's revenue grew by an average of 80 percent p.a. between 2020 and 2022 and amounted to USD 40 m last year. At the same time, the company reached the break-even point while the implementation of the in-house technology of NAGA will save an additional USD 4 m in costs annually, making Key Way profitable. The company is operating a total of five licenses globally including a European one by CySEC and an Abu Dhabi one by ADGM allowing Clients to trade in CFDs for various asset classes via its proprietary online platform. Most recently, the company generated around 15 thousand new registrations per month and more than 60 thousand users carried out transactions via the platform in 2023.

Additional financing

A key factor that also determines the growth opportunities and thus the valuation ratios of NAGA and Key Way is the different capital strength of the companies. The founder and CEO of Key Way has been a key part of the team that built and successfully sold the known CFD broker Markets.com, thereby realizing a substantial exit. As part of the agreement, he has now together with Key Way committed to invest a total of USD 15 m into NAGA. To this end, NAGA launched the placement of a zero- coupon convertible bond with a term of twelve months and a total volume of up to EUR 8.2 m in December, which was offered to existing shareholders for subscription. The founder and CEO of Key Way has agreed to subscribe to unsubscribed bonds up to a volume of USD 9 m as part of the agreed liquidity injection outlined above. The remaining USD 6.0 m will be provided by Key Way. This gives NAGA financial leeway for further growth which enables it among others to reduce its debt, in particular by the repayment of a loan of USD 5.0 m with a term of two years.

Operating progress

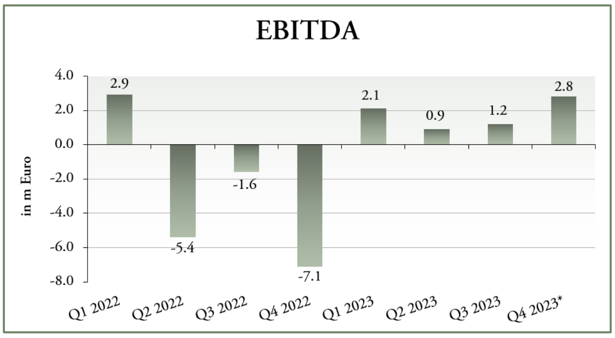
Last year, NAGA made significant progress in its key operating figures. Despite a difficult market environment, the number of executed transactions increased from 8.6 to 9.2 million, with copied trades being the main driver with an increase from 3.5 to 4.8 million. As a result, the volume of trades processed increased from EUR 137 billion to EUR 143 billion. There was also an increase in the number of active customers (i.e. customers who have traded at least once in the last three months), which rose by over 12 percent to more than 21,000.



**Q4/23 still preliminary; source: Company*

Annual sales down in light of successful efforts to improve EBITDA

According to preliminary figures, consolidated sales fell significantly from EUR 57.6 m to EUR 45.5 m despite the higher number of transactions processed and the increased trading volume. This has naturally caused the revenue per trade to drop from EUR 6.70 to EUR 4.95 within the year. This figure however is one that fluctuates strongly over time, mainly depending on positive and negative earnings contributions from trading and hedging business in relation to customer positions. This is also reflected in the volatility of quarterly revenue. The final quarter of 2023 was very strong in this respect, with sales of EUR 16.8 m, up more than 200 percent on the previous year. At the same time, however, NAGA's cost cutting has been disproportionately high. The reduction in marketing expenditure from EUR 28.5 m to EUR 5.5 m has already been reported. Further details have not yet been provided, but according to the six-month report published in December, personnel was reduced, and development costs dropped because the building phase of NAGA's tech stack has been completed. This combination resulted in the first half of 2023 to have reduced expenses well below the previous year's figure by a double-digit percentage. In any case, the savings have enabled a massive improvement in EBITDA. According to preliminary figures, it improved to around EUR 7 m for the entire year, following a deficit of EUR -13.7 m in the previous period. This results in EBITDA of EUR 2.8 m in the final quarter, the highest figure since the first quarter of 2022.



**Q4/23 still preliminary; source: Company*

Liquidity improves as well

NAGA has not yet provided any information on last year's cash flow; only the data for the first half of the year is available, which shows that as a result of changes in working capital and investment activities, there was an outflow of EUR -6.6 m. This was nonetheless financed by the utilization of the proceeds received from the placement of a convertible bond issued in the first half-year, causing a cash inflow of EUR +7.1. Consequently, the liquidity recognised on the face of the balance sheet increased from EUR 3.1 m to EUR 3.6 m in the first six months of 2023. By the end of the year, the liquidity will likely have improved further because we expect a return to normal for the receivables and therefore a positive free cash flow for the second half of the year.

Ambitious goals

The cumulative trading volume of NAGA and Key Way / Capex in 2023 amounts to around USD 300 bn and the number of users of the two platforms totals 1.5 million. According to the news from December, combined revenue of around USD 90 m and EBITDA of around USD 6.5 m were generated in 2023 – if the preliminary NAGA annual figures are confirmed, it could even be slightly higher. The merger is expected to create extensive cost synergies, in particular by combining the operating business (including a joint trading book) and the platforms (based on NAGA technology), which the parties estimate at more than USD 10 m p.a. Even more important, however, are the growth plans for the combined entity. By allowing Capex's user base to access NAGAs extensive product portfolio – which includes social trading, neo-banking and spot crypto – the Group expects to boost the average customer lifetime value and subsequently increase revenue without extra marketing cost. NAGA is also set to continue its international expansion, with a focus on the roll-out of social trading in the MENA region, among other things. The overall goal is to expand the platform's user base to 5 million by 2025 and increase the revenue of the merged companies to more than USD 250 m over three years. The focus is clearly on emerging markets characterized by less competition, a favourable regulatory environment and higher user engagement due to the lack of technology innovation in the region, which could make NAGA's product a sought-after solution for trading, payments and spot crypto.

The new model with Key Way Group

We also think that the doubling of the company's size in terms of licensing and revenue, with high potential synergies in the addressable regions, marketing expertise and the ability of a fast technology rollout into new markets, offer a strong basis for dynamic geographical expansion in the coming years. At this stage, however, the impact of the merger on future figures can only be estimated very roughly. We have integrated the estimated revenue and earnings contribution of Key Way /Capex on an as-if basis and now expect revenue of EUR 75.6 m and EBITDA of EUR 7.4 m as an initial indication for 2024. The synergies should largely be effected in the second half of the year and will take full effect next year. We therefore expect a 34.5 percent increase in sales to EUR 101.7 m and a EBITDA improvement to EUR 14.5 m in 2025. Thereafter, we assume a further improvement in margins with continued dynamic growth thanks to econ-

m Euro	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030
Sales	45.5	75.6	101.7	128.2	160.2	198.3	234.9	266.1
Sales growth		66.2%	34.5%	26.1%	25.0%	23.8%	18.5%	13.3%
EBITDA	**7.0**	**7.4**	**14.5**	**24.0**	**34.4**	**46.0**	**55.3**	**62.4**
EBIT	-1.4	-4.4	3.5	13.7	25.3	37.0	50.2	57.3
Tax rate	0.0%	0.0%	5.0%	5.0%	10.0%	25.0%	30.0%	30.0%
Adjusted tax payments	0.0	0.0	0.2	0.7	2.5	9.2	15.1	17.2
NOPAT	**-1.4**	**-4.4**	**3.3**	**13.0**	**22.7**	**27.7**	**35.1**	**40.1**
+ Depreciation & Amortisation	8.4	11.8	11.0	10.3	9.1	9.1	5.1	5.1
+ 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	7.0	7.4	14.3	23.3	31.8	36.8	40.3	45.2
- Increase Net Working Capital	-9.0	-5.5	-6.6	-4.5	-4.8	-3.0	-1.2	-1.3
- Investments in fixed assets	-3.9	-4.5	-4.7	-4.9	-4.8	-4.6	-4.3	-4.0
Free cash flow	**-5.9**	**-2.6**	**3.0**	**13.9**	**22.3**	**29.2**	**34.8**	**39.9**

SMC estimation model, from 2024 as-if-approach including Key Way / Capex

omies of scale. At the end of the detailed forecast period, we see the revenue at EUR 266 m and the EBITDA margin at 23.5 percent. The table above contains the key cash flow figures derived from our estimates up to 2030. Further details can be found in the Annex.

High dilution

Post merger, the number of outstanding shares will increase significantly from 62.4 million shares (we had already hypothetically assumed further capital increases here) to 232 million shares. The new number of shares includes the hitherto planned issue of 170.6 million shares for the takeover of the Key Way Group and 8 million shares for outstanding convertible bonds. The option plan could result in a further dilution of up to 20 percent, but not until 2028 at the earliest, so we have not yet included this in our model.

Frame parameters slightly changed

Subsequently, we calculate the terminal value now with a 20-percent discount to the target margin of 2030 and a “perpetual” cash flow growth of 1 percent p.a. The discount rate (WACC) remains unchanged at 8.5 percent. For this, we have assumed a cost of equity according to CAPM of 11.2 percent (with: safe interest rate of 2.5 percent, market risk premium of 5.8 percent and beta factor of 1.5), as well as a target capital structure of 40 percent debt (which reflects a high leverage potential in a steady state), an interest rate on borrowed capital of 6.5 percent and a tax rate for the tax shield of 30 percent.

Price target: EUR 1.40

With the model adjustments, the fair value we determined is now EUR 318.5 m. On a hypothetically fully diluted basis, this corresponds to EUR 1.37 per share, from which we derive the new price target of EUR 1.40. The significant reduction compared to our previous estimate (EUR 2.80) is primarily due to the high dilution effect for NAGA’s existing shareholders, and we have also modelled the growth path somewhat more cautiously than the company has outlined. Nevertheless, the model signals an upside potential of more than 100 percent. On a scale of 1 (low) to 6 (high), we now rate the forecast risk of our estimates as very high at six points (previously: 5 points), as we have assumed a merger with Key Way Group, which has not yet been finalised. However, a conclusion of the transaction is very likely, since the necessary majorities among the owners have already been secured and the parties involved have already successfully passed the usual audits of the regulatory authorities in the past. If, contrary to expectations, the merger is not realised after all, NAGA would have to find other financing options in the short term.

Conclusion

In a market environment that remains challenging for brokerage companies, size and capital strength continue to be important factors. The agreed merger with the FinTech company Key Way Group will bring NAGA great progress in this regard. The company will receive a total liquidity injection of USD 15 m and its annual revenue will double to around USD 90 m.

The two parties see synergies of USD 10 m p.a. which are expected to be realized relatively quickly, especially by allowing Capex’s user base to access NAGAs technology. The resulting improvement in profitability, the addition of ADGM license in Abu Dhabi and FCSA license in South Africa as well as the comfortable capital cushion should subsequently ensure a dynamic geographical expansion of NAGAs total addressable market and an increase in revenue resulting in a total of more than USD 250 m over the next three years.

NAGA has positioned itself strategically to achieve its mission of building the world's largest social trading network that seamlessly allows people to trade and invest in stocks and crypto, copy and learn from the success of each other. The new Group CEO Mr. Patrascu is a serial entrepreneur and seasoned professional in the trading industry, with two successful exits under his belt and his belief in the success of NAGA is witnessed in the USD 9 m he personally invests in this transaction.

The downside for existing shareholders is a strong dilution. Up to 170.6 million shares are to be issued for the contribution of the Key Way Group, and a further 20 percent of the new share capital is earmarked for a share option plan.

Although we have significantly raised our estimates for NAGA due to the newly factored-in contribution from Key Way / Capex and the ambitious growth plans, the dilution has caused the fair value per share to fall from EUR 2.80 to EUR 1.40. Nevertheless, the transaction is strategically expedient, which is also reflected in the fact that NAGA's major shareholders have signaled their approval.

Based on a greatly reduced-price level, we see significant upside potential for the share, which is why we are upgrading our rating from “Hold” to “Speculative Buy”. The speculative component is the fact that the transaction has not yet been finalized and the publicly available database on Key Way Group is still limited.

Annex I: SWOT analysis

Strengths

- Experienced management team with high competence in FinTech and brokerage. The merger with Key Way Group will further strengthen the team and expand the organisational structure. Among other things, NAGA wins a CEO with a strong track record with Octavian Patrascu.
- Comprehensive and well-engineered finance platform with excellent scalability thanks to extensive automation.
- 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

- Despite a strong improvement in EBITDA, free cash flow was still clearly negative – at least in the first half of 2023 – due to a high increase in receivables.
- Revenue 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 (75 percent as at 30.06.23).
- Complex regulatory environment.
- The realisation of the merger with Key Way Group would mean a high dilution for existing shareholders.
- The publicly available database for Key Way Group is still limited.

Opportunities

- The merger with Key Way Group takes NAGA into a new dimension in terms of size. The realisation of the projected synergies of USD 10 m p.a. could significantly improve profitability and cash flow.
- The essential elements of the platform have been developed by now, so the increase in product development costs should only be disproportionately low in the future.
- The solutions for brokerage, social trading, crypto and payment will be merged into one super app in 2024, which should stimulate further marketing.
- Revenue is expected to increase rapidly within the next years. The drivers are the high cross-selling potential between NAGA and Capex's solutions and the planned expansion in emerging markets. Achieving these goals would presumably go hand in hand with a strong increase in profits.

Threats

- If the merger is not carried out, NAGA would have to find other financing options in the short term in order to be able to repay the financial liabilities due.
- The integration of NAGA and Key Way Group could fall short of the envisaged targets – in particular synergies totalling USD 10 m p.a.
- The difficult environment in the brokerage market could continue for longer and further intensify competition.
- 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.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation*

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
ASSETS									
I. Total non-current	113.0	111.5	264.2	258.0	252.5	248.2	243.7	242.9	241.7
1. Intangible assets	112.2	110.6	263.3	256.9	251.3	246.8	242.0	241.0	239.5
2. Tangible assets	0.6	0.6	0.7	0.8	1.0	1.1	1.4	1.6	1.9
II. Total current assets	32.5	35.1	47.3	59.7	81.7	112.5	139.2	159.8	177.3
LIABILITIES									
I. Equity	129.8	127.3	299.8	303.4	316.7	340.0	359.2	375.5	387.9
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	0.2	0.2	0.2	0.2	0.2	0.2
2. Short-term liabilities	15.2	18.7	11.1	13.7	16.9	20.1	23.1	26.6	30.6
TOTAL	**145.6**	**146.6**	**311.5**	**317.6**	**334.2**	**360.7**	**382.9**	**402.6**	**419.0**

P&L estimation*

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales	52.0	45.5	75.6	101.7	128.2	160.2	198.3	234.9	266.1
Total output	58.4	47.9	77.6	103.7	130.2	162.2	200.3	236.9	268.1
Gross profit	51.0	29.9	58.7	78.2	98.2	122.2	150.7	178.2	201.6
EBITDA	-11.2	7.0	7.4	14.5	24.0	34.4	46.0	55.3	62.4
EBIT	-32.4	-1.4	-4.4	3.5	13.7	25.3	37.0	50.2	57.3
EBT	-33.3	-2.4	-5.5	3.8	14.0	25.9	38.0	51.7	59.1
EAT (before minorities)	-33.3	-2.4	-5.5	3.6	13.3	23.3	28.5	36.2	41.4
EAT	-33.3	-2.4	-5.5	3.6	13.3	23.3	28.5	36.2	41.4
EPS	-0.62	-0.01	-0.02	0.02	0.06	0.10	0.12	0.16	0.18

up to 2023 including NAGA stand-alone, from 2024 on an as-if-basis including Key Way / Capex

Annex III: Cash flows estimation and key figures

Cash flows estimation*

m Euro	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
CF operating	-17.4	-4.0	-0.5	8.1	19.3	27.8	34.8	40.3	45.3
CF from investments	9.1	-3.9	-4.5	-4.7	-4.9	-4.8	-4.6	-4.3	-4.0
CF financing	1.0	8.9	9.6	-0.2	-0.2	-0.2	-9.5	-20.1	-29.1
Liquidity beginning of year	8.6	1.3	2.3	6.9	10.2	24.5	47.3	68.0	83.9
Liquidity end of year	1.3	2.3	6.9	10.2	24.5	47.3	68.0	83.9	96.1

Key figures*

percent	2022 act.	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales growth	-1.7%	-12.4%	66.2%	34.5%	26.1%	25.0%	23.8%	18.5%	13.3%
EBITDA margin	-21.6%	15.4%	9.8%	14.3%	18.7%	21.4%	23.2%	23.6%	23.5%
EBIT margin	-62.3%	-3.1%	-5.8%	3.4%	10.6%	15.8%	18.6%	21.4%	21.5%
EBT margin	-64.2%	-5.3%	-7.3%	3.7%	10.9%	16.2%	19.2%	22.0%	22.2%
Net margin	-64.2%	-5.3%	-7.3%	3.5%	10.4%	14.6%	14.4%	15.4%	15.5%

** up to 2023 including NAGA stand-alone, from 2024 on an as-if-basis including Key Way / Capex*

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
7.5%	1.86	1.74	1.63	1.54	1.46
8.0%	1.68	1.58	1.49	1.42	1.35
8.5%	1.53	1.45	**1.37**	1.31	1.25
9.0%	1.40	1.33	1.27	1.21	1.16
9.5%	1.29	1.23	1.18	1.13	1.09

Disclaimer

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Charts
The charts were made with Tai-Pan (www.lp-software.de).

Disclaimer

Legal disclosures (§85 of the German Securities Trading Act (WHPG), MAR, Commission Delegated Regulation (EU) 2016/958 supplementing Regulation (EU) No 596/2014)

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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 05.03.2024 at 8:15 and published on 05.03.2024 at 8:45.

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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).
Hold	We expect that the price of the analysed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the

	rating. The rating "hold" is also used in cases where we perceive a price potential of more 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.

The rating resulting from these methods reflects current expectations and can change anytime subject to company-specific or economic changes.

More detailed explanations of the models used by SMC Research can be found at:
http://www.smc-research.com/impressum/modellerlaeuterungen

An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: http://www.smc-research.com/publikationsuebersicht

In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Investment recomm.	Target price	Conflict of interests
13.11.2023	Hold	2.80 Euro	1), 3)
14.04.2023	Hold	3.60 Euro	1), 3), 4)
14.02.2023	Hold	4.10 Euro	1), 3)
26.01.2023	Hold	3.40 Euro	1), 3)
31.10.2022	Hold	3.40 Euro	1), 3), 4)
29.04.2022	Buy	11.20 Euro	1), 3)
19.01.2022	Buy	12.00 Euro	1), 3)

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

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

Exclusion of liability

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