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Q1 2018 Hypoport AG Earnings Call

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TEXT version of Transcript

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Corporate Participants

* Ronald Slabke

Hypoport AG - Co-Founder, Chairman of Management Board & CEO

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Presentation

Ronald Slabke, Hypoport AG - Co-Founder, Chairman of Management Board & CEO [1]

Yes, welcome from my side as well. Nice that you joined. So, as you already know, Hypoport had a great start in 2018. And as we reported already more than a week ago, this is a clear sign of the strong growth path we are on. So how does this break down to the different segments of our group, I will explain to you in the next 0.5 hour.

[As due to restart], there's a quick overview of the current market environment, especially in the housing market in Germany. Not a lot changed during the last 2 months since our reporting of 2017. What was new is that net migration to Germany from the rest of Europe increased and reached a new peak in 2017. Net migration was 479,000 people, which moved to Germany, which found somehow a place to stay still but pretty sure they increased the demand for housing in Germany heavily. On the other side, delivery in the market stays low. We increased the production volume of -- or construction volume of new housing in the last couple of years. Only slightly for the first month, construction's up something around 2%, 3%. Approval of new construction is even slightly down, so the supply side is lagging behind the demand, which is fast developing.

This leads, and this is not a surprise for everyone who understands the market, to increasing house prices. So the trend of increasing prices in Germany continues. As a Hypoport shareholder, either way, you can be happy. If construction gets ramped up and we increase construction volume, there's from more finance in new constructions. If constructions are delayed, as we see it right now, house prices go up and, with this, the mortgage volume.

On the long [trend], we see a steady increase in their mortgage market volume on a low single-digit level. You can see on the chart that the current development of the mortgage market lags behind the past development of real estate. This is an indicator that the German residential mortgage market is even more sustainable and more safe than you may expect [with] this price increase. More and more of this property -- of the properties are financed with a higher stake and equity and so the mortgage volume is not even in line in the increase -- with the price increase. So it's a safe environment. It's a stable environment. And within future net migration to this economic center of Europe, we will see increasing house prices and, hopefully soon, increasing constructions as well.

The political environment and regulatory environment in 2018 didn't change a lot compared to the end of 2017. We finally got a new government in the first quarter. The promised subsidiaries are planned to be delivered during this year, but more in the time frame end of the year, beginning of the next year. So people postpone their decision to buy their dream property, will still have to wait until the subsidiaries finally arrive to the market. So this may still be a small slowdown to the overall market. And the 2% growth of the mortgage market in the first month of this year may be still affected from these open promises by our government. We hope that let's say -- or not say -- not we hope, we see that there's a steady trend from the renting segment of the market to the homeownership market because of the huge pressure in both markets. And if you, as a middle-class family in Germany, are able to afford in homeownership, you are now forced to do this, to compete on the renting market, is getting more and more tough. So, this [increase] leads to future incremental growth of the mortgage market as well and this trend is fully impacting the first quarter of 2018.

So how did the different business units ended this market environment? As usual, we start with a EUROPACE platform, the core source for mortgages in Germany. We saw an increase of 11% to EUR 13.5 billion in the first quarter, highest number of production volume ever, new record. Coming from a growth of roughly EUR 1 billion in the mortgage financing and speeded up growth of personal loans on the platform. The growth of the mortgage segment, product segment is supported by still ongoing growth of the mortgage brokers in Germany, which won again market shares from bank branches and contributed roughly 2/3 of this increase.

We will talk about our Private Client division, DR. KLEIN, in a couple of minutes. They, out of this year, represented 20% roughly of this increase. The rest of this growth came from the smaller regional banks, saving and cooperative banks. Some -- more details about this in a minute as well.

The growth in personal loan business is a result of a very competitive technical solution we offer to the market with our KreditSmart user interface and the most modern B2B platform on the market right now. Here, we win traction and find more and more ways to elaborate our investments and get them to different segments of the personal loan market. Especially, to be the [rent pile] at the point of sale or for bank branches when the owned product of a bank is not suitable anymore is an interesting path to go forward with our B2B solution for this product segment in the banking area.

We won again, during the last 12 months, close to 100 contractual partners, mainly from the cooperative and savings bank industry. Both are on a pretty good path to migrate to EUROPACE right now. Strong development in our savings bank entity, FINMAS. There's a speedup of new contractual partners. 50 out of these 100 new partners came out of the savings bank industry. But this 199, more than 50% of the savings banks in Germany, are contractual partners of EUROPACE. Their products are implemented in EUROPACE. They are available on EUROPACE.

When you look at the larger ones, it's even increased to 75 -- 77 -- 37 out of 50 savings banks of the top 50 savings banks are -- which are on EUROPACE now. So this is a great development and it's an enhancement of the marketplace for all the brokers. And it's a good starting point for our relationship with the savings banks to get the EUROPACE system into their branches and their (inaudible) as well. That we are successful in this that we power more and more of this savings bank sector, you can see with the growth rate of 67% in the transaction volume to EUR 0.8 billion in the first quarter. This represents now roughly 4% of the savings banks' mortgage origination, so another 1% we could add in our market share in this part of the industry.

Cooperative banks, which are outnumbering the savings banks with roughly 900 banks in Germany, a little bit lagging behind. We are at 245 now. Speed slowed down a little bit compared to last year. 60% growth rate on the transaction volume generated in the branches of the cooperative banks is above the average of EUROPACE platform overall, but it's still slow compared to the savings bank industry. The opinion leaders in the cooperative banking industry see this and they see this as a relevant fact for their market position in the near future. With the mortgage brokers winning market share and savings banks digitalizing their consumer interaction, lagging behind is not a healthy situation in a market environment which doesn't promise a huge market growth. So the opinion leaders in the cooperative banking industry are looking for ways to speed up the migration process of cooperative banks to EUROPACE or our special entity in this segment, GENOPACE, as well. So we see here a positive trend coming forward, so that our investment in key account resources with the -- which we did last year and which we keep going forward by adding new key account resources in this year as well is valid for the next years. And it's necessary for the next [year] to handle this training, consulting and migrating of sales structures of these 2 units.

As a result of the growth of the transaction volume and as a result of our expanding into the property evaluation market top line growth of the credit platform is strong, plus 32% compared to last year, new record quarter in top line growth. And -- but in EBIT margin, with an EBIT growth of 11% to EUR 4.2 million in EBIT, the best profitable quarter we had up until now for the credit platform. [The diluting EBIT margin finds its reason] the additional key account resources that we invest, more engineering resources, and the fact that our business is still only close to breakeven. [So, this is the added revenue out of this product] segment dilutes the EBIT margin right now.

Next segment, Private Clients. Our franchise network in Germany monetizing every EUROPACE strategy in a B2C environment had a strong first quarter as well. So, an extra volume growth by 34% to EUR 1.7 billion supported by strong out performance of the overall mortgage market plus of 22% to EUR 1.5 billion in mortgages. So, a nice market share growth for the DR. KLEIN franchise and, in addition, a strong growth of the personal loan business this year as well. Together, this institutional client space, we advise their clients and help them to find the right solutions, especially their own product is not feasible. Basis for all this growth are additional advisers of our franchisees. While last year we didn't fully meet our target of 2-digit growth of the number of [adviser] in this first quarter, this 12% we are in line with our target and reached close to 600 [advisers] now in our branches.

So we are able to deliver advice to more people. We can ramp up the lead generation on the Internet and bring more people in the branches of our franchisees and today in the business. As a result, top line growth, 28%, best quarter in history. The same goes for the EBIT. You pretty well see the scaling effect here, plus 30% in EBIT, with the contribution of EUR 4.2 million as well from the Private Client unit, their best quarter and equal to this what the credit platform contributes to the overall profitability of Hypoport.

So next, our Institutional Clients business. You may remember last year we started pretty strong in the year and had a weak second half of the year. This year, we are able to beat the last year's first quarter, which was a great result and well supported by an interest rate development [with was some] volatility, which leads then to a lot of already prepared projects to be closed and transaction to be closed.

So, we [appear] in the transaction volume, 11%, slightly down in transaction revenue. Whether this is minor, it is relevant. Overall, figures for our profit and loss statement is a revenue growth of 13% so slightly increase in the average commission and then EBIT margin growth, which outperformed this pretty well by 28% to EUR 2.2 million. The reason here is that we invested a lot in key account resources and technical integration in the last year. And after the weak second half of the year, we slowed down this, let's say, incremental additional investments, so that this year the cost base stayed pretty much the same as last year and every additional euro [earn] [PS] revenue. Growth rates with a [bottom] and ends up in the higher EBIT margin as well. So very good start for this segment again in this year. We hope that this year will not be as volatile as last year.

As you know, it depends a little bit from the regulatory environment, how the new government will go forward with the promised subsidies for especially social housing constructions. If they get more visible and, actually, if they get executed, then we will see a lot of projects from this industry to build the hundreds of thousands of missing social apartments in the metropolitan areas in Germany. So there's a wave in front of us. And let's say we see it coming, we just don't know in which quarter or actually not even in this year it will hit us exactly. This depends from the speed of the government in executing the promised subsidies.

On a short term, interest rate will be important for the profitability of this segment. Still higher volatility and interest rate brings more transaction to be closed. The lower volatility is when an impulse less interest development slows down the transactions and it gets us some -- may get us some every quarter. We hope for the first.

So last segment, our newest one, Smart InsurTech. The insurance platform where we digitalize the insurance industry between brokers and insurance companies and consumers in Germany is still completely underdeveloped and under-digitalized their market. There's lots of paper going around. Because of the business model, we could already, in the end of last year, predict a 50% growth rate for this year. We started at 46% now effectively. This is in line with our expectation. The future growth is quite visible for us from year-to-year because the new clients we get during the year and the contracts that we sign with existing clients typically get effective for the next year and increase the revenue for the next year. And so this is not a huge surprise for us and don't expect incremental growth during the year in this segment. All what we will do this year to attract new clients will be reflected in the 2019 figures, starting with the first quarter of the 2019.

So, with the growth speed, we are in line with our expectations and what we are aiming for. We see that the industry understands our approach, that the visibility of our products increased and that we are in a lot of talks and a lot of projects with clients to migrate. It's a beginning of the year, so how it will look like for 2019? It will get more visible for us during the upcoming quarters. We hope to keep this speed of migration to aggregate market power as fast as possible.

Saying this, we are less focused on the profitability of this segment. We started weak with EUR 800,000 in loss in the first quarter. Then in general, you can say our core business model we are aiming for, it turns extra fee on the maintained insurance portfolio, contributes stable revenues. The acquired insurance companies delivered often in -- as license-based revenue model, which is pretty stable as well over here. Where we see some volatility is still old project business, which is still, let's say, to be continued and in certain parts necessary to bring new clients. [We still see], some ups and downs and so a weak first quarter. We don't expect to continue with this amount of losses for the rest of the year, so this should go down on the EBIT loss significantly. What is important here for us is to keep the pace on the top line, and we will keep you updated if we stay with our 50% growth rate, which we target here in this unit.

So, when you look on the overall figures for Hypoport for first quarter, strong growth in all key indicators, including the number of employees. Please understand [this as] future resources for our key accounts, for engineering, so to increase our revenues and profits in the next couple of years. So the outperformance of the numbers of employees compared to the revenue is not a sign of inefficiency, how we work and how we develop our business model. It's a sign of huge investments we do right now across all daughter companies to speed up the growth process on the top line and with them and with our typically quite high EBIT margin businesses, the future profitability of the business as well.

So, this first quarter is a perfect continuity of our now 4 years lasting period of scaling and expanding our business. Starting in 2014, we see a strong growth on top and bottom line and this continued in the first quarter and is exactly in line with our expectation.

So, as you know already, during the last couple of days, we announced some major acquisitions and this is the first chance to explain them a little bit more in detail. So it was last week, the acquisition of FIO. FIO is a software-as-a-service solution provider for the housing industry in 2 ways. First, the target group of FIO is the real estate agent market where FIO delivers a complete solution to run a real estate agent business from lead generation, workplace management, display management and branches, et cetera. So, this solution is used by all the large real estate agents in Germany and this is a business specialty for Germany. These are retail banks, especially the German savings bank are the largest real estate brokers in their regions typically and FIO is powering 316 out of 390 of them. Same goes with 55 cooperative banks and Deutsche Postbank, which is one of the largest real estate agents as well.

On the other side, beside the real estate agents, FIO's second important client group is housing associations, where FIO delivers software-as-a-service for payment solutions for insurance claims and complete line of business application, ERP system to run the complete housing association.

Both software solutions were of huge interest for us. We see a huge potential in the savings bank industry to integrate the FIO solution with the EUROPACE solutions for the savings banks and deliver this way an integrated approach for the real estate center of each savings bank in Germany where clients are smoothly handled between the agent and the mortgage adviser. The potential is huge on the EUROPACE side, in this case, because FIO already powers 80% of the savings bank. And with EUROPACE, we are still in progress of gaining traction and market share. And as you know, from 50 minutes ago, we reached here 4% market share. So 80% market share for FIO, 4% for EUROPACE, there's a huge potential for EUROPACE here to speed up the process of migration.

In the cooperative bank industry, there are 55 partners for FIO, 245 in the GENOPACE world, so here's a joint gain that we expect. So, the integrated solution between FIO and GENOPACE should be in a much more appealing solution for all the cooperative banks out there, and we expect an increase in the speed of market penetration for both FIO and EUROPACE in the upcoming months and years.

Yes, in the housing bank sector, the DR. KLEIN Institutional Client business is providing analysis for our mortgage portfolios, mortgage protections and insurance coverage and this is a perfect fit as well again to the IT systems of FIO, which are offered there. We have a sales force out there. FIO just developed a brand-new ERP solution for this industry. We see a huge chance of an integration of our mortgage portfolio management solution for this housing association. And this underlying ERP system sell this all as a -- sell this as a bundle of services, highly integrated, highly efficient for this industry and the fast win here, additional market share for FIO and for the DR. KLEIN offerings in this industry. So a strategic acquisition with a lot of potential and fitting to the Hypoport ecosystem like a perfect piece of puzzle. It just the first acquisition that we did where we accepted a dilution.

We issued new shares to acquire the majority of FIO. The Founder and CEO of FIO, Nicolas Schulmann, is going to be the third-largest shareholder of Hypoport in the future with 4.6% in shares, the minority shareholders we acquired by cash. So an overall huge transaction for us but the potential is worth it easily.

So, second transaction we announced today in the morning, smaller, significantly smaller but with an important strategic approach as well and with huge synergies to existing business models. We acquired the Value AG evaluation company for banks, independent from banks, evaluating couple of thousand properties every year for banks. As you know, we entered this market already 22 months ago in the middle of 2016 with our first offering, especially for smaller, cheaper apartments, houses to be checked by us. Now more than 100 banks [are already out] of the 400 partners of the EUROPACE system used it, checking for smaller apartments. Smaller means below EUR 400,000. Value AG is specialized in everything above EUR 400,000, up to shopping malls and huge portfolios of apartments. So the combination of our existing daughter companies' group service and Value AG is covering the complete area of properties from the smallest to the largest, which mortgage financers in Germany are aiming for targeting. So we are now able to deliver a complete outsourcing solution for mortgage financers from top to bottom, highly integrated in the EUROPACE world for standardized mortgage products, but even for the non-standardized mortgage products like things that were brokered by DR. KLEIN Institutional Client business. We are able to deliver the evaluation as well.

With our integration in the value chain and our network toward the financial industry, we see a huge potential to scale the business of Value AG faster than it was scaled up until now. The company was on a growth path for the last years and we see this to be possible to speed up and deliver a whole and full solution for our clients.

In addition, we see a huge potential to digitalize this industry as well. Still, the regulator requires as a lot of human interaction, but this aggregated market power, higher efficiency, more digitalization, we will go for a better solution and the more efficient solution and convince the regulator to increase efficiency and speed in the interest of the consumer as well as in the evaluation process of the mortgage application.

So, with this new -- 2 new acquisitions, the -- and both, they'll be part of this, up until now, called segment Institutional Clients. We need to change the name of the segment. It's now focused on all activities around real estate. We serve housing companies. We serve mortgage lenders. And we serve real estate agents and their need regarding everything around the property. So this new segment will be called property platform and will have 3 major services that we will report to you on a software-as-a-service, so mainly FIO.

The second is property evaluation, so group service in Value AG here in the future and they have loan portfolio analyzers by DR. KLEIN via [link quotation] to this. So, this is -- will be a major -- a more major segment in our reporting structure and it's the starting point for us to digitalize the property market in Germany more and more. So especially in the housing market and the services linked to our Credit Platform, we see a strong potential for us to use synergies and use our position in the value chain to drive here our subsidiaries forward in the market and into excellent market positions in this market.

Yes, from the overall development on the share, [yet] already had the small dilution in the second quarter. Beside this, our share [repurchase] stayed stable. We have free float. We have our treasury shares of 4%. My shares are untouched.

[Upon the] investment highlights, you see that we keep growing in an excellent 2-digit way. We do this for 20 years now. We show even acceleration right now in the first quarter. So we are confident that we are on our path because we are successful digitalizing the credit industry, the mortgage industry, the insurance industry and in the future, even step by step, the property industry. Because of the acquisition of FIO, we increased our 2018 forecast. Revenue up to EUR 230 million to EUR 250 million; and EBITDA up to EUR 28 million to EUR 33 million. With our first quarter of EUR 60 million in revenue and EUR 7.5 million in profit before acquisitions, we feel pretty comfortable with this guidance for 2018.

So that's from my side. I hand now over to the moderator, to give a chance for some questions for you.

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Questions and Answers

Operator [1]

(Operator Instructions) We will proceed the first question from [Christoph Storbeck].

Unidentified Analyst, [2]

This is [Christoph] from Berenberg Bank here. Just first -- would you be able to quantify any synergies that you'll be able to generate with these 2 acquisitions and when we can expect to see them materialize and come through in your P&L?

Ronald Slabke, Hypoport AG - Co-Founder, Chairman of Management Board & CEO [3]

Yes. We acquired both companies effective to 1st of May. So, in the second quarter, we will have 2 months to materialize the acquisitions. Let say, this should be more or less -- the business what was there already. The speed of synergies, I think first time we will see and be able to guide a little bit in the third quarter. Yes, I'll say the potential is in EUR 50 billion fee market for EUROPACE in the savings bank industry. As a synergy to FIO, it's roughly something around EUR 35 million EUROPACE transaction fees and a couple of million FIO license fee for their [software in the year], cooperative banking sector. And it's in 50 million ERP [system market in the housing industry we are talking about.] So these opportunities are all huge, and we will have to find out how to, as far as possible, realize them. The guidance, we will only give you when we see traction in the first month.

Unidentified Analyst, [4]

All right, okay. And how much -- just as a follow-up. How much do you intend to spend on integration for this year? Would you be able to comment on that?

Ronald Slabke, Hypoport AG - Co-Founder, Chairman of Management Board & CEO [5]

Yes. Let's say, this -- you will not hear from us in the next quarters that we had a higher cost basis because of integration. This is -- the technical integration is already, let's say, on track. This is not a major issue. And as we understand, as a network of independent (inaudible) daughter companies, the organizational investments in integration are low. So let's say close to 0, not visible for you, and will not be commented by us.

Operator [6]

There are no more questions. (Operator Instructions) There are no more questions. I hand back to you.

Ronald Slabke, Hypoport AG - Co-Founder, Chairman of Management Board & CEO [7]

Yes, thank you. Yes, so then it's for me. I'll need say let's get back to work. We have a lot of integration work to do and to get traction on our synergies that we aim for. I will see you here and hear you again in 3 months, and we will come with the first results of these cool new acquisitions. And looking on organically growing other daughter companies, I'm pretty sure that we will deliver strong results for the half year 2018 as well. So, thank you, and hope to hear soon from you as well. Bye-bye.