

OVB Holding

ALLFINANZ SERVICE PROVIDER BENEFITS FROM PERSONAL ADVISORY

It has been a truism for years that the state pension will not be enough for a comfortable retirement. For most of us, there is no getting around a private pension. Readers of *Nebenwerte Journal* are active stock market participants and therefore in the minority, whereas many people are wary of the capital market and private pensions. They need professional advice, which is what OVB offers its clients. The foreseeable growth in demand has prompted us to put OVB Holding AG on the cover.

The company's product range also includes insurance policies: Nowadays, standard products like travel and car insurance can easily be purchased online at transparent prices, but personal advice is still in demand for insurance against existential risks. This is where Allfinanz service providers come in, ideally offering life-long, cross-thematic guidance. With more than four million clients and around 5,800 full-time financial advisors, OVB is one of Europe's leading Allfinanz service providers. Founded in 1970, the Group is now represented in 16 countries and has selected medium to high earners as its target group. Around 70% of the products its brokers relate to pensions, 18% to insurance policies and 12% to home loan savings/financing. The Group reports its figures in the regional segments Central and Eastern Europe (income share: 53%), Germany (18%) and Southern and Western Europe (29%).

One strategy period ends, another begins

In the 2022 financial year, the Cologne company concluded the "Evolution 2022" strategy programme it launched in 2017 (see NJ 5/21). In this period, the number of clients rose from 3.4 to 4.3 million and the number of financial advisors from 4,702 to 5,772. Brokerage income increased by 47.3% to €332 (225) million. The margin could not quite keep up, with EBIT increasing at a slower rate of 37.5% to €22 (16) million. To be fair, the EBIT margin was exceptionally strong at 7.1% in the first year of the cycle, so the bar was very high. The follow-up programme, "Excellence 2027", will be enacted this year, its key points having already been revealed in the 2022 annual report. A new chapter is also to be opened in the sustainability strategy, with the focus less on resource consumption in the Group's operating business and more on the selection of investment products. (For more on the two strategy periods, see the interview with the CEO on page 10.)

Solid performance in the 2022 financial year

Allfinanz service providers cannot escape the general economic situation; 2022 was a challenging financial year for OVB as well. Inflation led to cost increases, which could not be directly passed on to clients due to the business model. With lower disposable incomes and economic woes, private households were also less willing to invest in pension products.

In total, the Group increased its brokerage income by 3.5% to €332 (321) million. While EBIT grew slightly to €22 (21.8) million, net earnings declined by 6.6% to €14.7 (15.7) million. With earnings per share of €1.03 (1.10), the previous year's dividend of €0.90 per share was retained.

More clients in all regions

Pleasingly, the number of clients was increased in all three regions, with the Group-wide total amounting to 4.27 (4.13) million on the reporting date. The number of financial advisors also increased, except in the German domestic market, and reached a total of 5,772 (5,603). This widened the foundation for future growth.

With a solid equity ratio of 35.8 (35.4)%, the balance sheet as of the end of December 2022 shows liquid funds of €80.6 (74.6) million. This high cash on hand is due to reallocations in financial investments, but is expected to normalise to around €50 million.

Modest outlook for 2023

In the 2022 financial statements, the company also issued an outlook for 2023, which was confirmed after the Q1 figures were unveiled at the beginning of May. Brokerage income is expected to remain at the high previous year's level at €325 to 350 million. In contrast, EBIT is expected to be clearly below the previous year's figure of €22 million at €16 to 19 million. While earnings are set to increase in Southern and Western Europe, declining earnings are anticipated in Germany and Central and Eastern Europe.

OVB Holding AG, Cologne

Sector: Financial services

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ISIN DE0006286560,

14,251,314 shares, share capital €14,251,314

Shareholders: Signal Iduna Lebensversicherung 32%, Signal Iduna Krankenversicherung 21%, Baloise 33%, Generali 11%, free float 3%

Key figures	Q1 2023	Q1 2022
Brokerage income	83.4 million	84.2 million
Consolidated net income	2.3 million	3.4 million
Earnings per share	0.16	0.24
Equity ratio	35.8%	35.7%
Liquid assets	71.5 million	81.2 million

Share price on 20 July 2023:

€23 (Xetra), H: 29.40 / L: 20.60

P/E ratio 2024e 23, P/B ratio 3.4 (3/23)

Market value: €322 million



In the medium term, the recent upward trend should continue.

SUMMARY: OVB Holding AG's margin is under pressure in the short term, although it is conceivable that the earnings forecast for this year leaves a little room for improvement. A dividend of €0.90 per share is also conceivable again despite declining earnings. Even though the dividend yield of around 4% has lost some of its shine in light of the interest rate changes, it remains attractive in the equity environment. SRC Research and Pareto see the share as fairly valued with price targets of €24 and 23, respectively. We agree. Looking ahead, private households' continuing need for advice and the opportunity for growth through regional expansion are arguments for the share. Those with a medium-term focus can get on board now or when the share price falls. **OV**

An increased loss is expected at the level of the central units, which are shown separately in the segment report. Development and implementation of the new strategy will squeeze earnings with (non-recurring) expenses and inflation will have an impact at all levels – while also reducing the target groups' willingness to spend. Operationally, the Group is therefore facing a certain dilemma at the moment.

Weaker Q1 2023 meets expectations

Accordingly, the first three months of the current 2023 financial year were still characterised by difficult conditions with stubborn inflation and high interest rates. Clients therefore remained reluctant to conclude new contracts. Nevertheless, brokerage income nearly reached the level of the first quarter of the previous year at €83.4 (84.2) million, with income falling in Germany and Southern and Western Europe while increasing in Central and Eastern Europe.

EBIT declined significantly in all three regions and nearly halved to €3.1 (6) million at Group level. This is due to higher costs driven by inflation, an increase in personnel and the growth of in-person events, which were still inhibited by the pandemic in the previous year. With a €1 million improvement in the financial result and a declining tax rate, net earnings decreased by 31.9% to €2.3 (3.4) million or €0.16 (0.24) per share.

The pandemic has been mastered, the positioning is right

Allfinanz is based on personal trust, which in turn arises from personal contact.

OVB Holding AG's headquarters are located at Heumarkt in Cologne, one of the city's most prominent addresses.



The pandemic was therefore a heavy blow. In our opinion, however, OVB not only mastered this phase but also used it as a catalyst for a transformation and dynamisation of its business model. In the last three financial years under the pandemic, income has reached historic highs. The possibilities for approaching clients have grown; clients' preferences for the style of interaction can be precisely measured and met with pinpoint accuracy. In ideal cases, both efficiency and client satisfaction increase. Despite the disruptive turn towards the digital suggested by the media and consultants, personal advice is valued and actively requested, especially when it comes to far-reaching decisions. To this end, OVB boasts a young sales team that makes it a particularly attractive sales organisation for the providers of the products.

Successful internationalisation

Internationalisation not only has yielded growth and diversification but also provides advantages for recruitment, since international careers are a possibility within the Group. The Executive Board has set its sights on Portugal, Luxembourg and the Baltics as its next target regions (see interview, p. 10).

Interaction with clients may be the first thing that comes to mind when talking about digitalisation, but its role in the "engine room" of the business model must not be underestimated. All systems are bundled in a central European data centre. When it comes to commission invoices, data analyses and documentation of all kinds, there are considerable economies of scale on the one hand and barriers to market entry on the other.

One regulatory "threat scenario" has been averted for now: The ban on commissions for financial services did not find enough support at EU level. However, the topic is to be evaluated and brought back to the table in three years' time. The sword of Damocles hanging over the business model has therefore not disappeared but been pushed aside for now.

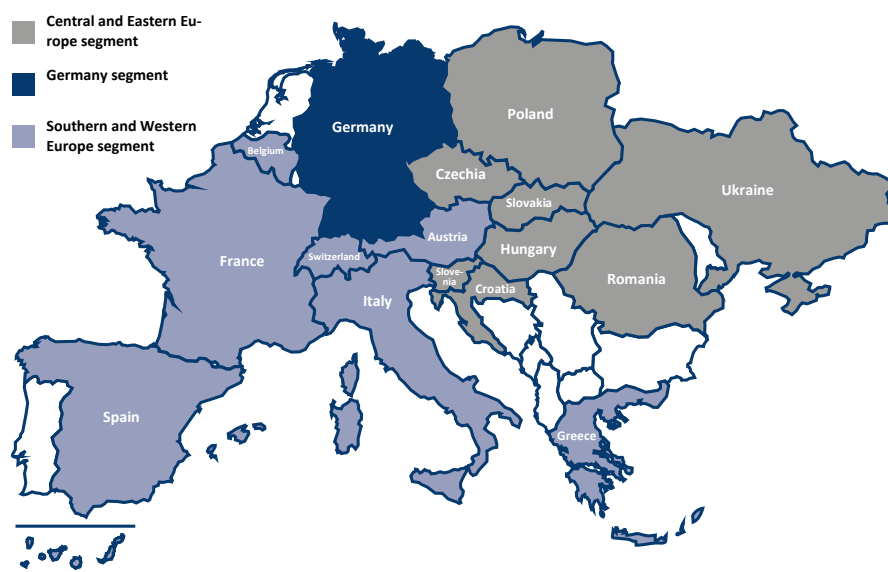
Low free float, high dividend yield

Most of the share capital is in the hands of large insurance groups; only 3% is available for the free float, which is however informed at the highest possible level with Prime Standard listing and professional investor relations. Since the initial public offering in 2006, the company has consistently reported profits and paid a dividend every year. In the period of the "Evolution 2022" strategy, the share price increased by a total of 41%. Moreover, dividends totalling a respectable €5.05 per share were distributed for these financial years. In recent years, the dividend yield has always been around 4%.

Oliver Vollbrecht

PAN-EUROPEAN PRESENCE IN ALLFINANZ

OVB is now represented in 16 countries and reports consolidated figures in three regional segments.



Source: OVB Holding AG