PETRUS ADVISERS

Wake-up call for comdirect – update

February 2018

Outline

I. Executive summary

II. Progress on Petrus Advisers demands

III. Growth and efficiency issues

IV. Dividend policy and capital adequacy

I Executive summary

Executive summary

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- Since publicly sharing our view on comdirect's improvement potential in September 2017 (http://www.wakeupcomdirect.com/), Petrus Advisers has increased its qualified minority stake
- comdirect management and dominating shareholder Commerzbank have not yet reacted to our demands
  - Little operational progress visible – especially compared to competitors such as Fintech, Avanza or Swissquote
  - e-base has reported only slight improvements
  - Governance issues including management incentivisation not yet addressed
  - No progress on designing and communicating a clear strategy for comdirect
  - Peers are outgrowing comdirect left, right, and centre resulting in a massive relative share price under-performance
- The lack of transparency on comdirect's capital adequacy and dividend policy is another issue for the equity story
  - Petrus Advisers demands improved reporting and transparency
- Merger rumours around Commerzbank in September / October 2017 temporarily supported comdirect's share price
  - comdirect's perceived performance issues have however caught up in Q4 2017 and Q1 2018 with comdirect's share price strongly underperforming
  - Based on Petrus Advisers' discussions with other comdirect shareholders, none has thus far expressed any appreciation for the quality of work delivered by comdirect's management team
- Petrus Advisers has requested to meet the CEO of comdirect to discuss strategy and improvement potential – despite being the largest shareholder behind Commerzbank, this request has been declined

Petrus Advisers' conviction on the potential of comdirect is unchanged and we will continue to push for value in comdirect and fair treatment of minority shareholders

II Progress on Petrus Advisers demands

Petrus Advisers demands have not been addressed (1/3)

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	Petrus Advisers demand	comdirect response/actions	State of progress
1. Reduce mid- and back-office cost / other cost	• Reduce back- and mid-office cost in comdirect by at least €25-35m • Consider outsourcing IT functions	• No formal commitment to reducing mid- and back-office costs • Admin expenses increased in H2 2017, partly due to non-recurring regulatory costs • Commerzbank's securities settlement was moved to a JV with HSBC but not comdirect's	✗ ✗ ✗
2. Improve or sell e-base	• **Option 1:** Focus, including expansion of business model combined with €3-5m cost savings programme • **Option 2:** Sell	• Management emphasised e-base's y/y growth in Q3 2017, not recognising that yearly comparison is favourable given that H2 2016 results were particularly weak	✗ ✗ ✗
3. Full access to Commerzbank client base	• Commerzbank to prioritise growth of comdirect for as long as it dominates the company	• No reference to commercial synergies with Commerzbank / plans to leverage Commerzbank's client base	✗ ✗ ✗

Petrus Advisers demands have not been addressed (2/3)

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	Petrus Advisers demand	comdirect response/actions	State of progress
4. **Decrease time-to-market**	• Prioritise time-to-market for comdirect • Likely involves significant cost for Commerzbank to make their systems / processes more flexible	• The company promotes the early success of cominvest • Management provided some colour on comdirect's "trading offensive" and voice-controlled applications	**NA**
5. **Review funding structure**	• Review alternative funding options • Optimise risk / return situation for comdirect • Optimise duration match • Needs to be driven by independent experts / management team	• No comments were made during the Q3 2017 and Q4 2017 earnings calls	✗✗✗
6. **Qualified & independent management team and Supervisory Board**	• 2-3 independent directors with relevant industry experience on the Supervisory Board • Management's incentives need to urgently be decoupled from Commerzbank – independent programme to be put in place • Strengthening of comdirect management team with high calibre people who have relevant experience appears necessary	• No comments were made during the Q3 2017 and Q4 2017 earnings calls	✗✗✗

Petrus Advisers demands have not been addressed (3/3)

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	Petrus Advisers demand	comdirect response/actions	State of progress
7. **Make comdirect an investable stock**	• Business needs a clear growth strategy to take net profit to €200m plus • Management to properly market the stock to investors • Focus on bringing in high quality investors and improve liquidity of the stock	• No mid-term strategy was presented to capital markets • CFO still pointing to move of interest rate curve as main value driver	✘ ✘ ✘

comdirect management is boasting strong performance – yet peers have performed much better!

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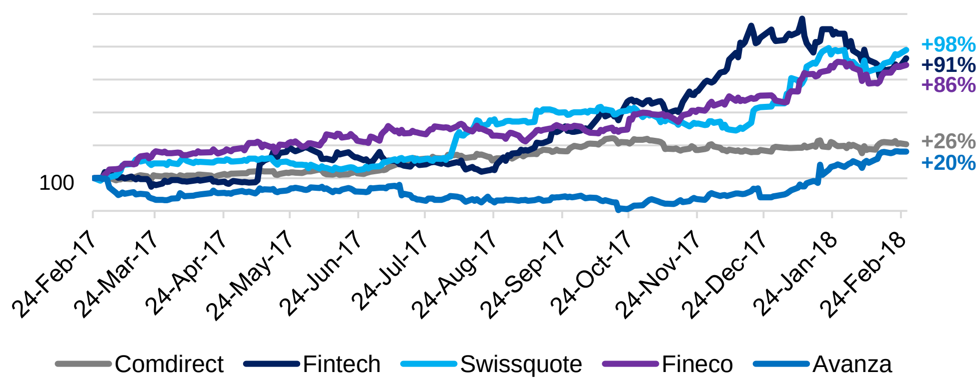
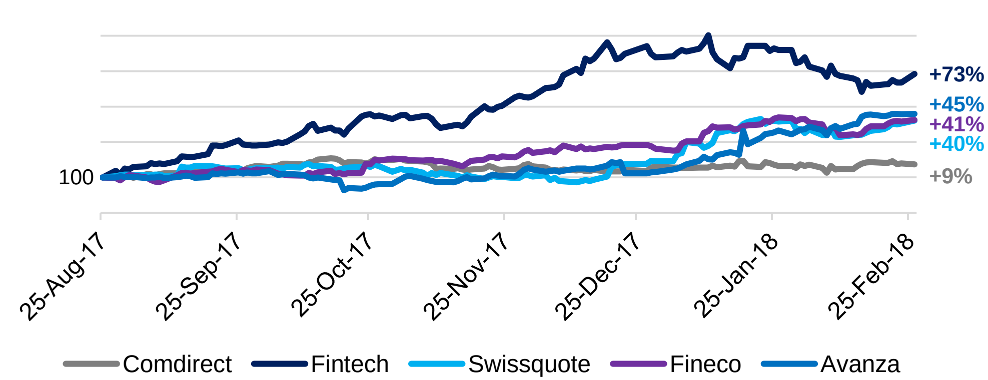
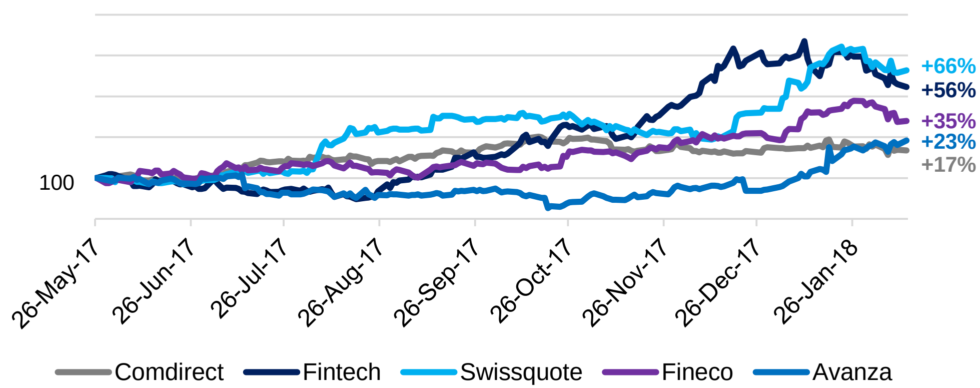
12-month share price performance



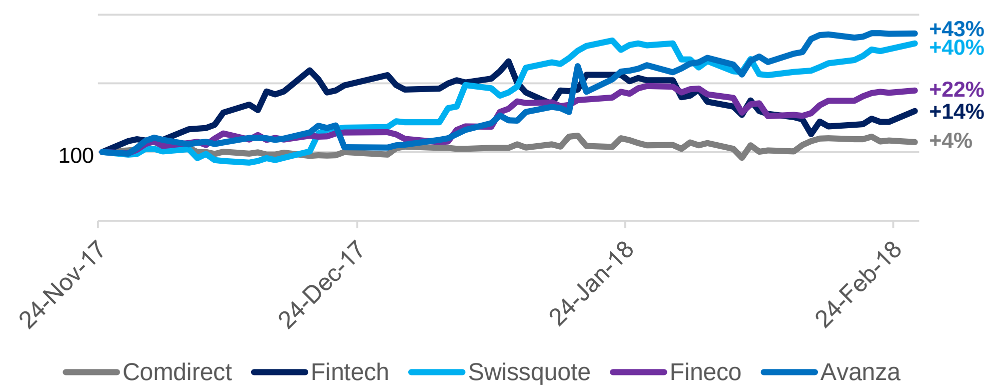
6-month share price performance



9-month share price performance



3-month share price performance



Source: Bloomberg as per 26 February 2018

Note: Share prices rebased to 100 as of the beginning of each period considered.

comdirect's share price initially benefitted from Commerzbank takeover rumours…

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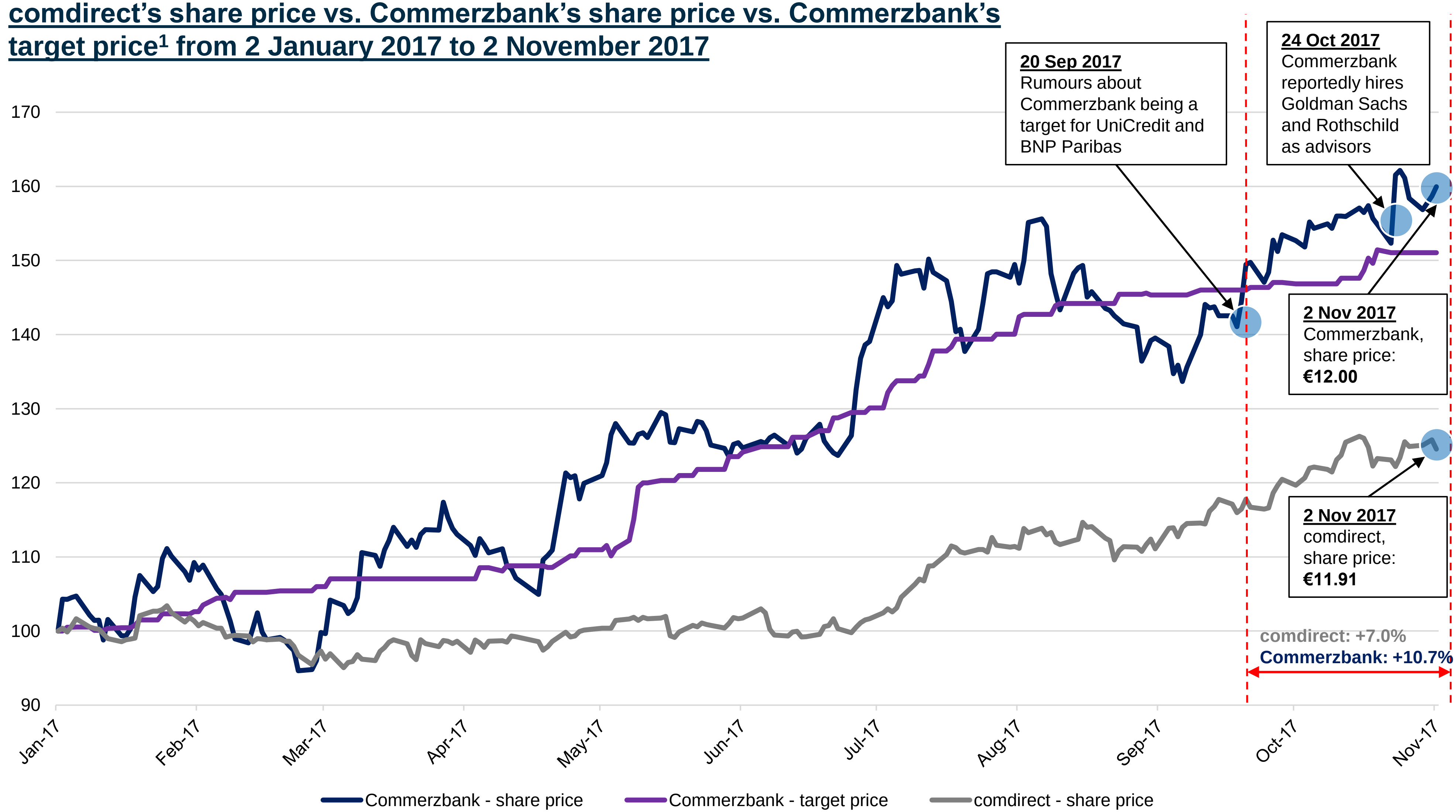
comdirect's share price vs. Commerzbank's share price vs. Commerzbank's target price[1] from 2 January 2017 to 2 November 2017



Source: Bloomberg as per 26 February 2018, financial press

1) Prices rebased to 100 as per 2 Jan 2017. Target price per Bloomberg consensus as of 26 February 2018.

… but recently the market has reverted to price in comdirect's underperformance issues

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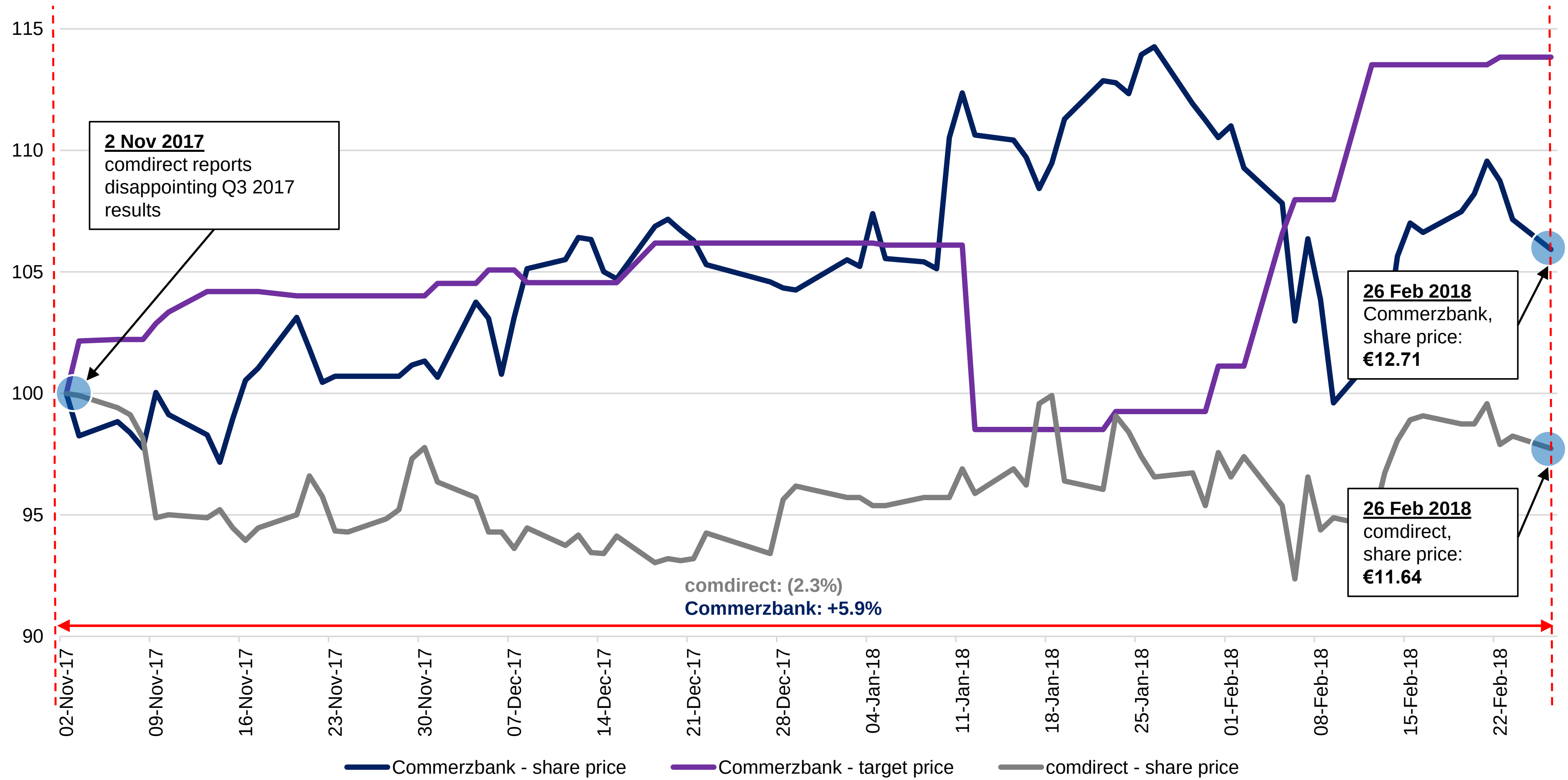
comdirect's share price vs. Commerzbank's share price vs. Commerzbank's target price[1] since 2 November 2017



Source: Bloomberg as per 26 February 2018

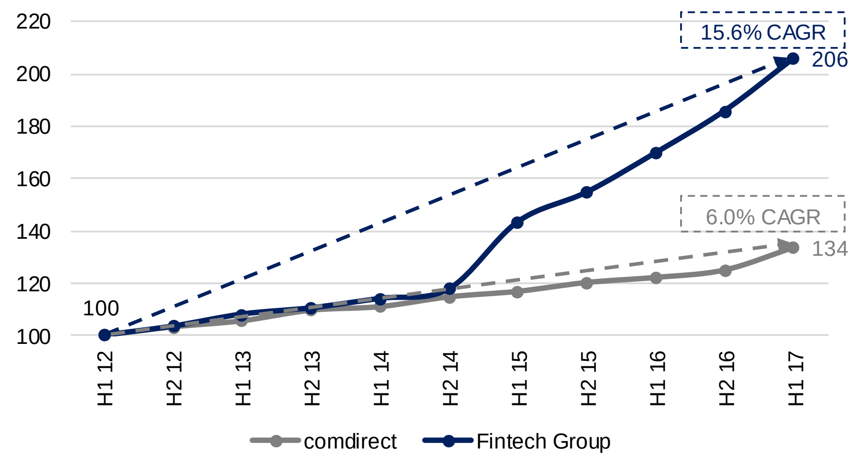
1) Prices rebased to 100 as per 2 Nov 2017. Target price per Bloomberg consensus as of 26 February 2018.

III Growth and efficiency issues

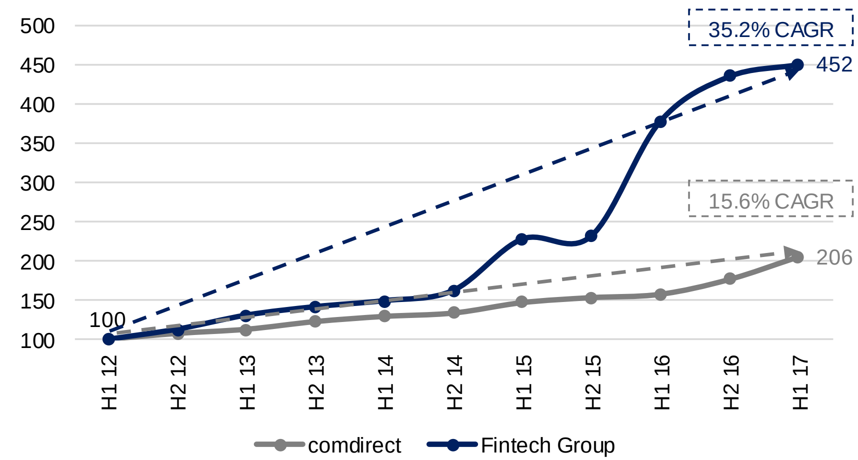
Lack of focus: Fintech has outgrown comdirect in its home market

- Fintech has outgrown comdirect's B2C business both in respect of customers and assets under management
- comdirect missed a unique opportunity to take advantage of its bigger customer base, brand awareness and leading market position
- Fintech's business model is more efficient than comdirect's – despite its (still) smaller scale

Growth in B2C customers[1]



Growth in B2C assets under management[1]



Source: company filings

1) *Rebased to 100 as of H1 2012. Assets under management growth includes performance-related growth. Growth in B2C customers and assets under management based on the reported No. of customers and assets under custody.*

Lack of efficiency: mBank[1] is dimensions ahead of comdirect's efficiency and profitability

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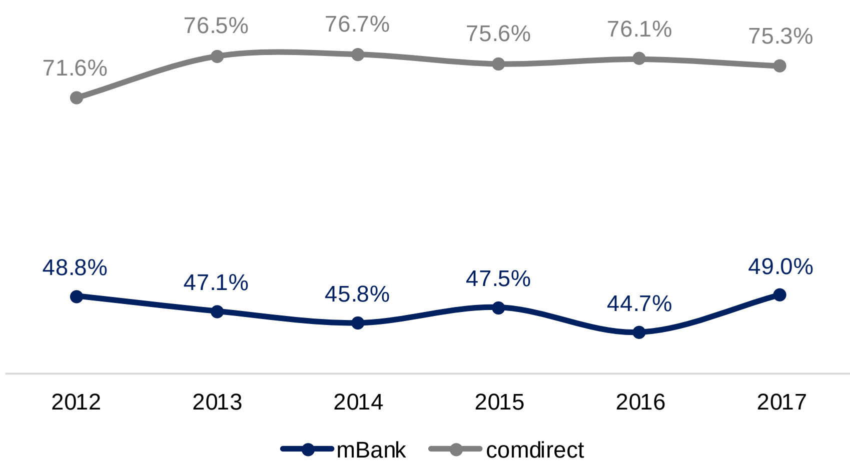
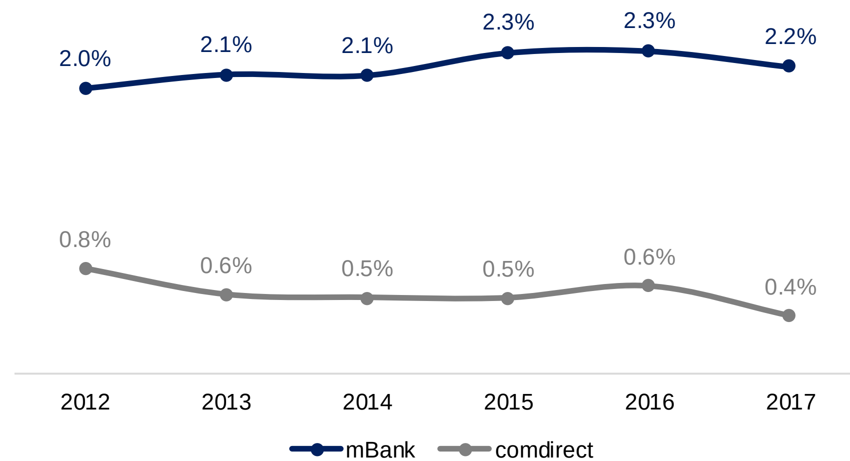
- mBank, which is 69% owned by Commerzbank, has consistently reported a ~30-35% (!) lower cost/income compared to comdirect, achieving ~4x comdirect's pre-tax return on assets
  - This is even more remarkable given that mBank has >300 branches
- The other difference: mBank is not operationally integrated into Commerzbank

Cost/income Ratio



Pre-tax return on assets[2]



Source: company filings

1) *Figures for mBank refer to the retail division only.*

2) *Calculated as profit before taxes/assets. Used pre-tax returns because mBank does not disclose divisional net income.*

Bloated cost structure: high overhead costs dampen profitability

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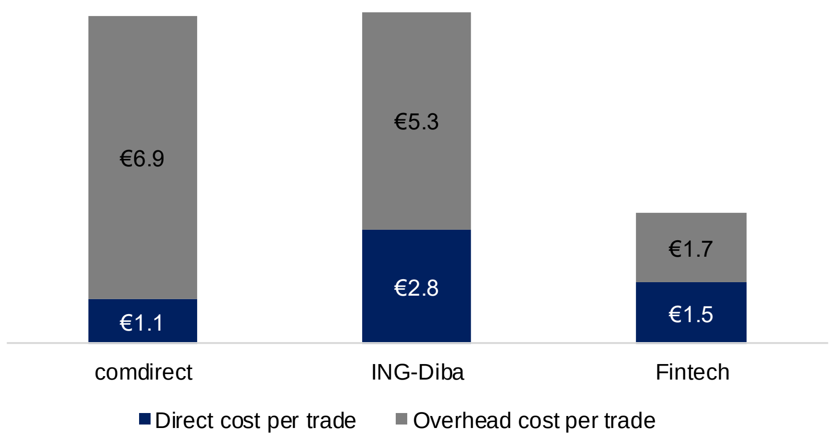
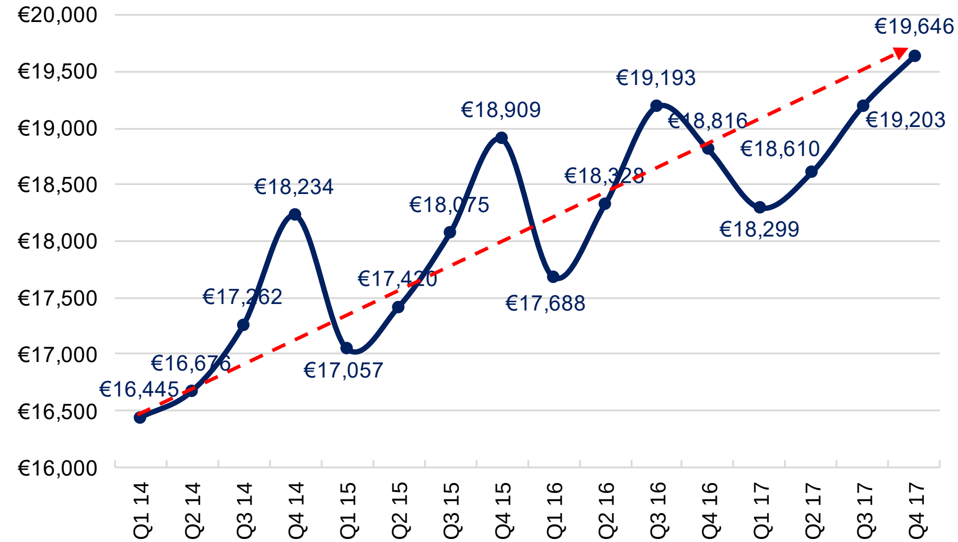
- Despite having low direct costs per trade, comdirect's overhead costs are staggeringly high, putting the company at the disadvantage to competition
- The annual increase in salaries seems to be out of control and dents comdirect's profitability

comdirect's overhead costs[1] are higher than peers'



Labour cost per employee has been increasing by ~€4k p.a.[2]



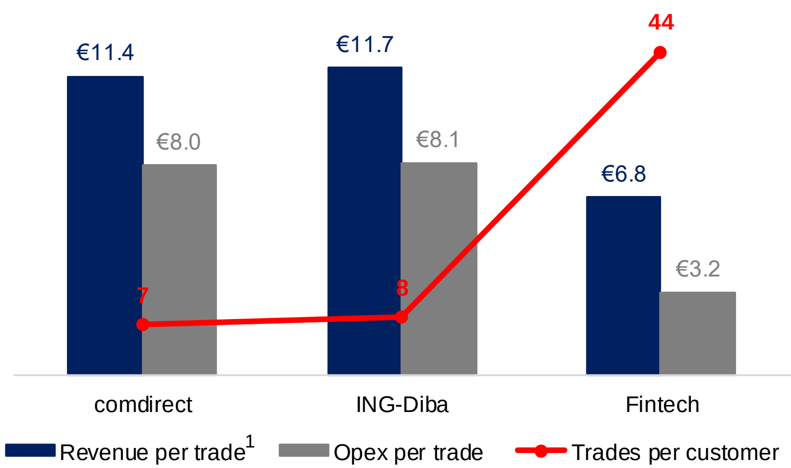
Source: company filings, Berenberg

1) *Overhead costs per trade calculated based on commission income as % of total income for the B2C segment multiplied by B2C overhead cost divided by the total No. of B2C transactions.*
2) *Calculated by dividing the quarterly cost of personnel by the number of full-time equivalents in the quarter.*

Ineffective and expensive marketing: management squandering marketing dollars with unsatisfactory payback

- High customer acquisition costs and low profitability per customer result into a payback of about nine years on comdirect's investment to win customers
- Peers such as Fintech (0.7 years payback) and ING-Diba (2.6 years payback) have a track record of much more profitable growth

comdirect achieves lower profitability per trade and has customers who do not trade as much as peers'



Payback of comdirect's investments to acquire customers is almost nine years

	Customer acquisition costs[2]	Pre-tax profit per customer	Payback, years
comdirect	**€210**	**€23.8**	**8.8**
ING-Diba	€75	€28.8	2.6
Fintech	€103	€158.4	0.7

Source: company filings, Berenberg

1) *Based on prices for trading instruments listed on Xetra as of January 2018.*

2) *Calculated by attributing sales and marketing expenses to commission income as % of total income.*

The result: declining returns despite scale

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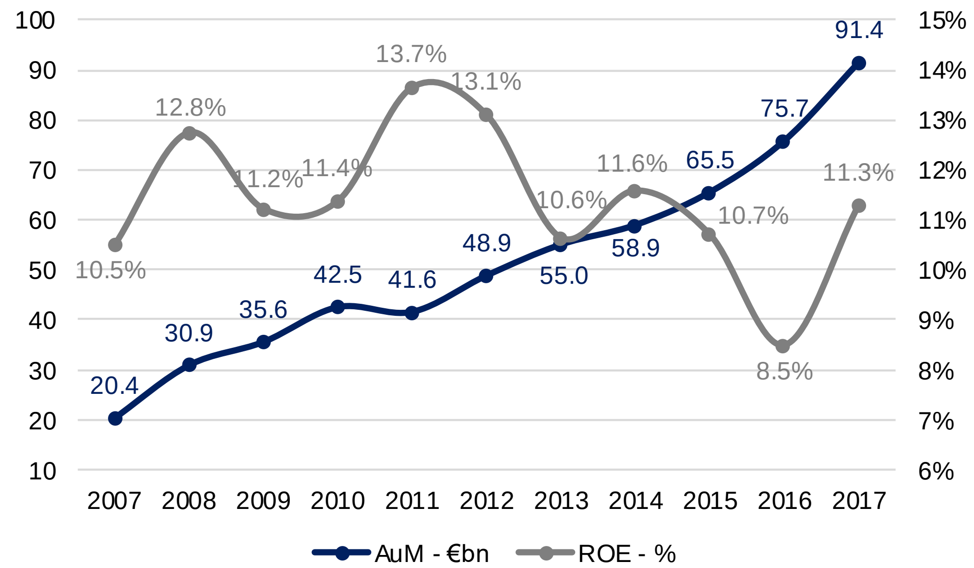
- Notwithstanding a sizeable customer and asset base, comdirect is not achieving economies of scale
  – Management keeps pointing to the difficult interest environment but has not put in place self-help measures, nor innovated

AuM against ROE[1]



Source: company filings

1) *ROE in 2011 and 2016 was adjusted for non-recurring items, namely tax refunds and VISA transaction.*

e-base remains an 'orphaned division'

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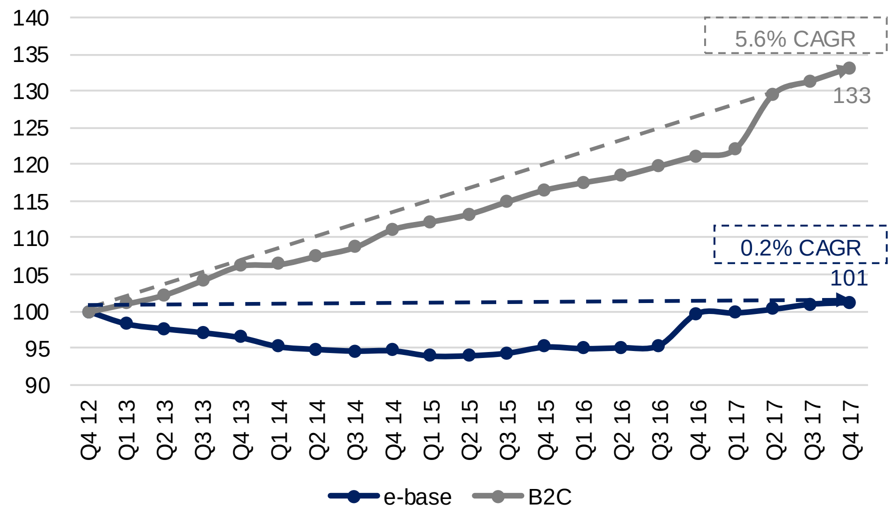
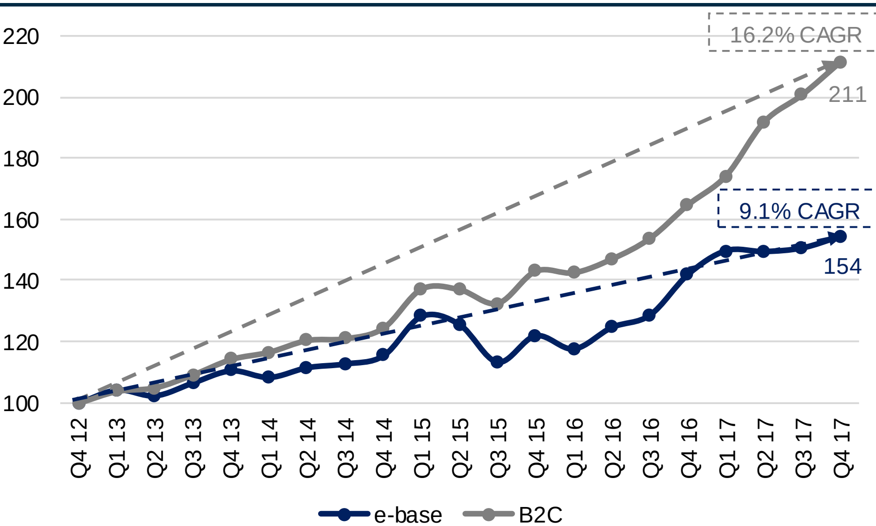
- The efforts comdirect took to develop e-base have not borne fruit to date
  - e-base's customer base has not grown in five years
  - AuM growth has been ~½ that of comdirect's B2C business
- e-base is neither synergistic nor growth accretive, and management has no plan for the business

Growth in customers of e-base vs. B2C[1]



Growth in AuM of e-base vs. B2C[1]



Source: company filings

1) *Rebased to 100 as of Q4 2012. Assets under management growth include performance-related growth. Growth in B2C customers and assets under management based on the reported No. of customers and assets under custody.*

IV

Dividend policy and capital adequacy

comdirect does not pay an attractive dividend yield

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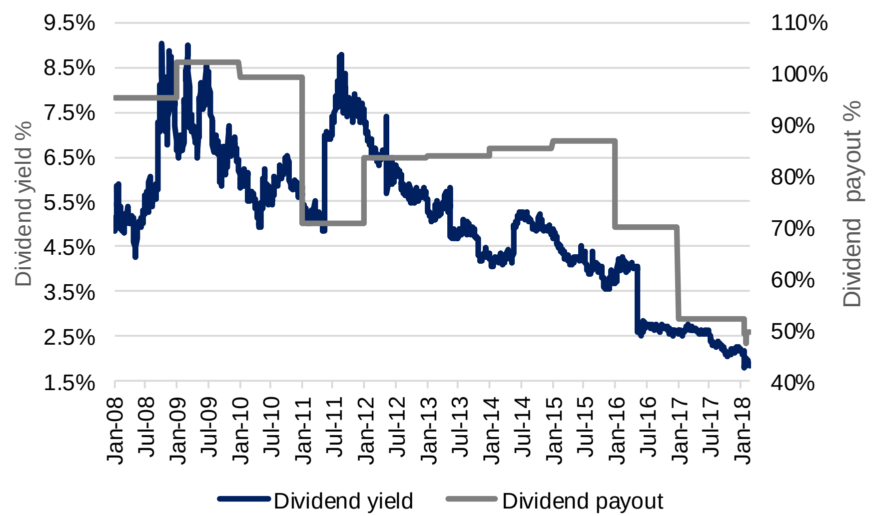
- Management claims that comdirect is paying an attractive dividend yield[1]
- However, comdirect's dividend yield has declined since 2011 and at 2.2% is a far cry from the 3.5% average dividend yield of its peers
- The dividend payout ratio has been consistently dropping over the last 24 months

Lower dividend yield compared to peers[2]

Peer	Dividend yield
mBank	NA
Fintech	NA
Avanza	2.2%
BinckBank	5.3%
Fineco	2.9%
Hargreaves Lansdown	1.8%
IG Group	4.1%
PLUS500	6.6%
Renta4	4.3%
Swissquote	1.3%
Bourse Direct	NA
Average	**3.5%**
comdirect	**2.2%**

Dividend yield[2] vs. dividend payout



Source: company filings, Bloomberg as per 26 February 2018

1) *At the Q4 2016 earnings call, the CEO of comdirect, Mr Walter, said that "comdirect […] remains an interesting dividend stock. [At] times when one is getting 0% on his/her deposit, we remain an attractive investment for our shareholders. Later in the call, the CFO of comdirect, Mr von Bluecher, added that "there are only a few financial stocks that allow a comparable dividend yield in the current economic environment".*
2) *Current dividend yield based on analyst consensus on FY 2017 dividends distributable in 2018. Average includes only dividend-paying peers.*

While very simple, comdirect's balance sheet lacks transparency

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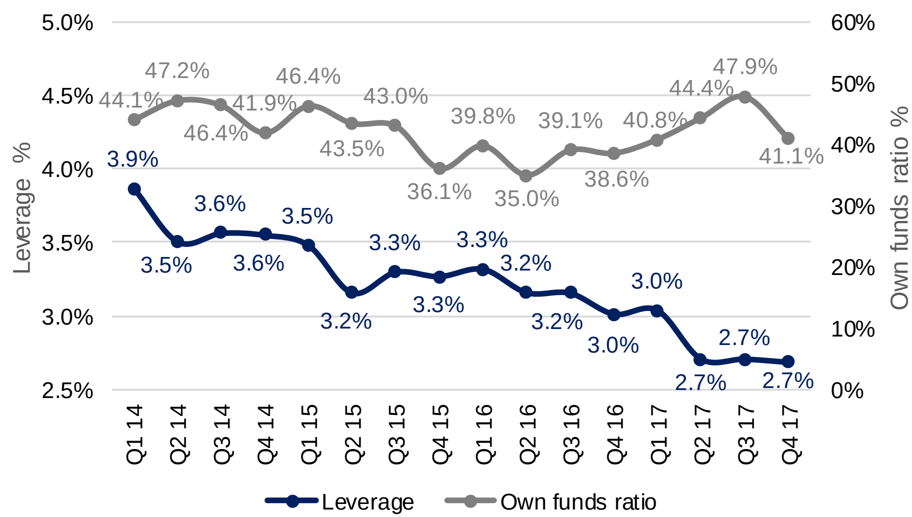
- comdirect does not provide a reliable basis for assessing capital adequacy as the company does not disclose its CET1 capital ratio, using instead own funds ratio[1]
- comdirect's high and rising own funds ratio is due to the zero-weighting of claims on its key counterparty Commerzbank, that account for ~2/3 of comdirect's assets
- However, leverage has been consistently dropping, raising concerns about the solidity of comdirect's balance sheet
- This mismatch in financial signalling creates unnecessary uncertainty for investors

Own funds ratio[1] and leverage ratio are diverging



Source: company filings

1) *Own funds defined as (equity minus revaluations) / (RWA + 12.5 x eligible amount for operational and other risks).*

The street struggles to understand comdirect’s ability to pay dividends and its dividend policy

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- Analysts are bewildered by comdirect’s evasiveness to properly disclose the capital ratios upon which dividend distributions are determined
- More clarity over the target capital ratios is needed

Q2 2017 earnings call[1] shows the troubles analysts have with comdirect’s disclosure of capital ratios

Analyst A

Q: “[…] you are always looking at the equity ratio when deciding upon the dividend and 3% [is] the hurdle rate; what does this mean for […] 2017?”

A: “3% […] is an internal hurdle rate. […] when discussing with [the board], we will [come up] with a dividend proposal that will reflect shareholder interests as well as ECB’s interests.”

Analyst B

Q: “[…] what is it, in terms of numbers, that you discussed with the ECB [to decide] your dividend?”

A: “[…] we take our decision for our dividend on a standalone basis […]. […] there’s no approval of our dividend by the ECB. […] the ECB gets all of our reports […].”

Q: “[…] you must be deciding your dividend in the context of a level of capital which you’re discussing with the ECB. […] could you confirm that’s not the [leverage] ratio you’ve been discussing with us today?”

A: “No, we are not discussing [the leverage] ratio with the ECB. That’s […] an internal target. […] we are not discussing in detail our equity with the ECB, because […] every ratio [is] well within minimum [requirements].”

Source: company filings, earnings calls’ transcripts

1) Bloomberg’s transcripts. Edited to improve readability.

Petrus Advisers believes comdirect's ability to pay dividends is understated

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- The lack of a dividend policy based on capital ratios leads analysts to estimate comdirect's dividend distribution potential based on the stated internal target of ≥3% leverage ratio
  - Estimated 2018-19 dividend yield is therefore low, making the stock less attractive to investors
- However, the adjusted own funds ratio suggests comdirect has a capital buffer and could therefore distribute higher dividends
  - Assuming a ~80% dividend payout ratio in 2018-19, and ~16% asset density on the claims on Commerzbank, comdirect could increase dividend by 34% and 61% vs. 2017 dividend, respectively

Claims on Commerzbank distort comdirect's 2017 own funds ratio

Figures in €m unless otherwise stated	
Assets	23,032
thereof claims on Commerzbank[1]	17,307
Reported RWA[2] (ex-Commerzbank)	1,144
Implied RWA density ex-Commerzbank	*~20%*
Own funds for solvency purposes	470
Reported own funds ratio	**41.1%**
Adjusted RWA weight of claims on Commerzbank[3]	3,458
Adjusted RWA	4,602
Own funds for solvency purposes	470
Pro-forma own funds ratio	**10.2%**

Own funds ratio: sensitivity	
CBK claims RWA weight	
10%	16.3%
11%	15.4%
12%	14.6%
13%	13.8%
14%	13.2%
15%	12.6%
16%	12.0%
17%	11.5%
18%	11.0%
19%	10.6%
20%	10.2%

Depending on the weight of claims on Commerzbank, 2017 own funds ratio would range from ~10% to ~16%

Analyst estimates[4] imply ~2% dividend yield, based on <3% leverage

Figures in €m	2017	2018E	2019E
Net profit	72	59	71
Dividends	35	31	35
Dividend payout ratio		*52%*	*49%*
Dividend yield	**2.2%**	**1.9%**	**2.2%**
RWA	4,602	3,649	3,748
Own funds	470	494	534
Leverage	**2.0%**	**2.2%**	**2.3%**
Adj. own funds ratio	**10.2%**	**13.5%**	**14.2%**

Figures in €m	2017	2018E	2019E
Net profit	72	59	71
Dividends	35	47	57
Dividend payout ratio		*80%*	*80%*
Dividend yield	**2.2%**	**3.0%**	**3.6%**
RWA	4,602	3,649	3,748
Own funds	470	494	517
Leverage	**2.0%**	**2.2%**	**2.2%**
Adj. own funds ratio	**10.2%**	**13.5%**	**13.8%**

Source: company filings and website, Bloomberg as per 26 February 2018, Petrus Advisers estimates

1) *Assumes all claims on banks are claims on Commerzbank.*
2) *Includes 12.5 x eligible amount for operational risk.*
3) *comdirect's claims on Commerzbank weighted at ~20%, i.e. RWA density-neutral.*
4) *Net profit and earning assets per Bloomberg analyst consensus as of 26 February 2018. Estimates start from RWA and own funds as of Q4 2017.*

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