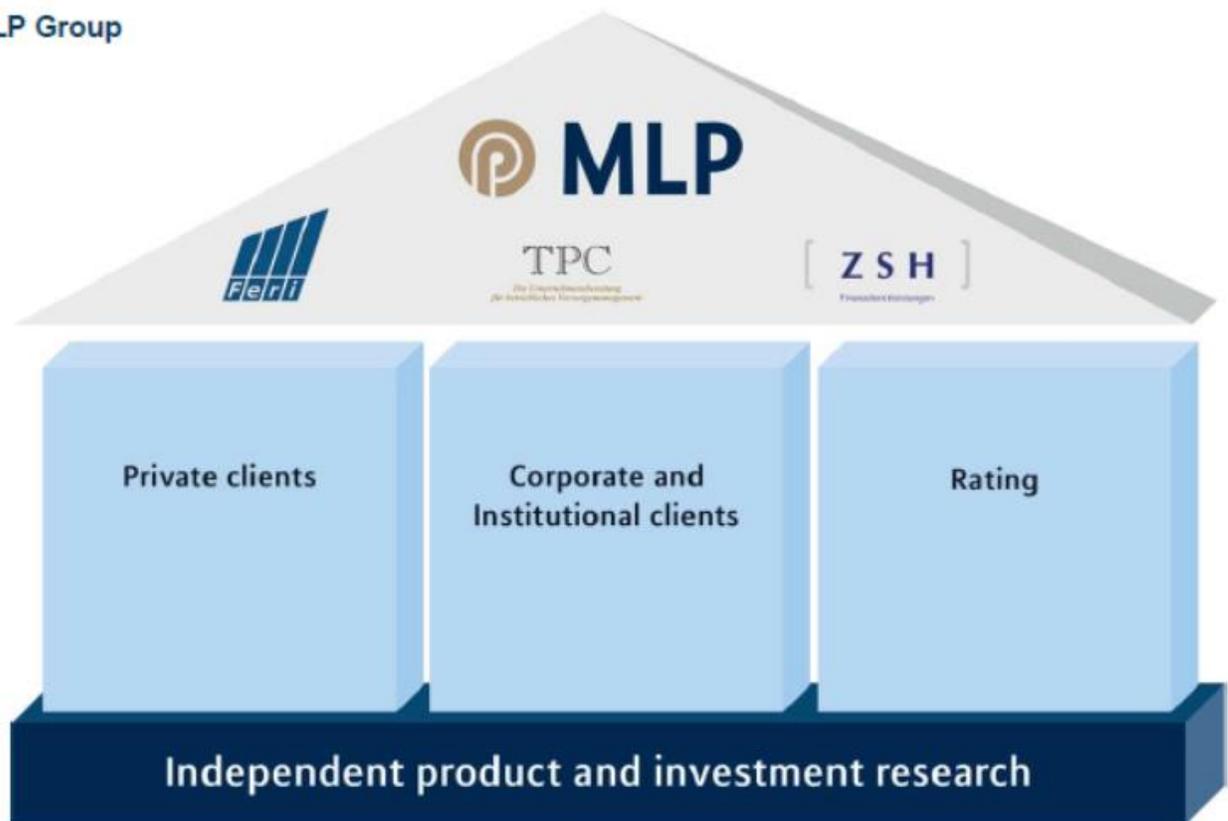


Small-Cap Investing in Germany: MLP AG

By **Jerry P. Getsos**, Director of Research and Senior Vice President, Klingenstein, Fields & Co.

MLP AG (Bloomberg: MLP GR) is the leading independent consulting firm in Germany. Enjoying a recurring revenue stream from the sale of financial products including old-age provision (retirement savings), health insurance and wealth management, MLP manages €24 billion for over 825,000 private and 5,000 corporate clients. With a market cap of €609.5 million, we find this established small cap company a compelling opportunity. On a standalone basis this is a free-cash generating machine. It could also be viewed as an acquisition target for a larger financial institution that could benefit from synergies associated with their branch network and coverage of Germany.

The MLP Group



MLP is a unique turnaround situation for value investors who believe the following two things: 1) the German economy will advance at a faster pace than the .5% GDP rate expected for 2013 and 2) the financially astute German population will begin to shift out of lower yielding investments and into financial products with better return potential. With a share price of €5.62, the stock has essentially been flat over the past year, even though assets under management have increased from €21 billion to €24 billion.

We expect MLP to exceed its conservative margin guidance targets and should earn close to €0.90/share within a 2-3 year period. Using a 12x multiple to those earnings, the stock should approach €10.00 over the next few years. It is also worth noting, that a number of MLP's core shareholders built their position back in 2008 at €12.00 share levels. We would not rule out the possibility of MLP being rolled into one of these shareholders at a significant premium to our price target. The company's ability to generate cash along with their embedded position throughout the German market could make them an attractive acquisition for any of their top owners including the following: Harris Associates (9.8% of outstanding shares), Barmenia (6.7%), Fidelity (5.5%) and Berenberg Bank (4.8%).



With 170 branch offices and ~2,000 investment consultants, we believe the company is extremely well-positioned to benefit from the following: an improving domestic (and European) economy, a migration of their customer base into higher revenue producing products, a recruiting drive and the completion of a 2-year information technology efficiency project. Expectations for this company are too low and even if economic conditions remain moribund, the 5.5% dividend yield is quite enticing.

History

MLP AG was founded in 1971 as an independent financial consulting firm. The initial goal was to help their clients, mostly lawyers at the time, realize their long-term wealth goals by utilizing financial and insurance products. Over the years, their target client group expanded to include academics, business professionals and attorneys, as well as institutional investors. In 1988, MLP went public on the Stuttgart Stock Exchange. With ~29% of the shares being owned by Familie Lautenschlager, one of the founding partners and the “L” in MLP, we believe that the company will continue its dividend policies. In the past, this was a thinly traded stock primarily in the hands of European financial institutions. In the 4th quarter of 2013, one of these organizations, Swiss Life, exited its 9.9% position allowing MLP’s free float to increase to 47%, which, in addition to improving liquidity, should begin to raise the awareness of this well-positioned company.

Throughout its existence, MLP has expanded their product offerings, invested in training its consultants and grown its branch/consulting network. Speaking of consultants, MLP’s are among the best trained and most professional in the field. In 2007, MLP developed the MLP Corporate University which offers high caliber training and advanced education courses. This university is also an accredited provider of training for the Certified Financial Planning designation.

Insurance consulting		Wealth management	
Independent Broker		Researched based independent consulting	
			
<ul style="list-style-type: none"> • Works on behalf of the client • Is awarded a consultancy mandate, similar to a lawyer • Extensive risk and requirement analysis • Sufficient number of products available on the market 		<ul style="list-style-type: none"> • Full banking license • Serving affluent clients at MLP • HNWI with private estates > 5 million Euros are served by Feri • Innovative multi-asset/multi-manager approach • Product-independent market assessments • Broad-based research as basis for investment consulting • MLP clients benefit from Feri’s expertise • Close cooperation between Feri and MLP in direct mandates 	
Multi-Agents	Tied Agents		
			
<ul style="list-style-type: none"> • Acting on behalf of one or several product providers • Risk and requirement analysis based on situation • Limited product selection 	<ul style="list-style-type: none"> • Working on behalf of the respective product provider • Risk and requirement analysis based on situation • Limited product selection 		

Favorable Business Trends

Historically, the pension segment of MLP's business has accounted for their largest contribution to revenues. However, in recent years, revenues from this group have been on a decline as it is a lower margin business and general economic conditions have pressured voluntary contributions. We expect that the worst is behind them and this segment will begin to grow. Meanwhile, MLP's wealth management division, a higher margin service, has experienced revenue gains that have nearly doubled in the last 5 years and are now 27% of revenue. Aided by a joint venture that turned into an acquisition of FERI AG, a German-based institutional consulting firm with a distinguished history of performing due diligence on financial products, this is a favorable shift in business that we expect to continue. With investor confidence expected to improve and clients beginning to move away from lower margin fixed income vehicles into alternative investments and equities, the margin trend should be quite favorable for MLP.

MLP does not sell proprietary products. Their advice is thought to be some of the most objective in the business and sought after by private and institutional investors alike. The German economy continues to be the most dynamic in Europe, notwithstanding a two year slowdown resulting from the European debt crisis of 2011. On the bright side, economic activity has picked up, the unemployment rate has been reduced, consumer confidence has improved and the DAX posted a gain of 24% in 2013. We expect these green-shoots to develop into increased demand for financial advice in the coming months with MLP being a major beneficiary.

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