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## VENTURE CAPITAL & PRIVATE EQUITY

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## 1. EXECUTIVE SUMMARY

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Financial technology start-up Wealth Kernel Ltd. is situated in the UK and works to provide companies with the means to market digital investment products. They use an application programming interface-accessible, secure, modular technology platform that is approved by the Financial Conduct Authority (FCA). This makes it simple for companies to integrate and offer financial options to their customers. Wealth Kernel's strategy safeguards customer funds and has even made them known as one of the leading worldwide wealth technology companies. The company offers a range of vertically integrated investing services via the application programming interface, including trading (extensive trading based on state-of-the-art tech) and user onboarding (onboarding users with ease and tailored onboarding flow rules). In addition, the company provides custody services, functioning as a custodian and safeguarding client funds and belongings while maintaining open and understandable records that are accessed through their application programming interface. Additionally, the company provides clients with a variety of account kinds, including tax-efficient account kinds like ISAs and SIPPs. Additionally, Wealth Kernel is a pension administrator and ISA manager registered with HMRC, able to support all of the following wrappers in the UK. This implies that your company can support the investment universe selected by clients and provide investors with the account types they desire. The company's primary clientele consists of financial managers, established companies, and fintech start-ups. The company's primary offering is automated portfolio and order management systems, which are among the best in the market and enable companies to effectively and smoothly manage the portfolios of their individual clients. The business offers its clients a rebalancing engine that, once each client has indicated their unique rebalancing criteria, programmatically rebalances their portfolio. Order consolidation and fractionals are two services that Wealth Kernel Ltd offers its clients. Regardless of the order amount, fractionals enable consumers to purchase partial shares of a corporation as opposed to complete shares.

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## **2. COMPANY OVERVIEW**

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A British fintech business called Wealth Kernel Ltd. works in the wealth management industry. Instead of selling investment goods to customers directly, they provide the framework on which other companies might develop digital wealth management solutions. Regard them as the underlying machinery that drives these finance applications. Rich Kernel provides an extensive feature set that is obtainable via APIs, making integration simple. This covers everything, from monitoring accounts and welcoming new customers to executing trades and safely storing customer assets. A British fintech business called Wealth Kernel Ltd. works in the wealth management industry. Instead of selling investment goods to customers directly, they provide the framework on which other companies might develop digital wealth management solutions. Regard them as the underlying machinery that drives these finance applications. Rich Kernel provides an extensive feature set that is obtainable via APIs, making integration simple. This covers everything, from monitoring accounts and welcoming new customers to executing trades and safely storing customer assets.

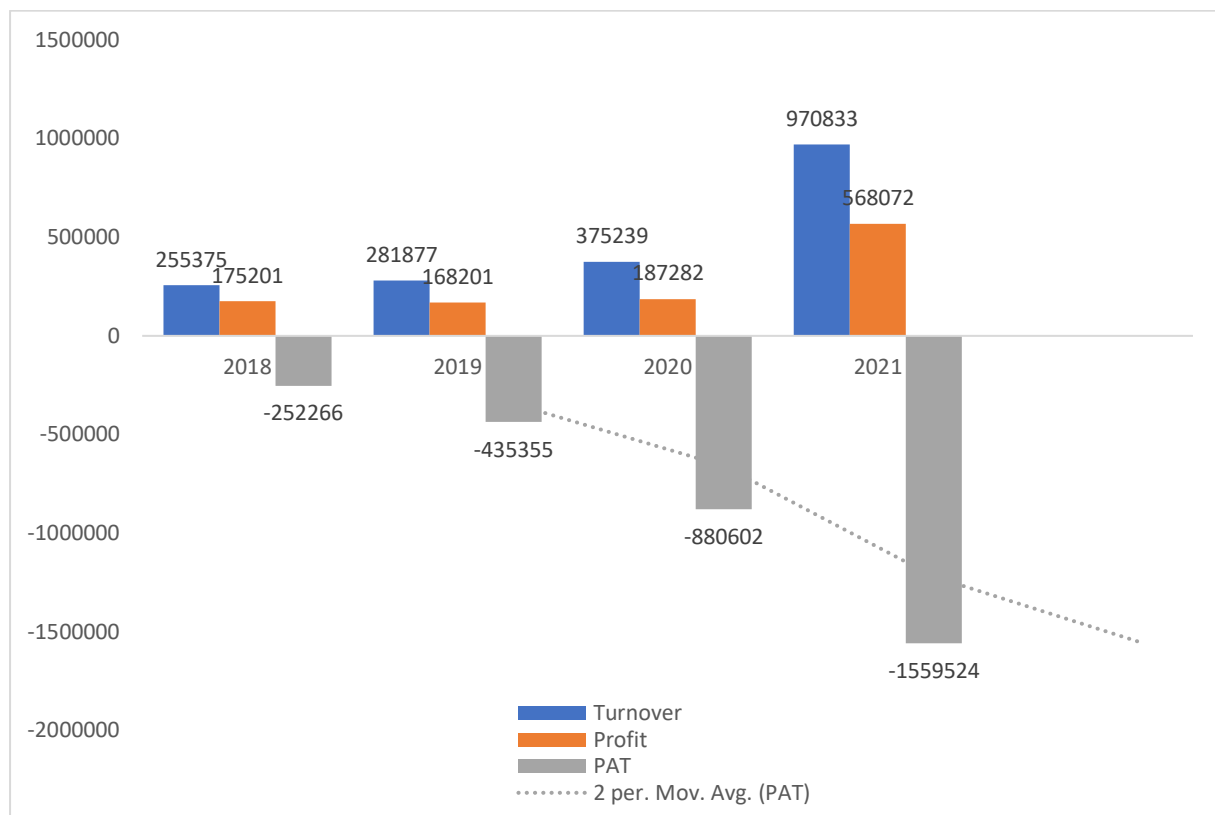
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## **3. RECENT PERFORMANCE AND LIKELIHOOD FOR SALE**

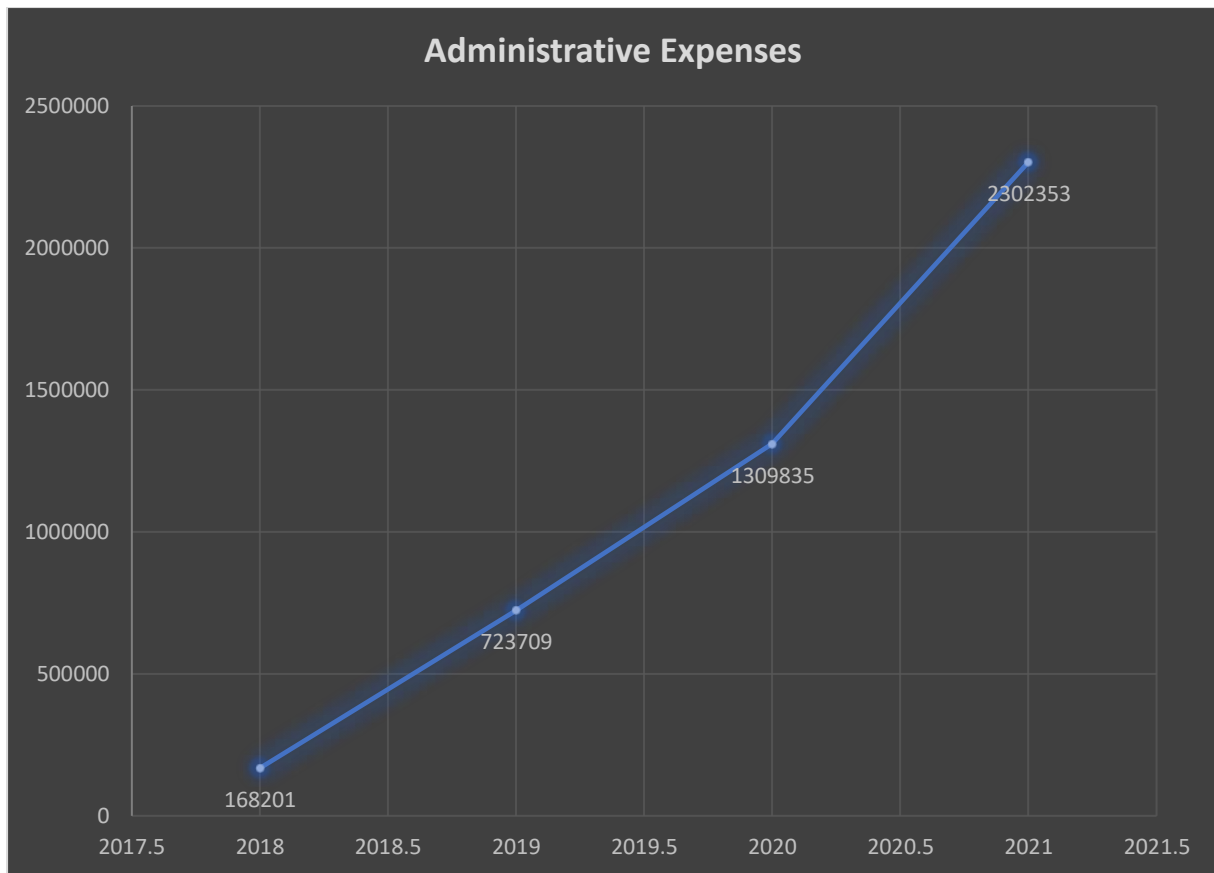
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Wealth Kernel has struggled to control costs since its founding, but the business has been steadily growing its sales year over year, suggesting that there is a high demand for the product. As will be seen later, the firm's administrative expenses, which have been rising annually, are the main factor contributing to its losses. As the company continues to put more emphasis on client acquisition over time, it is anticipated that its profitability will rise as it works to enhance the functionality of its investment platform. This will lower long-term costs and create a profit cushion. Although Wealth Kernel has had difficulty keeping costs under control since its establishment, the company has been progressively increasing its sales year over year, indicating that there may be a strong market for the product. The primary cause of the company's losses is its administrative costs, which have been increasing yearly, as will be seen later. Over time, as the company strives to improve the functionality of its investing

platform, it is expected that its profitability will increase as it continues to prioritise customer acquisition. This will generate a profit cushion and reduce long-term expenses.



A staggering 267.81% increase in the company's net turnover suggests that there is a high demand for the goods and services the business provides. As long as the fintech application programming interface market continues to expand and thrive, the trend of increasing revenues is probably going to continue. The company's cash flow statement has been harmed because of its losses. The company's cash flow from operations decreased from £289,949 in 2017 to £1,233,841, despite substantial investments made in tangible asset acquisitions that have bolstered sales growth. Investment-related cash flows rose from (£3656) in 2017 to (£82,940) in 2021. The company has concentrated more on generating money through financing because it is currently not profitable. The money raised is used for the expansion and improvement of the company's investment platforms. Cash flows from finance were £4,964,559 in 2021. Purchase of tangible assets increased from £3812 at the end of 2018 to £40,353 by the end of 2022, a growth of 958.57%.



As previously said, a significant portion of the company's losses can be attributed to its steadily rising administrative costs, which will be further bolstered by the increase in physical assets. In 2023, there should be more demand for the company's core services as it continues to add new clients, which will likely result in a further decrease in costs. The company has made investments to expand its internal platform capabilities as a result of consistently rising cash flows from investing activities, which are mostly utilised for the purchase of tangible assets. The company also stated in its annual report that it will be trying to enhance the size of its management team, which should help to boost sales growth even as costs to the business continue to rise. In the long run, revenue generated per employee should eventually exceed the cost incurred by the company, leading to profitability in the near future.

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#### 4. CURRENT MANAGEMENT

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Name	Role	Country of Residence	Occupation
KARAN, Samantha	Secretary	N/A	Secretary
OHS SECRETARIES LIMITED	Secretary	N/A	Secretary
BRUNNER, Yannick Marshall	Director	England	Chief Compliance Officer
CAMPBELL, Thomas Joseph	Director	England	Non-Executive Director
LANSDALL, Ian	Director	South Africa	Non-Executive Director
SCHWIEGER, Brian James	Director	United Kingdom	Director
SHANMUGARAJAH, Thuvakaran	Director	United Kingdom	Chief Executive Officer

#### Competitive Analysis of Wealth Kernel Ltd.

Particulars	Market Cap (if publicly traded)	Strengths	Weaknesses	Threats
<b>Wealth Kernel Ltd.</b>	Not Publicly Traded	- Modular API suite for customization	- Limited public information	- Competition from established

		Regulatory compliance (FCA) Security focus (ISO 27001) Global reach Award recognition	(private company) Focus on B2B market	players Need for continuous innovation
<b>Google Cloud (Cloud APIs)</b>	\$1.5 Trillion (part of Alphabet Inc.)	- Vast resources and brand recognition Robust API platform	- Focus may not be on wealth management specialization	- Potential for broader appeal but less specialized solution
<b>Amazon Web Services (AWS APIs)</b>	\$1.2 Trillion (part of Amazon.com Inc.)	- Extensive cloud infrastructure and services Wide range of APIs	- Focus may not be on wealth management specialization	- Potential for broader appeal but less specialized solution
<b>Microsoft Azure (Azure API Reference)</b>	\$2.3 Trillion	- Strong global presence and established technology Diverse range of APIs	- Focus may not be on wealth management specialization	- Potential for broader appeal but less specialized solution

<b>Mambu (Core Banking Platform APIs)</b>	Not Publicly Traded	- Core banking functionalities relevant to wealth management	- Limited public information (private company)	- Competition for specific functionalities within wealth management platforms
<b>Temenos (Wealth Management APIs)</b>	11.4 Billion	- Comprehensive wealth management suite	- Potential for higher cost compared to Wealth Kernel	- Direct competitor offering similar functionalities
<b>Addepar (Portfolio Management APIs)</b>	Not Publicly Traded	- Specialized portfolio management APIs	- Limited public information (private company)	- Competition for specific functionalities within wealth management platforms



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### 3. COMPANY ANALYSIS AND OVERVIEW

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#### *a. Company Offerings and Value Drivers*

Offering <sup>1</sup>	Description
Portfolio and Order Management	Automated portfolio and order management system to fractionalise and consolidate orders seamlessly; automating trades and rebalancing portfolios.
Trading Services	Orders application programming interface providing clients cost reduction benefits, ease of order transmission and execution in a timely, cost effective manner.
Custody	FCA compliant custodian services offered removing regulatory and technical complexity of holding client's money and assets
Accounts API	Multiple account types, particularly tax efficient account wrappers providing clients integration of account types into investment products with ease.
User Onboarding	Integrated client onboarding service allowing companies to digitally onboard clients using a cost-effective infrastructure that identifies and verifies the firm's customers in line with regulation.

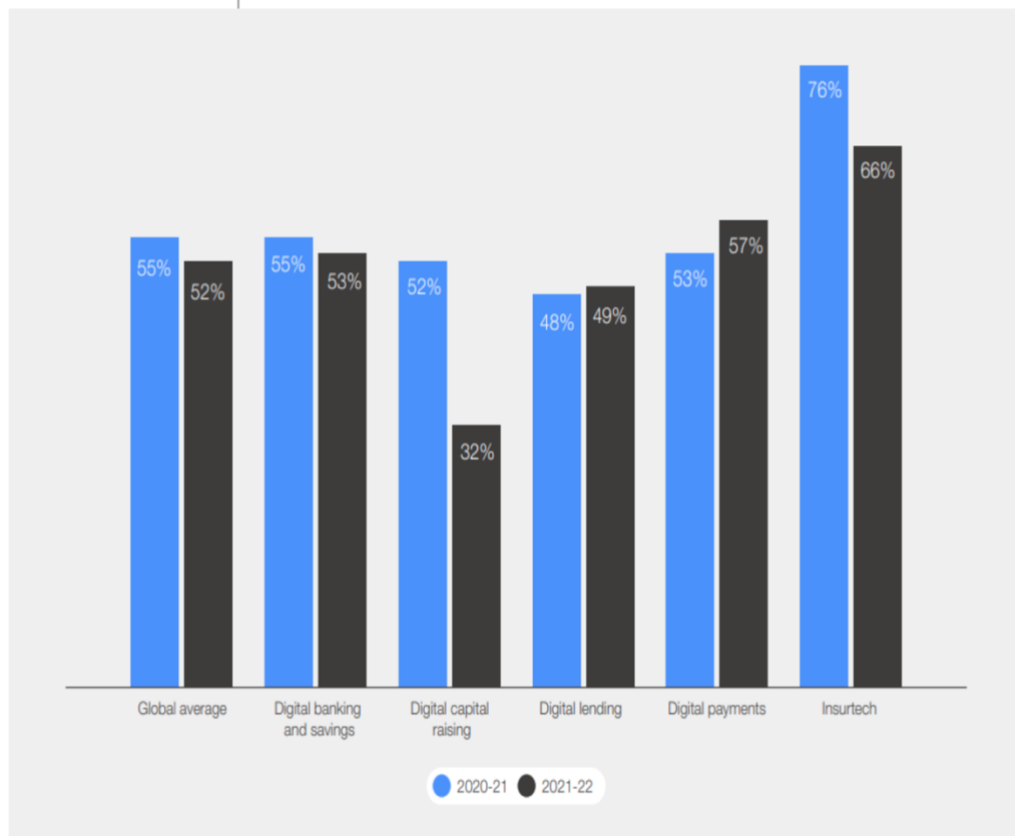
Payments	Diverse range of payment methods that give companies the flexibility to choose an approach that best suits client's needs, allowing users to make one off/lumpsum or recurring deposits to their portfolio.
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### ***b. Market Opportunities***

At a compound annual growth rate (CAGR) of 16.5%, the size of the global fintech market is expected to increase from \$340.10 billion in 2024 to \$1,152.06 billion by 2032. At a compound annual growth rate (CAGR) of 16.5%, the size of the global fintech market is expected to increase from \$340.10 billion in 2024 to \$1,152.06 billion by 2032. Fintech companies offer other businesses a range of financial technology tools, services, and services as a service. The following elements are probably going to drive market growth:

- Strong increase in consumer demand: As of July 2023, publicly traded fintech companies had a \$550 billion market value, which is a two-fold increase from 2019. Furthermore, as of the same time frame, there were over 272 fintech unicorns, valued at a total of \$936 billion, a seven-fold rise from 39 companies that were worth at least \$1 billion five years prior.

FIGURE 3 Rate of customer growth 2020-2021 and 2021-2022 – by business model



Customer demand is a key driver of fintech growth across business verticals.

Image: The Future of Global Fintech report, 2024

**Technological Advancements:** Massive value creation will be fuelled by artificial intelligence. According to McKinsey, artificial intelligence (AI) has the potential to bring up to \$1 trillion in value to the global banking sector each year. It is predicted that banks and other financial organisations would embrace AI first, which will better position them to fend off technological companies' territorial expansion.

- Software as a service, or SaaS, is another emerging topic to keep an eye on in 2023. According to reports, the Software as a Service (SaaS) industry is headed in the right direction and is expected to reach \$623 billion at a compound annual growth rate of 18% in 2023..
- Increased adoption of cloud computing: McKinsey research shows that by 2030, cloud technology will account for EBITDA (earnings before interest, tax, depreciation and amortization) in excess of \$1 trillion across the world's top 500 companies. McKinsey research shows that effective use of the cloud can increase the efficiency of migrated

application development and maintenance by 38 percent; raise infrastructure cost efficiency by 29 percent; and reduce migrated applications' downtime by ~57 percent, thus lowering costs associated with technical violations by 26 percent.

- **Evolving Regulatory Landscape:** Regulatory bodies are increasingly adapting to the evolving fintech landscape, fostering a more supportive environment for innovation.

### ***c. Potential for growth***

Even if the business hasn't turned a profit yet, its steadily rising revenues are important. From £21,556 in 2017 to £939,303 in 2022, the company's net revenues have increased. The company has a flexible modular structure that lets organisations select the precise functionalities they require, and it offers a wide range of functionalities that are accessible through their API. As a licenced custodian approved by the Financial Conduct Authority (FCA), Wealth Kernel lastly offers custodian services.

### ***d. High Demand for service***

The market for application programming interfaces (APIs) was estimated to be worth USD million in 2022 and is expected to grow at a compound annual growth rate (CAGR) of percent from 2022 to 2028. Furthermore, according to Brainy Insights, the application programming interface security industry, currently valued at USD 523.4 million, is expected to grow to USD 7909.9 million by 2033.

### ***e. Competition***

Big players in the wealth management industry, such as Charles Schwab and UBS, use application programming interfaces (API) to interface with robo-advisor platforms and

provide automated wealth management solutions. They also connect third-party financial tools and applications, letting customers manage their assets across multiple platforms. In order to automate investment management, Nutmeg and Betterment, two fintech start-ups, also largely rely on APIs to interface with custodians, stock exchanges, and data providers.

In terms of wealth tech platforms, Stash Invest and Wealth Front both use APIs to link with custodian partners and facilitate fractional share purchases for a variety of assets.

Additionally, they use APIs to interact with accounting and tax optimisation tools. Wealth Kernel is a fully licenced custodian for client funds and assets in the UK, in contrast to the previously stated organisations. Additionally, Wealth Kernel offers customised onboarding that automatically handles KYC and AML checks as well as risk and suitability.

#### ***f. Concerns***

Wealth Kernel's sales have increased from £228,708 in 2017 to £939,303 in 2022. Despite this, the firm has been losing money since its founding because of its rising cost of sales, which has increased from £80,654 in 2017 to £675,379 in 2022. Annual increases in the firm's administrative costs have likewise significantly decreased income. Between 2017 and 2022, administrative costs increased from £539,039 to £4,110,151.

Another concern is the ability to capture market share when in an environment where Wealth Kernel has to compete with firms such as UBS in the UK market which are profitable firms with huge reserves of cash for expansion and contingencies. In recent times, Wealth Kernel has partnered with 'GetGround' to introduce investment pots for property investors and has also secured £6 million in Series A extension funding round led by ETFS Capital.

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#### 4. VALUATION ANALYSIS

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*a. Objective of investment: Our targeted ROE is 75%.*

*b. Valuation*

**P/E of Comparable Firms Table**

Company	Segment	P/E <sup>24</sup>
Google Cloud (Cloud APIs)	Cloud Computing	25.65
Amazon Web Services (AWS APIs)	Cloud Computing	51.44
Microsoft Azure (Azure API)	Cloud Computing	35.21
Mambu (Core Banking Platform APIs)	Fintech	na
Temenos (Wealth Management APIs)	Fintech	44.1
Addepar (Portfolio Management APIs)	Fintech	na

### **Earnings Forecasts and Valuation Table**

Unit: GBP

<b>Year</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023*</b>	<b>2024*</b>	<b>2025*</b>
<b>Revenue</b>	281,877	375,239	970,833	939,303	1,249,272	1,649,040	2,176,733
<b>Gross Profit</b>	168,201	187,282	568,072	263,564	293,873	327,668	365,350
<b>Operating Profit</b>	(555,508)	(1,119,119)	(1,734,281)	(3,846,587)	(3,434,452)	(1,717,226)	(858,613)
<b>Net Profit</b>	(435,355)	(1,119,119)	(1,734,281)	(3,553,690)	(3,434,452)	(1,717,226)	(858,613)
<b>Firm value</b>							4,428,032

*Note: By rough estimation the firm's revenues are expected to grow at an annual rate of 33.21% YOY, gross profit is expected to grow at 11.5% as the company focuses more on customer acquisition and business expansion. The firm value has been calculated by discounting the future cash flows of the firm at a rate of 6.51% which comprises of 4.2% UK 10 year government bond yield + 0.75% equity risk premium + 1.56% premium for company specific risk.*

*c. Deal Description and Financing Structure*

<b>VC investment</b>	<b>£15,300,000</b>
- VC loan	£3,825,000
- VC equity	£11,475,000
<b>Total funding</b>	<b>£15,300,000</b>
Shares bought from non-management investors	956,250 shares
Price at which shares are bought	£12
<b>Total Shareholding of VC Company</b>	<b>33%</b>

*Note: The fund financed by VC, is divided into two parts, £11.475 million will be invested into the firm in return for shares bought, and 3.825 million will be financed to the firm as a 5 year loan at 4.5% interest per annum, which will be used to tackle costs to company over the next 5 years. Total ownership of the VC company in Wealth Kernel Ltd will then become a total of 33%, all in equity bought from non-management shareholders.*

5.6. Deal structure

Investor	New equity investment	Proportion of holding in shares	Proportion of holding in total outstanding shares
<b>Total VC equity</b>			<b>33%</b>
- VC's new equity	£11,475,000	33%	33%
<b>Total equity (Wealth Kernel Ltd)</b>			
- Management's equity	-	67%	67%

*Note that at a valuation of £46,363,636, the VC company will now own 33% of the firm while the remaining 67% continues to remain with the original founders of the firm.*



### 5.7. Estimated Exit Valuation

<b>Return at exit</b>	<b>VC</b>
<b>- Equity</b>	£11,475,000
<b>- Loan</b>	£3,825,000
<b>ROE</b>	75%
<b>Total return on equity</b>	£8,606,250
<b>Total earnings on equity at exit</b>	£20,081,250
<b>Total interest earning on loan</b>	£941,645
<b>Final loan amount to be received</b>	£4,766,646
<b>Total Earnings post 5 year period</b>	£24,847,896

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## 6. EXIT STRATEGY

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A possible exit strategy would be a trade sale to another interested company, in the similar industry interested to acquire a shareholding in Wealth Kernel Ltd. Fintech is a rapidly growing industry and various players are trying to grab market share at cheap costs. Recently, Bean, a personal finance app was acquired by CompareTheMarket in October 2018, in the fintech space. Similarly, the most desirable exit strategy, would be to sell our stake in Wealth Kernel to a large institutional investor over the course of 5 years.

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**APPENDIX 1: INCOME STATEMENT**

Unit: GBP.					
Item	2018	2019	2020	2021	2022
Turnover	2,55,675	2,81,877	3,75,239	9,39,303	9,70,833
Cost of sales	-80,654	-1,13,676	-1,87,957	-6,75,739	-4,02,761
Gross profit	1,75,021	1,68,201	1,87,282	2,63,564	5,68,072
Administrative expenses	-5,31,039	-7,23,709	-13,09,835	-41,10,151	-23,02,353
Operating loss	-3,56,018	-5,55,508	3,434	-38,46,587	-17,34,281
Other interest receivable and similar income	56	2,358	-11,19,119	10,678	1,245
Amounts written off investments	0	100	6,950	0	0
Interest payable and similar expenses	-156	-9	0	-10,678	-1,239
Loss before tax	-3,55,862	-5,53,159	-11,12,169	17,33,042	
Taxation	1,03,596	1,17,804	2,31,567	2,82,219	1,73,518
Loss for the financial year	-2,52,266	-4,35,355	-8,80,602	-35,53,690	-15,59,524

**APPENDIX 2: BALANCE SHEET**

Items	2018	2019	2020	2021	2022
<b>Fixed assets</b>					
Tangible assets	3,234	4,769	8,335	33,341	49,997
Investments	0	1	101	101	2,228
<b>Current assets</b>					
Debtors	1,40,544	1,60,865	3,42,280	4,12,541	5,17,419
Current Asset Investments	0	0	14,984	64,423	1,77,028
Cash at bank and in hand	3,30,247	44,74,497	34,24,702	70,72,474	31,80,701
Creditors: Amounts falling due within one year	-46,358	-27,578	-58,221	-4,45,543	-3,42,298
Net current assets	4,24,433	46,07,784	37,23,745	71,03,895	35,32,850
Net assets	4,27,667	46,12,554	37,32,181	71,37,337	35,85,075
<b>Capital and reserves</b>					
Called up share capital	14,713	18,591	18,746	20,743	20,756
Share premium reserve	9,51,165	55,67,287	55,67,287	1,05,29,849	1,05,31,201
Other reserves	0	242	316	437	500
Profit and loss account	-5,38,211	-9,73,566	-18,54,168	-34,13,692	-69,67,382
Total equity	4,27,667	46,12,554	37,32,181	71,37,337	35,85,075

APPENDIX 3: CASH FLOW STATEMENT

Items	2018	2019	2020	2021	2022
Cash From Operations	-289949	-474808	-1034445	-1233841	-3784732
Cash From Investing	-3656	-933	-15505	-82940	-144407
Cash From Financing	388937	4619991	155	4964533	1366



