

3 August 2020

Buy

PT: €2.00 (vs €3.00)

Key data

Ticker	GSJ GY
Price (31 July 2020)	€1.66
Upside to Price Target (%)	20.5
Market Cap (m)	20
Free Float (%)	83.0
Daily Value Traded (m)	0.1
Next Reporting Date	Oct 5 2020 1
No. of Shares (m)	11.98
1mth perf (%)	3.8
3mth perf (%)	19.4
12mth perf (%)	19.9
12mth high-low (€)	2 - 1

Key financials

(In EUR M)

Year to Dec	2019A	2020E	2021E
Group revenue	20.5	3.6	1.2
EBITDA (rep.)	4.8	2.2	0.6
EBIT (rep.)	4.19	2.19	0.59
Net debt/(cash)	(4.9)	(6.8)	(6.9)
ROCE (NOPAT) (%)	19.8	11.9	3.2
EPS (adj.) y/y (%)	--	--	--
Net debt/EBITDA	(1.0)	(3.1)	(11.7)
EV/Sales	0.7	3.3	9.6
EV/EBITDA (adj.)	2.9	5.5	20.2
EV/EBIT (adj.)	3.3	5.5	20.2
P/E (adj.)	--	--	--
Dividend yield (%)	0.0	0.0	0.0
Free CF yield (%)	(4.0)	6.4	0.7
EV/CE	0.7	0.7	0.6

Prices are as of close 31 July 2020

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All sources unless otherwise stated: Company data, FactSet, MainFirst estimates

Share price performance (indexed)



A significant transformation step ahead

Summary

- German Startups Group (GSG) management has made a significant step forward in its attempt to transform the company from an asset owner to an asset manager, in our view, as it plans to merge with Private Equity firm SGT Capital Pte. Ltd. The future business model will be entirely based on (predictable) asset management fees.
- We support the strategy as it creates the opportunity to establish a promising equity story, with the potential for significant value creation should management deliver on its EPS targets. At the same time, we note that it is still early stage and investors will want to see the first tangible signs of success before discounting the new growth prospects.
- Our new target price of €2.0 (€3.0), which still excludes any impact from the merger, is explained by a significantly lower value assumption for GJS Market, where acceptance rates remain low. We note that net cash currently accounts for ~30% of GSG's market cap.

Key Points

GSG will turn into SGT German Private Equity GmbH & Co. KGaA

GSG announced that, subject to the approval of the AGM on 7 August, it will merge with SGT Capital Pte. Ltd., a Private Equity firm, based in Singapore. GSG will be renamed into SGT German Private Equity GmbH & Co. KGaA, reflecting the new business model, i.e. an asset management business with a focus on private equity assets, which generates revenues via management fees (any potential carries are explicitly excluded). We understand that the fund will target mid-sized firms in Europe and NA without any specific industry-focus. The new company will be headquartered in Frankfurt, Germany, and is run by six partners, incl. current GSG CEO, Christoph Gerlinger. Mr. Gerlinger will remain CEO of the general partner entity and hold a 25% blocking minority. The merger will be conducted as a capital increase against contribution in kind. The owners of SGT will receive 50m newly issued GSG shares. In exchange for the (arguably heavy) dilution, GSG shareholders will participate in the earnings streams of a private equity asset management business. The transaction structure assumes a base case fund volume of USD1bn. Subject to the AUM performance until the end of FY22E, SGT could receive earn-outs of up to 103m additional GSG shares (AUM of USD3.5bn = 153m new shares).

AUM projections are key

Management expects the NewCo to generate EPS of €0.15-0.20 in FY21E and €0.20-0.30 p.a. from FY22E on, over the 10-year lifetime of the new fund. We understand that earnings will be fully paid out to shareholders, which could turn GSG into an attractive yield story. At the same time, we note that visibility on the AUM development, the key KPI for such a business model, is still low. However, according to GSG, SGT has already raised ~USD 0.5bn and AUM are expected to reach a volume of up to ~USD1bn by the end of FY20E. We estimate that this would translate into annual revenues of ~€17m (~2.0% management fee p.a.). First investments are targeted for Q3'20.

Model adjustment for the VC investment business

Given the early nature and pending AGM approval, we do not include the SGT transaction in our financial model and valuation analysis. However, we took a fresh look at GSG's VC investment portfolio (which will be maintained) and balance sheet structure post the successful sale of Exozet. While our PT cut to €2.0 may appear harsh, it is entirely explained by a valuation 'write-down' of GJS Market. We continue to see value in a secondary trading platform for VC-financed company stakes à la Artinvest, icapital or moonfare but concede that initial acceptance levels were disappointing, which we reflect in our SotP-analysis.

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KEY FINANCIALS AND RATIOS

YEAR TO DECEMBER (IN EUR m)	2017A	2018A	2019A	2020E	2021E	2022E
PROFIT & LOSS ACCOUNT						
Group revenue	13.1	15.8	20.5	3.6	1.2	1.2
EBITDA (rep.)	2.7	2.3	4.8	2.2	0.6	0.6
EBIT (rep.)	2.27	1.72	4.19	2.19	0.59	0.59
Pre-tax results	1.76	1.25	3.66	1.99	0.59	0.59
Income tax and other items	(0)	(2)	(0)	0.40	0.12	0.12
Net result group	1.68	(1)	3.42	2.39	0.71	0.71
Minorities and other items	(0)	0.08	(0)	0	0	0
Net result shareholders, rep.	1.62	(1)	2.94	2.39	0.71	0.71
EPS, fully diluted (c)	0.14	(0.05)	0.26	0.21	0.06	0.06
Exceptionals in EBIT	0	0	0	0	0	0
Profit and Loss Account (adj)						
EBITDA	2.70	2.34	4.84	2.19	0.59	0.59
EBIT	2.27	1.72	4.19	2.19	0.59	0.59
Net result, shareholders	1.62	(1)	2.94	2.39	0.71	0.71
CASH FLOW STATEMENT						
EBITDA (rep.)	2.7	2.3	4.8	2.2	0.6	0.6
Cash interest and tax payments	(0)	1.45	(0)	(1)	(0)	(0)
Change in working capital	(0)	1.17	(0)	0	0	0
Other operating cash flow items	(4)	(5)	(5)	(0)	(0)	(0)
Cash flow before capex	(2)	(0)	(0)	1.39	0.21	0.21
Capital expenditure	(1)	(1)	(0)	(0)	(0)	(0)
Free cash flow	(3)	(1)	(1)	1.20	0.14	0.14
Acquisitions/Disposals/Financial assets	5.49	(1)	13.6	(1)	(0)	(0)
Equity measures, other	(4)	1.69	(7)	1.71	0.01	0.01
Change in net cash	(1)	(0)	5.57	1.90	0.14	0.14
Net cash (debt)	(0)	(1)	5	7	7	7
BALANCE SHEET						
Fixed assets	28.6	33.4	21.3	18.4	18.5	18.6
Goodwill	3.01	3.01	0	0	0	0
Current Assets	8.40	6.38	12.8	16.3	16.2	16.9
t/o Inventories	0.60	0.73	0	0	0	0
t/o Trade receivables	2.37	1.84	0.03	0.01	0.00	0.00
t/a Cash and equivalents	0.70	0.38	4.86	6.76	6.90	7.04
Group equity	31.1	30.1	30.1	32.5	33.2	33.9
t/o Shareholders equity	29.4	28.5	30.1	32.5	33.2	33.9
Interest-bearing liabilities	1.04	1.08	0	0	0	0
Other liabilities and provisions	4.87	8.53	3.96	2.25	1.55	1.55
t/o Trade liabilities	0.63	0.90	0.16	0.04	0.01	0.01
Balance sheet total	37.0	39.7	34.0	34.7	34.7	35.4
Net Working Capital	2.35	1.67	(0)	(0)	(0)	(0)
Capital Employed (incl. Goodwill)	31.0	35.0	21.1	18.4	18.5	18.6
RATIOS						
Revenue y/y (%)	44.2	21.1	30.0	(82.3)	(65.9)	0.0
EBITDA Margin (adj.) (%)	20.7	14.8	23.6	60.3	47.6	47.6
EBIT adj margin (%)	17.4	10.9	20.4	60.3	47.6	47.6
EPS (adj.) y/y (%)	--	--	--	--	--	--
Working capital intensity (%)	18.0	10.6	(1)	(1)	(1)	(1)
DSOs	66.3	42.5	0.46	0.55	0.55	0.55
Inventory turnover (Days)	16.9	16.9	0	0	0	0
Net debt (cash) / EBITDA (adj.)	0.12	0.30	(1.0)	(3.1)	(11.7)	(11.9)
EBITDA (adj.) / Capex	2.86	4.22	12.16	11.37	8.66	8.66
Free CF yield (%)	(14.8)	(3.4)	(4.0)	6.4	0.7	0.7
Oper. FCF Yield (%)	(12.4)	(10.4)	(3.3)	14.9	2.2	2.2

Company Snapshot

Investment case summary

The successful disposal of key holding Exozet significantly strengthened GSG's liquidity position (net cash of ~€7m at the end of H1'20), which management intends to utilize for future share buy-backs. GSG continues to trade at a significant discount to its net asset value (NAV). In addition, we continue to see value in G|S Market, albeit we concede the initial acceptance of the platform was disappointing. Lastly, German Startups Group (GSG) is transitioning its traditional business model of an asset owner to an asset manager. The recent announcement of a planned merger with private equity firm SGT Capital Pte. carries a significant positive option value, in our view, conceding that visibility for AUM growth is still limited at this stage.

Target price methodology

We value GSG on a sum-of-the-parts analysis, which we believe is the best approach to capture the value of an investment firm. Due to the early stage nature of the holdings, we apply 1-year forward EV/sales multiples. We add a value of €1m for G|S Market. Based on our findings at other publicly listed investment holdings, we apply a discount of 30% to the implied EV to account for limited transparency and low liquidity in private VC assets.

Risk to our valuation and rating

- GSG's VC portfolio consists of stakes in a number of early stage or growth stage companies, which are often difficult to value.
- While we consider the transformation of GSG into a listed private equity asset management firm a promising step to create value for GSG shareholders, the strategy is still at an early stage and information about SGT Capital is limited. Hence, forecasting assets under management (AUM) may be prone to error.
- GSG's board is currently comprised only of Mr. Christoph Gerlinger, which constitutes a key people risk to the investment case. This will arguably change post a successful merger with SGT.
- In addition, low trading liquidity and regulatory amendments in VC industry might affect our investment case.

Key dates

AGM: 7 Aug 2020

H1 2020 results: 5 Oct 2020

Company description

Headquartered in Berlin, German Startups Group is a German venture capital investment firm. The company went public in November 2015, three years after its incorporation in April 2012. Historically, GSG mainly focused on the acquisition of minority stakes in high growth online business models, domiciled in Germany, either via participation in capital increases or the purchase of secondary shares. For 2019, the company reported total revenues of €20.5m (+30% y/y), including €4.1m revenue from investments activities and €16.4m contribution from Exozet Group.

Subject to the AGM approval, GSG will be renamed into SGT German Private Equity GmbH & Co. KGaA and operate as manager of a newly raised private equity fund with targeted AUM of €1.0-3.5 bn AUM.

Key products, clients and end markets

- GSG is focused on investments in tech / Internet companies with business models that have potential of disruptive innovation, a high degree of scalability and strong entrepreneurial management teams. Since it commenced operations in 2012, German Startups Group has built a portfolio of stakes in 30 companies as of 2019.
- In addition to venture capital business, the company also launched an online platform called G|S Market in 2018. The platform serves as a matchmaking medium for buyers and sellers of shares in startup firms as well as venture capital funds.

Key shareholders

- Sondervermögen Frankfurter Aktienfonds für Stiftungen 9.2%
- UBS Switzerland AG 12.5%
- Treasury shares: 10%
- Vehicles of CEO, Christoph Gerlinger, and family 10%
- Free float 80.0%

Senior management

- CEO Christoph Gerlinger

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German Startups Group (GSJ GY) as of July 31, 2020 (in EUR)



*Represents the value(s) that changed.
Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for GSJ GY go to http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=GSJ_GY

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Buy - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Hold - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Sell - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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