

## German Startups Group

**Financials**

24 October 2019

### Buying back shares

German Startups Group (GSG) continues its transformation into an asset manager. Within its existing portfolio, its focus is on successful exits with proceeds to be partially used for share buybacks and deleveraging. GSG is still exploring available options to exit Exozet, which visibly improved its financial performance in H119. We calculate that GSG's current share price implies a 43% discount to NAV per share of €2.52 (at end June 2019, adjusted for subsequent buyback). Importantly, the NAV may be out of date as the revaluation of holdings is predominantly driven by new funding rounds/disposals, which were few in H119. Consequently, the average time elapsed since last revaluation based on third-party transactions in its portfolio stood at 357 days (end-June 2018: 226 days).

### Limited revaluations in the year to date

Both of GSG's business segments were profitable in H119, although with limited revaluation triggers in the period, earnings were moderate. GSG reported basic EPS of €0.02 in H119 vs €0.14 in H118 and a loss of €0.05 in FY18. The investment business reported EBIT of €0.1m vs €1.9m in H118. At the same time, the only majority-held subsidiary, digital agency Exozet, improved its revenues (+38% y-o-y) and profitability, posting €0.9m EBIT (H118: €0.4m loss). During H119, GSG spent €0.5m on an investment in German Crypto Tech and follow-on funding for AuctionTech. Disposals generated €1.7m cash proceeds and included Chrono24, Service Partner One and Dalia Research.

### Distributing capital to shareholders

GSG uses proceeds from disposals to perform buybacks and, since May 2018, has already bought back 9.4% (1.1m) of its total shares, with an average purchase price of €1.57. Most of the shares (900k) were acquired post the H119 reporting date for €1.50 each. We note that while distributions via buybacks are attractive for shareholders from a taxation perspective, they may limit the shares' liquidity.

### Valuation: Continues to trade at a discount to NAV

GSG's current share price of €1.44 represents a 41% discount to NAV at end-H119 (based on the book value of equity ex-minorities), and 43% after accounting for post-reporting date share buyback (NAV per share of €2.52). Management expects H219 disposals to deliver significant cash proceeds and profit of at least half the market capitalisation, which was €15.1m at the time of the announcement.

| Historical financials |              |          |         |         |         |           |
|-----------------------|--------------|----------|---------|---------|---------|-----------|
| Year end              | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
| 12/15                 | 5.6          | 3.6      | 0.49    | 0.0     | 2.9     | N/A       |
| 12/16                 | 10.9         | (5.4)    | (0.29)  | 0.0     | N/A     | N/A       |
| 12/17                 | 9.6          | 1.8      | 0.14    | 0.0     | 10.6    | N/A       |
| 12/18                 | 12.5         | 1.2      | (0.05)  | 0.0     | N/A     | N/A       |

Source: German Startups Group accounts

Price **€1.44**  
Market cap **€16m**

#### Share price graph



#### Share details

|  |                      |
|--|----------------------|
| Code                                   | GSJ                  |
| Listing                                | Deutsche Börse Scale |
| Shares in issue                        | 10.9m                |
| Last reported net debt at 30 June 2019 | €8.3m                |

#### Business description

German Startups Group is a Berlin-based venture capital investment company primarily focused on providing investment to technology businesses in German-speaking countries. With the launch of its secondary shares trading platform, the company started the transition to a wider business model, including a marketplace.

#### Bull

- NAV possibly understated.
- Success of new business model may result in narrowing/closing the valuation gap to NAV and realising additional shareholder value.
- Listed exposure to a diversified portfolio of technology start-ups in Germany.

#### Bear

- Low liquidity.
- VC investments are inherently high risk.
- Potentially constrained by capital.

#### Analysts

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## Financials: H119 a relatively quiet period

GSG's basic EPS in H119 was €0.02 vs €0.14 in H118 and a loss of €0.05 in FY18. Taking into account possible future dilution from convertible bonds issued in 2018 (conversion price c 74% above the current share price and maturity in March 2023), the fully diluted EPS was €0.01 (vs €0.12 in H118). Both GSG's business segments, Investments and Creative Technologies (Exozet), were profitable in the period. Majority-owned Exozet increased revenues by 38% y-o-y to €7.3m (in line with earlier guidance of more than 30% y-o-y) and posted EBIT of €0.9m, compared to a €0.4m loss in H118 (and €0.1m profit for the whole of FY18). Exozet made steady progress in new order intake, especially in the virtual/augmented reality segment, which grew 'exceptionally fast and [was] profitable', according to GSG. It is still considering (as announced in 2018) a disposal of its 50.7% stake in Exozet and is confident that the selling price would be significantly above acquisition costs and current book value.

Meanwhile, the result from GSG's investments business stood at €0.7m in H119 vs €2.8m in H118, while segment EBIT amounted to €0.1m (H118: €1.9m). As a reminder, GSG invests in illiquid minority stakes in start-ups that are normally revalued upon new financing rounds or disposals, and there were few revaluation triggers in the period. The company segment revenues amounted to a minor €41k (up 32% y-o-y), and we believe they consisted mostly of fees generated by German Startups Market (GSM), its secondary start-ups/VC shares trading platform set up last year. Post balance sheet date, GSG announced a disposal of one portfolio company and a partial exit from another, with cash proceeds amounting to a mid-single-digit million-euro amount. The profit realised on the transactions was not disclosed though.

| <b>Exhibit 1: Results highlights</b>  |              |                |              |
|---|--------------|----------------|--------------|
| <b>€000s</b>  | <b>H119</b>  | <b>H118</b>    | <b>y-o-y</b> |
| Profits from financial assets valued at fair value with recognition in profit or loss | 1,470        | 4,081          | -64%         |
| Losses from financial assets valued at fair value with recognition in profit or loss  | (818)        | (1,379)        | -41%         |
| <b>Result from investment business</b>  | <b>653</b>   | <b>2,777</b>   | <b>-76%</b>  |
| Revenues  | 7,272        | 5,265          | 38%          |
| Change in inventories   | 447          | 358            | 25%          |
| Income from own work capitalised  | 233          | 294            | -21%         |
| Other operating income  | 168          | 90             | 87%          |
| Cost of materials and services received   | (1,670)      | (1,560)        | 7%           |
| Personnel expenses  | (4,372)      | (3,820)        | 14%          |
| D&A   | (491)        | (340)          | 44%          |
| Other operating expenses  | (1,244)      | (1,546)        | -20%         |
| Incidental acquisition costs of investments   | (10)         | (31)           | -67%         |
| <b>Result from other components</b>   | <b>333</b>   | <b>(1,289)</b> | <b>N/A</b>   |
| <b>EBIT</b>   | <b>985</b>   | <b>1,487</b>   | <b>-34%</b>  |
| <b>o/w Investments</b>  | <b>59</b>    | <b>1,873</b>   | <b>-97%</b>  |
| <b>o/w Creative Technologies</b>  | <b>926</b>   | <b>(386)</b>   | <b>N/A</b>   |
| Interest income   | 15           | 16             | -7%          |
| Interest expense  | (281)        | (218)          | 29%          |
| <b>Net financial income</b>   | <b>(266)</b> | <b>(202)</b>   | <b>32%</b>   |
| <b>EBT</b>  | <b>719</b>   | <b>1,285</b>   | <b>-44%</b>  |
| Income taxes  | (274)        | 136            | N/A          |
| Minorities adjustment   | (260)        | 201            | N/A          |
| <b>Net profit (ex-minorities)</b>   | <b>184</b>   | <b>1,622</b>   | <b>-89%</b>  |
| <b>EPS, basic (€)</b>   | <b>0.02</b>  | <b>0.14</b>    | <b>-86%</b>  |

Source: German Startups Group accounts

GSG continues to buy back its shares, with 900k shares (7.7% of the share count outstanding as at end-June 2019) bought back so far in H219 after repurchasing 200k shares in H218 (no shares were bought back in H119). As long as its share price remains significantly below reported NAV (with the current discount at c 43%), management will consider further buybacks as one of the means of recycling proceeds from portfolio exits.

Its net debt position remained stable at €8.3m in H119, implying a net debt/equity ratio of a comfortable 27% (H118: 25%). GSG highlights that its short-term financial assets (€2.2m in H119 vs

€0.8m in H118) mainly include receivables from disposals. We cautiously do not include any short-term financial assets as cash-like items due to the lack of corresponding notes to the H119 accounts. As a comparison, we considered €0.5m out of €1.5m short-term financial assets at end-FY18 as liquid, cash-like items. We note that GSG's actual leverage might turn out to be higher or lower if its minority stakes were reflected at current market values (which could influence equity value through profit/loss recognition). This is particularly important given that GSG's asset revaluations were limited in recent months. The company's liquidity was improved by disposals executed after the reporting date, with the proceeds mainly used for debt prepayment (€2.5m) and share buybacks (€1.4m).

GSG's management expects positive developments in its FY19 results. In the Creative Technologies segment, on the back of good H119 results, GSG expects a c 20% y-o-y increase in revenues (implying H219 sales of c €7.7m, up 7% y-o-y). The focus here will be on improving profitability through a reduction of the costs of third-party services. In the investments segment, GSG expects FY19 gains on disposals to represent more than half of its market capitalisation (which stood at c €15m at the time of the announcement in August), which implies a c €7.5m profit on disposals. This includes transactions already concluded after the reporting date.

## Portfolio development

At end-June 2019, GSG's portfolio consisted of 31 companies, down from 33 at end-2018. Of these, 15 are considered of 'particular significance' in terms of size and potential, accounting for 86% of the total gross portfolio value of €26.5m. Three of those were subject to positive revaluations in H119. The top eight are considered 'focus investments' and make up 76% of the total portfolio value. During H119, GSG exited two companies that were not among its significant investments: Service Partner One (a provider of cloud-based software for facility management) and Dalia Research (an online-surveying provider). There was also a partial exit from the focus investment Chrono24 (reducing GSG's stake from 2.1% at end-2018 to 1.2%). In cash terms, GSG invested €0.5m during H119 (mainly follow-on in AuctionTech), while disposals generated €1.7m proceeds.

**Exhibit 2: GSG's most significant portfolio components**

| Company           | GSG's stake at end H119 | Change vs end-FY18 | Book value* |
|-------------------|-------------------------|--------------------|-------------|
| Armedangels       | 2.8%                    | -                  |             |
| AuctionTech       | 23.4%                   | +2.3pp             |             |
| Ceritech          | 8.8%                    | -                  |             |
| Chrono24          | 1.2%                    | -0.9pp             |             |
| Fiagon            | 1.9%                    | -0.2pp             | €20m        |
| Mister Spex       | 1.3%                    | -                  |             |
| Remerge           | 2.4%                    | -                  |             |
| Simpleurance      | 1.6%                    | -                  |             |
| Customer Alliance | 1.9%                    | -                  |             |
| Finiata           | 1.7%                    | -                  |             |
| Junige            | 1.7%                    | -                  |             |
| Onefootball       | 0.3%                    | -                  | €3m         |
| SoundCloud        | 0.2%                    | -                  |             |
| Thinksurance      | 1.3%                    | N/A**              |             |
| Wunder            | 0.4%                    | -0.1pp             |             |

Source: German Startups Group, Edison Investment Research. Note: \*Edison Investment Research calculations. \*\*Not in the most significant components at end-FY18.

Among portfolio companies, the most notable positive development was AuctionTech entering into a contract with Simon de Pury – a renowned auctioneers and founder of the world's third-biggest auction house. The company will provide software for online transmissions of its auctions. Chrono24 closed its largest funding round so far in August 2019, raising €43m in new capital according to CrunchBase, with Sprints Capital as lead investor.

## Slow but steady development of marketplace

As described in [our previous note](#), GSG is transitioning to an asset manager and marketplace. As a first step in achieving this objective, in Q218 it set up German Startups Market (GSM), an online matchmaking platform for sellers and buyers of so-called secondary shares in German start-ups and VC funds. GSG aims to earn around 5% of the total volume traded on the platform in fees, which would deliver additional cash flow once trading on the platform reaches stable levels. Until 8 October 2019, over €3.5m worth of stakes was transacted on the platform and generated €150k in fee revenue (broadly in line with the intended effective fee). There are currently 14 investments available for sale listed on GSM, of which seven are (or were) among GSG's most significant portfolio constituents. GSG also co-founded an asset-backed tokenization business – German Crypto Tech, to launch one of the first German property-backed tokens.

## Valuation

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GSG's NAV (ex-minorities but including goodwill and intangibles) was €28.7m at end-June 2019, translating into €2.44 per share (Edison estimate) vs €2.43 at end-2018. As mentioned above, GSG repurchased 900k shares (at an average price of €1.50 per share) after the reporting date. As a result, GSG currently holds 9.4% of its share count as treasury shares. Adjusting H119 reported NAV for the buyback and assuming no other changes, we calculate NAV per share of €2.52, with the current share price implying a c 43% discount. The company has not disclosed the impact on NAV of the post-balance sheet date disposals.

Moreover, the current NAV and discount are likely out of date, given that portfolio companies are mostly valued, where possible, by independent third-party transactions as described earlier in the note. At the end-June 2019, 81% of the total portfolio value was based on third-party valuations, with the average time elapsed since the last valuation of portfolio companies at 357 days (value weighted). Valuations of the remainder of the portfolio were altered to incorporate developments after the last third-party valuation date. Although the current discount to NAV is significant, we believe one of the reasons behind it may be the limited transparency of the performance of the portfolio companies, as GSG cannot disclose financial information on minority-held assets.

We also note that the company is a partnership limited by shares (KGaA), with the partner entitled to a preferential profit payment of 25% upon profitable disposals (which would reduce shareholder return). At end-2018, the possible profit advance (assuming the disposal of the whole portfolio at current book value) was €0.4m, or 3c per share.

In 2018 GSG issued €3m in convertible bonds, which could possibly result in future dilution. The bonds mature on 8 March 2023 and can be converted into 1.2m new shares at maturity with a conversion price of €2.50 per share (74% above the current share price). As the conversion price is close to current NAV per share, we calculate the fully diluted NAV per share at €2.52.

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