

## German Startups Group

**Financials**
**17 July 2020**

### Proposed merger with SGT Capital

German Startups Group (GSG) announced last Wednesday its intention to merge with SGT Capital, a global alternative investment and private equity asset manager headquartered in Singapore. The transaction is subject to GSG's AGM approval on 7 August and on completion will create a Germany-based listed private equity asset manager (a backdoor listing for SGT Capital). SGT Capital is currently fund-raising for its new private equity fund, which will invest in 8–12 mid-market deals, primarily in Europe and North America. It targets a volume of US\$1.0–3.5bn, with US\$411m of commitments already secured.

### Share and convertibles issue for contribution in kind

The transaction is structured as a contribution in kind of SGT Capital Pte (asset manager) against the issue of 50 million new GSG shares on a non-pre-emptive basis (vs c 12.0m outstanding currently), coupled with the issue of a mandatory convertible bond (ie with a conversion feature that is obligatory and not an option) to SGT Capital LLC (the holding company that is the full owner of the asset manager). SGT Capital LLC will become majority shareholder of the merged entity, with a c 80% stake (excluding future conversions), as per our estimates.

The bond will be converted into between 1m and 103m new GSG shares, depending on the volume raised for the new private equity fund by end-2022. A US\$1.0bn fund volume will trigger the conversion into 1.0m shares, while US\$2.0bn and US\$3.5bn will result in the conversion into 42.8m and 103m shares, respectively. Importantly, bonds that are not converted will expire on 31 January 2023 without any payment. Prior to the deal, GSG repurchased all of its outstanding convertible bonds and therefore had no outstanding financial liabilities.

### Independent valuation implies upside to current price

SGT Capital's contribution in kind has been valued by the auditing and consulting firm Ebner Stolz at €148.7m (assuming the new fund's volume at US\$1.0bn at end-2022) to €618.3m (at a volume of US\$3.5bn). Based on the above-mentioned compensation in the form of new GSG shares (for the contribution in kind), this implies a value per newly issued GSG share at €2.92 and €4.04, respectively (vs closing price prior to announcement of €1.58). Having said that, we understand that the value of SGT Capital Pte is exclusively derived from the prospective fee income generated from the newly launched fund, on the premise that it will successfully complete its fund-raising.

#### Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	10.9	(5.4)	(0.29)	0.0	N/A	N/A
12/17	9.6	1.8	0.14	0.0	12.8	N/A
12/18	12.5	1.2	(0.05)	0.0	N/A	N/A
12/19	16.4	3.7	0.26	0.0	6.7	N/A

Source: German Startups Group, Edison Investment Research.

**Price** €1.75  
**Market cap** €21m

#### Share price graph



#### Share details

Code	GSG
Listing	Deutsche Börse Scale
Shares in issue (incl. treasury shares)	12.0m
Last reported net cash at end-2019	€6.8m

#### 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. Following the merger with SGT Capital, it will become a listed private equity asset manager.

#### Bull

- GSG's share value, implied by the compensation for the contribution in kind, is well ahead of the current share price.
- Potential success of new business model may result narrow/close the valuation gap to NAV.
- Secular growth trend of the private equity industry.

#### Bear

- Level of capital raised for the new fund is uncertain at present.
- Limited visibility on the asset making up the contribution in kind.
- Low stock liquidity (although this may improve once SGT Capital sells part of its stake).

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## **The new combined team**

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SGT Capital was founded just recently in 2019 and has a five-member management team (partially German) with prior experience across top-tier private equity houses, management consultancies and investment banks. SGT highlights that its predecessor (whose senior team is now largely at SGT Capital) invested US\$1.2bn, and in the nearly two-year period to February 2020 achieved a 27.4% gross IRR pa and a gross money-on-money multiple of 2.2x on its realised PE investments in Europe and the US. Christoph Gerlinger (GSG's CEO and sole shareholder of its general partner through Gerlinger & Partner GmbH) will remain managing director of the general partner in the new structure.

## **Solid distributions from management fees expected**

The company estimates that the merged entity (renamed SGT German Private Equity) will generate management fees of €0.15–0.20 per GSG's share (post-tax, excluding carried interest and after accounting for the new shares to be issued as a result of the transaction) in 2021, and c €0.20–0.30 from 2022 onwards, depending on the degree of the fund-raising's success. This is based on an annual fee income on the fund at c 1.8–1.9% of investment commitments, which we believe is broadly in line with the PE market (although somewhat on the higher end). These will be largely distributed to shareholders through dividends or share buybacks. On top of this, SGT German Private Equity may also generate cash flow from the realisation of GSG's venture capital investments, which (according to management) have a fair value in excess of €20m.

## **Lock-ups on the majority of new GSG shares**

The majority of the new share issue is subject to lock-up agreements, with only up to 4.5m shares able to be sold until 30 June 2022 and up to 20m until 30 June 2025. At the same time, based on our conversation with GSG's management, we understand that SGT Capital is required to sell existing or issue new shares in the amount of 4.0m to enhance free float.

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