

German Startups Group

Strategic refocus in progress

German Startups Group (GSG) returned to its profitable path, with four exits, one partial disposal and several upward revaluations of key portfolio holdings recognised in H117. The successful IPO of Delivery Hero further supported results and will assist liquidity in H217. Management recently announced a cost savings initiative, while the general partner decided to forfeit one percentage point of its management fee. The joint effect of these actions should bring cost savings of €0.72m pa from H217, according to management. GSG's shares trade at a 27% discount to NAV.

H117 results supported by exits

GSG reported net income of €2.2m in H117, an increase of 29.2% y-o-y, which was largely fuelled by the €2.4m profit booked on the stake disposal in Scalable Capital completed in June. Net revaluation gains amounted to €0.9m in H117 (below the €1.7m recorded in H116) and already reflected the valuation of Delivery Hero post market debut on 30 June (although most of the revaluation gain was already booked in FY16 ahead of the IPO). Majority holding Exozet reported lower sales than last year due to a high base effect (a large project with ZDF in FY16).

Focus on existing portfolio, debt and cost outs

Following the rather weak FY16, GSG's management expects a return to positive earnings contribution from its minority investments in FY17, as well as higher sales and improved EBIT margin in the Exozet Group. GSG intends to realise further capital gains from minority holdings disposals, which will be used to repay the remaining outstanding €2.25m of subordinated short-term debt. It also decided to focus on follow-on investment rounds in existing investments due to a better risk-reward profile. Finally, it has launched a cost savings programme, which together with the reduction in paid management fees should translate into a positive impact of €0.72m (or €0.06 per share) pa, according to the management.

Valuation: Discount to NAV despite recent deals

GSG's current share price of €1.83 represents a 27% discount to NAV as at end-June 2017 (based on book value of equity ex-minorities). Importantly, the discount may be understated, as valuation of minority holdings is mostly based on historical transaction prices and Exozet is not revalued at all due to full consolidation.

Historical financials

Year end	Revenue (€m)	Net profit (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	0.1	1.5	0.3	0.0	6.1	N/A
12/15	5.6	3.8	0.5	0.0	3.7	N/A
12/16	10.9	(3.3)	(0.3)	0.0	N/A	N/A

Source: German Startups Group accounts

Financials

28 September 2017

Price €1.83
Market cap €2m

Share price graph



Share details

Code GSJ
Listing Deutsche Börse Scale
Shares in issue 12.0m
Last reported net debt as at 30 June 2017 €2.5m

Business description

German Startups Group (GSG) is a Berlin-based venture capital investment company, primarily focused on providing investment to technology businesses in German-speaking countries. The company currently holds 40 active companies in its investment portfolio and a majority stake in digital agency Exozet.

Bull

- NAV likely understated.
- The company intends further realisations this year.
- 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

Milosz Papst +44 (0) 20 3077 5700
Rob Murphy +44 (0) 20 3077 5733

financials@edisongroup.com

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Financials: Full H117 results released

German Startups Group's H117 pre-tax profit improved by 59.9% y-o-y to €2.2m, with profit from sale of financial assets reaching €2.4m (vs null in H116), mostly on the back of the disposal of its stake in Scalable Capital. The sale allowed GSG to generate a return of 11x the invested capital, an IRR of c 200% pa and record a profit vs book value of c €2.4m. Moreover, the company completed four other disposals in H117, including realbest, Pyreg, CRX Markets (GSG retained a 0.8% stake) and eWings (holding not of particular significance). Delivery Hero's listing on Deutsche Börse on 30 June 2017 did not yield any significant revaluation gain in H117, as this holding was already revalued in FY16 ahead of the IPO. The actual shares disposal and cash inflow will have been accounted after 30 June only. This transaction yielded a nearly fivefold return on invested capital and an IRR of 60% pa.

The performance of the remaining 22 key portfolio holdings (which now make up 90% of the portfolio value) was good as well, with revaluation gains recognised on eight of them. However, total net revaluation gains in H117 reached €0.9m and were below the €1.7m booked in H116. GSG did not conduct any new portfolio investments during the period, while increasing its stakes in current holdings marginally by c €0.1m.

Revenues reached €4.6m in H117 (down 23.5% y-o-y) and mostly included sales of the fully consolidated Exozet group (GSG holds a 50.77% stake), which reported somewhat weaker numbers than in the prior year when the company executed its largest project so far with ZDF (relaunch and integration of the website and media library). Importantly, H1 is normally a low season for Exozet and, as a result, the subsidiary reported a minor post-tax tax loss of €31.4k. The engagement with ZDF continued into H117, with the design of mobile apps for ZDFtivi and further development of ZDF Mediathek. Income from own work capitalised rose to €0.5m from €0.3m and was attributable to the recognition of software developed by the Exozet group as new intangibles.

Net interest expense amounted to €0.32m compared with €0.02m in H116, and together with a negligible number at the income tax line (vs €0.55m of tax benefit in H116), this resulted in net profit of €2.2m, up 29.2% y-o-y and an EPS of €0.19 (H116: €0.15).

Exhibit 1: H117 results highlights

€000s	H117	H116	y-o-y change
Profits from financial assets valued at fair value with recognition in profit or loss	1,243	2,696	-53.9%
Losses from financial assets valued at fair value with recognition in profit or loss	(331)	(972)	-65.9%
Profits from sale of financial assets	2,379	0	N/M
Losses from sale of financial assets	0	0	N/M
Result from investment business	3,291	1,724	90.9%
Revenues	4,568	5,970	-23.5%
Change in inventories	141	(128)	N/M
Income from own work capitalised	466	275	69.5%
Other operating income	316	140	125.5%
Cost of materials and services received	(935)	(1,303)	-28.3%
Personnel expenses	(3,439)	(3,439)	0.0%
D&A	(225)	(225)	0.2%
Other operating expenses	(1,624)	(1,566)	3.7%
Incidental acquisition costs of investments	(12)	(36)	-65.2%
Result from other components	(744)	(312)	N/M
Interest income	26	25	5.4%
Interest expense	(350)	(47)	N/M
EBT	2,222	1,390	59.9%
Income taxes	4	552	N/M
Minorities	16	(207)	N/M
Net profit (excluding minorities)	2,242	1,734	29.2%
EPS (€)	0.19	0.15	24.7%

Source: German Startups Group accounts

GSG's cash position as at end-June stood at €1.8m and increased 16.0% versus end-2016 on the back of €5.1m of positive cash flow from investing activities (including €4.8m proceeds from disposal of investments), which more than offset the negative operating cash flow of €4.7m (H116: outflow of €0.9m). This does not include the cash inflow from the July 2017 Delivery Hero exit. End June net debt stood at €2.5m, comprising liabilities to credit institutions and other financial liabilities less cash and cash equivalents and other short-term financial assets. We have classified the latter as near-cash items based on the respective note to the FY16 accounts (no details provided in the H117 report). Included in other current financial liabilities (€7.4m) was €6.5m subordinated debt due by end-2017, of which €4.25m was subsequently repaid in August/September 2017.

Strategic shift to boost profitability and reduce NAV discount

GSG aims at further realisation of capital gains through disposals of more mature holdings from its current minority investment portfolio. The proceeds from future disposals in 2017 and 2018 will be allocated to repay the outstanding short-term subordinated debt of €2.25m and to potentially fuel any future share buyback programme (which would be subject to supervisory board approval). It should be noted, however, that GSG, as a minority holder, has limited influence on the timing of these transactions.

Future investment policy will be largely focused on follow-on investment rounds in existing investments in order to optimise the risk-reward profile. GSG also plans to develop new operating businesses to benefit from the digital disruption trend eg AuctionTech or the creation of a secondary market platform for shares in start-ups, issuance of participation rights for individual portfolio companies and the use of the technology for real-time livestream auctions from Auctionata.

GSG also initiated a cost reduction programme in order to save up to 50% of the business-as-usual and listing costs vs June 2016 starting from H217. Furthermore, the unlimited general partner (German Startups Group Management GmbH) decided to waive one percentage point from its standard management fee of 2.5% pa (calculated based on the IFRS standalone balance sheet total of GSG) until further notice starting from 1 July 2017. The above initiatives should translate into savings of €0.72m (or €0.06 per share) pa, according to the management.

Valuation

GSG's net asset value (ex-minorities and Exozet's hidden value, but including goodwill and intangibles) amounted to €30.0m as at end-June, translating into €2.51 on a per share basis (Edison estimates). Consequently, the current share price of €1.83 represents a 27% discount to NAV. However, the current NAV and discount are likely understated for the following reasons:

- Portfolio companies are valued, where possible, at independent third-party valuations, which reflect prices achieved in recent transactions and follow-on investment rounds. These can be out of date as at end-June (with average time elapsed from previous valuation at 249 days).
- Following the write-down of four investments performed in 2016, management believes its portfolio to be conservatively valued on its balance sheet.
- Under IFRS, Exozet cannot be revalued post consolidation on 30 June 2015. Since that time, the subsidiary's revenues have increased from around €6.5m to nearly €11m. This should normally result in a higher valuation, suggesting potential hidden reserves for Exozet.

Currently, the company refrains from any capital raise that could result in shareholder dilution at depressed price levels. Furthermore, the forfeiting of one percentage point from the general partner's management fee of 2.5% pa may contribute to a reduction of the discount to NAV.

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt and Sydney. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.