

## German Startups Group

**Financials**
**28 September 2017**

### 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) | PBT (€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          | 3.6      | 0.5     | 0.0     | 3.7     | N/A       |
| 12/16    | 10.9         | (5.4)    | (0.3)   | 0.0     | N/A     | N/A       |

Source: German Startups Group accounts

**Price** €1.83  
**Market cap** €22m

#### 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

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## 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          |
| <b>Result from investment business</b>  | <b>3,291</b> | <b>1,724</b> | <b>90.9%</b> |
| 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%       |
| <b>Result from other components</b>   | <b>(744)</b> | <b>(312)</b> | <b>N/M</b>   |
| Interest income   | 26           | 25           | 5.4%         |
| Interest expense  | (350)        | (47)         | N/M          |
| <b>EBT</b>  | <b>2,222</b> | <b>1,390</b> | <b>59.9%</b> |
| Income taxes  | 4            | 552          | N/M          |
| Minorities  | 16           | (207)        | N/M          |
| <b>Net profit (excluding minorities)</b>  | <b>2,242</b> | <b>1,734</b> | <b>29.2%</b> |
| <b>EPS (€)</b>  | <b>0.19</b>  | <b>0.15</b>  | <b>24.7%</b> |

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**

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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.

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