

SGT German Private Equity

PE fund signs its first transaction

SGT German Private Equity (SGT) is continuing its transition from a venture capital (VC) investor to an asset manager after the merger with SGT Capital closed in early 2021. The private equity (PE) fund SGT Capital Fund II is raising capital and signed its first investment in H221. On deal closure, the asset manager is aiming to manage at least US\$1.0bn (and has so far secured soft and hard commitments at this level) and will start collecting management, transaction and consulting fees and the fund will reach its first close. According to management, these revenues should cover the ongoing costs of this business for FY21. Meanwhile, the legacy VC portfolio (€20.3m at end-H121) is gradually being sold off.

The fund should start generating fees soon

SGT Capital Fund II signed its first investment in August 2021, acquiring the high-end professional cybersecurity solutions provider Utimaco from EQT. The transaction is expected to close in Q421, which will trigger transaction fees and the start of management fee collections. SGT expects that this will translate into revenues of €5–8m from the asset management business in FY21 and allow it to post a single-digit million-euro profit for the group. The investment has a mid-triple-digit million-euro transaction value, while the seller expects Utimaco to generate more than €100m in revenues in 2022. EQT has remained minority owner of the entity.

H121 results close to break even

SGT reported a net loss of €0.02 per share in H121 (flat versus H120). This was the result of a €2.0m segment profit reported by the VC portfolio (currently 15 holdings versus 20 at end-2020), including €0.4m profit on disposals and a €2.4m uplift on the held portfolio, which included uplifts on two agreed disposals that were closed after the reporting date (one of which was a partial exit through an IPO of Mister Spex). Meanwhile, the asset management segment generated a loss of €2.2m in H121 as the PE fund had not collected any fees at that time, while bearing set-up and recurring operational costs, as well as €0.9m amortisation of goodwill.

Valuation: In the process of strategy validation

With the successful launch of the PE fund, the market is likely to value SGT based on earnings or assets under management (AUM) multiples rather than a discount or premium to NAV. Having said that, we note that the fund is currently in its initial ramp-up stage and the team's track record is limited to one PE fund, which closed with a solid money on money multiple of 2.2x in a 4.5-year period.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	9.6	1.8	0.14	0.0	10.9	N/A
12/18	12.5	1.2	(0.05)	0.0	N/A	N/A
12/19	16.4	3.7	0.20	0.0	7.7	N/A
12/20	0.1	(0.8)	(0.05)	0.0	N/A	N/A

Source: SGT German Private Equity, Refinitiv

Financials

12 November 2021

Price	€1.53
Market cap	€93m

Share price graph



Share details

Code	SGF
Listing	Deutsche Börse Scale
Shares in issue	10.9m
Fully diluted number of shares	60.9m
Net cash* at end-June 2021	€2.5m

*Excluding purchase price claims, which at end-FY20 amounted to €1.4m and are considered near-cash items.

Business description

Frankfurt-based SGT German Private Equity was renamed after the merger with SGT Capital and has become a listed private equity asset manager. The company manages a PE fund, which is in the fund-raising phase, and has signed its first investment. SGT also manages a VC portfolio of minority stakes in non-listed German tech companies.

Bull

- PE fund signed its first investment and will start collecting fees in H221.
- Secular growth trend of the PE industry.
- Solid 2.2x money on money multiple achieved by an earlier US\$1.2bn fund managed by SGT Capital team.

Bear

- High PE valuations in most sought-after sectors.
- Limited visibility on the asset making up the contribution in kind.
- Free float at only 15% (albeit with a much larger market cap after the merger).

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Financials: VC portfolio revaluations covered costs

In H121, SGT reported a €0.2m net loss, translating into a €0.02 loss per share – flat versus H120. During this period, SGT was still in the process of realigning its business model and the profits from its VC portfolio covered the loss of the asset management business, which did not collect any fees in H121. The VC portfolio is gradually being sold down (with four full or partial exits in 2021 so far) and reported a €2.8m profit on revaluations in H121. Of this, €2.4m was the valuation uplift on the existing portfolio (mostly relating to Mister Spex), and €0.4m was profit on disposals (Armed Angels and Lingoda). Mister Spex was listed on the Frankfurt Stock Exchange on 2 July. The two disposals that have closed so far in H221 – OneFootball (full exit) and Mister Spex (partial exit) – were among SGT's six key holdings as at end-H121, which represented 89% of the €20.3m portfolio value (FY20: €19.6m). SGT may also consider follow-on investments, and in H121 invested an undisclosed amount in SoundCloud (through WATZ Ventures). The operating costs of the VC segment increased c 5% y-o-y, partially due to a 50% increase in personnel expenses, yet we highlight that c 90% of SGT's costs are reported as 'other operating expenses'; we understand that the majority of these costs are related to management fees paid to SGT German Private Equity Management GmbH (the general partner majority owned by SGT's majority shareholder SGT Capital LLC). SGT's intention is to sell its VC portfolio, albeit without any time pressure.

The asset management business announced its first investment in August 2021 (Utimaco, see description on page 3) and will start fee collection after closure of the Utimaco deal, expected in Q421. In H121 the segment generated a net loss of €2.2m, but a €1.0m cost was related to depreciation and amortisation (predominantly adjustment of goodwill described below). SGT expects that the private equity segment will deliver €5–8m in revenues in FY21, which should translate to a single-digit million-euro net profit to the company. The projection accounts neither for any further potential investments in H221 nor for any further significant developments within the VC portfolio.

SGT ended H121 with €3.3m in cash and quoted debt instruments, compared to €3.2m at end-FY20. This implies a net cash position of €2.5m as SGT drew down €0.5m in bank debt during the period. We note that in H121 SGT's balance sheet value expanded sixfold as a result of the merger. SGT has recognised goodwill of €134.5m that currently makes up 74% of its total assets. Meanwhile, the transaction was made against an issue of up to 50m SGT shares; the final number of allotted shares will be determined based on the amount of capital raised by end-2021 (see our [previous note](#) for details). As at H121 SGT recognises €148.9m of short-term financial liabilities related to this share issue. So far, SGT has raised over US\$1bn in soft and hard commitments; its fund targets US\$2bn and has a hard cap at US\$3.5bn.

Exhibit 1: Results highlights

€000s, unless otherwise stated	H121	H120	y-o-y
Profits from financial assets valued at fair value with recognition in profit or loss	2,814	953	195%
Losses from financial assets valued at fair value with recognition in profit or loss	-	(299)	(100%)
Result from investment business	2,814	654	330%
Revenues	79	59	33%
Other operating income	125	89	41%
Personnel expenses	(170)	(58)	191%
D&A	(1,038)	(4)	N/M
Other operating expenses	(2,082)	(807)	158%
Incidental acquisition costs of investments	(132)	(12)	N/M
Result from other components	(3,218)	(733)	N/A
EBIT	(404)	(79)	N/A
Financial income	79	317	(75%)
Financial expense	(1)	(518)	(100%)
Net financial income	78	(201)	N/A
EBT	(326)	(280)	N/A
Income taxes	130	113	15%
Net profit	(201)	(167)	N/A
EPS, basic (€)	(0.02)	(0.02)	0%

Source: SGT accounts

PE fund announces its first investment

The SGT Capital Fund II signed its first investment (of a three-digit million-euro amount) after the reporting date. It will acquire Utimaco, a global market leader in high-end cybersecurity solutions, from EQT. Importantly, EQT will remain a minority owner of Utimaco and Bain Capital will provide debt financing in the transaction. Utimaco has been backed by PE capital since 2013 when Pinova Capital and BIP Capital Partners acquired it from Sophos (a strategic investor). EQT acquired a majority stake in 2017. Utimaco develops high-security software solutions for regulated critical infrastructure and is a world market leader in both segments.

Utimaco's business profile is in line with SGT Capital Fund II's investment strategy. The fund will invest in three industries: healthcare and medtech, business services and data analytics, and advanced industrials. While reaching out especially for market leaders, SGT plans to favour companies that may grow through penetration of the Asian markets.

SGT's H121 financial results were still driven by its legacy portfolio of minority stakes at tech start-ups. As at end-H121, SGT considered six out of its 15 holdings as key, down from nine out of 20 at end-FY20. The key holdings represented a significant majority of the portfolio value: 89% (down from 93% at end-FY20). The six key holdings were valued at €18.1m. SGT normally holds a marginal stake in the companies, with three of the positions being less than a 1% share.

Exhibit 2: SGT's VC portfolio key holdings at end-H121

Company	Brand	Description	Stake
AuctionTech	PropNow	Software for online auctions provider	23.6%
Mister Spex*	Mister Spex	Glasses and contact lenses e-commerce	0.5%
OneFootball*	OneFootball	Football news platform	0.2%
Remerge	Remerge	App-marketing and retargeting	2.4%
Simplesurance	Schutzklick	Insurance e-commerce	1.5%
WunderCar Mobility Solutions	Wunder Mobility	Carsharing platform	0.3%

Source: SGT. Note: *Disposals after the reporting date.

Valuation

As SGT is in the process of business model transition, its market-implied valuation likely reflects the future prospects of the PE fund, as well as investors' expectations of the realisation potential of the VC portfolio. The VC portfolio is currently valued at €20.3m and during H121 it was reduced to 15 positions from 20 with no exits performed below the carrying value. The Utimaco transaction kicks

off the new business model, and with the deployment of capital and fee collection it is likely SGT will be valued like other PE funds, based predominantly on the P/E ratio (or market cap/AUM).

Given SGT's guidance that with the first transaction being closed in Q421 the asset management segment will generate €5–8m revenues and a single-digit million-euro profit in FY21, the current valuation (€93m market cap) seems undemanding compared to the valuation multiples of other listed PE asset managers, which trade at FY22e P/E ratios of c 18–53x. However, we need to highlight that the range includes much larger, well-established players, which also make investments on their own balance sheets (KKR, Blackstone, EQT, Partners Group).

We note that SGT has yet to prove its fund-raising capabilities (the vast majority of raised capital was already reported at the merger announcement), and hard income figures are yet to be reported. We also note the team's track record is limited to one US\$1.2bn PE fund, which delivered a solid 2.2x money on money multiple to investors within 4.5 years.

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