

German Startups Group Berlin GmbH & Co. KGaA

Germany / Financials
 Frankfurt
 Bloomberg: GSJ GR
 ISIN: DE000A1MMEV4

Profit Warning
 for 2016

RATING
BUY

PRICE TARGET
€2.80

Return Potential 51.4%
 Risk Rating High

TRADING AT 25% DISCOUNT TO 2016E BALANCE SHEET NAV

German Startups Group (GSG) issued two profit warnings on 31 December 2016 and 8 January 2017. In two steps, GSG has lowered 2016 EPS guidance to a loss of €0.10 (originally profit of “at least €0.30”). The last minute postponement of a large deal worth approx. €1.2m (€0.10 per share) lower valuation of three relevant holdings plus other items with a negative impact of approx. €3.3m (€0.28/share) as well as extraordinary equity procurement expenses of up to €1.2m (€0.10/share) all hit GSG’s operating performance leading to the reduced EPS guidance. Excluding these unexpected factors the company would have achieved EPS of €0.38. However, it appears that the financing activity and value appreciation of the GSG holdings slowed down substantially during 2016 compared to the strong momentum achieved in 2015. We anticipate that appreciation of the holdings will continue during 2017 and 2018, but at a slower pace. We have accordingly reduced our financial forecasts for 2017, 2018 and subsequent years. Additionally, GSG’s holding Auctionata filed for preliminary insolvency on 19 January. We have decided to fully write off this holding, thereby arriving at a 2016 EPS loss of €0.27. Based on our updated residual income valuation model, we derive a new price target of €2.80 (previously: €4.20). We leave our Buy recommendation unchanged.

Lowering 2016 EPS projections Primarily driven by significant valuation losses in certain core holdings we have reduced our 2016 forecast for the result on investment business line item to €-1.5m (previously: €7.3m, 2015: €4.8m). Our conservative projection assumes the complete write-down (approx. €2.0m) of the insolvent Auctionata. Additionally, we believe Exozet is growing more slowly than we had previously forecast. As a result, we have lowered our 2016 revenue projection to €11.0m (previously: €12.5m). We have reduced our 2016 EBIT projection to a loss of €2.8m (previously: profit of €6.9m), after taking extraordinary expenses for equity procurement of approx. €1.2m into consideration.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016E	2017E	2018E	2019E
Revenue (€m)	0.07	5.60	11.00	11.55	12.13	12.73
Profit on portfolio (€m)	2.48	4.79	-1.46	3.93	6.70	9.93
EBIT (€m)	1.49	3.72	-2.83	3.82	6.82	10.19
EBITDA (€m)	1.53	3.98	-2.32	4.37	7.38	10.79
Net income (€m)	1.44	3.65	-3.21	2.93	5.68	8.90
EPS (€)	0.32	0.49	-0.27	0.24	0.47	0.74
Fin. Assets (€m)	9.45	18.26	25.68	31.90	39.71	51.17
NAV (€m)	14.12	29.45	29.44	32.42	38.15	47.11
Net gearing	-12.4%	-10.3%	23.8%	32.9%	35.5%	36.1%
Liquid assets (€m)	1.75	4.53	1.31	1.36	2.03	3.05

RISKS

Risks include, but are not limited to, portfolio risk, portfolio liquidity (exit possibilities) and shareholder dilution.

COMPANY PROFILE

German Startups Group is a venture capital company focused on investing in young and high growth technology companies within the IT and Internet sectors. The company is based in Berlin and has a regional focus on German-speaking countries.

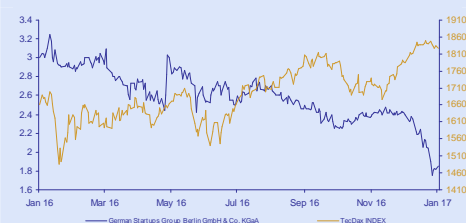
MARKET DATA

As of 23 Jan 2017

Closing Price	€ 1.85
Shares outstanding	11.98m
Market Capitalisation	€ 22.16m
52-week Range	€ 1.75 / 3.25
Avg. Volume (12 Months)	13,792

Multiples	2015	2016E	2017E
P/E	3.8	n.a.	7.6
P/B	1.03	0.75	0.68
Div. Yield	0%	0%	0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 1.15m
Current Assets	€ 9.02m
NAV	€ 33.02m
Total Assets	€ 40.76m
Current Liabilities	€ 2.86m
Total Equity	€ 34.23m

SHAREHOLDERS

Cara Investments GmbH	12.5%
Sondervermögen Frankf. Aktienfonds	9.2%
Gerlinger family	9.0%
Oceanlink Investments Limited	8.5%
Freefloat & others	60.8%



We have also lowered our 2016 EPS forecast to a loss of €0.27 (previously profit of €0.48). Our EPS forecast is €0.17 below the company's latest guidance (EPS 2016: €-0.10) due to our assumption of a full loss on Auctionata.

Financing climate in Europe remains robust Management have confirmed that the European financing environment for start-ups remains healthy and expect the valuation of the holdings to increase strongly. However, we believe that investors in Europe are a bit more cautious with respect to paying high prices during financing rounds. This may translate into slower appreciation of the holdings in 2017E and 2018E. Consequently, we have also lowered our projections for the result from investment business for 2017E and 2018E to €3.9m (previously: €10.6m) and €6.7m (previously: €7.1m) respectively.

Figure 1: Revisions to forecasts

All figures in € '000	2016E			2017E			2018E		
	old	new	% delta	old	new	% delta	old	new	% delta
Revenue	12,500	11,000	-12.0%	13,125	11,550	-12.0%	13,781	12,128	-12.0%
Result from investment business	7,304	-1,461	n.a.	10,636	3,929	-63.1%	17,110	6,699	-60.8%
EBIT	6,900	-2,835	n.a.	10,498	3,824	-63.6%	17,254	6,815	-60.5%
Margin (%)	35%	-30%	-	44%	25%	-	56%	36%	-
Net income	6,735	-3,215	n.a.	9,991	2,929	-70.7%	16,414	5,680	-65.4%
EPS (€)	0.48	-0.27	n.a.	0.72	0.24	-70.7%	1.18	0.47	-65.4%

Source: First Berlin Equity Research

Management structure changes announced Mr. Gerlinger (CEO and founder of GSG) and Mr. Samios (CIO), have agreed to change the structure of the management team. Mr. Samios has resigned from his managing director position and now has a contract with GSG as a long term advisor and authorised signatory (Prokurist). He keeps the CIO role. This move represents a return to the structure in existence at the company from 2013 to the end of 2014. According to GSG, this change generates no operational or financial disadvantages for the company or the shareholders.

Negative news on GSG's largest holding Auctionata/Paddle8 On 13 January, the German business magazine, WirtschaftsWoche, published an article suggesting that Auctionata/Paddle8 may have financial problems. Apparently, the company was not able to pay employees' salaries for December. Additionally, WirtschaftsWoche suggested that Auctionata's auctions sale rate was down significantly in 2016 (number of products effectively sold in auctions) hitting company sales and operating performance. We recall that in May 2016 Auctionata merged with the leading US auction house Paddle8, making the merged entity one of the largest auctioneers outside of China. While this transaction was strategically significant, M&A is a time-consuming process which has the potential to distract management from the core businesses.

Auctionata/Paddle8 files for preliminary insolvency, merged companies will go separate ways On 19 January, Auctionata/Paddle 8 announced the initiation of preliminary insolvency proceedings accompanied by a restructuring program. The company plans to sell the US based company Paddle8 to its former US management which are backed by a group of investors. The negotiations are at an advanced stage. The German company, Auctionata, will undergo a restructuring process focusing on streamlining operations, reducing costs and increasing efficiency in order to achieve break even. The company is in promising discussions with interested investors in order to refinance the company. The insolvency and restructuring specialist Christian Graf Brockdorf is in charge of the case.



The remaining risk from the Auctionata holding amounts to up to €0.17 per share according to GSG's press release of 19 January

GSG also mentioned that it is currently not clear whether the ongoing financing or restructuring efforts with respect to Auctionata will be successful. GSG has decided to take no further steps with respect to Auctionata's valuation until more information becomes available. While we believe there is still a chance that investors will provide the required financing, the company's future as a going concern is uncertain. We have decided to take a conservative approach and fully write off the holding in our forecasts. GSG had already lowered the value of Auctionata in its books by approx. €1.0m - €1.2m during the recent profit warning. The remaining downside risk on this holding is approx. €2.0m or €0.17 per share, according to GSG.

CEO buys shares on weakness GSG's share price declined by approx. €0.35 from €2.05 to €1.70 following the first news on Auctionata. The negative share price reaction is more than double the estimated impact on valuation. GSG's CEO Mr. Gerlinger is confident that the company will continue to deliver above average returns. He also believes investors have overreacted to the Auctionata news creating a good buying opportunity and carried out two purchases of a total of 20,000 GSG shares between 18 and 19 January.

Overall, GSG has a promising portfolio in our view The company has 25 holdings of particular significance which represent approximately 89% of total portfolio value. Most of these developed positively during 2016. We therefore anticipate further appreciation of the portfolio triggered by financing rounds at higher valuations during 2017.

Rating reiterated, price target lowered to €2.80 We have updated our residual income valuation model to incorporate our lower forecasts. We arrive at a new price target of €2.80 (previously: €4.20). The stock is currently trading 25% below our estimated 2016 NAV of €2.45 per share. If we add the present value of future residual income streams the discount is even larger. Based on the current depressed share price following the profit warning/news on Auctionata, we reiterate our Buy rating.



VALUATION MODEL

In €'000	2016	2017	2018	2019	2020	2021	2022
Shareholders' equity	29,437	32,417	38,149	47,108	59,384	73,673	88,387
Average shareholders' equity	29,445	30,927	35,283	42,628	53,246	66,529	81,030
Net profit	(3,215)	2,929	5,680	8,905	12,221	14,232	14,655
NAV per share	2.46	2.70	3.18	3.93	4.96	6.15	7.38

Return on equity	-10.9%	9.5%	16.1%	20.9%	23.0%	21.4%	18.1%
Cost of equity	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Spread	-26.9%	-6.5%	0.1%	4.9%	7.0%	5.4%	2.1%

	2016	2017	2018	2019	2020	2021	2022
Residual income	(7,926)	(2,019)	35	2,084	3,701	3,588	1,691
PV of residual income stream	-	(1,759)	26	1,349	2,065	1,726	701

Fair value calculation	
NAV (2016E)	29,437
PV of residual income stream	4,108
Fair value	33,545
Number of shares (000's)	11,984
Fair value per share €	2.80

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E	2019E
Revenue	72	5,602	11,000	11,550	12,128	12,734
Result from investment business	2,479	4,792	-1,461	3,929	6,699	9,927
Change in inventories	0	-851	-323	-356	-391	-431
Cost of materials and services received	0	-945	-1,995	-2,144	-2,230	-2,275
Income from own work capitalized	0	179	376	380	391	403
Personnel expenses	-116	-3,117	-6,686	-6,921	-7,094	-7,343
Other operating income / expenses	-900	-1,678	-2,030	-2,072	-2,118	-2,228
Depreciation and amortization	-47	-263	-516	-542	-569	-597
Operating income	1,487	3,720	-1,635	3,824	6,815	10,190
Extraordinary expenses	0	0	-1,200	0	0	0
EBIT	1,487	3,720	-2,835	3,824	6,815	10,190
Net financial result	-18	-139	-172	-645	-885	-1,036
Pre-tax income (EBT)	1,469	3,581	-3,007	3,179	5,930	9,155
Tax expense	-34	263	0	0	0	0
Net income / loss before minorities	1,435	3,844	-3,007	3,179	5,930	9,155
Minority interests	0	196	208	250	250	250
Net income / loss	1,435	3,648	-3,215	2,929	5,680	8,905
EPS (in €)	0.32	0.49	-0.27	0.24	0.47	0.74
EBITDA	1,534	3,983	-2,319	4,365	7,384	10,787
Ratios						
EBITDA margin on total revenues	60.1%	38.3%	n.m.	28.2%	39.2%	47.6%
EBIT margin on total revenues	58.3%	35.8%	n.m.	24.7%	36.2%	45.0%
Tax rate	2.3%	-7.3%	0.0%	0.0%	0.0%	0.0%
Expenses as % of revenues						
Cost of materials and services received	n.m.	16.9%	18.1%	18.6%	18.4%	17.9%
Personnel expenses	n.m.	55.6%	60.8%	59.9%	58.5%	57.7%
Y-Y Growth						
Revenues	n.m.	7702.8%	96.3%	5.0%	5.0%	5.0%
Result from investment business	n.m.	93.3%	-130.5%	-368.9%	70.5%	48.2%
EBITDA	n.m.	225.4%	n.m.	n.m.	-14.6%	-25.5%
Operating income	n.m.	150.2%	n.m.	n.m.	78.2%	49.5%
Net income/ loss	n.m.	154.2%	n.m.	n.m.	93.9%	56.8%



BALANCE SHEET

All figures in EUR '000	2014	2015	2016E	2017E	2018E	2019E
Assets						
Current assets, total	4,744	10,870	9,464	10,325	11,899	13,902
Cash & cash equivalents	1,751	4,527	1,310	1,355	2,033	3,049
Othershort term assets	475	1,890	2,268	2,494	2,744	3,018
Othercurrent financial assets	2,500	1,693	1,862	2,048	2,253	2,478
Trade and other receivables	19	2,599	3,847	4,232	4,655	5,121
Inventories	0	161	177	195	215	236
Non-current assets, total	10,012	25,084	34,183	40,789	49,261	61,449
Goodwill	0	3,015	3,075	3,136	3,450	3,795
Intangible assets	26	1,479	1,627	1,790	1,969	2,166
Property plant & equipment	0	211	232	255	281	309
Financial Assets	9,450	18,260	25,677	31,899	39,707	51,173
Deferred tax assets	123	1,723	3,136	3,230	3,327	3,426
Other LT financial assets	413	396	436	479	527	580
Total assets	14,757	35,954	43,647	51,114	61,160	75,351
Shareholders' equity & debt						
Current liabilities, total	360	3,360	4,677	5,753	6,817	8,091
ST borrowings	0	670	1,718	2,498	3,237	4,153
Trade & other payables	309	679	747	821	903	994
Othercurrent liabilities	51	2,011	2,212	2,433	2,677	2,944
Long-term liabilities, total	278	2,137	8,320	11,481	14,481	18,190
LT borrowings (incl. banks)	0	734	6,874	9,992	12,947	16,610
Provisions	105	320	330	340	350	360
Deferred tax liabilities	173	1,083	1,116	1,149	1,184	1,219
Total liabilities	638	5,497	12,997	17,234	21,298	26,280
Total Equity	14,118	30,458	30,650	33,880	39,862	49,071
Shareholder's equity	14,118	29,452	29,437	32,417	38,149	47,108
Minority interests	0	1,005	1,213	1,463	1,713	1,963
Total Equity and Liabilities	14,757	35,954	43,647	51,114	61,160	75,351
Ratios						
Current ratio (x)	13.17	3.24	2.02	1.79	1.75	1.72
Equity ratio	95.7%	87.5%	73.0%	69.1%	68.0%	67.7%
Gearing	-12.4%	-10.3%	23.8%	32.9%	35.5%	36.1%
Net debt	-1,751	-3,124	7,282	11,135	14,152	17,714
Return on equity (ROE)	n.a.	26.0%	-10.9%	9.5%	16.1%	20.9%



CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E	2019E
Net income	1,435	3,648	-3,215	2,929	5,680	8,905
Depreciation & amortisation, def. taxes, etc.	80	-215	516	542	569	597
Non-cash change in financial assets	-2479	-4,787	1,461	-3,929	-6,699	-9,927
Minority interests	0	197	208	250	250	250
Operating cash flow	-964	-1,157	-1,030	-208	-200	-175
Changes in working capital	187	1,476	-1,582	-563	-619	-681
Net operating cash flow	-777	319	-2,612	-771	-819	-856
CapEx / intangibles	-32	-1,788	-745	-789	-1,087	-1,167
Cash outflows from acquisition of financial assets	-4,284	-6,338	-9,130	-4,365	-5,742	-8,339
Cash inflows from sales of financial assets	222	896	252	2,072	4,632	6,800
Cash flow from investing	-4,094	-7,230	-9,623	-3,082	-2,197	-2,706
Free cash flow	-809	-1,469	-3,357	-1,560	-1,906	-2,024
Debt financing, net	0	470	7,189	3,898	3,694	4,578
Equity financing, net	4,800	9,217	1,829	0	0	0
Cash flow from financing	4,800	9,687	9,018	3,898	3,694	4,578
Net cash flows	-71	2,776	-3,217	45	678	1,016
Cash, start of the year	1,822	1,751	4,527	1,310	1,355	2,033
Cash, end of the year	1,751	4,527	1,310	1,355	2,033	3,049

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	25 April 2016	€2.74	Buy	€4.20
2	14 September 2016	€2.54	Buy	€4.20
3	Today	€1.85	Buy	€2.80

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

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STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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