

G2D | Buy; TP R\$7.0/sh

Democratizing Access to Venture Capital Market

Initiating Coverage of G2D (G2DI33)



G2D (G2DI33; Buy; R\$7.0/sh TP) – We are initiating coverage on G2DI with a Buy rating and R\$7.0/sh price target, implying 7.2% upside potential. Considering the still limited access to Venture Capital market, we believe G2D to be a great avenue for Individuals to gain exposure to early stage and Pre-IPO companies with liquidity. Our positive view is based on G2D’s high growth portfolio, which should drive its fair Net Asset Value (NAV) discount to 0%, vs. current 4% discount, though we do not expect to be a premium to NAV given risks related to the VC market and the company’s governance.

High growth potential portfolio. G2D’s portfolio is composed by three investment thesis: A) direct investments in disruptive and tech-enabled companies; B) The Craftory, which invests in disruptive CPG and ESG companies; and C) Expanding Capital, which is a VC that invests in Silicon Valley companies. In our view, The Craftory has the most relative value to be unlocked, followed by Expanding Capital considering current NAV, as: i) investments have been recorded at their book value of the committed capital; and ii) some investments dated 2017, which may enable greater NAV through new investment rounds.

Elevated cons to offset a premium to NAV. We highlight the following cons that would offset a premium: i) Controlling shareholder to subject minority shareholders to GP Investments interests as well as portfolio diversification.; ii) Administration Fee and Performance Fee; iii) Liquidity, once the portfolio is mostly composed by non-listed companies; and iv) Trading volume, once G2D’s ADTV is still low.

0% discount to NAV. G2D’s portfolio includes high growth potential investments that may have value to be unlocked, and yet benefit from income tax and FX variation due to geography based in Bermuda and the fact that it has no employees, potentially implying a premium to NAV. However, elevated risks should imply a discount to NAV. Therefore, considering the pros and cons, we see a fair discount to NAV of 0%.

Estimates	4Q20A	1Q21A	2Q21E
Direct Investments NAV (R\$ million)	215.7	248.1	248.1
The Craftory NAV (R\$ million)	210.6	264.2	264.2
Expanding Capital NAV (R\$ million)	57.3	63.8	72.4
Total NAV (R\$ million)	483.6	576.1	584.7
Cash Adjustments	(105.3)	(188.5)	110.9
Fair NAV	378.3	387.7	695.7

Marcel Campos

Financials | marcel.campos@xpi.com.br

Bernardo Guttmann

TMT | bernardo.guttmann@xpi.com.br

Marcella Ungaretti

ESG | marcella.ungaretti@xpi.com.br

Matheus Odaguil

Financials | matheus.odaguil@xpi.com.br

Artur Alves

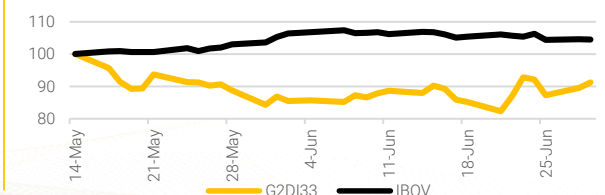
Financials | artur.alves@xpi.com.br

Marco Nardini

TMT | marco.nardini@xpi.com.br

G2D (G2DI33)	Buy
Target Price (R\$/sh.)	7.0
Current Price (R\$/sh.)	6.53
Upside (%)	7.2%
Market Cap (R\$ million)	668
Discount (%)	4%
# of shares (million)	102.3
Free Float (%)	37%
ADTV (R\$ million)	1,028

Performance vs. IBOV



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What is G2D



What is G2D

G2D at a glance

G2D is an investment vehicle controlled by GP Investments, focused on investing in innovative and high growth companies in Brazil, US and EU, and located in Bermuda. G2DI portfolio is composed by three investment thesis: A) disruptive and tech-enabled companies; B) disruptive CPG and ESG companies; and C) VC Investments in the Silicon Valley.

The company was established on 27 July, 2020. On 31 July, 2020, a corporate restructuring with equity investments was carried out from its indirect controlling shareholders: i) GP Cash contributed with Blu Pagamentos and Sim;paul; ii) GPIC contributed with Expanding Capital and Quero Educação; and iii) Spice Bermuda with The Craftory. Afterwards, the company expanded its portfolio with CERC (Aug/2020) and Mercado Bitcoin (Feb/2021).

On May 2021, the company concluded its BDR listing on B3 with the ticker G2DI33 (DR3, BDR level 3), raising ~R\$281 mn (base offer + greenshoe) for new investments. The offer totaled 39.2mn shares and was launched at a 25% premium to NAV.

Figure 02: G2D at a Glance

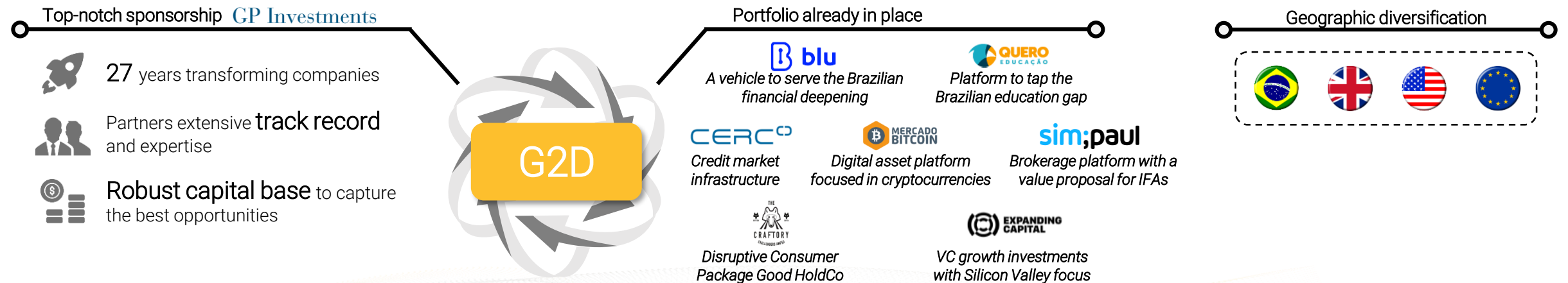
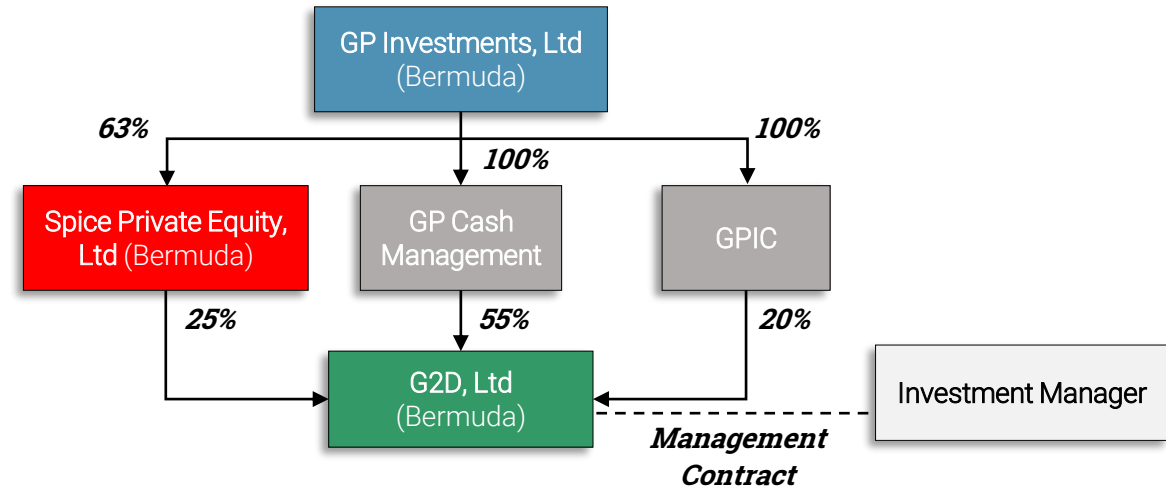


Figure 01: Shareholder's Structure



What is G2D

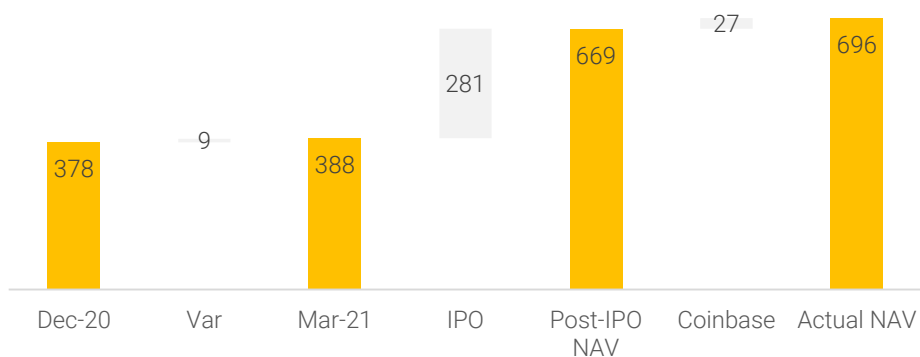
G2D's portfolio

Deepening into G2D's portfolio, the company's most significant stake is in The Craftory, with 45.2%, followed by Blu, with 27.9%, Expanding Capital, with 12.4%, Quero Educação, with 5.0%, Inova FIP (CERC and Mercado Bitcoin), with 7.9% and Sim;paul, with 1.7%, totalling R\$585 mn. Including the net cash position, it would imply a total NAV of ~R\$696 mn.

In our view, The Craftory has the most relative value to be unlocked, followed by Expanding Capital considering current NAV, as: i) investments have been recorded at their book value of the committed capital; and ii) some investments dated 2017. On the other hand, the remaining portfolio was recently priced, reflecting lower current value to be unlocked in the short term, even though each of these companies still has high growth potential.

Thus, we believe G2D to be a great vehicle for Individual investors to access early stage and Pre-IPO companies with high growth potential and liquidity, which is usually limited to qualified level investors.

Figure 04: NAV evolution



Source: Company and XP Research.

Figure 03: G2D Net Asset Value (NAV)

	Valuation	NAV	Cash on Cash	
blu	R\$671 mn	R\$163 mn	2.4x	• Blu's last valuation round: R\$671 mn
THE CRAFTORY CHALLENGERS AMVPS	R\$1607 mn	R\$264 mn	1.2x	• The Craftory and Expanding Capital have been recorded at their book value of the committed capital • Underlying assets have never been re-rated, given new valuation rounds
EXPANDING CAPITAL	n.a.	R\$72 mn	1.1x	• Some investments dated 2017 (Clover Health, ClassPass and Coinbase, mParticle)
QUERO EDUCAÇÃO	R\$909 mn	R\$29 mn	1.0x	• US\$ 5mn investment at Quero, which at the most recent valuation, equates to a 3.2% stake
CERC	R\$468 mn	R\$46 mn	0.9x	• CERC: R\$15 mn for 3.4% stake as of Aug, 2020 • Mercado Bitcoin: R\$13.6 mn for 3.5% stake as of Feb, 2021
MERCADO BITCOIN	R\$389 mn			
;P	R\$202 mn	R\$10 mn	0.9x	• Contributed at GP Investment's face value investment of R\$10.1 mn as of Jan, 2021
Net Cash ¹		R\$111 mn		• G2D still has ~R\$68 mn in committed capital with Expanding Capital and ~R\$77 mn with The Craftory
Total	R\$4,246mn	R\$696 mn	1.3x	

Unfolding G2D



Investment thesis A

Direct Investments

Investment thesis A is focused on tech-enabled and disruptive companies and is mostly composed by fintechs. See below a brief summary of the companies in order of relevance:

- **Blu Pagamentos:** G2D holds convertible debentures, on a fully diluted basis, which equates to ~24.3% of Blu's share capital, and it was last priced in 1Q20. Blu is a fintech focused on reducing the transactional costs between retailers and suppliers. Its main products includes: i) payment and CRM solutions for product sales; ii) financial management; and iii) B2B marketplace for the industry.
- **Quero Educação:** G2D position equates to 3.2% of Quero's share capital and was last priced in 3Q19 investment round. Quero Educação is an education platform that aims to help students choose and enroll in post-secondary education institutions, paying discounted tuitions, while Quero Educação helps its partnering institutions reduce their vacancy rates.
- **CERC:** G2D position represents 3.4% of CERC's share capital and was last priced in Aug/2020. CERC is a receivables' fintech, focused on streamlining receivables, which main projects include the creation of an insurance registrar and a settlement chamber.
- **Mercado Bitcoin:** G2D holds convertible debentures, on a fully diluted basis, which represents ~3.5% of Mercado Bitcoin's share capital, and were last priced in 1Q21 investment round. Mercado Bitcoin is the largest exchange/platform in Latin America for digital assets such as cryptocurrencies, Cota de Consórcio (quotas of purchasing pools), Precatórios (judicial payment orders) and tokens, with more than 2 million customers and over R\$ 20 billion traded.
- **Sim;paul:** G2D holds convertible debentures, on a fully diluted basis, which total ~5% of Sim;paul's share capital, and was last priced in 2Q20 investment round. Sim;paul is a financial market brokerage platform based on a more personalized advisory through IFAs and increased value added for them through interests alignment.

All in, we believe the above mentioned investments to be fairly priced. Despite being inserted into high growth markets, most of the NAV already incorporates the expected growth given the recent valuation estimated, although Mercado Bitcoin and CERC might be inserted into more disruptive segments and may have more value to be unlocked in the short term.

Figure 05: Brief Summary of Investment Thesis A

Strategy	Filling the Funding Gap to Scale-up Disruptive Companies
Geographic footprint	
Platform	GP Investments
	Fintech operating in a less competitive space with an innovative system and already profitable business model
	Leading Brazilian education platform, aiming to help students choose and enroll in post-secondary institutions paying discounted tuitions , while helping partnering institutions dramatically reduce their vacancy
	Provides infrastructure for the financial credit market , with receivables validation, registration and clearing services
	Digital asset platform , where users can buy and sell cryptocurrencies and other digital assets, such as tokens that represent real assets.
	Fintech which intends to offer a brokerage platform with a unique value proposal for IFAs (Individual Financial Advisors), through a partnership model.

Investment thesis B












The Craftory

The Craftory is a VC focused on CPG and ESG companies and brands that have a major cause and socio-environmental impact, based in London and San Francisco. In May 2018, GP Investments was one of the founding investors in The Craftory and it has made ten investments, and G2D has committed US\$60 mn with a 16.44% stake. See below a brief summary of the companies in chronological order:

- **NotCo:** Recreates basic foods using only plant-based ingredients through Artificial Intelligence.
- **TomboyX:** Sells gender-neutral underwear, by tapping into a movement that is rejecting the traditional major underwear brands that are seen to be non-inclusive.
- **Ruby Love:** Produces patented hygiene apparel with built-in technology and angles suitable for incontinence and feminine care.
- **Dropps:** Leader in plastic-free detergents and created laundry and dishwashing detergent capsules.
- **Pharmapacks** (non-CPG): Online marketplace for daily necessities.
- **Present Life:** It is a company of ecologically sustainable, plant-based beauty and wellness brands.
- **Dyper:** It has a subscription-based service for sustainable bamboo-based compostable diapers.
- **Edgard & Cooper:** One of the first European pet food brand with 100% biodegradable packaging.
- **Moss** (non-CPG): Allows both individuals and corporations to buy carbon credit tokens.
- **Hippeas:** Organic and healthy snack brand that sells chickpea-based products.
- **Seed Health:** Microbial sciences company pioneering applications of microbes for human and planetary health.

In our view, The Craftory has the highest value to be unlocked, due to: i) investments have been recorded at their book value of the committed capital; ii) some investments dated 2019, which may enable greater NAV through new investment rounds; iii) as long as minority groups such as gender related, vegans and others gain ground, The Craftory investments may benefit; and iv) Management and Board of Directors with large experience in the CPG industry.

Figure 06: Brief Summary of Investment Thesis B

Strategy	Platform to Capture Major Trend in CPG companies and brands that have a major cause and socio-environmental impact.
Geographic footprint	
Platform	
	US\$30 million investment in March 2019.
	US\$18 million investment in May 2019.
	US\$15 million investment in July 2019.
	US\$16 million investment in February 2020.
	US\$40 million bridge financing round in February 2020.
	Present Life: US\$20 million investment in August 2020.
	US\$20 million investment in October 2020.
	US\$22 million investment in November 2020.
	US\$4 million investment in November 2020.
	US\$50 million investment in January 2021.
	US\$32.5 million investment in April 2021.

Investment thesis C

Expanding Capital

Expanding Capital is a VC company focused on the fast-growing market in the Silicon Valley in series C+ rounds, allowing access to the world's leading hub and start-up ecosystem for high-tech innovation and development. G2D invests in Expanding Capital Funds, which represents 25.6% of BBridge Capital I LP and 50% of Expanding Capital II A LP.

In 2016, GP Investments seeded Expanding Capital, and the partnership with G2D unfolds in US\$20 mn in committed capital from the company's first fund, plus US\$30 mn committed to the second fund, totaling US\$50 mn of committed capital. Considering that the company has 50% of Expanding Capital, its commitment totals US\$25 million, enabling the opportunity to co-invest with Expanding Capital.

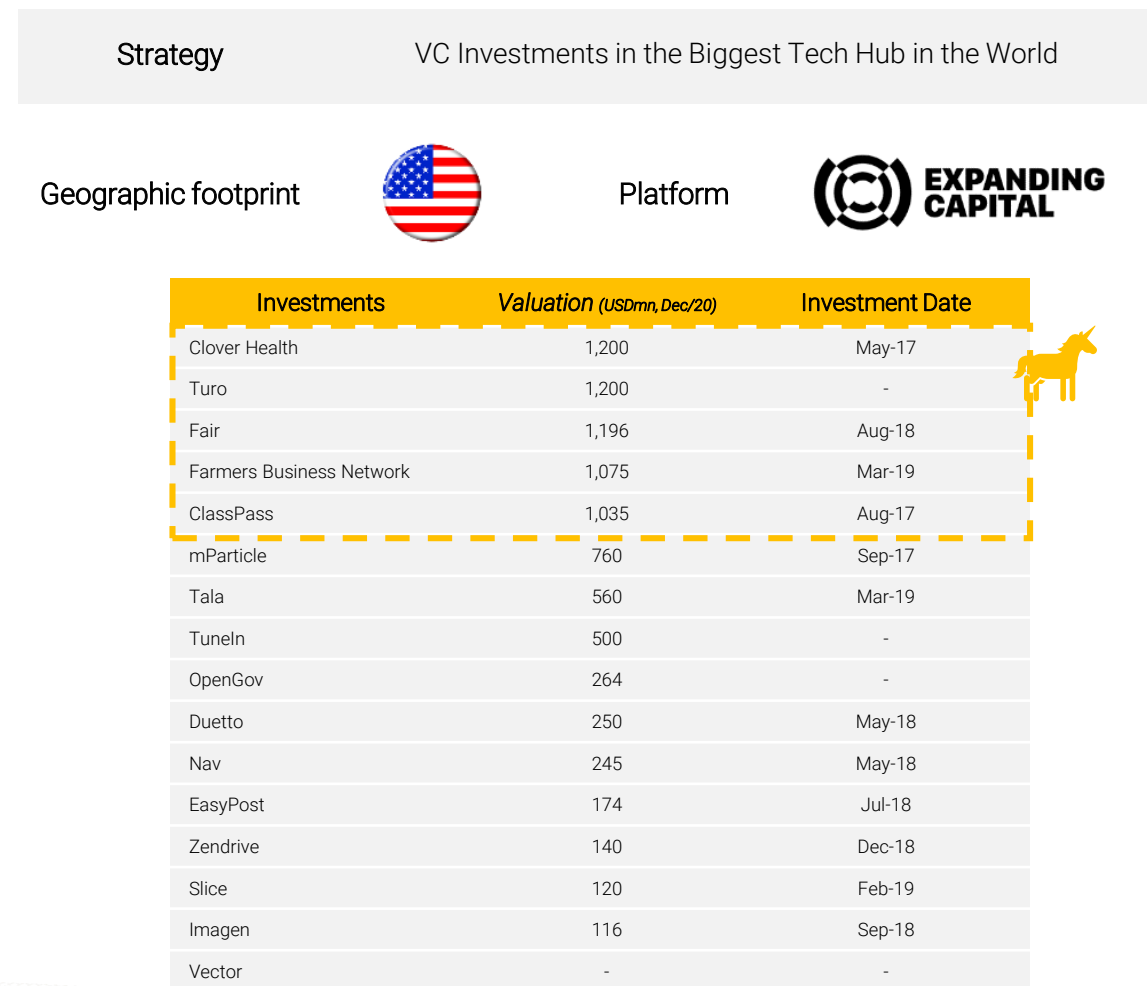
Regarding management, the CEO is Leonardo Salgado, former CEO of Joá Investimentos, and the investment committee counts with Antonio Bonchristiano and Fersen Lambranhó, CEO and Chairman of GP Investments, respectively.

As for portfolio, Expanding Capital already comprises 5 unicorns (ex-Coinbase) and has invested in the following sectors: i) business and financial services; ii) health care; and iii) IT. Also, it is worth mentioning that it divested from Coinbase in May/2021, reflecting realized gains of US\$5.2 mn, i.e., approximately 700% NAV.

In our view, Expanding Capital has more value to be unlocked than Investment Thesis A, as: i) investments have been recorded at their book value of the committed capital; and ii) some investments dated 2017, which may enable greater NAV through new investment rounds.



Figure 07: Brief Summary of Investment Thesis C



ESG analysis



ESG

Embracing the S and E pillars through impact investments portfolio

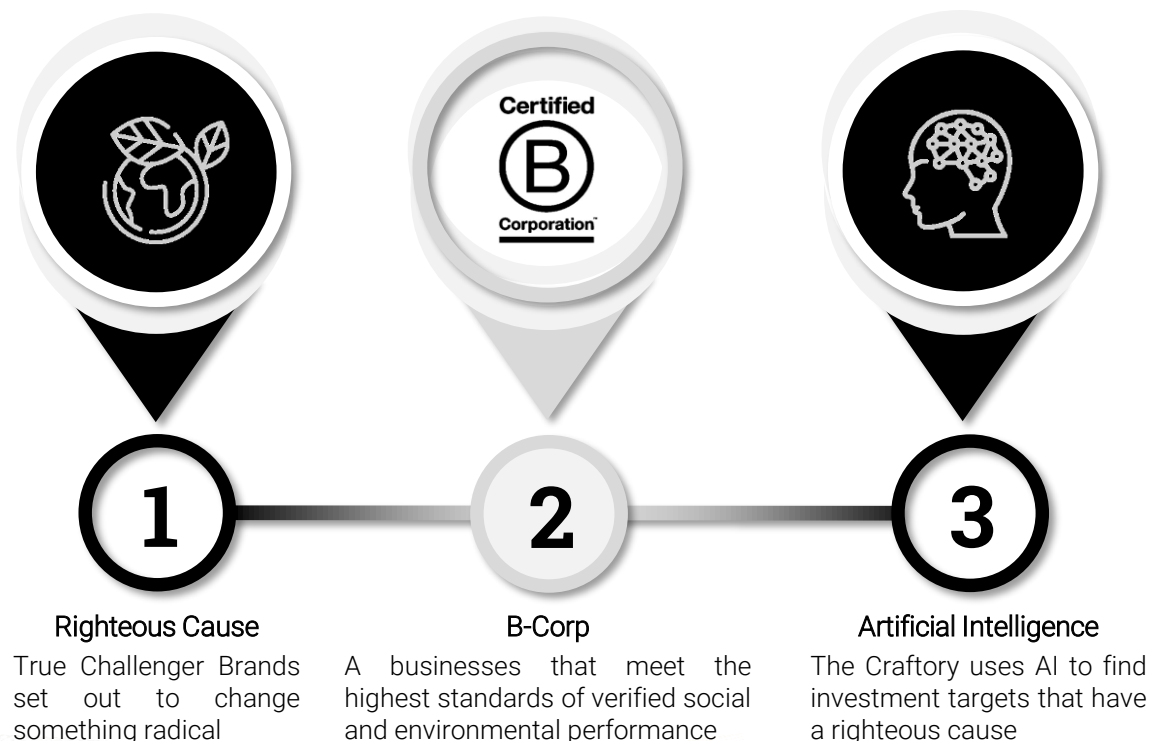
Given company's recent IPO, it was expected G2D to lack detailed ESG data disclosure. Even though, we highlight its commitment with this agenda as an intrinsic way to the business, mainly when it comes to the **S** and **E** pillars, given G2D's participation in **The Craftory** – a VC focused on CPG and ESG companies & brands that have a major cause and socio-environmental impact, based in London and San Francisco. Finally, on **G**, we see G2D's board and management as the company's main asset in the long-term, while we see room for improvement on gender diversity in leadership, in addition to a more independent Board (29%), and we look forward to seeing more advances on both topics.

Environmental: Less material, but still important to embrace. The E pillar has less materiality for tech companies, as sector's direct environmental footprint is relatively small when compared to many other industries. Even though, it is still important to embrace it. Hence, despite we missed detailed information regarding G2D efforts on this front, we highlight that, as an investment vehicle, G2D's stake at **The Craftory** leads the company to invest in companies with positive environmental impact, such as NotCo, which recreates basic foods using only plant-based ingredients through Artificial Intelligence.

Social: The Craftory as the key highlight. We see G2D well positioned on the S pillar, with highlight to company's participation of 16.44% at **The Craftory**, a "B Corporation" and an investment house (with a permanent pool of capital of +US\$400mm to invest in mission-driven CPG brands) focused on global investments in innovative consumer goods companies and brands that have a significant cause and positive social or environmental impact. G2D has committed US\$ 60 million with the company, and we note: (i) G2D has a seat at The Craftory's Board; and (ii) G2D is part of company's investment committee. In the Figure 08 we bring a brief view of The Craftory's differentials – please refer to Slide 12 to see company's main projects.

Governance: Room for improvement. G2D's IPO was priced on early May/21, concluding its BDR listing on B3 - G2DI33 (BDR level 3). Regarding G2D's Board of Directors, we see room for improvement, as (i) it lacks an independent majority (2 out of the 7 members, 29%) and (ii) when it comes to diversity, we have flagged an absence of women, which led us to look forward to seeing more diversity in company's leadership positions. In addition, it is worth to note that few Directors are also Board members, which can generate some conflicts of interest among the shareholders, however, company's know-how shows this can also be positive, since these members have extensive knowledge within the sector in which the company operates.

Figure 08: The Craftory at a Glance



The Craftory, a “B Corporation”

All eyes on company’s portfolio

Figure 09: Brief summary of The Craftory’s key companies



What: Food technology company.

Where: Santiago, Chile.

Deal date: March 2019.

Causes: Prosper sustainably and deliver good health.

How: The company has spent four years building and refining the algorithms, which searches through databases to find combinations of plant-based alternatives. The Company initially launched with “Not Mayo”.



What: Gender non-binary underwear D2C company.

Where: Seattle, USA.

Deal date: May 2019.

Causes: Progress society and champion self esteem.

How: TomboyX sells gender non-binary underwear tapping into a movement that is rejecting the traditional major underwear brands, who are seen to be non inclusive; promoting overtly sexual.



What: Eco-friendly brand offering a range of laundry and dish detergent pods D2C company.

Where: Philadelphia, USA.

Deal date: February 2020.

Causes: Remove plastic and environmentally damaging products.

How: Drops created one of the first biodegradable, plant-based, zero plastic hand-laundry detergents and first to commercialize laundry pods.



What: Plant-based, planet-friendly wellness and beauty brands company.

Where: London, UK.

Deal date: Undisclosed.

Causes: Prosper sustainably and deliver natural self-care products that work.

How: The company builds and acquires purpose led, natural self-care brands that don’t compromise on performance or the planet. All Present Life brands are plant-based and planet-friendly.



What: Period-Proof Apparel Company.

Where: New York, US.

Deal date: July 2019.

Causes: Comfort and empowerment for women while promoting sustainability.

How: The company developed a smart, intuitive, patent-pending technology that offers maximum absorption, protection against leaks and stains, peace of mind, and complete discretion, so period days can be like every other day.



Governance

A deep dive into G2D's governance structure

G2D's board and management are the company's main asset in the long-term. Despite the interesting portfolio that G2D has created and the value to be unlocked through the invested companies, in the long-term what will decide if G2D will win or fail will be the management's capacity to invest in value-adding companies. In other words, despite the great current portfolio offered by G2D, investors shouldn't be focused on the current portfolio in the long-term, but in who controls the fund. GP Investments has placed key people to focused on G2D and, despite GP having faced some issues in the past, we see G2D board and investment committee as solid and experienced.

How G2D will determine new investments? To put it simply, all investments and divestments made by G2D must be proposed by the Investment committee, which is controlled by GP Investments and then approved by the G2D's board of directors, which is mostly composed of non-independent members (5 non-independent board members and 2 independent directors nominated by the Nomination and Compensation Committee and elected by the holders of Class A (Preferred) Shares, see [page 14](#)). Thus, it is safe for investors to assume that GP will be calling the shots.

GP Investments. Starting in 1993, GP has a solid background on PE and VC investments. The fund was founded by Brazilian legendary entrepreneurs Jorge Paulo Lemann, Carlos Alberto Sicupira and Marcel Telles and started managing its first Private Equity Fund in 1994 with a total commitment of USD500 mn. In 2003, the current Chairman of the board and CEO, Fersen Lambranh and Antonio Bonchristiano respectively, took control of GP Investments and continued its trajectory in PE. In 2005, the company held an IPO (only primary offering) of USD 308mn raising capital for new investments and, in 2008, held a follow-on raising USD232M. During the years, GP proved to be a strong-player and, despite the challenges faced over the years (see [page 16](#)), it continues to stand as an important PE player managing more than USD5 bn over the years in a variety of funds including 6 generalist PE funds, one fund focused on tech in 2001 and one focused on Real Estate in 2012.

Founders



Marcel Telles



Carlos Alberto Sicupira



Jorge Paulo Lemann

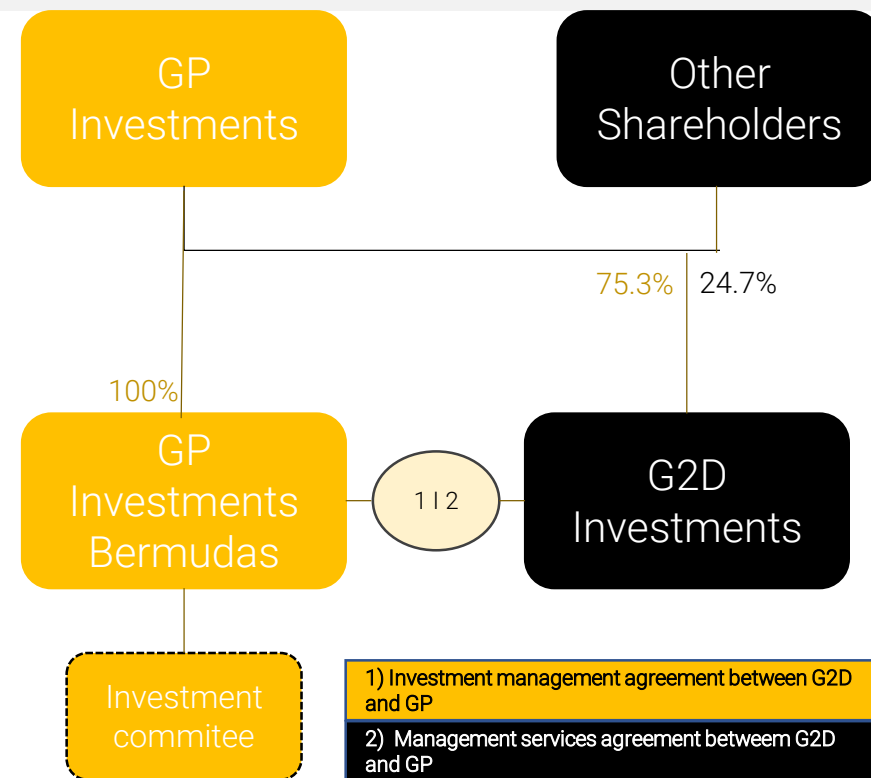
Current Controllers










Fersen Lambranh



Antonio Bonchristiano



Detailing Board Members

Name	Position	Short Bio
 Fersen Lambranh	Chairman	He joined GP Investments , G2D's indirect parent company, in 1998 and currently holds the position of chairman of the Board of Directors . He currently serves on the boards of Spice, SBF Group S.A., GP Advisors, and LEON Restaurants. Previously, he served as a member of the Board of Directors of Gafisa S.A., Shoptime S.A., BR Properties S.A. and Americanas.com S.A, among other companies. He was also CEO of Lojas Americanas S.A.
 Antonio Bonchristiano	Board Member	He joined GP Investments , G2D's indirect parent company, in 1993 and currently holds the position of CEO and member of the Board of Directors . He currently is a member of the board of AMBEV S.A., BR Properties S.A. and Rimini Street. He has served as a member of the Board of Directors of CEMAR, Gafisa S.A., Hopi Hari S.A., Submarino S.A., Equatorial Energia S.A., BR Malls Participações S.A., Tempo Participações S.A. In addition, he held positions as CFO of SuperMar Supermercados, CEO of Submarino S.A. and officer of Geodex Communication S.A. and Contax Participações S.A. He was a partner at Johnston Associates Inc. and worked for Salomon Brothers Inc. in London and New York.
 Rodrigo Boscolo	Board Member	He joined GP Investments , G2D's indirect parent company, in 2010 and became Chief Financial and Investor Relations Officer in 2018. He has experience in various transactions in the industrial, financial, services, consumer, and retail sectors. Currently, he also serves on the Board of Directors of LEON Restaurants. Mr. Boscolo worked as a consultant at The Boston Consulting Group. He has an M.B.A. from the Wharton School and an M.A. in International Studies from the School of Arts and Sciences at the Lauder Institute, and a M.S. from Euromed Management in Marseille (France).
 Garth Turner	Board Member	He currently serves as co-founder and director of Cohort Limited, a Bermuda company founded in July 2012 which provides corporate management and consultancy services to offshore companies and funds and acts as a Trading Member of the Bermuda Stock Exchange. Since March 2014, he has served as a director of Watford Holdings Ltd. a Bermuda exempted company whose common shares are listed on the NASDAQ Global Market.
 Christopher Tribley	Board Member	Mr. Tribley serves since July 2017 as Senior Vice President, Fiduciary Services, at Maples Corporate Services (Bermuda) Limited, part of the Maples group of professional services companies. Previously, he worked from 2013 to 2017 at the Bermuda Monetary Authority as an Assistant Director where he was Head of Investment Group responsible for supervising some of the largest investment groups operating in Bermuda. Prior to that, he acted from 2004 to 2013 as Managing Director of Tribley Asset Management in Bermuda, a company that provided investment management services to institutional clients, family offices and high net worth clientele. He is a CFA charter holder (since 1993).
 Davis Smith	Independent Board Member	Mr. Smith is the founder and CEO of Cotopaxi (since November 2013), an outdoor gear brand with a social mission at its core. He was named CEO of the Year 2016 by Silicon Valley Community Foundation and is a member of the United Nations Foundation's Global Leadership Council since November 2019. He was previously the founder and Co-CEO of Baby.com.br (May 2010 to November 2013) and Dinda.com.br (May 2010 to November 2013), Brazil's Startup of the Year in 2012, which raised over US\$ 40 million in venture capital, and a member of the United Nations Foundation's Global Entrepreneurs Council from November 2015 to January 2018. In 2004 he founded PoolTables.com, which he sold in 2011.
 German Vilardo	Independent Board Member	He is the founder and former CEO of TV1.com (from 1994 to 1999), founder, CIO and CMO of Americanas.com (from 1999 to 2004), CIO and CMO of Cyrela Brasil Realty (from 2004 to 2008) and founder, CEO and Board Member of Pontofrio.com (from 2008 to 2011), eplataforma (from 2008 to 2011), e-hub (from 2008 to 2011), Nova Pontocom (from 2011 to 2014) and Cnova (from 2014 to 2016), the latter in which he led the Company's IPO process at NASDAQ. He is currently a member of the Board of Directors of GOL (since May 2016), Centauro (since February 2018), Locaweb (since December 2019) and C&A (since October 2019).

Risks



Risks

Controlling Risks

GP faced some challenges in the near past. Despite the solid and experienced team that GP brought to the table to support G2D, it is important to highlight that the fund faced some issues in the near past - following the 2008 financial crisis (see figure 09)-. The best examples of this unfortunate business ventures are I) San Antonio (GPCP IV and V), an Argentinian O&G drilling company that GP invested in 2007 and faced a 100% loss in 2014; II) Imbra (GPCP V) a dental implant company sold by the symbolic price of USD1 in 2010 following the USD140 mn investment made by the fund since 2008; and III) LBR (GPCP IV) a dairy company that filled for bankruptcy in 2013. These relatively recent investments have harmed the performance of GP's investment funds. However, we believe it should not erase the success that GP held since the inception of the PE market in Brazil. Nevertheless, we believe GP management is highly engaged in delivering a good performance through G2D in order to grow a strategy.

Key people for the company management are not directly linked to the company. Considering that the Investment committee responsible for proposing new investments and divestments and most of the board of directors in charge of evaluating these proposals are composed in their majority by GP people, It is relevant to consider that they are not bound to stay in the company, thus the experienced team that investors may observe now, may not be the one managing the company in the future.

The fund needs to be profitable, or minority shareholders pay the price. GP will apply a management fee on G2D's NAV of 1.5% p.a, this coupled with the performance fee of 10% on the excess return should be considered when evaluating the companies market cap vs NAV. The continued payment of management fees presents itself as a risk to minority shareholders, not only due to the cost of opportunity, but if the NAV growth stays at 0%, the value to minority shareholders are negative as the payment of management fees are going to drain the fund.



Management fee: 1.5% p.a. of the total NAV

Excess return: G2D's NAV, increased at an annual rate of 5% in USD, compounded annually

Performance fee: 10% of the Excess Return

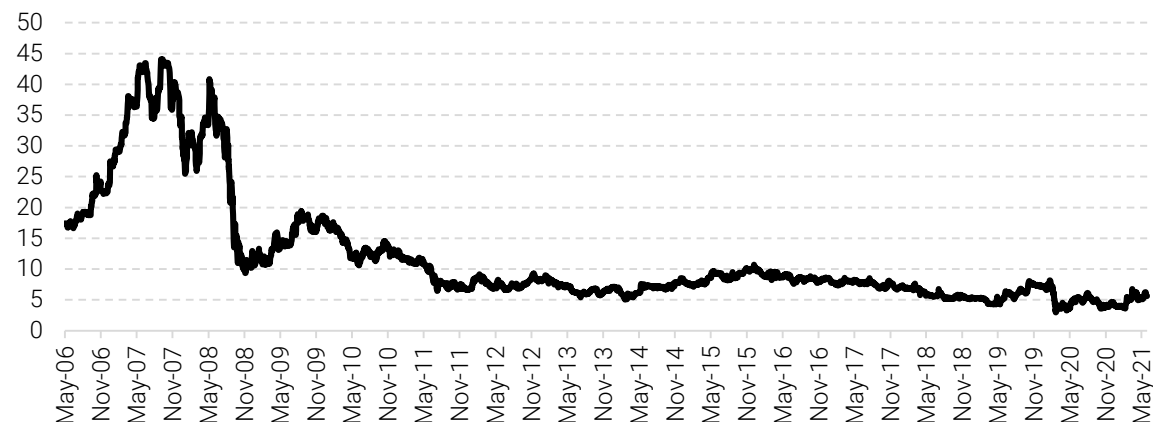
Figure 10: GP Investments historical profitability in PE funds

Net IRR From Bloomberg, Gross IRR from GP presentation

GP PE Funds	Vintage	Total Commitment (USD)	Net IRR (USD)	Gross IRR (USD)
GPCP I	1994	500	-	11.3%
GPCP II	1997	800	-	10.6%
GPCP III	2005	250	41.7%	-
GPCP IV	2007	1,300	-11.2%	-
GPCP V	2008	1,100	-4.7%	-

Figure 11: GPVI33 Shares inflation adjusted

R\$, Since 2006



Risks

Other Risks

Asset Liquidity Issues. Venture capital (VC) companies have in their essence some assets liquidity issues in relation to funds that invest in listed companies. This is related to VC fund’s focus to invest in companies in their inception state, thus having a higher risk of failing and end up losing the capital allocated on them. In a scenario of bad market conditions G2D might have to hold bad investments for longer due to its lack of opportunities to sell.

Market Liquidity Issues. Similar to asset liquidity issues, market liquidity issues are caused by the inability to easily exit a position, in this case for investors to sell or buy G2D stocks. During June, Average Daily Trading Volume (ADTV) was of R\$ 1 mn, a value that would represent 0.004% of B3’s ADTV in the 1Q21. In the case of a bad market scenarios, investors might not be able to dispose of the stock in a short-term manner, thus being more exposed to losses.

Figure 12: G2D Daily Volume since IPO

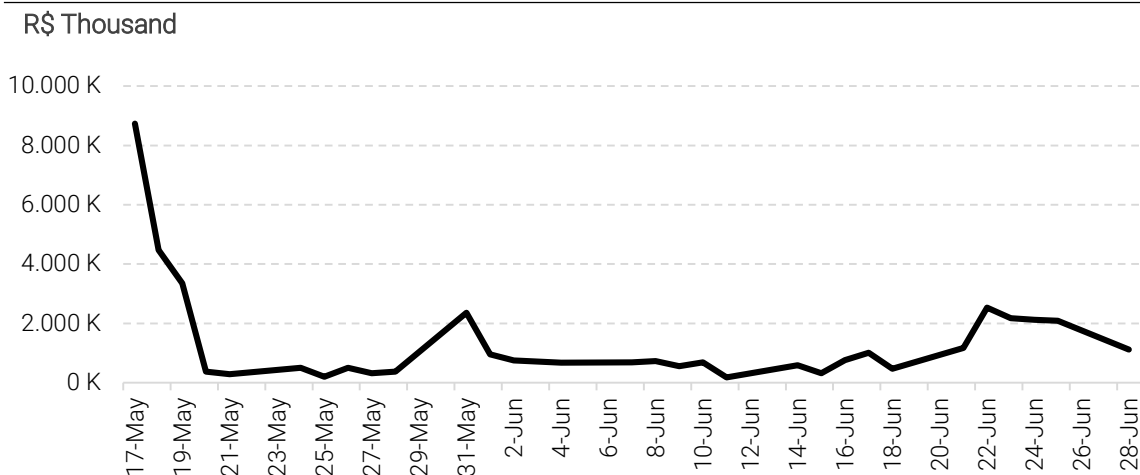


Figure 13: % of successful ventures



Venture Capital risks. In 2012, a study elaborated by Shikhar Ghosh, a senior lecturer at Harvard Business School, calculated that three quarters of venture-back firms in the US don’t return investors capital. Furthermore, if failure is defined as failing to see the projected return on investment, then the number jumps to more than 95%, according to the research. Nonetheless, despite this harsh numbers. It is important to highlight that the model in which VC is founded on considers that some of its investments will fail, but the benefit of being an early investor is that the companies that succeed will more than compensate those losses. That said, we believe investors should keep in mind that G2D’s portfolio may lose value before it shows greater returns.

Valuation



Valuation

We initiate G2DI33 with a Buy rating (R\$7.0/sh TP)

Our target price is based on G2D's fair NAV. Similar to a holding company, we believe G2D has cons that would justify a discount to NAV, however, its portfolio has growth avenues that may offset a discount. Also, we recall that NAV is updated by: i) revenue approach methodology (eg., multiples of EBITDA); ii) last recent price in commercial transactions carried out with independent investors; or iii) DCF and valuation using NAV. Thus, balancing pros and cons and last updated NAV, we initiate G2DI33 at R\$7.0/sh based on current R\$696 mn NAV as its fair price with 0% discount vs. current 4% discount, implying 7.2% upside.

Pros

Growth Avenues

We see The Craftory and Expanding Capital strategies with great growth potential since: i) these investments have been recorded at their book value of the committed capital; and ii) some investments dated 2017.

G&A

G2D has no employees and Management and Administration services are provided by GP under an Investment Management Agreement, which contract duration lasts for 10 years, and an Administrative Services Agreement.

Income Tax

For local investments, G2D benefits from income tax exemption due to investments via FIP (Participation Investment Fund). For overseas investments, G2D benefits from income tax exemption due to geography.

FX

Considering the company's diversified portfolio with half dollarized, we see geography as a hedge to BRL depreciation.

Cons

Controlling

G2D's Investment committee and most of the board of directors in charge of evaluating proposals are mostly composed by GP people. Thus, minority shareholders are subject to GP interests as well as portfolio diversification.

Administration Fee Performance Fee

G2D pays GP Advisors an administration and performance fees. The administration fee is a quarterly management fee of one-quarter of 1.5% of the Company's total NAV recorded at the end of the prior quarter. Performance fee is 10% of the excess return.

Liquidity

G2D portfolio is focused on early stage and Pre-IPO companies with an elevated risk of failing and illiquidity, given investments in non-listed companies.

ADTV

Considering the company's ADTV of around R\$1 mn in Jun/21, we see market liquidity still low and a risk to G2D' shares.

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Marcel Campos | Financials
marcel.campos@xpi.com.br

Bernardo Guttman | TMT
bernardo.guttman@xpi.com.br

Marcella Ungaretti | ESG
marcella.ungaretti@xpi.com.br

Matheus Odaguil | Financials
matheus.odaguil@xpi.com.br

Artur Alves | Financials
artur.alves@xpi.com.br

Marco Nardini | TMT
marco.nardini@xpi.com.br