

Abrupt change in tech market hit NAV

Portfolio shrank, but stock still trades at big discount to book; new TP

Q2 accounting NAV was R\$747mn, or R\$7.10 per share, down 26% q/q (or - R\$256mn), mainly due to a big portfolio revaluation (-R\$335mn), offset by positive FX variation. Although portfolio NAV was properly evaluated based on recent transaction valuations (until Q1), G2D updated its NAV, exceptionally, this quarter to reflect the current, tougher market environment. Based on yesterday's market closing price of R\$3.21, the stock still trades at a big discount to its accounting NAV ("only" 0.45x latest closing price). We are also cutting our TP to R\$7.10 (vs. R\$11.30 before) based on a new P/NAV target and latest NAV.

Reasons for NAV update

Until November, stock prices of public companies from the tech sector were at record highs, and in the private sector, companies raised funds at record valuations. But at the start of 2022, the VC market slowed down. Macroeconomic changes, such as rising inflation, higher interest rates, and the war in Ukraine, prompted adjustments in capital market valuations. While G2D reckons the LT outlook remains positive, management believes it was important to reflect the latest market variations in its portfolio. Despite the revaluation reducing its NAV by 26% q/q, NAV per share is up 25% since the May 2021 IPO.

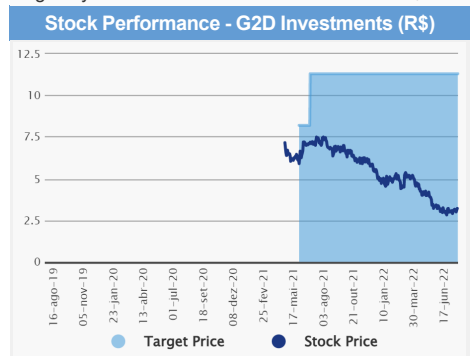
Main impacts on Q2 results

Following the IPEV methodology, G2D established a valuation adjustment factor based on the re-rating of revenue multiples of public companies that are comparable to its three core clusters: (i) Brazilian fintechs; (ii) 21 Century CPG; and (iii) VC in Silicon Valley. In the first cluster, the adjustment factor considered the performance of >20 global listed companies in the sectors of 2TM, Blu and CERC, resulting in a 37% fall (in USD) in the fair market value (FMV) of the Brazil portfolio. In the second cluster, the adjustment factor derived from the performance of companies operating in the sectors of The Craftory investees resulted in a 23% decline in FMV. Finally, the Expanding Capital portfolio was revaluated based on multiples of companies in the Nasdaq 100, generating a 27% decline in FMV (more details in table 1).

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Rating	Buy
12m Price Target	R\$7.10/US\$1.39
Price	R\$3.21/US\$3.21 (ADR)
RIC:	
BBG:	G2DI33 BZ

Trading Data & Return Forecasts	
Forecast price appreciation	+121.2%
Forecast dividend yield	-
Forecast stock return	+121.2%
52-wk range	R\$ 7.5-R\$ 2.8
Market cap.	R\$ 329 mn
Shares o/s (m)	102.3 mn
Free Float	35.0
Avg. daily value	R\$ 1 mn



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Cutting our TP to R\$7.10

Since G2D only has minority stakes in non-listed companies, there isn't much info available (including financial statements), so it's hard to properly value the assets. When we initiated coverage, our TP stemmed from a P/NAV target of 1.3x that reflected the average trading multiple of other investment vehicles (with similar characteristics) listed offshore. But given the lack of liquidity G2D is facing since its IPO, we now estimate that a fair P/NAV would be 1.0x. Therefore, based on latest NAV of R\$747mn, our new TP is now R\$7.10 for the BDRs (55% upside).

Attractive valuation; BUY reiterated

Tougher capital markets clearly aren't conducive to high-growth stories, especially low liquidity ones like G2D. Tech names are still in the midst of a major sell-off, with Coinbase, a direct peer of Mercado Bitcoin (G2D's investee), down ~70% YTD. But the NAV discount is excessive, especially with the BRL/USD back to R\$5.10. Even after cutting our TP 37% to R\$7.10, we see major upside. G2D reiterated its confidence on the LT of the current portfolio earlier today during its conference call. Trading at a cheap valuation, we reiterate our BUY.

Image 1: Valuation based on NAV exercise (in R\$m)

	Blu	Craftory	Expanding Capital	Quero Educação	CERC	Sim;Paul	Mercado Bitcoin	Digibee	Net cash	Total
NAV	163	264	60	29	16	10	14	0	112	669
Stake	24%	16.44%	n.a.	3%	5%	5%	5%	8%	-	-
# of shares										105
Price per share (IPO NAV)										6.35
1. Coinbase: IPO and Sale			-4.0						31.1	27.1
Adjusted NAV	163	264	56	29	16	10	14	0	143	696
Price per share										6.61
2. Mercado Bitcoin: Revaluation and Sale							225.8		19.5	245.3
Adjusted NAV	163	264	56	29	16	10	239	0	163	941
Price per share										8.94
3. Blu: Partial Sale	-6.0								54.3	48.3
Adjusted NAV	157	264	56	29	16	10	239	0	217	989
Price per share										9.40
4. NotCo: Recent Valuation		134.0								134.0
Adjusted NAV	157	398	56	29	16	10	239	0	217	1,123
Price per share										10.67
5. Craftory: Invest. & Revaluation		46.2							-90.9	-44.6
Adjusted NAV	157	444	56	29	16	10	239	0	126	1,079
Price per share										10.24
6. Exp. K: Invest. & Revaluation			40.3						-45.8	-5.5
Adjusted NAV	157	444	96	29	16	10	239	0	81	1,073
Price per share										10.19
7. Sim;paul: Investment						2.7			-2.7	0.0
Adjusted NAV	157	444	96	29	16	13	239	0	78	1,073
Price per share										10.19
8. CERC: Invest. & Revaluation					27.9				-20.0	7.9
Adjusted NAV	157	444	96	29	44	13	239	0	58	1,081
Price per share										10.27
9. Other Assets / Liabilities & FX									-18.2	-18.2
Adjusted NAV	157	444	96	29	44	13	239	0	40	1,063
Price per share at Q3										10.09
10. Portfolio Revaluation in Q4	93.6	17.9			6.8	-12.9	27.7		-34.3	98.9
Adjusted NAV	157	538	114	29	51	0	267	0	5	1,162
Price per share at Q4										11.03
11. Investment in Digibee								9.5		9.5
Adjusted NAV	157	538	114	29	51	0	267	9	5	1,170
Price per share										11.12
12. FX variation & others	-89.3	-17.3	-4.3	-0.2			-40.3		-16.1	-167.5
Adjusted NAV	157	449	97	24	50	0	227	9	-11	1,003
Price per share at Q1										9.53
13. Q2 Revaluation	-53.7	-66.8	-19.3	2.6	-17.1		-62.3	1.0	-40.8	-256.5
Adjusted NAV	104	382	78	27	33	0	164	10	-52	747
Price per share										7.10

Source: Company reports, BTG Pactual

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G2D Investments	Buy	R\$3.21/US\$3.21 (ADR)	2022-08-16
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