Interview with Christoph Gerlinger, The Payments Group Holding, by Gereon Kruse, boersengefluester.de, of 6.03.25

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Translated into English by The Payments Group Holding – without obligo

The Payments Group Holding: "We are undertaking a strategic turnaround"

"It is in the shareholders' interests to respond quickly to undesirable developments and to be opportunistic and flexible", says Managing Director Christoph Gerlinger in a detailed interview. He is confident that the new start will succeed and that the burdens of the past will be overcome.

A stock with three stock market stories so far. That's something you rarely find among local small caps. In fact, CEO and major shareholder Christoph Gerlinger would much rather have seen a more straightforward investment narrative for the current The Payments Group Holding. But the economy is not linear. "It is in the shareholders' interests to respond quickly to undesirable developments and to be opportunistic and flexible", emphasizes Gerlinger in a detailed interview with boersengefluester.de. Even for investors who don't hold the stock: it takes ten minutes to read this. It has everything that makes the capital market so exciting. After all, Christoph Gerlinger doesn't mince words when discussing the current situation.

Mr. Gerlinger, in mid-February you published an unusually long press release about legal disputes with the former major shareholder SGT Capital LLC, its partners, and affiliated companies. First of all, why did you discontinue the private equity business at the beginning of 2024 in the first place?

Christoph Gerlinger: Our PE asset management subsidiary in Singapore slipped deep into the red in 2023 after a failed private equity deal and was "burning" cash. On top of that, its further earnings prospects were poor. Private Equity firms are often shunned by providers of PE opportunities after a failed deal closing. Since the **Utimaco** deal in 2021, we are not aware of any further large PE transaction by **SGT Capital**. Of course, one would also need the respective capital commitments for that.

How could the PE business make a loss when, according to previous statements, you managed more than 800 million euros in capital? Even a one percent annual management fee should have been enough to pay the then team of around ten and generate a profit.

Because more than half of the 800 million euros we mentioned at the time involved a joint venture with an Asian financial services provider that did not generate any fees, because no capital was invested through SGT Capital at all. Whether this joint venture constituted a binding capital commitment at all—something SGT led us to believe during the merger in 2020—can remain open to debate. In any case, recurring revenue from the PE business was only some 3 million euros per year. Ongoing costs—including significantly increased partner compensation payments implemented unilaterally in June 2023—clearly exceeded that amount.

Who was that mysterious Asian financial services provider?

To my knowledge, SGT has never disclosed that. The press speculated in 2021 that it could be **XJ** from China. I can't comment on that as long as it's unclear whether I'm bound by extensive confidentiality obligations. SGT alleges so, including cease-and-desist demands, and threatens to claim damages—even when it concerns documented information of The Payments Group Holding that I manage.

Didn't the SGT predecessor XIO also sit in China, and didn't it get bad press at the time?

Yes. The articles from The Wall Street Journal in 2017 and 2018, containing allegations against Joseph Pacini and Carsten Geyer, which only came to our attention in 2020, were probably also a key reason for the grueling near-absence of the expected fundraising successes by SGT during the years we worked together. The former colleagues always insisted there was absolutely nothing to those accusations. We considered that credible at the time.

Has The Payments Group Holding now completely separated from SGT?

Unfortunately not. In our clear legal view, we are still owed 5.3 million euros by the SGT debtors. Of that, slightly more than half is overdue. However, the SGT debtors are trying to evade their payment obligations by dubious methods. These entities include SGT Capital LLC, SGT Beteiligungsberatung GmbH, the SGT Capital Fund II, and others. A partial amount of 3.7 million euros is well-secured and bears interest at 9 percent p.a., another part of 0.2 million euros is already subject to a so-called documentary action ("Urkundenklage") at the Frankfurt Regional Court, with a decision scheduled for May, and the remaining 1.4 million euros is mostly owed by SGT Capital Fund II, which presumably can be considered a good debtor, with CSC Intertrust acting as the fund administrator, Intertrust Fundmanagement (Luxembourg) Sarl as the so-called AIFM, and Mazars as the auditor. So we are very confident that we will get our money.

Why haven't the SGT debtors paid yet?

You'd have to ask the other side. I'm afraid it might be a matter of principle for them to initially avoid paying due liabilities voluntarily and to try to renegotiate. That happened often during our collaboration. They haven't even repaid our subsidiary's expenses for bonuses promised by them to junior team members for 2023, nor for a stock purchase by SGT Beteiligungsberatung—quite shabby. The counterclaims they suddenly brought up, presumably to avoid their payment obligation, in our clear legal assessment are completely baseless. Moreover, unlike they intended, these claims cannot be offset. They therefore go nowhere.

How did the claims against the former major shareholder etc. come about in the first place?

They were caused by the SGT partners who simultaneously served as managing directors of our Singapore subsidiary. That subsidiary, with the approval of its parent, granted SGT Capital LLC a loan of 6.4 million euros at 9 percent annual interest, which I arranged to be secured by payout claims from Utimaco fund shares. Out of that, 3.7 million euros are still outstanding, including interest. However, our subsidiary—represented by Marcel Normann—agreed to a significantly weaker security arrangement with the LLC just before the split in February 2024, behind my back. Our attorneys are convinced this disadvantageous supplemental agreement is invalid. The subsidiary also, at the direction of its then-managing directors under CEO Marianne Rajic, settled some invoices from other companies, up to arbitration court fees for an SGT ELT BidCo GmbH, and granted a loan of 200,000 euros to SGT Beteiligungsberatung without interest or collateral. Lastly, it covered expenses of 1.1 million euros for SGT Capital Fund II and 300,000 euros for other SGT companies, even though it was not itself in a position to fully service its own obligations to the parent company.

A rather tangled story.

Indeed. We haven't yet received an explanation of how that all could have been in the subsidiary's interest. If any actual damages remain, which the respective beneficiaries fail to reimburse, we may have potential claims for damages against the then-managing directors. During the period in question, the subsidiary refused to provide reporting to the parent company I manage. After the split, SGT even tried to deny our subsidiary access to its own accounting software via the service provider.

In your press release, you also mentioned possible "differential liability" claims in the millions against SGT.

That's correct; we are currently looking into that. There is a strong case that such or other damage claims may exist in connection with the 2020/21 contribution in kind capital increase and the contribution agreement, and that those could be of significant economic value, if so. We have no knowledge to what extent the other side would be able to meet such claims financially.

What is happening now, and where does The Payments Group Holding currently stand?

Regardless of these secondary battlefields, we are focusing on the upcoming transformative acquisition of The Payments Group, which is a group of four cooperating, specialized fintech and PayTech companies. This transformative transaction, which was agreed in August 2024 and is still pending, offers us entirely new growth and earnings prospects. While we are working toward closing, we are cutting costs, and both the Supervisory Board and the general partner owned indirectly by me have waived a significant portion of their agreed compensation since the split from SGT in February 2024.

So that would be the third life of the company, after German Startups Group and SGT German Private Equity!

Yes, exactly. Both previous lives had periods of considerable success, but unfortunately were not sustainable. We're not burying our heads in the sand, though; rather, we're doing everything we can to finally provide our shareholders—some of whom have been with us since our 2015 IPO at an entry price of 2.50 euros—with a capital gain, further dividend payments, and share buyback offers. By the way, from 2020 to 2023 we have already distributed more than one-third of the capital raised since our founding in 2012 back to our shareholders.

How will the comeback be achieved?

With the signing of the contracts to acquire a 75-percent interest in four PayTech payment service providers—operating globally and closely cooperating under the name The Payments Group (TPG)—we are undertaking a strategic turnaround. We are transforming from an investment company into an operating company. This move builds on my entrepreneurial achievements with the publicly listed Frogster Interactive Pictures and before that with a similar company. Both were very successful on the stock market under my leadership. We've been making steady progress on TPG's acquisition after overcoming a few obstacles recently, but we still have a few things to take care of to finalize the deal. Among other tasks, both parties have yet to sign the negotiated amendment to the purchase agreement, which we announced in a press release, and to jointly raise the capital needed to finance the transaction.

What exactly do the four TPG companies do?

TPG offers a broad range of services around digital cash and card payments—from tailored payment products, including so-called e-wallets, and prepaid vouchers, to solutions for converting cash to digital. Businesses benefit from these solutions because they address a variety of payment needs of their customers and ensure a seamless payment experience without interruptions in the purchase process. TPG focuses on very rapid development of new products and on operational expertise. The TPG company Calida Financial Ltd. received an e-money license from the Maltese Financial Services Authority (MFSA) in August 2024. This license will allow Calida to offer innovative e-money services and products across Europe in the future.

Who are The Payments Group's peers?

It positions itself in the market with a comprehensive approach that integrates both B2B and B2C payment solutions and focuses on what's called "embedded finance." That sets it apart from many traditional payment providers. It draws inspiration from companies like Adyen, Checkout.com, or Stripe—not because they are directly comparable one-to-one, but because these companies also started with a novel, innovative approach and managed to hold their own against established players. They've shown that there is always room in the market for new and game-changing solutions. TPG is similar—it handles online payments differently than many do now, with a philosophy aimed at seamlessly integrating financial solutions into digital ecosystems.

Could you share a few key data points about TPG?

The transaction volume processed by TPG—which is already profitable—is set to increase by more than 40 percent this year to nearly 140 million euros, and to grow even more strongly in 2026. From this, consolidated sales expectations for 2025 and 2026 of nearly 10 and 13 million euros, respectively, are derived. For 2026, the target is an EBITDA margin of over 20 percent, rising to over 30 percent in the medium term. Beyond 2027, TPG also has the prospect of continuing high double-digit growth rates.

What are the growth drivers and the next milestones?

Qualitatively, the e-money license obtained a few months ago, which will allow TPG to offer many additional services to its clients—i.e., online merchants—and the general diversification and expansion of the already available payment services. TPG operates its own payment platform, making it largely independent of third parties, and uses that independence to compete on the market with the latest technology, reliability, and security. Quantitatively, it's the number of connected online merchants and service providers. TPG also benefits from an efficient, low-marketing-cost white-label strategy in promoting its prepaid programs.

What is that strategy?

The vouchers issued are tied directly to a specific brand or major online merchant that offers them as a payment method and actively promotes them itself. This means TPG doesn't need to spend its own marketing budget, build up its own brand, or invest in customer acquisition. The merchants handle brand placement and promotion of the vouchers so that customers access the product directly through them. Hence, the main drivers of organic growth are the e-money license and attracting more online merchants, including expansion into new verticals and countries. So far, TPG is active in 21 countries. The next major milestone is hitting 500 million euros in transaction volume. The TPG team is highly motivated to achieve that goal within three years. Additionally, there are many attractive acquisition targets in TPG's payment space, which we plan to acquire using our shares as currency.

What does the TPG acquisition deal look like, exactly?

We are acquiring the 75-percent stake in TPG partly in cash and the larger remaining part through the transfer of treasury shares. Under the negotiated—but not yet definitively agreed—terms, the purchase price will be based on the valuation that specialized PayTech private equity investors are willing to pay for the future PGH group, and thus implicitly for TPG, through a preceding placement of our own shares. Simply put, we will pay the same valuation that third-party investors are willing to pay for the combined entity, subtracting 80 percent of The Payments Group Holding's net asset value from the total valuation. We currently roughly estimate that net asset value to be around 20 million euros, or a little over 2 euros per share. This ensures that we pay no more than a fair price for TPG.

What does that mean for the future number of shares?

Currently and preliminarily, we're assuming we'll spend around 5 to 9 million euros in cash and transfer between 13 and 25 million treasury shares. Following the closing, we would therefore have around 23 to 35 million outstanding shares. We also expect these private equity investors would want clear exit options after four to five years. If our share is still illiquid at that time, we may agree, for instance, to initiate an M&A process aimed at selling a majority stake to a PayTech PE investor.

After that, will there be more "lives" for your company?

No, at least that's not planned (laughs). But a management team shouldn't be hell-bent on proving itself right about a given strategy. It is in the shareholders' interest to respond quickly to negative developments—as we did with the PE business—and to remain opportunistic and flexible, even if that sometimes invites ridicule.

… which you might have gotten when, for a while, you were looking into artificial intelligence.

Yes, that was our focus after we shut down the PE business at the start of 2024, before the TPG opportunity crossed our path in early summer, because we are convinced of the unprecedented disruptive power of AI. We've actually continued pursuing those AI leads in parallel and don't want to abandon them. Together with expert partners, we plan to launch a concrete, opportunistic AI project in the near future. This project is based on the groundbreaking open-source model from DeepSeek and involves developing several related AI apps. It requires little capital but offers significant value-creation potential. Moreover, artificial intelligence will presumably also enrich TPG's value creation. In our view, the risk-reward profile is very attractive. But our primary focus is PayTech as a foundation for profitable growth. We are very confident and excited for what the future holds.

So far, the share price doesn't seem to reflect these prospects, does it?

Yes, agreed. Admittedly, the situation is quite complex. In our view, the stock even trades significantly below its net asset value. My family and I remain one of our company's three largest shareholders and made additional purchases at the end of 2024. Through the transaction, TPG's key people will also become major shareholders. So all managers certainly have a lot of "skin in the game."

Thank you very much for the interview, Mr. Gerlinger!