NewGAM

NewGAMe's response to the FMS transaction
3rd July 2023

This deal is another reflection of poor management and a panic fire sale mentality at GAM. Despite the further deterioration in the business, Carne is acquiring CHF 36.4bn of AuM (these will most likely stick and become immediately profitable for Carne) for CHF 3m or 0.008% of AuM. In other words, zero consideration. The selling process of FMS by GAM was clouded in opacity, and no proper auction was held. It appears that a number of major players in the sector were not even invited.

From conversations we have had with leading industry players, including some that were given access to the dataroom, the zero consideration is wholly inappropriate even though the company is money losing (this is puzzling to most market participants). A transaction value for a company such as FMS can be broken down into the sum of regulatory capital plus goodwill (multiple of EBIT) minus restructuring costs, if any.

Under the terms of the deal agreed between GAM and Carne, Carne gets the business for zero goodwill and GAM keeps the regulatory capital and the burden and risk to close the FMS business, i.e. firing everybody and closing offices. The only reason for transferring contracts for zero consideration in this way is that it avoids a lengthy due diligence process and fits with the completion timetable of the Liontrust deal.

First of all, the lack of goodwill payment is ludicrous as the contracts will become immediately lucrative for Carne upon transfer. Second, most of the players that we have talked to have high regards for FMS, its client base and its employees. Moreover, in particularly tight labor markets for such employees in Luxembourg and to some extent Switzerland, GAM will be sacrificing its goodwill by laying-off entire teams that have built-up a well-regarded business. We also do not know if GAM has signed a side deal with Carne for the servicing of its own funds which are currently handled by FMS. We would like Liontrust to confirm that none of its funds are administered by Carne Group.

Finally, the question of the regulatory capital is paramount in the context of the Liontrust acquisition. The press release mentions that "GAM will also retain CHF 12.1m (£10.6m) of released regulatory capital". Was this the entire regulatory capital inside FMS? This regulatory capital plus the consideration will be used to pay for the laying-off the FMS employees and the closing of offices.

We believe that GAM will be left with at least 10-12m post-restructuring. But then what about the CHF 20m credit line provided by Liontrust (at 7% per annum) with a 31/12/23 maturity? We increasingly believe that this CHF 20m lifeline was in essence unnecessary and will be re-imbursed immediately as the regulatory capital is released post-restructuring and post-completion of the Carne deal.

NewGAMe had identified a number of parties that were interested in bidding for FMS at a value that would have maximized shareholder value. The fast closing of the deal last week renders the possibility of bringing another bid impossible. We have written on numerous occasions to GAM's board seeking answers as to the selling process of FMS and have been considering various legal options. Given the refusal to reply and the lack of transparency surrounding the FMS deal, we have asked for a special audit to be performed after our requested EGM on August 25.

As a reference, we note that in January 2022, River & Mercantile, a similar company to GAM albeit smaller in AuM and profitable, was sold with R&M Solutions (similar to FMS) fetching 0.5% of AuM and the fund management business getting 2.5% of AuM.

The FMS fire sale makes no economic sense and was not in the interest of GAM shareholders. We believe an orderly auction not dependent on Liontrust's timetable could have generated at least CHF20-30m with the restructuring burden (and risks) to be borne by the acquirer.

In conclusion:

- The sale of FMS in the conditions described above is symptomatic of the way GAM's board is disposing of the company's assets.
- We note that the only "positive" of this sale is the release of CHF12.1m in regulatory capital. This money belongs to GAM and should revert to its shareholders. Instead Liontrust gets the full benefit of it post-completion of its deal.

NewGAMe continues to encourage shareholders NOT to tender their shares to the Liontrust offer. We are convinced that under a competent management, GAM can return to profitability with the shares offering significant upside.

- Through Rock Investment SAS ("Rock"), **NewGAMe** SA has requested an EGM to renew GAM's board of directors. This EGM will be held on August 25. **NewGAMe** encourages all GAM shareholders to retain their shares and not tender to the Liontrust offer until the EGM so that they can participate and elect a board whose priority will be to turnaround GAM and keep it independent.
- The EGM on August 25 will also decide on the special audit requested by Rock. This audit is necessary to clarify the circumstances that have led GAM's current board to recommend an evidently inadequate offer and to sell at a highly discounted price one of the main assets of the company.

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