

NewGAM

26 July 2023

Dear GAM shareholder,

GAM and Liontrust are printing so many misleading statements about **NewGAMe**'s partial cash tender offer that we had to send a letter to the Swiss Takeover Board (TOB) (read [here](#)) requesting them to stop this smear campaign. It's one thing for GAM and Liontrust to argue their case, it is another to imply that **NewGAMe**'s offer might not be legally compliant with Swiss takeover laws or that it is subject to supposedly unachievable conditions when the Liontrust offer is subject to the same ones.

In the last few days, Liontrust made three important announcements: i/that its offer is final, ii/that it has extended the tender period for another three days (this can be extended further up to 40 trading days, possibly even more subject to TOB approval), and iii/that it has waived the "FMS Exit Condition".

On the "final offer", Liontrust wants you to think that GAM is in such distress that the value being offered is fair and could not be possibly increased so as to generate some "panic tendering". GAM is facing real issues, no doubt. But as we have said repeatedly, the Liontrust offer is anything but fair. We put forward three arguments that I believe are very hard to argue against.

The first comes from Liontrust's own statements in the deal pre-announcement statement and in the prospectus of the offer itself. Liontrust admits on one hand that it is buying GAM at a material discount to its value. On the other hand, it says that it will return GAM to profit and 30% EBIT margin by 2025. We estimate this would translate into CHF 30-40m in EBIT. The forward valuation of such business is CHF 150-300m. The net present value of this business is certainly not the CHF 70-80m currently on the table. Indeed, John Ions wants to buy GAM at a material discount to its value and deprive GAM shareholders of the benefit of this turnaround as their stake in the combined company would be diluted to only 12.6% of share capital.

The second argument is that the Fairness Opinion mandated by GAM, performed by IFBC (read [here](#)) and dated from June 12 states a valuation range of CHF 0.54—1.16/share, with a transaction-based valuation range (the most relevant in this case) of CHF 0.95—1.16/share. And fairness opinions are by nature conservative...

The third argument revolves around our own analysis, detailed at length in our investment thesis (read [here](#)) which shows that GAM is worth considerably more than the Liontrust offer. We are confident of our analysis and are putting our own capital to work in order to back it.

In reality, Liontrust being an acquisitive firm, it does not want to ruin its reputation as a buyer and cannot be seen as substantially increasing the terms of its offer for GAM. That would not bode well for Liontrust's next deal negotiations. It's a classic posture.

On extending the tender offer by three days, Liontrust suggests that it is close to the "magic" 66.7% while in fact it could be quite far from it. This seems to be another ploy to generate more tendering. We know it is nearly impossible for Liontrust to be close to 66.7%. In fact, it can only be quite far from it. Except for three days, GAM has been trading at a substantial premium to the terms offered by Liontrust ever since the deal was announced. This simple fact suggests that the tender ratio must be very low. We will know this by the end of the week when Liontrust extends again or finally walks away.

Lastly, the most infuriating part of the announcement was the waiving of the FMS Exit Condition. In essence, Liontrust imposed on GAM the fire sale of FMS in order to fit the calendar of its own deal with GAM. As we have argued, FMS was sold for near zero in a way that raises serious governance questions (read [here](#) and [here](#) and [here](#)). And now, Liontrust is telling us that this

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fire sale on an accelerated timetable was not necessary to complete the deal? Are you kidding me? We know for a fact that a number of significant competitors to Carne were not even invited to the bidding process for FMS. We have asked GAM's board many questions regarding this selling process. These questions, simple for most parts, remain unanswered. Now that the FMS Exit Condition is being waived, it would be useful for GAM's board to reply to our questions so as to avoid the disgrace of the special audit (*Sonderuntersuchung*) that we will request at the August 25 EGM in order to have the answers and determine that the FMS transaction was not flawed in any ways.

GAM's ad-hoc announcement dated July 24 on the three above points is misleading shareholders, from the first line to the last. In what has become my usual tit for tat stylistic format, I will debunk the flawed arguments in this announcement (this "style" has been made necessary given the accumulation of word after word of misleading or outright false statements by GAM or Liontrust).

"The three-day extension gives GAM's shareholders further time to consider their position, which we believe is important particularly for those with fiduciary obligations, to fully weigh up the going concern implications for GAM if insufficient shares are tendered. We believe that the removal of the FMS Exit Condition is a further positive step and anticipate that our shareholders will make the decision to tender their shares over the critical final days of the main offer period."

Those with fiduciary obligations should fully weigh the implications of tendering into a deal that has significant governance issues and where the price offered does not even reflect the Fairness Opinion mandated by GAM itself. Contrary to what GAM asserts, there were no going concern issues in 2022 and remained hypothetical in the future in the own writing of KPMG. The GBP 17.8m credit line by Liontrust alleviates the going concern issue going forward, but so would the CHF 25m convertible issue. As for the waiving of the FMS Exit Condition, the condition itself was scandalous and led to obvious value destruction.

"GAM's senior fund managers wrote to the GAM Board on 20 July 2023, reaffirming their strong support for the Liontrust Offer and their belief that it is in the best interests of GAM's clients."

Who are they? How many? Have they been asked what they think of our turnaround plan and the possibility of building up equity in the business as partners? We are getting emails from GAM employees who are also shareholders in the company and are not only giving us their support but also their vote for revoking the current board and appointing NewGAME's slate of directors.

"The proposed partial and conditional offer by NewGAME for 17.5% of GAM's share capital, once made, is only relevant for a small proportion of shares held by GAM shareholders. The proposal includes a highly questionable condition that NewGAME gets full control of the GAM Board. It also requires change of control approvals from various regulators. The Swiss Takeover Board will need to review and communicate their position on whether the proposed NewGAME offer, its conditions, the associated timelines and financing, comply with Swiss takeover laws. The timeframe for any Swiss Takeover Board decision and potential appeals is unknown."

The "small proportion" is a misstatement. It is the proportion of those that would not want to remain shareholders in a turned-around GAM. We believe that those shareholders will become a small minority as the Liontrust deal is rejected. For the rest of this comment, as mentioned above, we have requested the TOB to intervene to stop this flow of misinformation.

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“GAM’s future depends on a restructuring and a viable business plan with immediate and ongoing financing in place. Liontrust’s experienced management team has conducted extensive due diligence and therefore has an in-depth understanding of GAM and its challenges and has identified significant synergies.”

Same here. But replace synergies with opportunities.

“As announced on 17 July 2023, the financing facilities provided by Liontrust are currently being used to fund the ongoing operations of GAM. The run rate losses of the Company (expected to be CHF 23 million for the first half of 2023 on an underlying basis) require funding now and for the future.”

The credit facility will be more than replaced by the CHF 25m convertible bond issue. The fact that GAM’s board is recommending an offer made by its “lender of last resort” creates a major conflict of interest. This is to be addressed by the special audit that we will be requesting at the August 25 EGM.

“NewGAMe’s proposals ignore business realities and do not provide a credible path forward. Furthermore, they do not provide the required immediate funding and materially underestimate the scale of funding needed to restructure the business and to support it as a going concern. Liontrust is the only viable option.”

GAM wants shareholders to believe that we are a bunch of amateurs. I will not even expand on this. We have made our points and the market seems to agree. Liontrust is NOT the only viable option and GAM can strive as a standalone company.

“The GAM Board continues to strongly recommend the Liontrust Offer and urges shareholders to tender their shares.”

Sounds desperate to me.

David Jacob, Chairman of GAM said: “I acknowledge that this has been a challenging journey for shareholders. However, at this critical point, I urge you to tender your shares into the Liontrust Offer. By doing this, you protect your investment and have the opportunity to participate in the future value creation from the enlarged firm.”

Would read better: “I acknowledge that I, the board, and top management have driven the share price down by over 85% and led to more than CHF 400m in shareholder value destruction since I was appointed Chairman (and a lot more since I was interim CEO).” As a result, Mr. Jacob is not really qualified to tell investors how to protect GAM shareholders’ investment in the company nor to give an informed opinion on the best way to participate in the future value creation of the company.

We remain committed to maximizing the future value of GAM for all stakeholders and look forward to continuing to discuss our thoughts further with our fellow shareholders.

Albert Saporta
Director
NewGAMe SA
www.newgam.ch