

hGears AG

The most important new acquisition is certainly hGears AG from Schramberg in Baden-Württemberg. The company is a global manufacturer of high-precision transmission parts and similar components with locations in Germany, Italy and China. Under the leadership of a medium-sized private equity company, the entire machine park has been extensively modernized in recent years and the entire company has focused in particular on the production of transmission parts for the e-bike industry.

This strategic shift proved to be the right one, and hGears was able to benefit from the impressive growth of the e-bike industry, especially in the corona years 2020/21. Of course, the stock market also liked this and enabled the company to have a brilliant initial public offering (IPO) in May 2021. The company was placed at a market valuation of approximately EUR 270 million and raised direct IPO proceeds of more than EUR 60 million.

As in many industries, however, the "corona boom" was soon followed by a "corona hangover". This is also the case with e-bikes. Weak consumer demand and overflowing warehouses are currently being processed and are causing serious problems throughout the supply chain. A second important segment of the company faces similar challenges. Here, hGears supplies transmission parts for garden tools. This segment, too, is faced with the "corona effect".

All in all, hGears is currently suffering greatly from poor capacity utilization and had to issue profit warnings. Mister Market reacted accordingly. Within 2 years, the stock lost more than 90% of its value and the market capitalization fell to EUR 25 million in December 2023.

We then took a close look at the company. Of course, the current business situation is challenging, and the figures are not pretty. However, due to the very solid balance sheet, we consider the probability of existential problems in our analysis to be rather low. On the other hand, a recovery of the customer demand seems much more likely. Especially since the new CEO made an excellent impression on us. In our base-case scenario, we see a significantly higher company valuation over the next 2-3 years. Against this background, we recommended establishing a reportable stock position in the TGV.