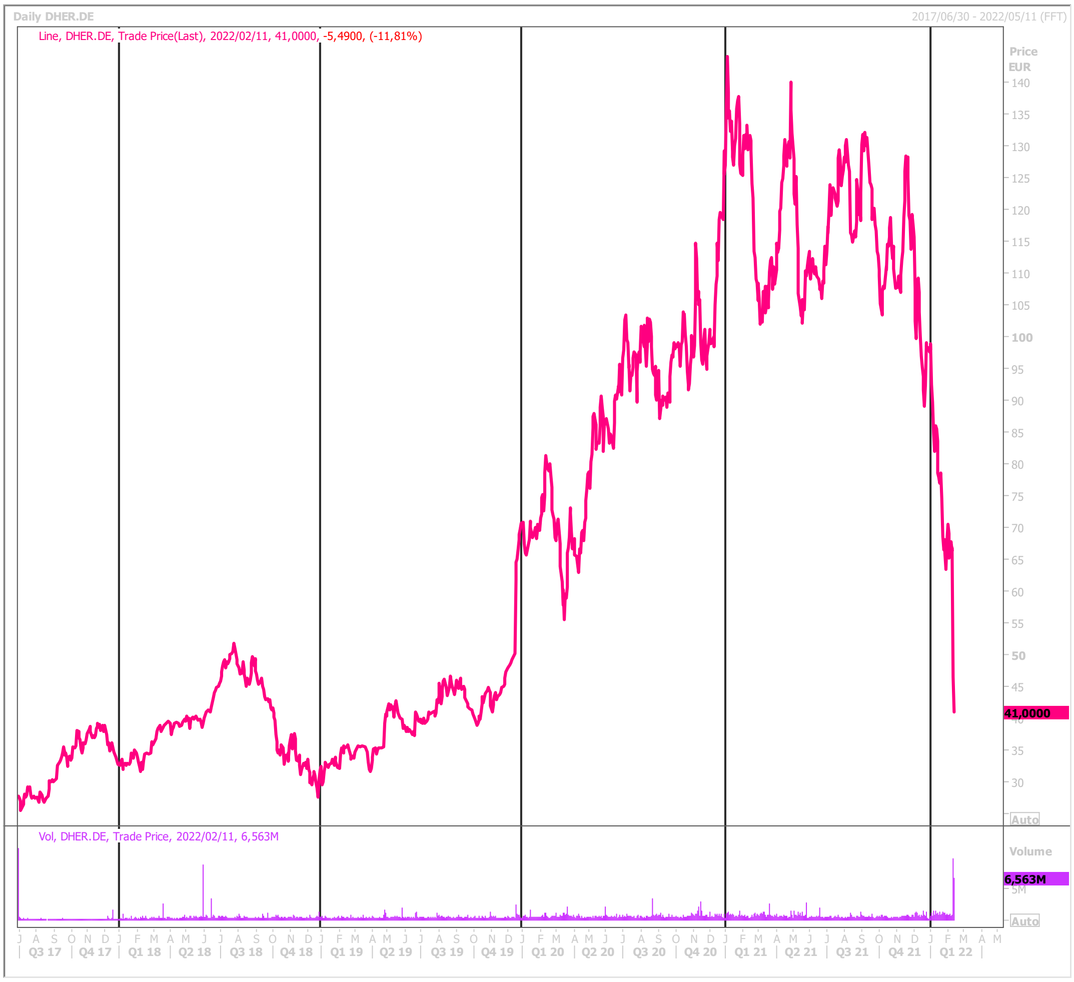
Marking Delivery Hero to Zero

Perspectives: February 12th, 2022

At a point in time, not that long ago, a German listed company named **Delivery Hero** attained a market capitalisation of EUR35.9bn when its share price peaked at EUR144 in January 2021.



Corporate entities that owned Delivery Hero at the time, including **Prosus / Naspers**, enthusiastically marked their carrying balance sheet valuations to the increase in market prices. This practice is legal, and audit standards allow for it to be signed off. However, not everything that is legal or standard practice is automatically a good idea. The history of changes in regulatory and auditing principles clearly supports this last point.

The key question is what it might be worth. Herewith observations drawn from Delivery Hero's publicly available financial results.

- Despite a rapid rise in revenues from 2013 to 2021, operating losses and interest paid on debt have increased steadily, in every year.
- Despite persistent and significant new issuance of shares, the balance sheet is meaningfully geared, and with a large EUR875mn convertible bond due for repayment in 2024.
- It has a *negative* tangible book value.
- Despite already declining by 70%, at the latest share price of EUR44 it still trades in the market at over 2 times sales and 7 times book value.

It gets more interesting when one considers they have had a huge, and certainly once-off, boost in demand for their online food delivery services courtesy of the covid pandemic. People are as hungry as ever for food - but as social beings most of us are just not so keen on sitting at home any longer.

Furthermore, their own sky-high valuation multiples have drawn out lots of new competitors, rapidly increasing inflation is putting pressure on their costs, while rising global bond yields foreshadow significant increases in benchmark interest rates.

A highly geared, loss-making company, with rapidly deteriorating industry fundamentals and a plummeting share price is a dangerous cocktail.

So, can it really be worth what the current share price of EUR44 - a market capitalisation of EUR11bn - suggests? Or is it worth the present value of future discounted cash flow net profits? No prizes for guessing where we stand on this matter.

If this or any company does not produce future cash flow net profits, and barring a bailout or acquisition, its shareholders equity is sure to be worth zero. Eventually.

Our work continues…

Daniel Malan
Managing Director & Chief Investment Officer
daniel@perspectiveim.co.za

Perspective Investment Management
www.perspectiveim.co.za

Perspective
Investment Management