

Bid for Origo's Holding Tastes Bittersweet

Stockholm (HedgeNordic) – Origo Quest 1, a Stockholm-based long/short equity fund that occasionally engages in constructive activism to unlock shareholder value in their holdings, has accepted a cash offer for gaming company Cherry. In mid-December, Cherry received a takeover offer from EE Intressenter, a consortium that includes insiders such as board chairman Morten Klein, of SEK 87 per share, which corresponds to a premium of 20 percent over the last closing price before the announcement of the offer.

Launched in February 2013, Origo Quest had Cherry as one of their earliest investments. Cherry owns, acquires and develops fast-growing gaming, media, and entertainment companies. At the time of the investment, the gaming company employed around 650 employees and generated negative earnings before interest and taxes on revenues of SEK 300 million. Following several years of robust growth, Cherry currently employs 865 employees and makes more than SEK 650 million in earnings before interest and taxes on roughly SEK 3 billion in revenues.

Cherry has been a top position of Origo Quest in the past four years, on average accounting for ten percent of its portfolio. At the cash offer of SEK 87 per share, the fund's Cherry investment would return 18 times the original investment. Despite making an enormous return on this investment, the team running Origo Quest believe the offer gives them "bittersweet feelings." After all, Origo Quest took an active role as a minority shareholder and had other ideas of how Cherry could unlock and increase shareholder value, one of which was the potential spin-off of fast-growing slots provider for the online casino industry, Yggdrasil Gaming.

Despite Cherry having enjoyed phenomenal growth during Origo Quest's time as a shareholder, the growth journey had both rough and smooth patches. The firm's online gaming business experienced severe troubles in the second part of 2017 as a result of poor management execution. Portfolio manager Stefan Roos tells HedgeNordic that "at the time, we decided to put more pressure on management to increase transparency and speed up the firm's spin-off strategy that had been so successful for Cherry in the past." The pressure came as Origo Quest increased their stake in the company.

As a minority shareholder, Origo Quest frequently engaged in constructive behind-the-scenes dialogue with Cherry's management team, its Board and other shareholders. In late September of last year, however, the Stockholm-based hedge fund issued a public letter as a follow-up on the strategy discussions held in the latter part of 2017. In the letter, Origo Quest argued for the spin-off Yggdrasil Gaming, writing that "an independent and stand-alone Yggdrasil would become more agile and nimble." The team at Origo, comprised of Stefan Roos and Carl Rydin, valued Yggdrasil between SEK 3.5 – 4.0 billion on a debt- and cash-free basis, but chairman Morten Klein responded by saying that Origo Quest's estimated valuation was too high.

In spite of his response to Origo Quest's letter, the chairman is now a member of the consortium that bid for Cherry. Roos considers that "the consortium now wants to realize the value-gap by themselves instead of sharing the potential with all current shareholders." According to a public letter announcing the decision to accept the cash offer, Roos and Rydin "do see both an operational and a valuation risk with a failed bid given the number of insiders involved in the consortium, leading to risk/reward dynamics that are no longer asymmetrically skewed in our favor." In spite of all recent developments, Roos considers that "all in all, this has been a fantastic investment for our fund investors."

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