

THIS REPORT HAS BEEN PREPARED FOR INFORMATIONAL PURPOSES ONLY AND EXPRESSES SOLELY OUR OPINIONS. It is not a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. We are not registered as an investment advisor in any jurisdiction. Do your own research before making any decision. We have a short interest in Aurelius Equity Opportunities SE & Co KGaA and therefore stand to gain from a decline in its share price. Please read our full disclaimer on page 48 *before* reading this report.

**Company: Aurelius Equity Opportunities (AR4:GR)**  
**Industry: Asset Management**

MARKET CAP: EUR 1.1 BILLION

AVERAGE 30D VOLUME: 95,545

PRICE (AS OF 29<sup>TH</sup> JANUARY 2020): €35.88

ONTAKE VIEW: €0.04

Aurelius Equity Opportunities SE & Co. KGaA (“Aurelius”, or the “Company”) is a German investment manager which specializes in taking on failing businesses, typically *receiving* cash for doing so. Aurelius claims its portfolio of struggling businesses is worth EUR 934 million. In addition, Aurelius asserts that its holding company is worth EUR 311 million, representing the value of its “M&A machine”. Collectively, Aurelius reports a Net Asset Value (“NAV”) of EUR 1.2 billion. Investors seem to trust Aurelius, valuing the Company at €35.88 a share, close to the reported NAV per share of €40.34.

Aurelius’ three largest sales (SECOP, Getronics and Solidus) had a collective NAV prior to their disposal of EUR 705 million. Management claims to have sold these three assets for a “sales price” of EUR 735 million. These sales would seem to validate the Company’s DCF-based NAV and demonstrate management’s talent for investing.

Yet Public filings and the Company’s own bond documents suggest Aurelius actually received just EUR 397 million for these three assets. Worse still, management paid themselves EUR 115 million from these proceeds via a “virtual co-investment compensation” scheme. We estimate that, net of management’s take, Aurelius received only EUR 282 million from the sale of these three assets, *62% less than the disposal value reported to investors and 60% less than the reported NAV*.

In a November 2019 presentation provided to prospective bond investors, Aurelius divulged the EBITDA for each of its portfolio businesses. The sum of the EBITDA reported for each business was EUR 113 million. The top nine businesses, (“Top Holdings”) generated EBITDA of EUR 106 million, 94% of the total. However, regulatory filings of Aurelius’ portfolio companies indicated an EBITDA of just EUR 18 million for these Top Holdings; *83% below the figure reported by Aurelius*. We believe Aurelius overstates the EBITDA of its underlying portfolio to justify the inflated portfolio NAV. *We estimate the true portfolio NAV as EUR 257 million*.

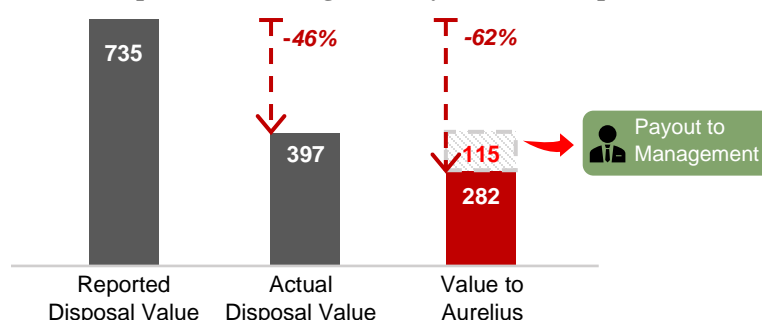
Management pays itself circa 34% of the cash proceeds from asset disposals *irrespective* of the overall performance of the Company. Aurelius calls this excessive payout “virtual co-investment compensation”. Net of management’s compensation, we estimate that the current portfolio would generate cash of just EUR 171 million on disposal. Aurelius generated free cash flow<sup>1</sup> of *negative* EUR 91 million in the 9M 19 period. We question whether further disposals will be sufficient to finance Aurelius’ struggling operations.

We do not think Aurelius’ holding company is an “M&A machine” worth EUR 311 million, but a cost center which burns on average EUR 36 million a year. Capitalizing these costs at 10x and adjusting for net debt and other items, we arrive at a holding company NAV of *negative* EUR 256 million. Adding the holding company NAV of negative EUR 256 million and the portfolio NAV of EUR 257 million, we calculate Aurelius’ true NAV is EUR 1 million. *We value Aurelius at €0.04 per share*.

<sup>1</sup> Cash from operations minus capital expenditures.

1. **Aurelius' Suspect Sales.** Disposals supposedly validate Aurelius' DCF-based NAV; but independent evidence suggests Aurelius overstated the disposal value of its three largest assets: SECOP, Getronics and Solidus. Aurelius claims it sold these three businesses for EUR 735 million against a combined NAV of EUR 705 million. Yet regulatory filings and the Company's own bond documents indicate that Aurelius received just EUR 397 million; including EUR 164 million from a suspect buyer. What's more, management took EUR 115 million of the EUR 397 million via a so-called "virtual co-investment" scheme. Thus, Aurelius received net proceeds of EUR 282 million for these three assets, 62% less than the EUR 735 million reported to investors and 60% below the reported NAV.

**Actual Disposal Value is Significantly Less than Reported**



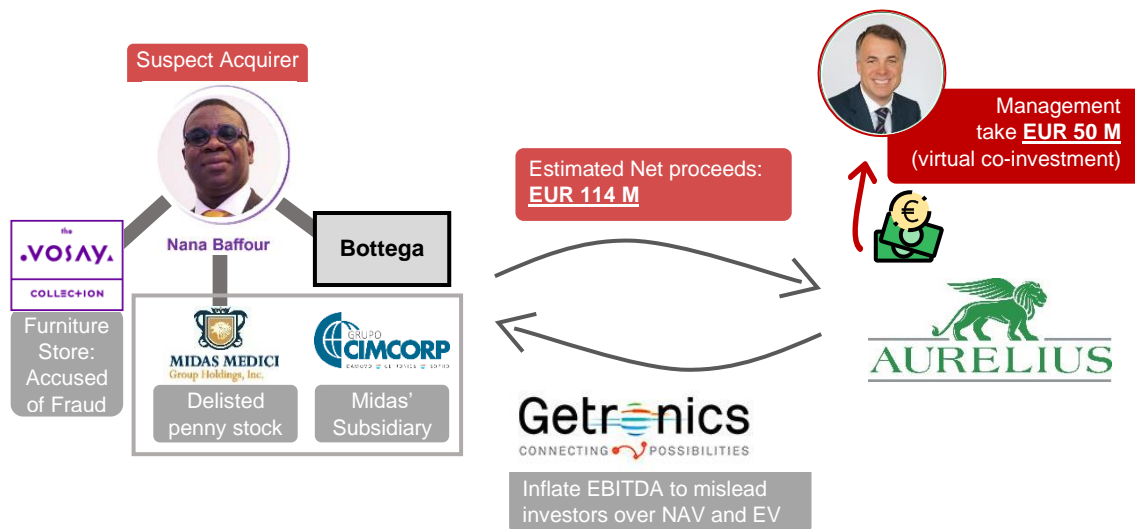
- a) **SECOP Sold for EUR 71 Million.** On the 30<sup>th</sup> September 2016, Aurelius assigned SECOP a NAV of EUR 256 million. Seven months later, Aurelius reportedly [sold](#) SECOP to [Nidec](#)<sup>2</sup> (TYO:6594) for a "sales price" of EUR 185 million. However, Nidec's public filings state that it actually [paid](#) just EUR 71 million to Aurelius for SECOP's net assets, 62% less than the disposal value reported by Aurelius and 72% less than the reported NAV. The stark contrast between SECOP's true NAV and what the Company claims suggests that Aurelius' DCF-based NAV cannot be trusted.
- b) **Getronics' Suspect Acquirer.** Getronics was purportedly [sold](#) for a "sales price" of EUR 220 million to "Strategic Investor" Bottega InvestCo S.à r.l ("Bottega"), an entity which Aurelius claims has "[extensive experience with IT Services](#)". However, Bottega was [incorporated](#) a mere ten days before purportedly buying the business. What's more, [regulatory filings](#) suggest Bottega had insufficient capital to acquire Getronics. The [RBE](#)<sup>3</sup> reports that Bottega's majority shareholder is Nana Baffour. Baffour has a checkered history of running a stock promotion, Midas Medici Holdings Inc ("[Midas](#)"). Midas reported losses of USD 20 million before its eventual [removal from trading](#) by the SEC in 2015. Aurelius also [claims](#) that a [subsidiary](#) of the defunct Midas, [Cimcorp](#) bought Getronics. We do not believe Bottega, Cimcorp, Midas nor Nana Baffour possess the resources to undertake such an acquisition. It begs the question, who is truly behind Getronics' suspicious disposal?
  - (i) **Baffour Disappears.** In September 2019, Getronics was [hit](#) with a winding up petition for not paying its taxes. Baffour rebuffed accusations of insolvency, claiming Getronics was slowly realizing "[synergistic value creation](#)" but Euler, an insurance firm, [reduced](#) lines of credit to Getronics. By November, Getronics faced a "[financial mess](#)"<sup>4</sup> which led to a restructuring of the firm and a significant [reduction in debt](#). At this point, Baffour and his associate "[quit](#)". It is unclear whether Baffour is still involved in ICT Services, he [appears](#) to run Vosay, a [wooden furniture](#) store. However, a social media campaign for Vosay was met with accusations of fraud.

<sup>2</sup> Nidec (日本電産) is a Japanese publicly traded electric motors manufacturer.

<sup>3</sup> The [Registre des bénéficiaires effectifs](#) ("RBE")

<sup>4</sup> Grant Thornton refused to give [Getronics Services UK Limited](#) a clean audit as the business was "loss making" and "reliant" on financial support from the parent (Baffour). Although Baffour claimed he would support the business; the auditor stated that it was "[not able to obtain sufficient appropriate audit evidence](#)" that Baffour had the financial resources to do so.

### Getronics Sold to Suspect Acquirer



- c) **Missing Solidus Proceeds.** Aurelius claims to have sold Solidus for a “sales price” of EUR 330 million. Yet a November 2019 bond presentation reveals that Aurelius received just EUR 185 million from five disposals, including Solidus, in the nine-month period to 30<sup>th</sup> September 2019. Based on the total return of these five disposals, we calculate Aurelius received just EUR 162 million for Solidus, 51% less than Aurelius’ disclosed “purchase price” and 32% less than the NAV of circa EUR 240 million.
- d) **Management Take 34% Of Cash Disposals Proceeds.** Management is incentivized to inflate disposal values to not only validate Aurelius’ DCF-based NAV, but also to maximize short term cash payouts via a “virtual co-investment compensation” scheme. From 2014 to 2018, Aurelius paid management an average 34% of the cash proceeds from asset disposals.
- (i) **Net Proceeds Just EUR 282 million.** We use the above three disposals to illustrate how this scheme works. Aurelius claims to have sold SECOP, Getronics and Solidus for EUR 735 million. Yet independent evidence suggests only EUR 397 million was received. Aurelius paid management EUR 115 million in cash merely for disposing of these assets, irrespective of the performance of the wider Company or the share price. Net of management payouts, we believe these three disposals returned EUR 282 million to Aurelius, 62% less than reported.

**Disposal Values of EUR 735 Million vs Net Proceeds of EUR 282 Million**

EUR M	SECOP	Getronics	Solidus	Total
Reported NAV	256	209	240	705
Reported disposal value	185	220	330	735
Estimated cash received	71	164	162	397
<b>% difference</b>	<b>-62%</b>	<b>-25%</b>	<b>-51%</b>	<b>-46%</b>
"Virtual co-investment" payouts	(33)	(50)	(32)	(115)
<b>Net proceeds available to Aurelius</b>	<b>38</b>	<b>114</b>	<b>130</b>	<b>282</b>
<b>% difference</b>	<b>-79%</b>	<b>-48%</b>	<b>-61%</b>	<b>-62%</b>

Source: Ontake calculation

- e) **Cherry-picked Disclosures.** Aurelius reports a vague “sales price” of EUR 735 million for its three largest disposals, a small premium to the combined DCF-based NAVs of EUR 705 million. Yet Investors are more interested in the price paid for the net assets (EUR 397 million) and the actual net cash received (just EUR 282 million) than a vague and malleable “sales price”. We suspect Aurelius increases the headline “sales

price” figure by including certain liabilities assumed by the acquirer. Yet when Aurelius acquires a business, it merely discloses the token equity payment *not* the liabilities absorbed. It seems Aurelius’ disclosures are cherry picked to fit the Company’s narrative.

f) **Dirk Markus “Dismissed” From Arques.** Markus held the role of de-facto CFO at Arques Industries AG (“Arques”), an investment firm he cofounded, until his abrupt [dismissal](#) in January 2005. His removal was followed by a BaFin<sup>5</sup> [investigation](#) which compelled Arques to restate its 2004 financials. Arques later collapsed due to investors losing faith in its reported NAV. Arques had valued Actebis, its largest asset, at EUR 253 million before disposing of the asset for EUR 39 million less than a year later. Perhaps the main difference between Aurelius and Arques is Markus’ willingness to overstate the NAV and the disposal value.

2. **Current Portfolio Worth EUR 257 million.** Aurelius claims the NAV of its portfolio is EUR 934 million as of Q3 19. This portfolio supposedly generated EUR 113 million of EBITDA in 2018.<sup>6</sup> The top nine most profitable assets (“Top Holdings”) made EUR 106 million or 94% of this EBITDA. However, independent evidence reveals that these Top Holdings generated just EUR 18 million of EBITDA, *83% less than Aurelius disclosed*. We believe Aurelius overstates EBITDA to justify its inflated NAV. With generous assumptions, we calculate the true NAV of Aurelius’ portfolio as only EUR 257 million.

#### Ontake Valuation: Portfolio NAV EUR 257 million

EUR M	Aurelius Disclosed			Regulatory Filings			Ontake Calculation			
	Sales	EBITDA	Margin	Sales	EBITDA	Margin	EV/EBITDA	EV	Net Debt	NAV
Office Depot Europe	1,401	31	2.2%	1,287	(20)	-1.6%	n/a	64	64	0
UK Chemicals	88	24	26.9%	89	7	7.8%	10.0 x	69	24	45
Calumet Wex (95%)	186	10	5.4%	186	10	5.4%	8.0 x	80	20	57
HanseYachts (78%)	145	9	6.2%	145	5	3.5%	22.8 x	114	36	60
Ideal Shopping Direct	157	8	5.3%	158	2	1.6%	10.0 x	25	10	15
Bertram	215	8	3.7%	215	5	2.2%	4.6 x	22	3	19
B+P (51%)	36	6	16.7%	36	6	16.7%	10.0 x	60	0	31
Silvan	215	5	2.5%	215	2	0.8%	8.5 x	15	22	0
Scholl	66	5	7.6%	51	1	1.7%	10.0 x	9	(5)	14
<b>Top Holdings</b>	<b>2,509</b>	<b>106</b>	<b>4.2%</b>	<b>2,382</b>	<b>18</b>	<b>0.7%</b>	<b>10.4 x<sup>2</sup></b>	<b>394</b>	<b>110</b>	<b>240</b>
Remaining Assets <sup>1</sup>	796	6	0.8%	796	6	0.8%	10.0x	60	43	17
<b>Portfolio Total</b>	<b>3,305</b>	<b>113</b>	<b>3.4%</b>	<b>3,177</b>	<b>24</b>	<b>0.8%</b>	<b>10.3x<sup>2</sup></b>	<b>454</b>	<b>153</b>	<b>257</b>

<sup>1</sup>We use the figures disclosed by Aurelius to calculate the NAV of the remaining assets.

<sup>2</sup>Set Office Depot Europe’ EBITDA to zero to calculate EV/EBITDA multiples

a) **Office Depot Europe: No Cash, Negative EBITDA.** Office Depot Europe (“ODE”) was reportedly purchased for *negative* EUR 110 million. Yet within 12 months, Aurelius valued ODE at over EUR 200 million in its DCF-based NAV. Aurelius claims to have expanded ODE’s EBITDA to EUR 31 million in 2018, but regulatory filings suggest ODE’s actual EBITDA collapsed to *negative EUR 20 million* in 2018. Aurelius has loaded ODE with EUR 110 million of debts while the cash at ODE has disappeared. ODE supposedly had EUR 220 million of cash in 2017; but when Dirk Markus was asked how much cash was left at ODE on Aurelius’ Q2 2019 earnings call, he said “not much”.

(i) **Did Aurelius Take ODE’s Cash?** ODE’s situation is dire. For instance, the French division reported mounting losses of [EUR 18.5 million](#) in 2018. Despite this, the regulatory filings of ODE Holding Company, [ODE Holding GmbH](#), show an “advanced distribution” to Aurelius of EUR 87 million. In May 2019, employees of Office Depot France [filed](#) suit against Aurelius, accusing the Company of acting in bad faith and taking EUR 98 million of cash from the French division. A precedent exists. French courts [found](#) Aurelius guilty of taking cash from former operating subsidiary, La Source. Aurelius [ended up paying](#) over EUR 9 million to La Source stakeholders.

<sup>5</sup> German Federal Financial Supervisory Authority (“[BaFin](#)”) Arques in July 2005 for accounting irregularities. BaFin further investigated the firm for insider trading in 2006.

<sup>6</sup> Annualized Ideal Shopping Direct’s pro-rata EBITDA.

- b) **UK Chemicals Is Struggling.** Aurelius claims that the UK Chemicals business generated EUR 24 million of EBITDA in 2018. Yet regulatory filings reveal the actual figure is no more than EUR 7 million. What's more, Briar Chemicals, the main contributor to the UK Chemicals' EBITDA, suffered the [expiry](#) of a key legacy contract in 2017. Although the Company claimed the contract was renewed, Briar Chemicals' EBITDA fell from GBP 11.6 million to GBP 1.6 million. It is unclear if the expiry of this contract caused the EBITDA to fall or if it was down to production and safety issues as claimed by the Company. But Tim Green, CEO until his resignation in 2018, had [warned](#) that *even under Briar Chemicals own forecasts*, remaining in the black was "[going to be tight](#)".
- c) **Silvan: DIY Disaster.** Aurelius claims [Silvan](#) made EUR 5 million of EBITDA in 2018, but [Danish regulatory filings](#) suggest EBITDA is just EUR 2 million. However, EBITDA seems a largely meaningless figure for Silvan as it generates *negative* EUR 16 million of free cash flow. Silvan is also dangerously over levered at 4x, even on Aurelius' reported EBITDA. Silvan's situation is likely deteriorating. In October 2019, the new *CEO, who had been in the job just sixty days*, was [dismissed](#) and replaced by an Aurelius insider. Local [press](#) report some Silvan shelves are empty as suppliers refuse to sell to Silvan without cash up front. Silvan is propped up for now with loans from Aurelius. To be conservative, we value Silvan on an EV/EBITDA 8.5x, [in line](#) with home improvement multinational, [Kingfisher PLC](#). We calculate an enterprise value of EUR 15 million. However, with net debt of EUR 22 million, we estimate Silvan's NAV is zero.
- d) **Pandora's Box: The Remaining Assets.** Aurelius claims that the remaining portfolio businesses ("[Remaining Assets](#)") generated EBITDA of EUR 6 million. If we take this reported EBITDA at face value and assign a 10x multiple, this only gives an enterprise value for the Remaining Assets of EUR 60 million. Aurelius reports net debt for its portfolio businesses of EUR 153 million and we identified net debt of EUR 110 million across the Top Holdings. Thus, we assign EUR 43 million of net debt to the Remaining Assets and calculate that its NAV is EUR 17 million. In our view, this is generous as the evidence we demonstrate in this report suggests that Aurelius systematically overstates EBITDA for its holdings. We suspect many of these assets actually have a negative NAV, reflecting the cost of financing the ongoing operations of the Remaining Assets. The Hospital Group is an example of what lurks in the bottom half of Aurelius' portfolio.
- (i) **Hospital Group: On Life Support.** The Company claimed in its 2018 annual report that the outlook was "[positive](#)" for the Hospital Group and revenues were expected to "[rise in 2019](#)". Yet by July 2019, the business was in [administration](#). The administrators' proposal stated that revenues "collapsed" in H1 19. The last NAV for the Hospital Group published by Aurelius was EUR 75 million in Q3 17, but the administrator's proposal states the assets of the Hospital Group were sold for EUR 0.75 million. What's more, the Hospital Group owes over EUR 11 million to Aurelius from loans made by [Aurelius Upsilon UK Investment Limited](#)<sup>7</sup>. We do not think these loans will be repaid and therefore, the NAV of the Hospital Group could be considered negative.
3. **Holding Company Burns EUR 36 million A Year.** Aurelius claims its holding company, or "M&A machine", is worth EUR 311 million. In our view, the holding company is a cost center with expenses of EUR 86 million in the 9M 19 period. To get the recurring annual costs of the holding company, we add back management fees charged to the portfolio businesses along with management's "virtual co-investment" compensation. We calculate that the holding company burns EUR 36 million a year.

<sup>7</sup> Aurelius uses a number of finance vehicles to prop up cash burning portfolio businesses. We identified some of these finance vehicles: [Aurelius Upsilon UK Investment Limited](#), [Aurelius Finance Company Limited](#), [Aurelius Sigma Limited](#) and [Aurelius Eta UK Investments Limited](#). These entities are *not audited by the Aurelius group auditor*, KPMG, but by Silbury Business Advisors. A [5-man](#) operation in Chippenham, UK.



**Holding Company Costs Average EUR 36 million Annually**

EUR M	2014	2015	2016	2017	2018	9m 19	Annualized (2019)	Average (14-18)
Personnel Expenses	(19)	(12)	(27)	(82)	(13)	(49)	(65)	(31)
Other operating costs	(22)	(33)	(40)	(103)	(40)	(43)	(57)	(48)
Other items	(1)	0	(14)	(22)	(12)	6	8	(10)
<b>Total Costs</b>	<b>(42)</b>	<b>(45)</b>	<b>(81)</b>	<b>(207)</b>	<b>(65)</b>	<b>(86)</b>	<b>(115)</b>	<b>(88)</b>
Add back:								
Management fees	10	14	18	23	20	13	17	17
Virtual Co-Investment compensation	21	14	29	101	12	42	57	35
<b>Ongoing HoldCo costs</b>	<b>(11)</b>	<b>(17)</b>	<b>(34)</b>	<b>(83)</b>	<b>(33)</b>	<b>(31)</b>	<b>(41)</b>	<b>(36)</b>

- a) **Holding Company NAV: Negative EUR 256 million.** To value the holding company, we use a 10x cost multiple and apply it to the holding company's average annual costs of EUR 36 million. We calculate the gross value of the holding company is *negative* EUR 360 million. Making adjustments for net cash and recent disposals, we calculate a NAV for the holding company of *negative* EUR 256 million.

**Holding Company NAV: Negative EUR 256 Million**

EUR M	
Ongoing HoldCo costs	(36)
Capitalized cost multiple	10 x
Estimated HoldCo value	(360)
Plus: HoldCo net cash	30
Estimated proceeds from SCG and Ghotel	74
<b>Adjusted HoldCo NAV</b>	<b>(256)</b>

Source: Ontake Calculation

4. **Over Levered with Negative Cash Flows.** Aurelius claims that the leverage ratio at the portfolio level is a conservative 1.4x. Yet instead of generating EUR 113 million of EBITDA, regulatory filings suggest Aurelius' portfolio makes just EUR 24 million. Aurelius reports portfolio level net debt of EUR 153 million; we calculate leverage is 6.4x. This leverage calculation does not even include holding company costs of EUR 36 million annually.

- a) **Impending Liquidity Issues?** Including annual capital expenditures of EUR 62 million and holding company costs of EUR 36 million, we calculate recurring free cash flow of *negative* EUR 74 million. This cash outflow must be met by selling a portfolio worth just EUR 257 million. But net of management's excessive 34% take from exit proceeds, little is left to finance Aurelius' portfolio. The dire cash flow predicament likely pushed Aurelius to raise a bond<sup>8</sup> in [November 2019](#). However, if Aurelius recently disposed of Solidus for EUR 330 million, why is this debt raise necessary?

<sup>8</sup> [Pareto](#), Aurelius' banker, has a [checked history](#) of raising money from [Nordic investors](#) for aggressive and even dubious [deals](#). Notably, Pareto raised EUR 350 million for a [highly suspect sponsor](#) to finance the acquisition of Lebara. It was later [revealed](#) that Lebara had used [selective accounting](#) to inflate the EBITDA reported in its bond memorandum, misleading investors over its ability to support debt.

## VALUATION

As of the 30<sup>st</sup> September 2019, Aurelius claims a NAV of EUR 1.2 billion. The NAV is split between the underlying portfolio, supposedly worth EUR 934 million, and the holding company, named “other”, which Aurelius values at EUR 311 million.

### NET ASSET VALUE OF THE AURELIUS PORTFOLIO (IN EUR MILLIONS)

	9/30/2019
Services & Solutions	171.6
Industrial Production	273.4
Retail & Consumer Products	488.5
<b>NAV of portfolio companies</b>	<b>933.5</b>
Other	310.7
<b>Total</b>	<b>1,244.2</b>
<b>NAV per share (in EUR)</b>	<b>40.43</b>

Source: [Aurelius 9M 19 Press Release](#)

Per the Company’s disclosures, Aurelius’ NAV per share is EUR 40.43. The Company’s shares trade at a 10% discount to Aurelius’ DCF-base NAV.

EUR	
Reported NAV per share	40.43
Last traded price	35.88
<b>Price to NAV multiple</b>	<b>0.9 x</b>

Source: Bloomberg, Ontake Calculation

Yet, our due diligence indicates that the true NAV of Aurelius’ portfolio companies is only EUR 257 million. In addition, when Aurelius sells its investments, management takes an excessive 34% of the cash proceeds as “virtual co-investment” compensation. Therefore, on disposal, the portfolio would yield just EUR 171 million.

### Management Takes 34% as Virtual Co-investment

EUR M	
Adjusted portfolio NAV	257
Less: virtual co-investment payout %	34%
<b>Adjusted portfolio NAV, net of payout</b>	<b>171</b>

Source: Aurelius Filings, Ontake Calculation

However, this does not take into account the spiraling costs at the holding company.

Adding up the adjusted NAV of its portfolio and the holding company, we calculate the NAV of Aurelius is *EUR 1 million*. Applying its current price to NAV multiple, we value Aurelius at *EUR €0.04 per share*.

### Ontake Valuation: Aurelius €0.04 per share

EUR M	
Adjusted Portfolio NAV	257
Adjusted HoldCo NAV	(256)
<b>Total</b>	<b>1</b>
Aurelius shares outstanding (M)	31
NAV per share	€0.05
Price to NAV multiple	0.9x
<b>Ontake Valuation</b>	<b>€0.04</b>
Last traded price	€35.88
<b>Downside %</b>	<b>-99.9%</b>

Source: Ontake Calculation

## AURELIUS' SUSPECT SALES

In 2017, Aurelius sold SECOP and Getronics, two businesses which had underpinned its DCF-based NAV since it was first disclosed in June 2014.

### SECOP & Getronics Contribute 42% of the Portfolio NAV

EUR M	H1 14	9M 16
SECOP NAV	244	256
Getronics NAV	111	209
Total	355	465
Portfolio NAV	960	1,099
<b>% of portfolio</b>	<b>37%</b>	<b>42%</b>

Source: Company public filings, Ontake calculation

\*After 30<sup>th</sup> September 2016 Aurelius stopped disclosing the individual NAV for underlying holdings

These two businesses, SECOP and Getronics, were sold, purportedly for EUR 185 million and EUR 220 million respectively.

AURELIUS continues to be a success story. Thanks to the very good operational performance in the first six months of 2017 and the two biggest company sales in the history of AURELIUS, we raised the forecast for the full financial year 2017 considerably on July 6, 2017. We now expect EBITDA for the overall Group of more than EUR 650 million, a new record high. **The profitable disposals of Group subsidiaries SECOP for EUR 185 million and Getronics for EUR 220 million** showed that our business model generates attractive returns over the long term. The proceeds represented 11.5 times and 18.5 times capital employed, respectively. Such successes can be credited to our first-

Source: [Aurelius H1 2017 Interim Report](#)

Yet, the acquirer's public filings and our due diligence indicate that, rather than validating Aurelius' DCF-based NAV, the actual disposal proceeds were a fraction of the reported NAV of these two entities. In addition, we believe these inflated disposals demonstrate management is prepared to mislead investors in order maximize cash payouts under an excessive "virtual co-investment compensation" scheme.

### a) Japanese Filings Reveal SECOP was sold for EUR 71 Million

In 2017, Aurelius [claimed](#) to have sold SECOP to Nidec (6594:Tokyo), a Japanese electric motors manufacturer, for a "sales price" of EUR 185 million. However, Nidec's public filings [suggest](#) that Aurelius significantly overstated the reported disposal value and by extension the Company's profits.

[SECOP](#) was formerly known as Danfoss Household Compressors, a Danish compressor manufacturer. Aurelius acquired SECOP from Danfoss in 2010. Before the disposal, Aurelius consistently valued SECOP around EUR 250 million from 2014 to Q3 2016.

### Aurelius Consistently Reported a High NAV for SECOP

EUR M	H1 14	Q3 14	2014	Q1 15	H1 15	Q3 15	2015	Q1 16	H1 16	Q3 16
SECOP's Reported NAV	244	244	247	247	249	247	249	256	256	256

Source: Aurelius Public Filings

In December 2016, Aurelius stopped providing the NAV per business. Four months later, Aurelius [announced](#) that it sold SECOP to Nidec for EUR 185 million. The transaction was completed in July 2017. We believe it is no coincidence that, just before Aurelius sold its two largest assets for suspect values, the Company elected to abruptly reduce disclosures. The filings of SECOP's acquirer confirm our suspicions.

### AURELIUS SELLS COMPRESSOR MANUFACTURER SECOP TO THE NIDEC GROUP AND DOUBLES ITS DIVIDEND

24.04.2017

- Sales price €185 m] AURELIUS earns approx. 11 times its invested capital after 7 years
- Largest exit in AURELIUS' history

Source: [Aurelius Press Release, 24 April 2017](#)



In its [quarterly report](#), NIDEC reported that it only paid cash of EUR 71 million (JPY 9,198 million) to acquire SECOP, which is 62% percent less than the EUR 185 million that Aurelius claimed.

#### Nidec Acquired SECOP for only EUR 71 Million

On July 31, 2017 (Germany time), NIDEC acquired 100% equity shares of Secop Holding GmbH (currently, Nidec Global Appliance Compressors GmbH) in Germany, Secop s.r.o. (currently, Nidec Global Appliance Slovakia s.r.o.), Secop Compressors (Tianjin) Co., Ltd. (currently, Nidec Compressors (Tianjin) Co., Ltd.) and Secop Inc. (currently, Nidec Global Appliance USA Inc.) (herein collectively “Secop”), from the shareholders for cash of ¥9,198 million. Secop develops, manufactures

Source: [Nidec filings Q2 17](#)

In September 2019, Nidec [sold](#) SECOP. Filings suggest Nidec received just EUR 77 million (JPY 9,295 million) for SECOP. In our opinion, this transaction is another confirmation that the value of SECOP is roughly EUR 70 million.

#### SECOP Valued at EUR 77 Million in 2019

(7) Details of the sales

Estimated consideration for the sales	
Conditional consideration	9,295

Source: [Nidec Quarterly Report, Q1 FY 2020](#)

In summary, Aurelius reportedly sold SECOP for EUR 185 million, which was 28% less than the last disclosed NAV (only months earlier). However, the acquirer filings reveal that the cash paid for SECOP was just EUR 71 million, 72% less than Aurelius’ last disclosed NAV for SECOP.

#### Nidec Paid 72% Less Than the Reported NAV of SECOP

EUR M	Reported	NIDEC Disclosed	Difference	%
Reported NAV*	256	71	(185)	-72%
Disposal proceeds	185	71	(114)	-62%

Source: Companies Public Filings, Ontake Calculation

\* Last disclosed NAV 30<sup>th</sup> September 2016

The stark contrast between SECOP’s true value and what Aurelius claims to have sold the asset for reveals that Aurelius’ DCF-based NAV does not reflect the true value of its assets and, perhaps more worryingly, management may have intentionally overstated the disposal value<sup>9</sup> to generate short term cash payouts for insiders in the form of “virtual co-investment” payouts.

#### b) Getronics’ Suspect Acquirer?

On the 7<sup>th</sup> July 2017, Aurelius purportedly [sold](#) Getronics for EUR 220 million to Bottega InvestCo S.à r.l (“[Bottega](#)”). Aurelius describe Bottega as a “strategic investor” with “[extensive experience with IT Services](#)” but filings reveal that Bottega was [incorporated](#) on the 27<sup>th</sup> June 2017, *just ten days* before Bottega acquired Getronics. Contrary to Aurelius’ claims, Bottega is not an established investment firm but merely an off-the-shelf entity hastily setup with the sole purpose of acquiring Getronics.

Luxembourg Business Register shows that Bottega is 51% owned by Nana Baffour and its registered capital is just [EUR 0.1 million](#).

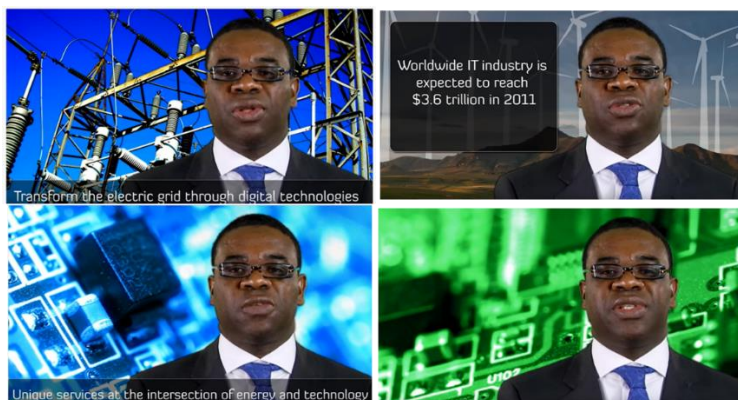
<sup>9</sup> It is typical for distressed businesses to have significant liabilities but little equity. By reporting disposals in enterprise value terms, Aurelius creates the perception that large amounts of cash are changing hands. We demonstrate in this report that the cash paid for the *net assets* is typically much less than the “sales price” reported by the Company.

<b>Bottega InvestCo S.à r.l.</b> <b>B215744</b> ^ Information		<b>Kapital der Gesellschaft</b>	
Trade name(s) or trading name(s) Bottega InvestCo S.à r.l.	Registered office 12C, rue Guillaume J. Kroll L - 1882 Luxembourg	Art Festkapital	Betrag 133 897,53
Legal form Société à responsabilité limitée	Beneficial owners ^ BAFFOUR-GYEWU, NANA	Währung Euro	Einzahlungsstand Ganzeinzahlung
Name, first name(s) BAFFOUR-GYEWU, NANA	Nationality(ies) American	Type Fixed capital	Amount 133,897.53
Nature of interest (scope) PARTS (51.07%)	Eintragungsdatum 27/06/2017	Date 27 <sup>th</sup> June 2017	

Source: [Luxembourg Business Register](#)

Baffour's lack of resources and dubious background make him an unlikely acquirer of Getronics. Baffour has a checkered history of [running](#) dubious OTC traded IT consulting and 'green technology' entity, Midas Medici Group Holdings, Inc ("Midas").

Baffour strikes us as the quintessential penny stock promoter. In promotional videos for Midas, Baffour talks broadly on the "green revolution" and "data growth" without disclosing any specific information on Midas or what the business does.



Source: [Midas stock promotion videos](#)

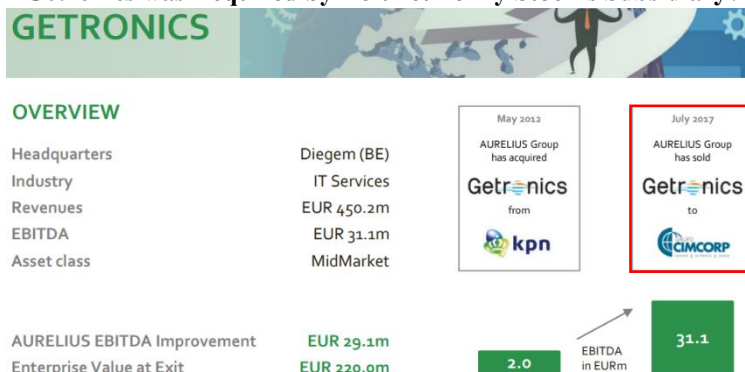
SEC documents reveal that Midas, a tiny OTC entity, was [delisted](#) by the SEC for filing delinquencies. Its last [filings](#) reported a loss of USD 19.7 million in the first nine months of 2012.

the Commission pursuant to Exchange Act Section 12(g). MMED is delinquent in its periodic filings with the Commission, having not filed any periodic reports since it filed a Form 10-Q for the period ended September 30, 2012, [which reported a consolidated net loss of \\$19,673,000 for the prior nine months.](#) As of June 10, 2015, the common stock of MMED was quoted on OTC Link, had six market makers, and was eligible for the "piggyback" exception of Exchange

Source: [SEC Documents](#), June 17, 2015

Aurelius [provides](#) cherry-picked information on its major disposals. A "case study" on Getronics lists CIMCORP, a [subsidiary](#) of Midas, as Getronics' acquirer. How could CIMCORP go from a consolidated [subsidiary](#) of a defunct penny stock to acquiring Getronics for EUR 220 million?

### Getronics was Acquired by Defunct Penny Stock's Subsidiary?



Source: [Case Study Getronics](#)

It didn't take long for Getronics and Baffour to run into problems. In October 2019, when Getronics's suppliers complained about not being paid on time, Baffour came out in the press claiming that time was needed to realize "[synergistic value creation](#)". However, in the following month, Getronics was in a "[financial mess](#)". Grant Thornton refused to give [Getronics Services UK Limited](#) a clean audit as there was no proof that Baffour could support the loss-making business. Getronics underwent a restructuring in November 2019, new capital was injected into the business alongside a [significant reduction in debt](#).

The restructuring coincided with Baffour and his long-term associate<sup>10</sup>, Frank Asante, "[stepping down](#)" from Getronics.

The Company also announced that [Nana Baffour has stepped down from his role as Group Chief Executive Officer](#) and [Frank Asante-Kissi has stepped down from his role as Global Head of Administration](#).

Source: [Getronics](#)

Baffour and Asante can now spend more time running their [furniture](#) store, the Vosay Collection. However, social media marketing for Vosay has been met with accusations of fraud.



Rashaad Newsome Studio 2 years ago

[WARNING! This guy is a total liar. This is not a real company they actually don't have any product, office or warehouse. It is scam.](#)

Source: [Vosay Collection Social Media](#)

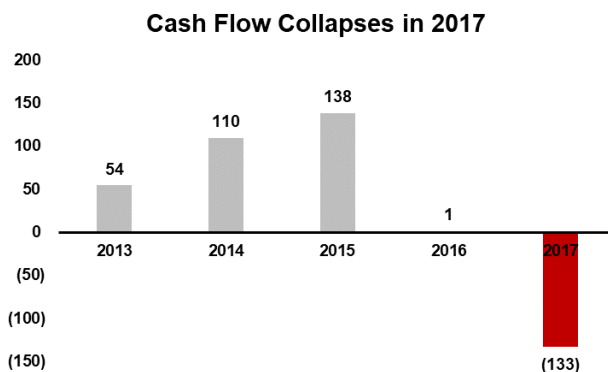
It is unclear how much, or even *who* truly provided the capital for Baffour's acquisition of Getronics.

Baffour reportedly [raised](#) EUR 164 million from creditors to finance his acquisition of Getronics. While the Getronics deal may have ended in a costly restructuring for creditors, it does appear that the debt was raised all the same. As Bottega, Cimcorp and Baffour do not seem to have the resources to fund the acquisition, we use the EUR 164 million raised from creditors as the true proceeds received by Aurelius.

<sup>10</sup> Frank Asante also [served](#) as Global Head of Administration at Midas. Asante also [co-founded](#) Vosay with Baffour.

It is hard to imagine a serious investor paying EUR 220 million for Getronics; a seemingly loss-making<sup>11</sup> IT services business. We think Baffour's involvement supports this view. Again, we question who is truly behind Getronics' suspicious disposal.

Getronics was supposed to be the largest disposal in terms of cash proceeds in the Company's history. Yet in the very year when Aurelius reported a combined "sales price" of EUR 477 million for the sale of Getronics, SECOP and Studienkreis, Aurelius reported cash exit proceeds of just EUR 348 million. Worse still, cash from operations moved from positive EUR 1 million in 2016 to *negative* EUR 132 million in 2017.

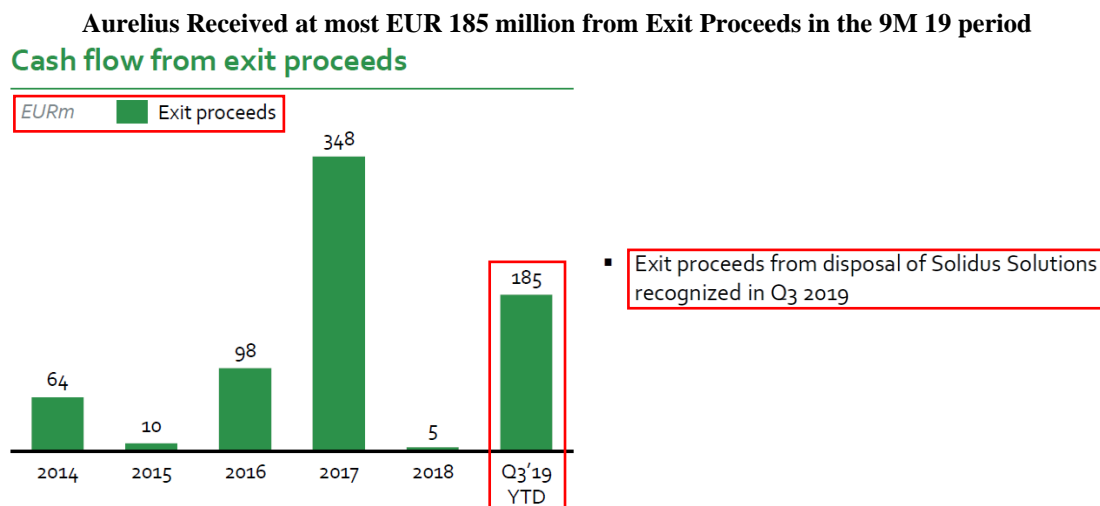


Source: Company filings

Is it a coincidence that cash from operations collapsed in the same period cash from investing increased?

### c) Missing Solidus Proceeds

Aurelius claims to have [sold](#) Solidus, a paper packaging business, for EUR 330 million on the 28<sup>th</sup> July 2019. Yet the Company's November 2019 bond memorandum reveals Aurelius received just EUR 185 million in exit proceeds for the nine-month period ending 30<sup>th</sup> September 2019. This is across *five* exits and Aurelius specifically states that the Solidus proceeds were recognized in Q3 19.



Source: Aurelius Bond Presentation 2019

To estimate the exit proceeds attributable to Solidus we review the "total returns" reported by Aurelius for the five assets sold in 2019. Solidus contributed 88% of these total returns.

<sup>11</sup> Filings for the Belgium, UK, French and German subsidiaries of Getronics report total revenue of EUR 197 million and *negative* EBITDA of EUR 2.1 million in 2017.

## Aurelius has several individual success stories...

EURm						
Company	Purchase	Exit	Peak exposure	Money at Risk after 1 year <sup>1</sup>	Total returns	Total return multiple
Allied Healthcare	Dec-15	2019	4.3	4.3	4.2	1.0x
Working Links	Jun-16	2019	15.7	15.1	10.1	0.6x
Granovit	Nov-17	2019	9.0	0.8	9.8	1.1x
Reuss-Seifert & Hammerl	Dec-15	2019	15.9	4.5	7.4	0.5x
Solidus Solutions	Apr-15	2019	13.3	6.4	222.1	16.7x

Source: Aurelius Bond Presentation 2019

We then apply this 88% to the EUR 185 million of total exit proceeds. We estimate Aurelius received just EUR 162 million for Solidus' net assets. This is 51% less than the reported sale value of EUR 330 million.

Aurelius' had claimed that the Industrial Production NAV was "mainly driven by Solidus". Given the Industrial NAV fell by EUR 240 million from Q1 19 to Q3 19<sup>12</sup>, we suspect Aurelius gave Solidus a NAV of at least EUR 240 million. Exit proceeds of EUR 156 million are significantly lower than the estimated NAV of EUR 240 million or the reported disposal value of EUR 330 million.

## (i) Solidus EBITDA less than half the reported figure?

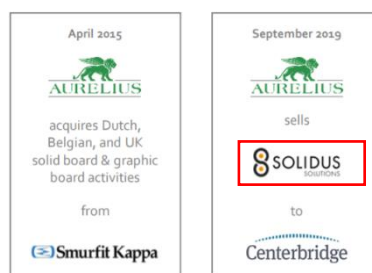
The regulatory filings of Solidus' subsidiaries suggest that the actual EBITDA is significantly less than Aurelius disclosed. This may explain why Aurelius received a fraction of the value reported to investors.

Aurelius claimed that Solidus generated an EBITDA of EUR 50 million on sales of EUR 373 million in 2018. However, the regulatory filings of Solidus' operating entities suggest the actual EBITDA is much lower.

## OVERVIEW

Headquarters/Sites: Oude Pekela (NL), BE, UK, ES  
 Industry: Packaging  
 Net sales: EUR 373m  
**EBITDA: EUR 50.1m**  
 Asset class: Corporate Carve-out

AURELIUS EBITDA Improvement: EUR 41.8m  
**Enterprise Value at Exit: EUR 330m**

Source: [Case Study: Solidus](#)

Solidus Solutions Solid Board NV ("Solidus North") is one of two major Solidus subsidiaries.<sup>13</sup> Solidus North's regulatory filings showed that it contributed 75% of the claimed Solidus revenue in 2018. However, the filings also showed that Solidus North is barely profitable and it did not even generate enough EBITDA to meet its bank covenants.

<sup>12</sup> Aurelius stopped reporting specific NAV's back in 2016, probably to prepare for the sale of SECOP significantly below the last reported NAV of EUR 256 million. Aurelius put Solidus in the Industrial Production NAV making it easy to tweak the segment's NAV just before Solidus' sale. We therefore use the Q1 to Q3 change to get a more consistent view of Solidus' reported NAV.

<sup>13</sup> Based on Solidus North's local filings, we conclude that Solidus has two major subsidiaries, Solidus North and Solidus South, which is Abelan group.



*Liquidity and bank covenants*

With reference to the Notes and disclosures on bank covenants, **SOLIDUS North entered into 4 bank covenants with its financiers.**

- **EBITDA > EUR 15 million**
- Debt Service Capacity ratio > 1,3
- Equity to asset Ratio > 25%
- Debt to EBITDA ratio <4.

**Since SOLIDUS North anticipated that it would breach the first and third covenant for the financial year 2018, management started negotiations with its financiers in a very early stage. Both covenant breaches were waived before year-end.**

Source: Solidus North 2018 Accounts

We calculate an EBITDA of EUR 9 million for Solidus North, which is only 19% of Aurelius reported EUR 50 million. In order for Aurelius' disclosures to be true, Abelan group, the other major Solidus subsidiary, had to generate EUR 41 million of EBITDA from EUR 93 million of revenue. Aurelius reports that Abelan generates EUR 70 million of sales in 2017. Abelan's EBITDA is not disclosed, but the EBITDA margin of leading public packaging businesses is only 14%. If we apply the industry margin of 14% to the EUR 70 million of revenue, this suggests an EBITDA for Abelan of EUR 10 million.

**Solidus North Generates 75% of Disclosed Revenue but just 19% of EBITDA**

EUR M	Solidus (by Aurelius)	Solidus North	%	Abelan?	%
Revenue	373	280	75%	93?	25%
COGS		(186)			
Gross Profit		94			
Gross margin		34%			
EBITDA	50	9	19%	41?	81%
EBITDA margin	13%	3%		44%?	

Source: Aurelius Public Filings, Solidus North 2018 Annual Report, Ontake Calculation

Like the other two disposal examples, we suspect management exaggerated Solidus' profitability in order to justify the likely inflated disposal value. This would allow management to take a larger portion of the cash proceeds in the form of "virtual co-investment" compensation.

**d) Management Take 34% Of Cash Disposals Proceeds**

Aurelius management's compensation is composed of fixed and variable compensation. The majority of variable compensation results from "virtual co-investment" payouts. That means management receives a share of the cash proceeds whenever Aurelius disposes of a portfolio business.

**68.2 Compensation report**

The fixed non-performance-based compensation of the Executive Board and active members of the Executive Board of AURELIUS Management SE totaled EUR 1,924 thousand in financial year 2018 (PY: EUR 1,077 thousand). In addition to the fixed compensation, performance-based variable compensation in the amount of EUR 9,377 thousand (PY: EUR 92,287 thousand) was expended in financial year 2018. **This variable compensation component entirely represents short-term employee benefits as defined under IAS 24.17(a). The variable compensation results mainly from the virtual co-investment sub-holdings granted to the members of the Executive Board in connection with corporate transactions.** Thus, the total amount expended for Executive Board compensation **A large share of the compensation granted to the managing directors of the subsidiaries is variable.** The amount of this variable compensation is based on the success of the respective company. This ensures that the interests of the Group companies are aligned with those of the parent company.

Source: [2018 Annual Report](#)



However, virtual co-investment compensation does not seem to be designed with shareholders in mind. Payouts are made *irrespective* of the Company's overall performance. In fact, the Company specifically states that "negative developments" in its portfolio are "*not always taken into account when determining variable compensation*".

Although the current agreements governing variable compensation components are based on a multi-year assessment, negative developments are not always taken into account when determining variable compensation components. The Supervisory Board intends to also take negative developments into account when determining variable compensation amounts in the future. The Company would like to compensate the above-average

Source: [Company filings](#)

In our view, "virtual co-investment" payouts incentivize management to inflate disposal values to maximize short term cash payouts. Based on Aurelius' disclosures, we calculate management take, on average, 34% of exit proceeds under the guise of "virtual co-investment" compensation.

#### Management Take 34% of Disposal Proceeds

EUR M	2014	2015	2016	2017	2018	Sum (14-18)	9M 19*
Virtual co-investment compensation							
Executive Board	18	14	26	92	9	160	37
Former board member					3	3	
Lotus AG (Dirk Markus Vehicle)	3	0	2	9	0	14	
<b>Total</b>	<b>21</b>	<b>14</b>	<b>29</b>	<b>101</b>	<b>13</b>	<b>177</b>	<b>37</b>
Exit Proceeds Reported by Aurelius	64	10	98	348	5	525	185
<b>% Virtual Co-investment payout</b>	<b>32%</b>	<b>138%</b>	<b>29%</b>	<b>29%</b>	<b>250%</b>	<b>34%</b>	<b>20%</b>

\*A conservative 20% payout ratio was applied to 9M 19 exit proceeds

Source: Aurelius Public Filings, Ontake Calculation

Management seems to have [sold](#) the majority of its shares in Aurelius in 2016. Therefore, management's wealth is no longer tied so strongly to the share price of Aurelius. We believe management is incentivized to sell off the few profit generating assets, take 34% of the proceeds and leave the Company with an increasingly dire portfolio of cash burning entities.

#### (i) Three Largest Sales in Aurelius History Generated Net Proceeds of EUR 282 million, 62% less than Reported

Aurelius claimed that SECOP, Getronics and Solidus were sold for a collective value of EUR 735 million. This was a convenient "sales price" as it tied in neatly to the reported NAV for these three assets of EUR 705 million. These three largest disposals seemingly validate the NAV and demonstrate Aurelius' turnaround capabilities. Yet independent evidence suggest that Aurelius received at most EUR 397 million for these three assets. However, that is before taking virtual co-investment compensation into account.

Net of management payouts, we believe just EUR 282 million was received for the sale of these assets, which is 62% less than Aurelius' disclosed "sales price".

#### Disposal Values of EUR 735 Million vs Net Proceeds of EUR 282 Million

EUR M	SECOP	Getronics	Solidus	Total
Reported NAV before disposal	256	209	240	705
Reported disposal value	185	220	330	735
Estimated cash received	71	164	162	397
<b>% difference</b>	<b>-62%</b>	<b>-25%</b>	<b>-51%</b>	<b>-46%</b>
"Virtual co-investment" payouts	(33)	(50)	(32)	(115)
<b>Net proceeds available for shareholders</b>	<b>38</b>	<b>114</b>	<b>130</b>	<b>282</b>
<b>% difference</b>	<b>-79%</b>	<b>-48%</b>	<b>-61%</b>	<b>-62%</b>

Source: Ontake calculation

The disposal of these assets was supposed to validate the Company's NAV and allow Aurelius to reinvest the proceeds in new portfolio businesses. Yet in our view, these disposals reveal that management is prepared to inflate values to

mislead investors over the validity of the Company's NAV and to extract short-term cash payouts in the form of "virtual co-investment" compensation.

**e) Aurelius' Cherry-picked Disclosures.**

Aurelius rarely discloses the cash received for disposing of a business' net assets. Instead Aurelius provides a vague "sales price" or "enterprise value". In our view, Aurelius hides behind malleable gross value figures which may bear little resemblance to the price paid for the net assets or the net cash received. By contrast, when Aurelius acquires a business, it merely reports the token equity payment with no disclosures on the the total liabilities absorbed. It seems Aurelius disclosures are cherry picked to fit the Company's narrative.

**f) Dirk Markus dismissed from Arques.**

Much is made over Markus' attempts at [embellishing](#) his CV. Markus had claimed to hold a PHD from Harvard when in actuality he had spent a mere semester there, if that.

It is less well known that Markus was actually [dismissed](#)<sup>14</sup> from his de-facto role as CFO of Arques, an investment firm he cofounded. Markus' dismissal was followed by a [BaFin investigation](#) which compelled Arques<sup>15</sup> to restate its 2004 accounts.

Arques stock subsequently collapsed<sup>16</sup> due to investors losing faith in the company's DCF-based NAV. Arques' largest asset was Actebis, which made up 46% of the reported NAV. Actebis was sold for 84% less than its reported NAV.

**Arques Claimed Actebis NAV was EUR 253 million but Sold the Business for EUR 39 million**

NAME OF GROUP AUGUST 19, 2008 COMPANY VALUE (IN EUR MILLIONS)	
SM Electronic	2.9
Actebis	253.0
Anvis	49.0
ASM	5.0
Carl Froh	10.0
<b>TOTAL</b>	<b>545.7</b>

Having received the approval of the competent cartel authorities, ARQUES sold the Actebis Group effective September 15, 2009. The ITC distributor was bought by the Droeg Group, Düsseldorf. ARQUES collected proceeds of EUR 38.9 million on the transaction.

Source: [Arques Interim Report H1 2008](#), [Arques Interim Report Q3 2009](#)

SECOP and Getronics represented 42% of Aurelius' portfolio NAV, a similar level to Actebis. Yet, rather than conceding the NAV was overstated, we believe Markus doubled down, inflating both the NAV and the disposal values, and even selling one of the assets to Baffour, a highly suspect "strategic investor".

Is the only difference between Arques and Aurelius the extent to which Markus will go to manipulate and mislead investors?

<sup>14</sup> Markus took the dismissal to heart, attempting to buy Arques AG and [fire](#) the management.

<sup>15</sup> A further BaFin investigation took place in 2006 into [insider trading](#) at Arques.

























<sup>16</sup> Arques AG changed its name to Gigaset and still exists as a ultra-small cap stock to this [day](#).

**PORTFOLIO VALUATION: EUR 257 MILLION**

The Company's share price is driven by its DCF-based NAV. Yet Aurelius has long refused to provide any meaningful disclosures on the NAV or the financial performance of the underlying portfolio companies.

However, in a November 2019 bond memorandum, Aurelius divulged the supposed EBITDA of each portfolio company. A cross check of these reported EBITDA figures with the underlying regulatory filings for Aurelius' Top Holdings suggests that Aurelius systematically overstates the reported EBITDA in order to justify its inflated NAV. We calculate that that the true NAV of Aurelius' portfolio companies is only EUR 257 million, significantly less than the Company claims.

According to Aurelius' 2019 Bond Memorandum, the current portfolio has a NAV of EUR 934 million as of Q3 19 and generated a total EBITDA of EUR 113 million in 2018<sup>17</sup>.

<b>Retail &amp; Consumer Products</b>		<b>Services &amp; Solutions</b>		<b>Industrial Production</b>	
Company	Revenues/ EBITDA <sup>1</sup>	Company	Revenues/ EBITDA <sup>1</sup>	Company	Revenues/ EBITDA <sup>1</sup>
	EUR 66m EUR 5m		EUR 41m EUR 7m		EUR 145m EUR 9m
	EUR 55m EUR (1)m				
	EUR 253m EUR 1m		EUR 24m EUR 1m		GBP 78m GBP 21m
	SEK 985m SEK 70m				
	EUR 186m EUR 10m		EUR 14m EUR 2m		GBP 4m GBP 1m
	EUR 1,401m EUR 31m		EUR 36m EUR 6m		EUR 18m EUR 1m
	DKK 1,604m DKK 40m				
	GBP 190m GBP 7m		GBP 47m GBP 0m		GBP 16m GBP 1m
	GBP 57m GBP 3m		GBP 224m Positive EBITDA		
	NOK 25m NOK 0m				
	EUR 100m Positive EBITDA				
					

Source: Aurelius Bond Memorandum 2019

The Top Holdings contribute 94% of Aurelius' reported portfolio EBITDA. We performed a detailed review of these companies.

<sup>17</sup> Scandinavian Cosmetics Group and GHOTEL were sold on the [10<sup>th</sup> October 2019](#) and [16<sup>th</sup> January 2019](#) respectively. Therefore, these assets are excluded from our valuation of the current portfolio. Assets acquired within the last six months, such as Youbuild, are included in the holding company valuation, in line with Aurelius' methodology for newly acquired entities.

**Top Holdings Contribute 94% of Aurelius' Portfolio EBITDA**

EUR M	Revenue	EBITDA	Margin	% of EBITDA
Office Depot Europe	1,401.0	31.0	2.2%	27.5%
UK Chemicals	88.2	23.7	26.9%	21.1%
Calumet Wex	186.0	10.0	5.4%	8.9%
HanseYachts (owns 77.6%)	145.0	9.0	6.2%	8.0%
Bertram	214.8	7.9	3.7%	7.0%
B+P (owns 51%)	36.0	6.0	16.7%	5.3%
Silvan	215.2	5.4	2.5%	4.8%
Scholl	66.0	5.0	7.6%	4.4%
Ideal Shopping Direct <sup>1</sup>	157.1	8.3	5.3%	7.3%
AKAD	14.0	2.0	14.3%	1.8%
Wychem	4.5	1.1	25.0%	1.0%
VAG	18.1	1.1	6.3%	1.0%
Hammerl	18.0	1.0	5.6%	0.9%
LD Didactic	24.0	1.0	4.2%	0.9%
Conaxess	253.0	1.0	0.4%	0.9%
The Hospital Group	53.1	0.0	0.0%	0.0%
NDS	2.6	0.0	0.0%	0.0%
Rivus	253.2	"Positive"	0.0%	0.0%
YouBuild	100.0	"Positive"	0.0%	0.0%
MEZ	55.0	(1.0)	-1.8%	-0.9%
<b>Portfolio</b>	<b>3,304.8</b>	<b>112.5</b>	<b>3.4%</b>	<b>100.0%</b>
<b>Top Holdings</b>	<b>2,509.3</b>	<b>106.3</b>	<b>4.2%</b>	<b>94.4%</b>
Remaining Assets	795.5	6.3	0.8%	5.6%

**Top Holdings**

Source: Aurelius Bond Memorandum, November 2019

<sup>1</sup>Pro rata adjusted

Aurelius claims that these Top Holdings generated EUR 106 million of EBITDA in 2018. However, the regulatory filings of these companies showed an aggregated EBITDA of just EUR 18 million, 83% less than reported by Aurelius.

**Ontake Valuation: Portfolio NAV EUR 257 million**

EUR M	Aurelius			Regulatory Filings			Ontake Calculation			
	Sales	EBITDA	Margin	Sales	EBITDA	Margin	EV/EBITDA	EV	Net Debt	NAV
Office Depot Europe	1,401	31	2.2%	1,287	(20)	-1.6%	n/a	64	64	0
UK Chemicals	88	24	26.9%	89	7	7.8%	10.0 x	69	24	45
Calumet Wex (95%)	186	10	5.4%	186	10	5.4%	8.0 x	80	20	57
HanseYachts (78%)	145	9	6.2%	145	5	3.5%	22.8 x	114	36	60
Ideal Shopping Direct	157	8	5.3%	158	2	1.6%	10.0 x	25	10	15
Bertram	215	8	3.7%	215	5	2.2%	4.6 x	22	3	19
B+P (51%)	36	6	16.7%	36	6	16.7%	10.0 x	60	0	31
Silvan	215	5	2.5%	215	2	0.8%	8.5 x	15	22	0
Scholl	66	5	7.6%	51	1	1.7%	10.0 x	9	(5)	14
<b>Top Holdings</b>	<b>2,509</b>	<b>106</b>	<b>4.2%</b>	<b>2,382</b>	<b>18</b>	<b>0.7%</b>	<b>10.4 x<sup>2</sup></b>	<b>394</b>	<b>110</b>	<b>240</b>
Remaining Assets <sup>1</sup>	796	6	0.8%	796	6	0.8%	10.0x	60	43	17
<b>Portfolio Total</b>	<b>3,305</b>	<b>113</b>	<b>3.4%</b>	<b>3,280</b>	<b>24</b>	<b>0.8%</b>	<b>10.3x<sup>2</sup></b>	<b>454</b>	<b>153</b>	<b>257</b>

<sup>1</sup>We use the figures disclosed by Aurelius to calculate the NAV of the remaining assets.<sup>2</sup>Set Office Depot Europe's EBITDA to zero to calculate EV/EBITDA multiples

Source: Aurelius Bond Memorandum, November 2019

Aurelius adds back restructuring costs, non-recurring expenses, management and royalty fees. We follow the Company's methodology and add back these costs as disclosed in regulatory filings.

**Aurelius Adds back Numerous Charges to Portfolio Company EBITDA Figures**

1) Figures are in million for the financial year 2018. EBITDA includes adjustments for restructuring, non-recurring expenses, management and royalty fees. Financial numbers for NDS, Bertram Books and Ideal are pro rata from the acquisition dates, 2) changed name from Hellanor in June 2019

Source: Aurelius Bond Memorandum

Aurelius charges its portfolio businesses EUR 20 million in management fees in 2018. Firstly, this figure is too small to explain the EUR 88 million discrepancy between the EBITDA claimed by Aurelius and what regulatory filings suggest. Secondly, and much worse for investors, Aurelius incurred EUR 33 million of support function costs in 2018,

which is EUR 13 million more than the fees charged to portfolio companies. If anything, the EBITDA stated in regulatory filings is *more* than the Company's EBITDA as the true cost of support functions are not reflected in filings.

### Aurelius Charged the Portfolio Just EUR 20 Million in Management Fees for Support Functions

#### Unconsolidated profit and loss of the Parent and Guarantor

The Parent generates revenues from management fees for providing central functions and operational support for subsidiaries. In 2018, revenues amounted to EUR 20 million compared to EUR 23 million in the previous year. Operating income in 2016 is attributed to higher income from the disposal of interests in associated companies.

Source: Aurelius Bond Memorandum

#### a) Office Depot Europe

Aurelius claims that ODE generated EBITDA of EUR 31 million in 2018, which means ODE is Aurelius' largest EBITDA contributor and by extension represents a big portion of its NAV. However, the regulatory filings of ODE's operating entities showed negative EBITDA. In addition, Aurelius up streamed cash, potentially illegitimately, from this loss-making business. With no cash, mounting debts, negative EBITDA and an unstable management team<sup>18</sup>, we question whether ODE is worth anything.

Aurelius claimed that ODE generated EBITDA of EUR 31 million in 2018, which is 28% of the current portfolio's EBITDA.

### Portfolio overview – Retail & Consumer Products

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
	Office Depot Europe provides office supplies, printing and document services, facility management services and office furniture		EUR 1,401m EUR 31m	Europe	2017	100.0%

Source: Aurelius 2019 Bond Memorandum

Not only does ODE represent the largest portion of Aurelius' operating EBITDA, it is also a big part of the Company's DCF-based NAV. Aurelius stopped providing the NAV of each portfolio company after the 30<sup>th</sup> September 2016. Yet a large jump in the Retail & Consumer NAV follows the first-time inclusion of ODE in Q2 2017. We estimate Aurelius' initial valuation of ODE was roughly EUR 159 million as of June 2017.

### Aurelius Retail & Consumer Segment's NAV Increased EUR 159 Million in June 2017

NET ASSET VALUE OF AURELIUS GROUP ENTITIES (IN EUR MILLIONS)		NET ASSET VALUE OF GROUP ENTITIES (IN EURO MILLIONS)	
Group entities	NAV as of 3/31/2017	Group entities	NAV at 06/30/2017
IT Services and Systems	221.7	Industrial	244.1
Chemicals	162.2	IT Services and Systems	221.7
Education and Training	118.4	Retail and Consumer Goods	371.8
Health and Beauty Care	54.5	Chemicals	157.9
Retail and Consumer Goods	212.5	Education and Training	134.0
Construction	51.1	Health and Beauty Care	54.8
Industrial	258.8	Construction	53.9
Hospitality	45.4	Hospitality	43.2

Source: Aurelius Result Press Release, [Q1 2017](#), [H1 2017](#)

<sup>18</sup> Aurelius “[forgot to check](#)” that the key trade website of ODE, Viking.com, was included in the ODE sale; it was not. Aurelius then went to Office Depot Inc to acquire the website but was refused. Aurelius' management then slapped Office Depot Inc. with an ill-advised law suit. The case was instantly [dismissed](#) and the court ruled that Aurelius [brought the compliant in bad faith](#).

### Aurelius Stated the Increase was Due to ODE

The net asset value of the Group companies rose to EUR 1,475.6 million at June 30, 2017, reflecting an increase of 4 percent compared to the end of financial year 2016 (December 31, 2016: EUR 1,420.9 million). The NAV was positively affected by the operational performance of the subsidiaries and the first-time inclusion of Office Depot Europe in the regular appraisal process. The NAV was negatively affected by the payment of a EUR 120.0 million dividend in June 2017 and the retirement of shares worth approx. EUR 70.0 million since the beginning of the year.

Source: [Aurelius H1 2017 Result Press Release](#)

Three months later, the NAV of the retail and consumer segment [increased](#) to EUR 453.7 million. Even if we assume the other entities *doubled in value* in the 12 months to 30<sup>th</sup> September 2017, ODE's NAV must have been over EUR 200 million.

### Estimated ODE NAV to be EUR 232 Million as of 9M 2017

EUR M	Q1 16	H1 16	9M 16	2016	Q1 17	H1 17	9M 17*
Scholl	55	51	52				104
MEZ	21	20	21				43
Conaxess	23	33	33				66
Calumet Wex	n/a	5	5				9
<b>Office Depot Europe</b>	n/a	n/a	n/a				<b>232</b>
Retail & Consumer	99	108	111	194	213	372	454

Source: [Aurelius Q3 2016 Result](#), Ontake Estimate

\*Assume the other entities doubled in NAV in the 12 months to 30<sup>th</sup> September 2017

We believe the way ODE has been valued and run reveals everything that is wrong with Aurelius. Rather than turning the asset around, we believe Aurelius took ODE's cash and grossly overvalued what remains of ODE.

### Regulatory filings indicate EBITDA has collapsed

In its November 2019 bond memorandum, Aurelius disclosed that ODE generated EUR 1.4 billion of revenue and EUR 31 million of EBITDA in 2018. The regulatory filings of ODE's three major subsidiaries indicated revenue of EUR 1.3 billion in 2018, which is very close to Aurelius' disclosed figure. Yet, these filings only showed an aggregated EBITDA of **negative** EUR 20 million in 2018.

### ODE Filings Suggest EBITDA is Negative EUR 20 Million

EUR M	Netherlands		France		UK		Total		Reported	Diff.
	2016	2017	2017	2018	2017	2018	2017	2018*		
Revenue	604	526	332	377	445	384	1,303	1,287	1,401	(114)
Change %		-13%		14%		-14%				
COGS	(424)	(371)	(281)	(303)	(313)	(268)	(964)	(942)		
Gross Profit	180	155	51	74	132	116	339	346		
Margin	30%	30%	15%	20%	30%	30%	26%	27%		
Operating expenses	(177)	(160)	(48)	(99)	(137)	(128)	(346)	(388)		
<b>EBITDA</b>	<b>18</b>	<b>9</b>	<b>7</b>	<b>(20)</b>	<b>(2)</b>	<b>(9)</b>	<b>15</b>	<b>(20)</b>	<b>31</b>	<b>(51)</b>
Margin	3%	2%	2%	-5%	0%	-2%	1%	-2%	2%	45%

Source: ODE Major Subsidiaries Regulatory Filings

\*Assume Netherlands' (ODE BV) 2018 financials are the same as 2017 as its 2018 regulatory filings were not available.

\*\*Following Aurelius' EBITDA calculation, we added back EUR 12 million of royalty fees to calculate EBITDA.

It is highly unlikely that the missing EUR 51 million of EBITDA could be generated from EUR 114 million of revenue. If Aurelius inflate ODE's EBITDA that is supposedly calculated by hard numbers, then Aurelius' DCF-based NAV with multiple assumptions is even more meaningless.

### ODE's disappearing cash

One way for Aurelius to raise capital, instead of issuing debts, is to acquire companies with negative purchase prices. In other words, Aurelius gets paid to acquire companies. Sellers sometimes inject cash into the business in order to sweeten the deal for Aurelius. This results in a cash inflow from acquisitions in most years.



Due to the low profitability level of some companies acquired, companies are sometime purchased for a symbolic price where the business is equipped with cash from the seller to cover restructuring expenses. This effectively makes the purchase price negative. It is not an uncommon feature for AURELIUS when acquiring distressed companies that the seller is willing to fund part of the improvement initiatives in order to divest the business and secure its survival. However, in the majority of transactions the Group is paying a positive purchase price for the acquired companies. Acquisition of shares in subsidiaries in the cash flow statement include cash acquired, explaining the positive cash flow from acquisitions of subsidiaries in 2017, 2015 and 2014.

Source: Aurelius Bond Memorandum, November 2019

In 2017, Aurelius recognized a positive jump in cash inflows from acquisition because it received EUR 110 million of cash so Office Depot Inc could be “rid” of the asset.

### Aurelius Raised Capital through Acquisition

#### CONSOLIDATED CASH FLOW STATEMENT

continued

in kEUR	Notes	1/1 - 12/31/2017	1/1 - 12/31/2016*
Cash inflows (+) / cash outflows (-) from the acquisition of shares in subsidiaries including cash acquired	6	125,170	-5,724
Cash inflows (+) / cash outflows (-) from the sale of subsidiaries less cash sold	7	360,285	41,335
Proceeds from sales of non-current assets		18,468	25,430
Payments for investments in non-current assets		-71,954	-34,477
<b>Cash flow from investing activities</b>		<b>431,969</b>	<b>26,564</b>

Source: [Aurelius 2017 Annual Report](#)

**Berenberg Research stated Aurelius Received EUR 110 million in Cash to Acquire ODE**  
Aurelius paid a symbolic price to the US mother and received more than EUR110m in cash to run the business around

Source: Berenberg Research Report, January 3, 2017

In addition, ODE raised debt of EUR 110 million in the first half of 2017.

#### ODE's Debts Increased EUR 110 Million in 2017

The breakdown of current financial liabilities at the reporting date of December 31, 2017 is presented in the table below:

in kEUR	12/31/2017	12/31/2016
Liabilities to banks	212,099	92,148
Other financial liabilities	37,480	55,620
<b>Total continued operations</b>	<b>249,579</b>	<b>147,768</b>
Discontinued operations	30,741	50,378
<b>Total current financial liabilities</b>	<b>280,320</b>	<b>198,146</b>

The financial liabilities due to banks exist primarily at Office Depot Europe in the amount of EUR 109,903 thousand (PY: EUR 0 thousand) as well as SOLIDUS in the amount of EUR 34,780 thousand (PY: EUR 26,326 thousand) and

Source: [Aurelius 2017 Annual Report](#)

Therefore, we would expect ODE to have circa EUR 220 million in cash. But instead ODE's cash balance has collapsed to “not much”, we suspect Aurelius has taken much of it.

Aurelius states that ODE's debts are largely under recourse factoring facilities.

Liabilities from factoring mainly exist at Office Depot Europe in the amount of EUR 84,244 thousand (PY: EUR 109,902 thousand) and the Conaxess Trade and Scandinavian Cosmetics Group in the amount of EUR 26,239 thousand (PY: EUR 27,092 thousand).

Source: Aurelius 2018 Annual Report

The benefit of factoring debts is that there are “limited restrictions on distributions to the parent.”

Group typically finances its portfolio companies through factoring or other asset-based lending solutions, meaning there are mostly limited restrictions on distributions to the Parent. Revolving credit facilities or bank

This approach provides sufficient financing to portfolio companies to sustain transition periods and foster growth while maintaining leverage on a moderate level. Furthermore, this results in no or only limited restrictions to distribute cash from portfolio companies to the Parent and the Issuer

Source: Bond Memorandum 2019

Aurelius appears to have taken advantage of these limited restrictions. ODE’s cash balance has decreased at a rapid speed. By the 30<sup>th</sup> June 2019 the cash balance was “not [much]”

take the ODE question? Dirk Markus - AURELIUS Equity Opportunities SE & Co. KGaA - Co-Founder, Founding Partner, Chairman of the Executive Board & CEO Yes. Third question was on Office Depot. So I said that Office Depot contract, so the contract part of Office Depot is still loss making, not overall Office Depot Europe, the profitable part of Viking Growth Country and retail. So 1 out of 4 is still loss making on overall profit. And to cash, I don't have the number at hand on that count, but it's not [much]. On the NAV, are

Source: Aurelius Q2 2019 Earnings Call

ODE’s EBITDA collapsed while its net debts increased, which means the NAV of ODE should have decreased accordingly. Yet, Aurelius’ disclosures suggest the NAV of ODE *jumped* from negative EUR 110 million to over EUR 200 million. The increase in NAV, despite a collapse in operating performance and increasing net debt, leads us to question the validity of Aurelius’ DCF-based NAV.

#### ODE Valuation out of Line with Operating Performance

EUR M	1st Jan 17	H1 17	H2 17	2018	9M 19
Cash	110	220	168	80	20
Debt		110	110	84	84
<b>Net debt (a)</b>	<b>(110)</b>	<b>(110)</b>	<b>(58)</b>	<b>4</b>	<b>64</b>
Equity value (NAV estimate) (b)	0	159	234	234	234
<b>Enterprise value (a+b)</b>	<b>(110)</b>	<b>49</b>	<b>176</b>	<b>238</b>	<b>298</b>

Source: Company filings, Ontake calculation

Note: 1. Based on Aurelius’ Q2 19 earnings call, 9M 19 Cash was estimated as EUR 20 million

2. Assumed ODE’s debt in 9M 19 is the same as 2018

#### Has ODE’s cash been illegitimately up streamed?

Aurelius has been accused and [found guilty](#) of asset stripping its former operating company La Source (formerly known as Quelle La Source), which its employees claimed led to its bankruptcy. The regulatory filings of ODE’s holding company suggest that Aurelius repeated the same practice at ODE. ODE’s employees have filed a lawsuit against Aurelius for this mismanagement. We believe La Source’s example closely resembles ODE’s. Without cash, the likelihood of ODE’s turnaround is minimal. Therefore, in our opinion, the NAV of ODE is close to zero. But worse for shareholders, Aurelius may be forced to pay back the cash to ODE.

Aurelius had to pay damages arising from its asset stripping of La Source.

En cause, la gestion de la société de vente par correspondance, opérée par Aurélius, que la juridiction orléanaise juge sévèrement : « Les comportements fautifs de la société Aurelius constituent une dérive financière contraire à la conception même de l'entreprise et au respect des salariés qui la composent », relève le tribunal dans sa décision rendue vendredi.

Translation: The judgement handed down to Aurelius was severe. Aurelius actions were judged to be a failure to society. The Company's actions run directly contrary to the purpose of a genuine business enterprise.

Source: [French News Article](#)

We believe Aurelius repeated the same practice at ODE. French media [reported](#) that ODE's employees filed a legal case accusing Aurelius of taking at least EUR 98 million from ODE in a deliberate strategy to bankrupt ODE France.

Le comité central d'entreprise d'Office Depot France (fournitures de bureau), qui craint une liquidation, a déposé plainte pour abus de bien social auprès du procureur de Senlis (Oise), où se situe le siège de l'entreprise, a-t-on appris mercredi de sources syndicales. Office Depot France, qui emploie 1.871 salariés, a été racheté à la division Europe de l'entreprise américaine Office Depot en janvier 2017 par un fonds allemand, Aurelius. Selon les syndicats Unsa et CFE-CGC de l'entreprise, «Aurelius a fait disparaître du capital et remonter vers le fonds vautour, par différentes techniques juridico-financières, au minimum 98 millions d'euros de la filiale opérationnelle française».

Translation: Aurelius took at least EUR 98 million from the French operating subsidiary via holding companies in various jurisdictions.

«En mars 2019, le nouveau directeur général nommé par l'actionnaire nous annonce qu'il n'y a plus que 15 millions d'euros en trésorerie et que Office Depot France ne passera pas l'été, car elle ne serait plus en capacité d'acheter les stocks nécessaires aux ventes de la rentrée, moment où le chiffre d'affaires se crée principalement», ajoutent les deux syndicats. Ils craignent «une organisation de liquidation» comme cela s'est produit selon eux pour trois entreprises françaises rachetées ces dernières années par Aurelius: Quelle, Isochem et Prisme. Face à

Translation: In March 2019, the new director announced that Office Depot France only had EUR 15 million cash left.

Source: [Le Figaro](#)

The regulatory filings of the holding company of ODE, Office Depot Europe Holding GmbH, corroborates our suspicion that Aurelius up streamed cash from ODE. While ODE's subsidiaries show net losses, Office Depot Europe Holding made an "advanced distribution" of EUR 87.5 million to its shareholder, Aurelius.

### 3. Erträge aus Beteiligungen

Der Betrag in Höhe von TEUR 89.750 resultiert aus einer Vorabausschüttung der unter 2.1. genannten Beteiligung der Gesellschaft.

Translation: The amount of TEUR 89,750 came from an advanced distribution from the invested entity mentioned under 2.1.

### 2. Bilanzverlust

Der Jahresüberschuss beträgt TEUR 88.243. Zusammen mit dem Verlustvortrag in Höhe von TEUR 46 und der Vorabausschüttung in Höhe von TEUR 87.456 ergibt sich der Bilanzgewinn in Höhe von TEUR 741.

Translate: The net profit amounts to TEUR 88,243. Together with the loss carried forward in the amount of TEUR 46 and the advanced distribution in the amount of TEUR 87,456, the retained earnings amount to TEUR 741.

Source: [Office Depot Europe Holding 2017 Filings](#)

It is unclear why Aurelius took out this large amount of cash from ODE, which is in desperate need of cash. However, if Aurelius sucked<sup>19</sup> cash out of ODE, this would deprive ODE and its workers the prospect of a turnaround. Because of this, we believe Aurelius could yet again be penalized by French courts, especially as the future of ODE is so precarious.

ODE's French employees are suing Aurelius for seemingly similar actions to those seen at La Source. Yet, it is not a single incident. Aurelius is currently being sued for "inadmissible dividends" taken from a now bankrupt portfolio company.

A claim for payment of a mid-six-figure amount is being asserted against a former holding company that is currently in liquidation and a direct subsidiary of AURELIUS Equity Opportunities SE & Co. KGaA by the insolvency administrator of the former investment that was sold more than five years ago and has meanwhile become insolvent, by way of a partial claim. The maximum risk is in the mid-single-digit millions. The allegation stated in the claim reads that **the distribution of a dividend in 2010 was an inadmissible, prohibited repayment of share capital.** The liquidator of the former holding company assumes that it will be possible to successfully defend against the suit based on factual and legal grounds.

Source: [Aurelius 2018 Annual Report](#)

If Aurelius has illegitimately taken off cash from ODE, we expect the French courts to come down hard.

Not only does the lack of cash make funding the turnaround of ODE difficult, the potential legal battle could result in Aurelius paying large sums of cash back to ODE's stakeholders.

## Management Churn

ODE has constant churn in top management positions. Most recently in April 2019, after just over a year in the role, Neil Malsen abruptly [resigned](#) as CEO. Unable to find anyone of significant stature, Aurelius merely [appointed](#) one of their own, Raffael Reinhold, who does not seem to have relevant experience in the market. Prior to joining Aurelius as an 'operating partner', Reinhold worked at Thomas Cook, a travel agency where he [claims](#) to have been responsible for "complementary products/and IT production". It is unclear if Reinhold is the man capable of turning around a business with 13,000 employees which burns tens of millions of cash a year. We suspect he is a placeholder for Aurelius.

Aurelius goes through a mindboggling number of senior [directors](#) and managers according to Companies House filings and [trade media](#).

### OFFICE DEPOT UK LIMITED

#### OFFICERS AND PROFESSIONAL ADVISORS

##### DIRECTORS

M Horn  
J Moore  
J Hills  
J Grady  
M McCreesh  
R Carvell  
E Moseley  
K Dowling  
N Maslen  
M Walby

(resigned 04 September 2016)  
(resigned 31 December 2016)  
(resigned 31 December 2016)  
(resigned 25 October 2016)  
(appointed 04 September 2016)  
(appointed 25 October 2016)  
(appointed 31 January 2017)

### OFFICE DEPOT UK LIMITED

#### OFFICERS AND PROFESSIONAL ADVISORS

##### DIRECTORS

M Horn  
J Hills  
M McCreesh  
K Dowling  
N Maslen  
M Walby

(resigned 13 April 2018)  
(resigned 18\* of July 2018)  
(appointed 31 January 2017)

### OFFICE DEPOT UK LIMITED

#### OFFICERS AND PROFESSIONAL ADVISORS

##### DIRECTORS

M Horn (resigned 13 April 2018)  
J Hills (resigned 20 December 2018)  
M McCreesh (resigned 1 April 2019)  
K Dowling (resigned 19 July 2018)  
N Maslen (resigned 1 April 2019)  
M Walby  
G Wiseman (appointed 11 June 2019)

Source: [Companies House Filings](#)

<sup>19</sup> On 21<sup>st</sup> December 2017 Aurelius [sold](#) two ODE finance subsidiaries to British Virgin Island entity, TPS Investment Corporate Services Limited, controlled by [Tammy Lam](#) (林芝慧). Tammy Lam is [named](#) in the Panama Papers as a former director of Paladin Limited, a Bermuda based vehicle. These two former ODE subsidiaries changed their names to [DS2](#) and [DS3](#) from Office Depot 2 and 3. The new auditor, [Miller Davies LLP](#), provided an *adverse opinion* on the entities stating that the accounts "should not have been prepared on a going concern basis" and that the accounts "do not give a true and fair view of the company's affairs". Both companies are slated for [liquidation](#). Why this transaction was undertaken is unclear but we note that frenetic acquisition and disposal activity has always been a source of paper profits for Aurelius.

We suspect no one wants to be associated with the possible collapse of ODE and Aurelius' potentially illegitimate business practices. With no cash, mounting debts and negative EBITDA, we question whether ODE is worth anything.

#### b) UK Chemicals NAV: EUR 45 Million

The Chemicals business largely consists of two entities; Calachem and Briarchem. Aurelius had assigned a NAV to these entities of EUR 155 million on the 30<sup>th</sup> September 2017.



Net Asset Value of AURELIUS Group entities (in € millions)

Group entities	NAV as of 9/30/2017
Retail and Consumer Goods	453.7
Chemicals	155.0
Education and Training	136.3
Industrial	97.9
Health and Beauty Care	74.5
Construction	51.8
Hospitality	48.4
Other	503.9
<b>Total</b>	<b>1,521.5</b>

Source: [Aurelius Q3 2017 Interim Statement](#)

Aurelius states that the combined operations of these two businesses generated GBP 78 million of revenue and GBP 21 million of EBITDA in 2018.

#### Portfolio overview – Industrial Production

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
<i>HanseGroup</i> <sup>2</sup>	<ul style="list-style-type: none"> <li>HanseYachts is a manufacturer of sailing yachts and motor boats</li> <li>World's second-largest series manufacturer of sailing yachts</li> </ul>		EUR 145m EUR 9m	Global	2011	77.6%
<i>Briar</i> <i>CalChem</i>	<ul style="list-style-type: none"> <li>Briar CalChem is a producer of fine chemicals focusing on agrochemicals and specialty chemicals</li> <li>Currently produces mainly chemical agents and intermediates for herbicides</li> </ul>		GBP 78m GBP 21m	Global	2010 / 2012	100.0%

Source: Aurelius Bond Memorandum November 2019

Yet underlying filings reveal a collapsing EBITDA at Briar Chemicals and a combined EBITDA of just GBP 6.1 million. Like we saw at ODE, local filings indicate that Aurelius overstates its portfolio companies' EBITDA.

	Briar Chemicals			Calachem			UK Chemicals			Disclosed	Diff.
GBP M	2016	2017	2018	2016	2017	2018	2016	2017	2018	2018	2018
Revenue	41.1	38.0	30.6	34.0	45.2	47.8	75.1	83.2	78.4	78.0	0%
Growth		-7%	-20%		33%	6%		11%	-6%		
COGS	(16.5)	(12.3)	(14.6)	(29.3)	(38.7)	(41.7)	(28.8)	(26.9)	(43.9)		
Gross profit	24.6	25.7	16.0	4.7	6.5	6.1	29.3	32.2	22.1		
Other costs	(15.2)	(14.9)	(15.4)	(3.7)	(4.6)	(11.8)	(18.9)	(19.5)	(27.2)		
Operating profit	9.4	10.8	0.6	0.9	1.9	(5.7)	10.4	12.7	(5.1)		
<b>EBITDA</b>	<b>10.1</b>	<b>11.6</b>	<b>1.6</b>	<b>2.8</b>	<b>3.6</b>	<b>4.5</b>	<b>12.9</b>	<b>15.2</b>	<b>6.1</b>	<b>21.0</b>	<b>-71%</b>
Margin	25%	31%	5%	8%	8%	9%	17%	18%	8%	27%	

Source: Companies House Filings

Note: Excludes Briarchem's one-time gain of GBP 8.2 million (insurance claims) in 2018.



Briar Chemical has been the major EBITDA contributor among Aurelius' UK Chemicals businesses. However, the expiry of a legacy contract and ongoing safety and production issues put a question mark on the business' future.

## Major Operation Problems

### 1) Briar Chemical's Safety and production issues

In July 2018, Briar Chemicals' plant [suffered](#) from an explosion, which caused a production shutdown. It is unclear how long it will take to resume production as Aurelius stated that 2019 is yet another bad year for Briar Chemicals driven by unplanned shutdowns and production losses.

#### Current developments

Revenues were slightly below plan in the first half of 2019 due to the unplanned shutdown of two production facilities. The design of these facilities was optimized and the security systems were extended considerably after a work accident in mid-2018.

#### Outlook

2019 is turning out to be a turbulent year for the company as it deals with the effects of production losses and the scarcity of skilled workers. The outlook for the company after this period is very positive, also in view of the supply bottlenecks and production losses of Chinese suppliers. However, a hard Brexit could possibly create disadvantages for the company in the form of customs duties and delays in imports to the United Kingdom.

Source: [Aurelius 2019 H1 Interim Report](#)

### 2) Briar Chemical's main customer contract expired in 2017

Bayer Chemicals was originally a production site of [Bayer CropScience](#) ("Bayer"). Aurelius [acquired](#) the plant for an undisclosed fee in 2012. As part of the deal, Bayer agreed to be the main customer for the plant, allowing Bayer to rid themselves of the operation. The term of this contract was five years and expired in 2017.

Bayer CropScience in Sweet Briar Road has been bought by a subsidiary of Munich-based Aurelius AG for an undisclosed sum.

The deal, which is expected to be formalised in the next quarter, means the facility, which employs around 260 staff and 50 contractors, will become a stand alone company able to bid for new contracts beyond its current owners the Bayer Group, which will remain its main customer.

It agreed a transitional contract guaranteeing work, on a gradually diminishing scale, for five years - putting the onus on Briar to extend its product portfolio and develop new customers.

Source: [Eastern Daily Press, May 11, 2016](#)

The CEO of Briar Chemicals, [who left the company](#) in 2018, admitted that revenue would begin to fall in 2016 and again in 2017 and that by 2020 he barely expects the firm to be profitable saying "it's going to be tight" in an interview on the matter.

## 'It's going to be tight' - Briar Chemicals boss in warning over firm's future

Mark Shields [mark.shields@archant.co.uk](mailto:mark.shields@archant.co.uk) [@mark\\_shields](#)  
PUBLISHED: 10:59 11 May 2016 | UPDATED: 11:05 11 May 2016

"It's so far, so good, and we've made reasonable profits for the first three years, but that is going to start coming down.

"We have done the forecasts through to 2020, making certain assumptions, and they are that we will still be profitable, but it's going to be tight."

Source: [Eastern Daily Press, May 11, 2016](#)



Note that in 2018, Briar Chemicals' revenues and profits collapsed. It is unclear how much of this is due to the expiry of the contract with Bayer and how much is due to safety and production issues at the plant. But either way, the future prospects for Briar Chemicals are uncertain.

Briar Chemicals' capital expenditures have risen rapidly and *now exceed EBITDA*. We suspect that, following the expiry of the original Bayer contract in 2017, Briar Chemicals have been compelled to invest in order to keep the operation alive. Aurelius does not disclose the terms of Briar Chemicals' new contract but it is clearly far less lucrative for Briar Chemicals given the profitability reported by the Company. The dependence on the Bayer contract may explain why no one has bought the chemicals business from Aurelius. Any buyer would review the underlying contract and see that the purported large profits generated by the division are due to expire.

#### Current developments

Briar Chemicals has continued to generate good results in the current year and has entered into a new, long-term contract with its main customer. Based on a multi-year contract in effect since the middle of 2018, the company has invested heavily in the production of a new agrochemical product. Other investments are mainly aimed at increasing the automation and efficiency of important chemical process steps and waste recycling.

Source: [Aurelius 2018 H1 Interim Report](#)

Briar Chemicals' regulatory filings show that its capital expenditure increased every year. With its operation barely breakeven, the increasing capital expenditure exceeds its EBITDA in 2018.

	Briar Chemicals			Calachem			UK Chemicals		
GBP M	2016	2017	2018	2016	2017	2018	2016	2017	2018
Revenue	41.1	38.0	30.6	34.0	45.2	47.8	75.1	83.2	78.4
EBITDA	10.1	11.6	1.6	2.8	3.6	4.5	12.9	15.2	6.1
CapEx	(4.4)	(5.1)	(7.0)	(1.8)	(1.7)	(2.4)	(6.2)	(6.8)	(9.4)
% of Sales	-11%	-13%	-23%	-5%	-4%	-5%	-8%	-8%	-12%
<b>EBITDA-CapEx</b>	<b>5.6</b>	<b>6.6</b>	<b>(5.4)</b>	<b>1.0</b>	<b>1.9</b>	<b>2.1</b>	<b>6.7</b>	<b>8.5</b>	<b>(3.3)</b>

Source: Companies House Filings

The net debt of the UK Chemicals business has risen rapidly driven by a dividend recap in 2018.

	Briar Chemicals			Calachem			UK Chemicals		
GBP M	2016	2017	2018	2016	2017	2018	2016	2017	2018
Debt	0.0	0.0	4.5	14.9	13.9	12.1	15.0	13.9	16.6
Chemical Obligation	4.0	3.9	5.6	0.0	0.0	0.0	4.0	3.9	5.6
Cash	0.3	3.5	0.7	1.7	1.8	0.3	2.0	5.3	1.0
<b>Net Debt</b>	<b>3.7</b>	<b>0.4</b>	<b>9.4</b>	<b>13.2</b>	<b>12.1</b>	<b>11.8</b>	<b>16.9</b>	<b>12.4</b>	<b>21.2</b>
Net Debt/EBITDA	0.4x	0.0x	5.8x	4.7x	3.4x	2.6x	1.3x	0.8x	3.5x
Net Debt/EBITDA-CapEx	0.7x	0.1x	-1.7x	12.7x	6.4x	5.6x	2.5x	1.5x	-6.5x
Net Profit	9.1	11.8	8.9	0.7	1.8	(6.0)	9.8	13.7	2.9
Dividend	8.3	0.0	14.5	4.2	1.6	2.3	12.5	1.6	16.8

Source: Companies House Filings

Note: Calachem's debts are the sum of Calachem Ltd and Calachem Holdings

We assign a 10x multiple<sup>20</sup> to the UK Chemicals 2018 EBITDA figure to arrive at an enterprise value for the UK Chemicals business of EUR 69 million (GBP 61 million). Note that this is exceptionally generous given that EBITDA does not cover capital expenditures and we have no clarity over the economics of the business after the legacy contract with Bayer has expired.

After deducting the net debt of EUR 24 million from its enterprise value, we believe the NAV of the UK Chemicals business is EUR 45 million.

<sup>20</sup> Statista [reports](#) the average "basic chemicals" business EV/EBITDA multiple was 7.3x and the "specialty chemical" multiple was 11.72x as of 2019.

**UK Chemicals NAV: EUR 45 Million**

2018	GBP M	EUR M
Revenue	78.4	88.6
EBITDA	6.1	6.9
Multiple	10 x	10 x
Enterprise Value	61.1	69.0
Net Debt	21.2	24.0
<b>Ontake NAV</b>	<b>39.9</b>	<b>45.1</b>

Source: Companies House Filings, Ontake Calculation

**c) Silvan: DIY Disaster**

Aurelius claims Danish DIY retail chain, Silvan, generated EBITDA of EUR 5 million (DKK 40 million) in 2018. Yet, Silvan's regulatory filings suggest that it generated large negative cash flow, is dangerously levered, and its EBITDA was 67% less than Aurelius stated.

**Portfolio overview – Retail & Consumer Products**

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
	• Silvan is a "do-it-yourself" retail chain		<b>DKK 1,604m</b> DKK 40m	Denmark	2017	100.0%

Source: Aurelius Bond Memorandum

**Silvan EBITDA Comparison: Aurelius Disclosed vs. Local Filings**

	Local Filings		Aurelius Disclosed	Difference
	EUR M	DKK M	DKK M	
Revenue	215	1,604	1,604	0%
Cost of sales	(136)	(1,014)		
Other external costs	(29)	(218)		
Gross profit	50	371		
Staff costs	(48)	(358)		
D&A	(3)	(21)		
Operating profit/loss	(1)	(8)		
<b>EBITDA</b>	<b>2</b>	<b>13</b>	<b>40</b>	<b>-67%</b>
Margin	0.8%	0.8%		
Net loss	(2)	(13)		
Cash from operations	(9)	(69)		
Capex	(7)	(50)		
<b>Free Cash Flow</b>	<b>(16)</b>	<b>(119)</b>		
Cash	7	53		
Debt	29	213		
Net Debt	22	161		
<b>Net Debt/EBITDA</b>	<b>12.3 x</b>	<b>12.3 x</b>		

Source: Silvan A/S Regulatory Filings, Aurelius Bond Memorandum

Danish press [reported](#) that Silvan's electronics department was semi empty as its suppliers tightened credit terms to Silvan.

Geld verdient Aurelius mit Silvan nicht. 2017 wurde ein Verlust von 45 Millionen DKK (6 Millionen Euro) eingefahren, und auch 2018 wird es laut Berichten bei einem wenn auch geringeren zweistelligen Millionendefizit bleiben. In diesem Frühjahr waren die Regale in der Elektroabteilung teilweise ausverkauft. Aus Furcht vor Zahlungsausfällen hat sich ein Elektrogroßhändler geweigert, die Waren mit dem üblichen dreimonatigen Zahlungsziel zu liefern. Dessen ungeachtet will Silvan

Translation: Aurelius doesn't make money with Silvan. A loss of DKK 45 million (€ 6 million) was incurred in 2017, and reports will remain in 2018 with a double-digit million deficit, albeit a smaller one. This spring, the shelves in the electronics department were partially sold out. For fear of payment defaults, an electrical wholesaler refused to deliver the goods with the usual three-month payment target.

Source: [Local News Article](#)

In October 2019, Silvan fired its new CEO after 60 days. The previous CFO resigned after 7 months into the job.

#### Danish News Reported that Silvan's High Management Turnover

Af erhvervsregistret, cvr.dk, fremgår det i øvrigt også, at direktionen i Silvan aktuelt udgøres af Jan Becker sammen med Michael Østerlund Madsen, der tiltrådte i juli 2019 som CFO. Den tidligere økonomidirektør i Silvan, Jesper Blauenfeldt, sagde tidligere på året op efter bare blot syv måneders ansættelse.

Translation: The business register, cvr.dk, also shows that the management of Silvan is currently made up of Jan Becker together with Michael Østerlund Madsen, who took up the position as CFO in July 2019. Former CFO of Silvan, Jesper Blauenfeldt, resigned earlier this year after just seven months of employment.

Source: <https://finans.dk/erhverv/ECE11655481/preset-silvan-skifter-igen-ud-paa-chefgangen/?ctxref=ext>

#### An Executive of Silvan Only Lasted for 60 Days



Translation: Silvan fires new chief executive after 60 days.



Source: [BØRSEN News Article](#), Oct 1, 2019

Silvan is on the brink of collapse and is dependent on loans from Aurelius to avoid bankruptcy. To be conservative, we value Silvan on an EV/EBITDA 8.5x, [in line](#) with public home improvement multinational, [Kingfisher PLC](#). We calculate an enterprise value of EUR 15 million, but with net debt of EUR 22 million, this puts Silvan's NAV at zero.

#### d) Scholl Footwear. A Bad Smell.

Scholl Footwear is a niche footwear brand, focused on comfort shoes. The Company bought the license to sell *shoes* under the Scholl brand in certain geographies (mainly France and Italy). Note that Aurelius has no ownership of the larger but also [struggling](#) Scholl *footcare* business which [sells](#) insoles, blister patches, and a host of foot treatments.

The Company claims Scholl Footwear made EUR 5 million of EBITDA in 2018.

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
	▪ <b>Scholl Footwear</b> is a supplier of orthopedic and comfort shoes		<b>EUR 66m</b> <b>EUR 5m</b>	Global	2014	100.0%

Source: Aurelius Bond Memorandum November 2019

According to Aurelius, Scholl Footwear has six entities and only two generated profit in 2018. Therefore, we reviewed the regulatory filings of the two profit generating entities to cross check Aurelius' claims.

Company	Currency	Equity	Profit/loss	Ex rate	Profit/loss (EUR M)
Health and Fashion Shoes Australia Pty Ltd.	AUD	(2,924,695)	(43,187)	1.5799	(0.0)
<b>Health and Fashion Shoes France SAS</b>	<b>EUR</b>	<b>746,338</b>	<b>10,177</b>	<b>1.0000</b>	<b>0.0</b>
Health and Fashion Shoes Hong Kong Ltd.	HKD	(6,869,724)	(2,823,265)	9.2599	(0.3)
<b>Health and Fashion Shoes Italia SpA</b>	<b>EUR</b>	<b>10,605,848</b>	<b>443,952</b>	<b>1.0000</b>	<b>0.4</b>
Health and Fashion Shoes Singapore Pte. Ltd.	SGD	(1,916,008)	(211,478)	1.5928	(0.1)
Health and Fashion Shoes Spain S.A.	EUR	3,655,039	(395,057)	1.0000	(0.4)

Source: [Aurelius 2018 Annual Report](#)

The underlying filings of the two profitable companies show an aggregated EBITDA of EUR 0.9 million in addition to declining margin. The aggregated revenues of these two entities were EUR 50.5 million, 77% of Scholl Footwear's revenue as disclosed by Aurelius. However, as Scholl Footwear's other entities generated losses, we do not expect the remaining entities could account for the EBITDA difference.

	<b>Health and Fashion Shoes France SAS</b>		<b>Health and Fashion Shoes Italia SpA</b>		<b>Combined</b>		<b>Aurelius Disclosed</b>
EUR M	2017	2018	2017	2018	2017	2018	2018
Revenue	13.1	12.0	37.4	38.5	50.5	50.5	66.0
Growth%		-8%		3%		0%	
COGS	5.9	5.1	22.8	24.5	28.8	29.5	
Gross Profit	7.1	7.0	14.6	14.0	21.7	21.0	
<b>EBITDA</b>	<b>0.5</b>	<b>0.1</b>	<b>0.9</b>	<b>0.7</b>	<b>1.4</b>	<b>0.9</b>	<b>5.0</b>
Margin	4.0%	1.2%	2.3%	1.9%	2.7%	1.7%	7.6%

Source: Companies Regulatory Filings, Ontake Calculation

To estimate the NAV of Scholl Footwear, we apply an EV to EBITDA multiple of 10x to the EBITDA disclosed in regulatory filings and deduct net debt. Scholl's local filings showed an EBITDA of EUR 0.9 million and net debt of negative EUR 5.2 million. We calculate a NAV of EUR 13.9 million.

**Scholl NAV: EUR 13.9 Million**

EUR M	2018
Revenue from regulatory filings	50.2
EBITDA from regulatory filings	0.9
EV/EBITDA Multiple	10 x
Enterprise value	8.7
Net debt	(5.2)
<b>NAV</b>	<b>13.9</b>

Source: Companies Regulatory Filings, Ontake Calculation

**e) Not So Ideal Shopping.**

Aurelius [purchased](#) Ideal Shopping Direct ("Ideal") from Blackstone in July 2018. Ideal aims to sell products typically to elderly customers via "home shopping" TV channels. The Company disclosed that Ideal's *pro rata* EBITDA was GBP 3 million in 2018 after *adjusted for restructuring costs*.

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
	▪ Ideal Shopping Direct is a multi-channel home shopping provider		GBP 57m GBP 3m	UK	2018	100.0%

1) Figures are in million for the financial year 2018. EBITDA includes adjustments for restructuring, non-recurring expenses, management and royalty fees. Financial numbers for NDS, Bertram Books and Ideal are pro rata from the acquisition dates, 2) changed name from Hellanor in June 2019

Source: Aurelius Bond Memorandum 2019

Aurelius claims to only include the pro rata share of Ideal for 2018. However, a cross check with Ideal's regulatory filings shows that Aurelius included 41% of the locally reported revenue for 2018 *but 136% of the EBITDA*.

**Ideal EBITDA Comparison: Regulatory Filings vs. Aurelius Disclosures**

	<b>Regulatory Filings</b>				<b>Aurelius</b>	
<b>GBP M</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018 (7 months)</b>	<b>% of 2018</b>
Revenue	152.9	142.3	145.5	140.0	57.0	41%
COGS	(83.9)	(80.4)	(88.8)	(84.7)		
Gross margin	69.0	56.7	56.7	55.3		
Margin	45%	40%	39%	40%		
Other Costs	(50.2)	(44.5)	(52.2)	(53.1)		
<b>Underlying EBITDA</b>	<b>18.8</b>	<b>12.2</b>	<b>4.5</b>	<b>2.2</b>	<b>3.0</b>	<b>136%</b>
Margin	12.3%	8.6%	3.1%	1.6%	5.3%	

Source: Ideal Regulatory Filings, Ontake Calculation,

Based on its disclosures, Aurelius is claiming the annualized EBITDA of Ideal is GBP 7.4 million, against a reported GBP 2.2 million in Ideal's regulatory filings. This is over 3 times what is disclosed in regulatory filings.

<b>Ideal Shopping 2018</b>	<b>GBP M</b>
EBITDA disclosed by Aurelius	3.0
% of the Year	41%
Annualized EBITDA (a)	7.4
EBITDA stated in regulatory filings (b)	2.2
<b>Overstatement (a/b)</b>	<b>3.3x</b>

Source: Ontake Calculation

Again, the Company cannot claim the difference is due to restructuring or exceptional costs as these costs have also been added back in the regulatory filings.

In 2018 the group incurred non-underlying costs of £30.0 million, £24.0 million related to the write off of pre Aurelius Alpha Limited intercompany balances, £1.9 million related to an impairment of goodwill, £1.9 million was incurred in relation to restructuring costs, £0.7m related to a review of stock provisioning policy, £0.6m related to acquisition costs, £0.4 million related to amortisation of intangible assets in relation to prior acquisitions, £0.2 million was spent on Blackstone management fees; the balance being associated with other one-off projects.

Source: [Ideal Annual Report 2018](#)**Principal activity**

The principal activity of the group is that of distance selling to customers through television home shopping channels and the internet.

**Business review**

	<b>FY 2018 £000</b>	<b>FY 2017 £000</b>	<b>Change £000</b>	<b>Change %</b>
Sales revenue	140,063	145,470	(5,407)	(3.7%)
Gross profit	55,322	56,730	(1,408)	(2.5)%
%	39.5	39.0		+50 bps
<b>Underlying EBITDA</b>	<b>2,205</b>	<b>4,515</b>	<b>(2,310)</b>	<b>(51.2)%</b>
On-line sales %	68.5%	64.8%		370 bps

Source: [Ideal Annual Report 2018](#)

Ideal generated a negative cash flow, forcing Aurelius to provide a credit facility of EUR 17 million, of which EUR 14.9 million was drawn at the end of 2018.

**Cash flow and balance sheet**

The group finished 2018 with cash balances of £5.8 million (31 December 2017: £3.0 million); an increase of £2.8 million during the year. The group benefits from a £17.0 million Revolving Credit Facility from Aurelius of which £14.9 million was drawn down at the end of 2018.

Source: [Ideal Annual Report 2018](#)

Ideal's operating performance is in free fall, with EBITDA collapsing 88% in four years. We suspect that a declining TV audience for shopping channels has weighed heavily against Ideal. Given the dire cash flows, we struggle to see how this facility will be repaid.

#### Dire Cash Generation and Rising Leverage


GBP M	2015	2016	2017	2018
<b>Underlying EBITDA</b>	<b>18.8</b>	<b>12.2</b>	<b>4.5</b>	<b>2.2</b>
<i>Margin</i>	12.3%	8.6%	3.1%	1.6%
<b>Cash from operations (a)</b>	<b>(3.3)</b>	<b>(0.5)</b>	<b>4.1</b>	<b>(9.8)</b>
Capex (b)	(1.5)	(1.8)	(4.3)	(2.2)
<b>Free Cash Flow (a-b)</b>	<b>(4.8)</b>	<b>(2.4)</b>	<b>(0.2)</b>	<b>(12.0)</b>
<b>Net Debt</b>				<b>9.1</b>
<b>Net Debt/EBITDA</b>				<b>4.1x</b>

Source: Ideal Shopping Annual Reports, Ontake Calculation

Ideal is excessively levered and burning cash. However, we still assigned Ideal an EV/EBITDA multiple of 10x. After subtracting its net debt, we estimate a NAV of EUR 15 million (GBP 13 million) for Ideal.

#### f) HanseYachts: Shipwrecked.

HanseYachts is a publicly traded [yachts manufacturer](#) based in Germany. Aurelius claims HanseYachts generated EUR 9 million of EBITDA on EUR 145 million of revenue in 2018.

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
<i>HanseGroup</i> <sup>2</sup>	<ul style="list-style-type: none"> <li>HanseYachts is a manufacturer of sailing yachts and motor boats</li> <li>World's second-largest series manufacturer of sailing yachts</li> </ul>		<b>EUR 145m</b> <b>EUR 9m</b>	Global	2011	77.6%

Source: Aurelius Bond Memorandum November 2019

HanseYachts [publishes](#) its financial reports on its website. While we can verify the EUR 145 million of revenue disclosed in its filings, HanseYachts' EBITDA is yet again significantly less than Aurelius disclosed.

#### HanseYachts Reported EBITDA is 44% Less than Aurelius Disclosed

	HanseYachts Financial Reports				Aurelius	Difference
EUR M	FY2016	FY2017	FY2018	LTM H1 19	2018	2018
Revenue	120.8	132.8	144.8	153.1	145.0	0%
COGS	(69.5)	(71.6)	(81.7)	(85.6)		
Gross Profit	51.3	61.3	63.1	67.5		
Operating Expenses	(45.8)	(50.3)	(58.1)	(60.1)		
<b>EBITDA</b>	<b>5.4</b>	<b>11.0</b>	<b>5.0</b>	<b>7.3</b>	<b>9.0</b>	<b>-44%</b>
<i>Margin</i>	4.5%	8.3%	3.5%	4.8%		
Net Profit	(1.7)	3.2	(2.3)	(0.0)		

Source: [HanseYachts Financial Reports](#), Aurelius Bond Memorandum, Ontake Calculation

Note: The fiscal year end of HanseYacht is June 30<sup>th</sup>. However, Aurelius' disclosures suggest that the Company referred HanseYachts' FY2018 revenue as its CY2018 revenue.

Despite reporting positive EBITDA, HanseYachts' cash generation continues to be dire. EBITDA is a largely meaningless figure, in our view, given the large gap between the reported EBITDA and underlying cash generation. In addition, HanseYachts' debt doubled in 2018 and its net debt to EBITDA ratio jumped to 5x. Even worse, its net



debt to operating cash flows was at 16.7x.<sup>21</sup> No wonder Aurelius has been unable to sell this business for almost a decade.<sup>22</sup>

#### HanseYachts Increasingly Levered

EUR M	FY2016	FY2017	FY2018	LTM H1 19
<b>EBITDA</b>	<b>5.4</b>	<b>11.0</b>	<b>5.0</b>	<b>7.3</b>
Cash from operations	3.4	10.9	1.1	2.2
Capex	(5.6)	(7.3)	(5.7)	(4.4)
<b>Free cash flow</b>	<b>(2.2)</b>	<b>3.6</b>	<b>(4.6)</b>	<b>(2.2)</b>
Debt	21.7	20.9	40.3	40.3
Cash	4.8	7.6	21.2	3.9
<b>Net Debt</b>	<b>17.0</b>	<b>13.2</b>	<b>19.0</b>	<b>36.4</b>
<b>Net Debt/EBITDA</b>	<b>3.1 x</b>	<b>1.2 x</b>	<b>3.8 x</b>	<b>5.0 x</b>
<b>Net Debt/CFO</b>	<b>5.0 x</b>	<b>1.2 x</b>	<b>17.4 x</b>	<b>16.7 x</b>

Source: [HanseYachts Financial Reports](#), Aurelius Bond Memorandum, Ontake Calculation

HanseYachts has a market capitalization of EUR 79 million.<sup>23</sup> Including net debts of EUR 36 million, Hanse trades at an EV/EBITDA of 15.7x LTM H1 19 EBITDA, *23x on FY 2018 EBITDA*. This premium valuation is unwarranted given the dangerously high leverage and negative cash flow. German financing specialist, FCF, [calculated](#) that HanseYachts trades at *double* the median EV/EBITDA multiple of German small cap peers.

#### HanseYachts EV/EBITDA Valuation Out Of Line With Peers

Peer Group	Enterprise Value EV / EBITDA	
	2017a	2018e
HanseYachts AG	15.1x	13.4x
Hawesko Holding AG	13.2x	11.6x
Hornbach Holding AG & Co. KGaA	6.5x	6.9x
Hugo Boss AG	10.6x	9.8x
IFA Hotel & Touristik AG	7.7x	na
Leifheit AG	6.5x	7.6x
LUDWIG BECK AG	13.5x	11.5x
Medion AG	na	na
Metro AG	5.8x	5.0x
PUMA SE	18.2x	14.0x
Schloss Wachenheim AG	7.7x	7.3x
Südzucker AG	6.1x	8.3x
Tom Tailor Holding SE	6.6x	5.4x
Vapiano SE	nm	13.0x
Villeroy & Boch AG	7.0x	6.0x
WASGAU Produktions & Handels AG	7.2x	na
Min	2.1x	1.1x
Max	18.2x	16.7x
<b>Median</b>	<b>7.4x</b>	<b>7.9x</b>
Mean	9.5x	8.5x

Source: [Valuation Monitor 2018](#)

Aurelius owns 77.6% of HanseYachts' outstanding shares, which implies Aurelius could claim EUR 61 million as HanseYachts' NAV. We generously assign this value to Aurelius despite having little faith in the "market" value of

<sup>21</sup> HanseYachts' fiscal year end date is June 30, so its H1 2019 is December 31, 2018.

<sup>22</sup> Aurelius [acquired](#) HanseYachts in 2011.

<sup>23</sup> As of January 20, 2020

the business. HanseYachts' stock barely trades. Its average daily volume is [5,028 shares](#).<sup>24</sup> At EUR 6.45 a share, that means just EUR 32,431 of value traded per day.

If we value HanseYachts (using H1 19 EBITDA) with the peers selected by FCF, it would yield a NAV of EUR 13.9 million, 77% less than the NAV calculated by market capitalization. Note that if 2018 EBITDA is used, HanseYachts' NAV would be almost zero.

EUR M	FY 2018	LTM H1 19
HanseYachts disclosed EBITDA	5.0	7.3
EV/EBITDA Median Peer Multiple (FCF)	7.4x	7.4 x
Enterprise value	37.0	54.3
Net debt	(36.4)	(36.4)
NAV	0.6	17.9
% owned by Aurelius	77.6%	77.6%
<b>NAV to Aurelius</b>	<b>0.5</b>	<b>13.9</b>
<b>Discount to Current NAV</b>	<b>-99%</b>	<b>-77%</b>

Source: Ontake Calculation

#### g) Bertram Books.

In February 2018, Aurelius acquired Bertram, a bookseller. The Company stated that Bertram generated revenue of EUR 215 million and an EBITDA of EUR 8 million in 2018.

	<ul style="list-style-type: none"> <li>Bertram Books is a globally active multi-channel bookseller</li> </ul>		<b>GBP 190m</b> <b>GBP 7m</b>	<b>EUR 215 M</b> <b>EUR 8M</b>	2018	100.0%
---	---	---	----------------------------------	-----------------------------------	------	--------

Source: Aurelius Bond Memorandum November 2019


Note: Using the exchange rate provided by Aurelius (GBP: EUR=1:0.8847)

Bertram's regulatory filings also showed that it generated revenue of EUR 215 million (GBP 190 million) in 2018, so we are confident that the filings are inclusive. However, the filings showed that even after adding back the non-recurring, exceptional and restructuring costs, Bertram only generated EBITDA of EUR 5 million, 40% less than what Aurelius stated.

#### Bertram 2018 EBITDA: Regulatory Filings vs. Aurelius Reported

EUR M	Regulatory Filings (GBP M)	Regulatory Filings	Aurelius Disclosure	Difference
Revenue	190.4	215	215	0%
COGS	(152.3)	(172)		
Gross Profit	38.1	43		
Operating costs excl. one-time cost	(35.4)	(40)		
Operating Profit	2.7	3		
<b>EBITDA</b>	<b>4.2</b>	<b>5</b>	<b>8</b>	<b>-40%</b>
Margin	2.2%	2.2%	3.7%	

Source: Companies House Filings, Aurelius Bond Memorandum, Ontake Calculation

 <b>Annual report and consolidated financial statements</b> <b>31 December 2018</b>		2018	2017
		£'000	£'000
Turnover	3	190,378	-
Cost of sales		(152,292)	(13)
Gross profit/(loss)		38,086	(13)
Distribution costs		(8,882)	-
Administrative costs		(27,793)	(8)
Profit/(loss) before interest and tax	4	1,411	(22)

<sup>24</sup> 30-day average volume ended on December 22, 2019.

**Business performance**

The Group posted a profit of £1.1 million which includes **one-off non-recurring transformation restructuring costs of £1.3 million.**

Source: [Companies House Filings](#)

To value Bertram, we used a recent bookstore acquisition. Barnes & Noble is a US bookstore chain that was acquired in June 2019 by Elliott Management, an investment firm that [owns](#) one of the largest booksellers in the UK. Prior to the acquisition, Barnes & Noble was listed on the New York Stock Exchange. According to its public filings, Barnes & Noble [generated](#) EBITDA of USD 147 million in FY 2019.

News articles [report](#) that Elliott Management valued the US bookseller at USD 683 million (EV), implying an EV/EBITDA multiple of 4.6x. Note that Elliot bought Barnes & Noble for a [43% premium](#) to the stock market value.

We value Bertram on a EV/EBITDA multiple of 4.6x multiple, including the premium paid for Barnes & Noble. We feel this is generous as Bertram's actual EBITDA of EUR 5 million is just 5% of the EBITDA generated by this US peer. We calculate that Bertram's NAV is EUR 19 million<sup>25</sup>.

EUR M	2018
Bertram EBITDA excl. one-off costs	5
Multiple	4.6 x
Enterprise Value	22
Less Net Debt	3
<b>Bertram NAV</b>	<b>19</b>

Source: Ontake Calculation

**h) The remaining entities**

Even Aurelius concedes that most Remaining Assets generate an EBITDA close to zero. Given the overstatement in the Top Holdings, we suspect the underlying performance of the Remaining Assets is truly dire. Reviewing these assets would be the equivalent of opening Pandora's box.

**Remaining Assets: Aurelius Pandora's Box**

EUR M	Revenue	EBITDA	Margin
AKAD	14.0	2.0	14.3%
Wychem	4.5	1.1	25.0%
VAG	18.1	1.1	6.3%
Hammerl	18.0	1.0	5.6%
LD Didactic	24.0	1.0	4.2%
Conaxess	253.0	1.0	0.4%
The Hospital Group	53.1	0.0	0.0%
NDS	2.6	0.0	0.0%
Rivus	253.2	"Positive"	0.0%
YouBuild	100.0	"Positive"	0.0%
MEZ	55.0	(1.0)	-1.8%
<b>Remaining Assets</b>	<b>795.5</b>	<b>6.3</b>	<b>0.8%</b>
Top Holdings	2,509.3	106.3	4.2%
<b>Portfolio</b>	<b>3,304.8</b>	<b>112.5</b>	<b>3.4%</b>

Source: Ontake Calculation

For simplicity, we generously take the reported EBITDA of the Remaining Assets at face value and assign a 10x multiple to get an enterprise value of EUR 60 million. Aurelius reports net debt for its portfolio businesses of EUR 153 million and we identified net debt of EUR 110 million across the Top Holdings. Therefore, we assign the remaining EUR 43 million of net debt to the Remaining Assets. We calculate a NAV for the Remaining Assets of EUR 17 million.

<sup>25</sup> For a review of the two remaining assets in the Top Holdings, see appendix C

In our view, this is generous as the evidence we showed in this report suggests Aurelius systematically overstates EBITDA across its portfolio. In reality, we suspect many of these Remaining Assets generate negative EBITDA and survive on cash handouts from the holding company. The Hospital Group is an example of what lurks in the bottom half of Aurelius' portfolio.

### i) Hospital Group: On Life Support

Aurelius acquired Transform, a cosmetic procedure specialist in [July 2015](#). The Company also purchased the Hospital Group, a similar outfit, in [July 2016](#). Together Aurelius calls the businesses “[Health and Beauty Care](#)”<sup>26</sup>. Aurelius valued Health and Beauty care at EUR 75 million on the 30<sup>th</sup> September 2017<sup>27</sup>.

Net Asset Value of AURELIUS Group entities (in € millions)

Group entities	NAV as of 9/30/2017
Retail and Consumer Goods	453.7
Chemicals	155.0
Education and Training	136.3
Industrial	97.9
Health and Beauty Care	74.5
Construction	51.8
Hospitality	48.4
Other	503.9
<b>Total</b>	<b>1,521.5</b>

Source: [Aurelius Q317 Result](#)

In its [2018 annual report](#), published on the 26<sup>th</sup> March 2019, the Company claimed the Health and Beauty Care segment had completed its restructuring and therefore the outlook for the business was positive. Revenues were expected to rise in 2019.

#### Outlook

The outlook for the corporate group in 2019 is positive. The completed restructuring of the group and the focus on specific segments will help make Transform/The Hospital Group more efficient. The growing customer base, coupled with additional investments and products in the cosmetic surgery segment should drive further growth. Consequently, the revenues of Transform/The Hospital Group should rise in 2019.

Source: [Aurelius 2018 Annual Report](#)

Despite this, Aurelius hired a bankruptcy specialist in [May 2019](#) and by July the Health and Beauty Segment was officially placed into bankruptcy. Two separate bankruptcy reports were prepared for the businesses, one for [Transform](#) and one for the [Hospital Group](#). Both reports state that revenues *collapsed* in the first half of 2019. The respective bankruptcy reports for the two businesses valued the combined assets of the Health and Beauty segment at EUR 0.75 million on the 26<sup>th</sup> July 2019, 99% below the last reported NAV for the division. Worse still, Aurelius has lent EUR 11 million just to the Hospital Group via financial subsidiaries<sup>28</sup>.

<sup>26</sup> This segment also included [Allied Healthcare](#) but this was a tiny asset ultimately [sold](#) for less than EUR 4.2 million in 2019.

<sup>27</sup> After this, Aurelius lumped multiple assets together in a catch all “Services & Solutions” NAV making it impossible to work out the NAV assigned to each business. The last disclosed (Q319) NAV for the Services & Solutions segment was EUR 172 million.

<sup>28</sup> Aurelius uses a number of finance vehicles to prop up cash burning portfolio businesses. We identified some of these finance vehicles: [Aurelius Upsilon UK Investment Limited](#), [Aurelius Finance Company Limited](#), [Aurelius Sigma Limited](#) and [Aurelius Eta UK Investments Limited](#). Oddly, all these finance vehicles *are not audited* by the Aurelius group auditor, KPMG, but by Silbury Business Advisors. A [5-man](#) operation in Chippenham, UK.

**Aurelius Upsilon UK Investment Limited (Registered number: 10270498)****Review of Business**

The company was set up to provide loans to group companies in the Transform Hospital Group. These loans were to be funded by a loan from Aurelius Equity Opportunities SE & Co KGaA the ultimate parent company. During the year and the year to date no further loans were made or received.

Source: [Aurelius Upsilon UK Investment Limited](#) Annual report 2018

**RELATED PARTY DISCLOSURES****Other related parties**

Related Party	Nature of transaction	Amount £
Aurelius Equity Opportunities SE & Co KGaA	Loan from	210,000
	Intercompany balance to	14,806
	Loan interest paid	6,300
The above loan received is repayable on demand and carries a 3% interest rate.		
Other group companies	Sublease	
	Intercompany balance from	1,200
Combine Opco Limited	Loan to	667,712
	Loan interest from	49,310
Combine Asset Limited	Loan to	10,530,504
	Loan interest from	758,619
Sub Tau Limited	Loan to	1
The above loans granted are repayable on demand and carry a 7.5% interest rate.		

The loan to Combine Opco Ltd is guaranteed by Combine Asset Ltd

Source: [Aurelius Upsilon UK Investment Limited](#) Annual report 2018

\* Combine Opco Limited and Combine Assets Limited are the Hospital Group's subsidiaries.

Aurelius also claimed the Health and Beauty segment generated an EBITDA of EUR 0 million in 2018, while the administrator's [reports states](#) net losses of GBP 3 million for 2018, making it unlikely that EBITDA was "0".<sup>29</sup> We suspect that yet again Aurelius inflated the EBITDA of the business to justify the inflated NAV.

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
THE HOSPITAL GROUP	<ul style="list-style-type: none"> <li>Transform/The Hospital Group is a provider of surgical and non-surgical cosmetic procedures</li> <li>The Group has a network consisting of 25 clinics</li> </ul>		GBP 47m GBP 0m	UK	2015 / 2016	100.0%

Source: Aurelius Bond Memorandum November 2019

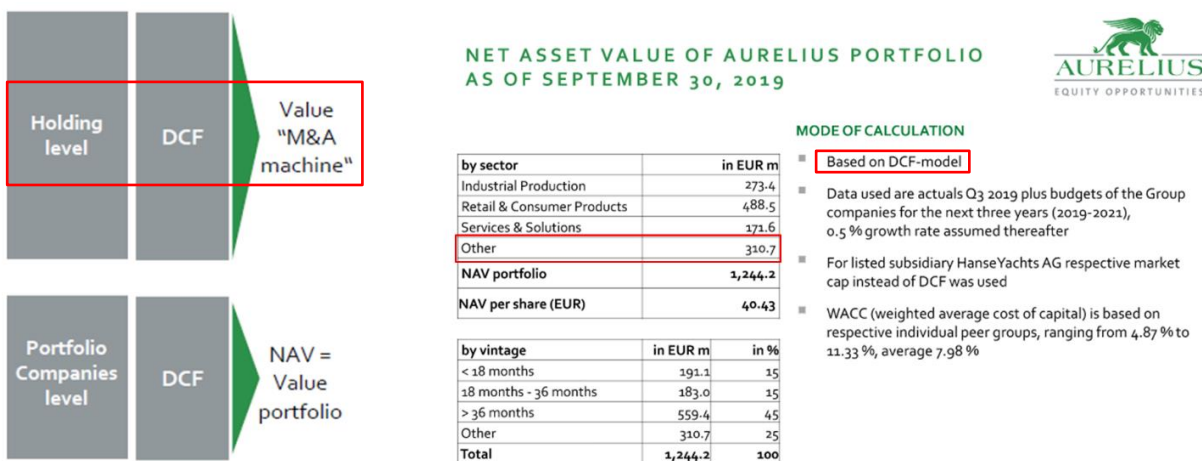
Aurelius misled investors about the Health and Beauty segment's prospects to justify the inflated NAV, but we suspect the Company also threw "good money after bad" in a cynical attempt to prop up the segment and prevent its absurd valuation being exposed. The Hospital Group is on life support. We think it is time to pull the plug.

How many of the Remaining Assets are actually loss-making and surviving on cash handouts from Aurelius?

<sup>29</sup> Health and Beauty segment recognized GBP 0.6 million of depreciation expenses in 2017. 2018 filings are not published on Companies House as the businesses are in bankruptcy proceedings and therefore unable to provide going concern accounts.

## THE HOLDING COMPANY: AN “M&A MACHINE” OR A COST CENTER BURNING EUR 36 MILLION A YEAR?

Aurelius claimed in a November 2019 presentation to bondholders that the holding company's value is the “M&A Machine”. Aurelius attributes EUR 311 million of value to its M&A machine under a DCF methodology.



Source: Aurelius Bond presentation 2019

Yet any genuine value is already reflected in the NAV of the portfolio businesses. The holding company burns cash and, in our view, merely operates as a support function to its portfolio companies.

In a November 2019 bond presentation, Aurelius disclosed the ongoing costs of the holding company. Aurelius generates an average EUR 92 million of costs at the holding company per year.

### Unconsolidated figures

P&L (EURm)	2014	2015	2016	2017	2018	Q3'19 YTD
Personnel expenses	(19)	(12)	(27)	(82)	(13)	(49)
Other operating expenses	(22)	(33)	(40)	(103)	(40)	(43)
Other items	(1)	0	(14)	(22)	(12)	6

Source: Aurelius Bond presentation 2019

To calculate the holding company's recurring costs, we add back the fees<sup>30</sup> paid to the holding company by portfolio businesses, and virtual co-investment compensation. We calculate that the holding company burns EUR 36 million a year.

### Holding Company Costs EUR 36 million

EUR M	2014	2015	2016	2017	2018	9m 19	Annualized (2019)	Average (14-18)
Personnel Expenses	(19)	(12)	(27)	(82)	(13)	(49)	(65)	(31)
Other operating costs	(22)	(33)	(40)	(103)	(40)	(43)	(57)	(48)
Other items	(1)	0	(14)	(22)	(12)	6	8	(10)
<b>Total Costs</b>	<b>(42)</b>	<b>(45)</b>	<b>(81)</b>	<b>(207)</b>	<b>(65)</b>	<b>(86)</b>	<b>(115)</b>	<b>(88)</b>
Add back:								
Management fees	10	14	18	23	20	13	17	17
Virtual Co-Investment compensation	21	14	29	101	12	42	57	35
<b>Ongoing HoldCo costs</b>	<b>(11)</b>	<b>(17)</b>	<b>(34)</b>	<b>(83)</b>	<b>(33)</b>	<b>(31)</b>	<b>(41)</b>	<b>(36)</b>

Source: Aurelius Annual Reports, Ontake Calculation

<sup>30</sup> Aurelius refers to these fees as revenues on its unconsolidated income statement in the November 2019 bond memorandum.



Note that historically cash made up a large portion of the holding company's value. But recently, Aurelius attributes an increasing portion of the NAV to a DCF-based valuation of the Company's "M&A machine".

**NAV Rises Despite Fall in Net Cash. Therefore M&A Machine "Value" Increased**

EUR M	2014	2015	2016	2017	2018	9M 19
Cash	103	219	199	299	44	133
Financial debt	0	166	166	166	103	103
<b>Net debt (Net cash) (a)</b>	<b>(103)</b>	<b>(53)</b>	<b>(33)</b>	<b>(133)</b>	<b>59</b>	<b>(30)</b>
NAV (b)	124	142	271	582	253	311
<b>M&amp;A Machine "Value" (a+b)</b>	<b>20.4</b>	<b>89</b>	<b>238</b>	<b>449</b>	<b>312</b>	<b>281</b>

Source: Bond Memorandum 2019

Based on the Company's disclosures, the holding company burns an average EUR 36 million per year<sup>31</sup>. Applying a 10x cost multiple, in line with the EV/EBITDA multiple applied to portfolio companies, we calculate the gross value of the holding company is *negative* EUR 360 million.

We then adjust for the holding company's net debt and potential cash proceeds from its recent disposals. As of 9M 19, the holding company has a net cash position of EUR 30 million. In the last quarter of 2019, Aurelius [announced](#) that it sold Scandinavian Cosmetics Group ("SCG") and Ghotel. Based on the information provided in the Company's conference calls, we estimate<sup>32</sup> the net proceeds from these disposals were EUR 74 million. Thus, we calculate a NAV for the holding company of *negative* EUR 256 million.

**Holding Company NAV: Negative EUR 256 Million**

EUR M	
Ongoing HoldCo costs	(36)
Capitalized cost multiple	10 x
Estimated HoldCo value	(360)
Plus: HoldCo net cash	30
Estimated proceeds from SCG and Ghotel	74
<b>Adjusted HoldCo NAV</b>	<b>(256)</b>

Source: Ontake Calculation

<sup>31</sup> The annualized holding company costs in 2019 are EUR 41 million but we use the 5-year average cost of EUR 36 million to be conservative.

<sup>32</sup> Aurelius [claimed](#) to have sold SCG and Ghotel for EUR 57 million and EUR 63 million, respectively. The Company also states that SCG's equity value is in the mid forty and it provides a "double-digit million vendor loan" to Ghotel's buyer. Therefore, we assume SCG's NAV is EUR 45 million and Ghotel's NAV is EUR 48 million. Applying a conservative 20% virtual co-investment payout, (historically the payout was 34%), we estimate the net proceeds of these two disposals are EUR 74 million. What's more, we believe certain sale and leaseback transactions undertaken by Ghotel were not in the Company's interest but served to enrich management; See appendix A.

## OVER LEVERED WITH NO CASH GENERATION

Per Aurelius' disclosures, its portfolio companies' net debt to EBITDA multiple is 1.4x in 9M 19.<sup>33</sup> Yet, a detailed review of Aurelius' holdings suggests that the Company drastically inflates the EBITDA of its portfolio companies. Based on the independent evidence, we calculate the actual leverage ratio of these entities is 6.4x.

Aurelius states that its current portfolio companies generated EUR 113 million in 2018. The Company also reports total net debts at the portfolio level of EUR 153 million as of 9M 19. Hence, Aurelius tells investor that the leverage ratio at the portfolio level as 1.4x. As discussed in the previous section, the regulatory filings of underlying businesses show that Aurelius' holdings generated only EUR 24 million. Therefore, we calculate the true portfolio level leverage ratio is a dangerously high 6.4x.

Portfolio-Level Leverage: 6.4x	
EUR M	9M 19
Reported Portfolio EBITDA 2018	113
<b>EBITDA identified in filings</b>	<b>24</b>
<i>Difference %</i>	<i>-79%</i>
Reported Gross Debt at portfolio	332
Reported Cash at portfolio businesses	(179)
Net debt	153
<b>Net Debt/EBITDA</b>	<b>6.4x</b>

Source: Aurelius Bond Memorandum, Ontake Calculation

Aurelius' portfolio companies supposedly generate sufficient profits to cover the holding company's expenses. Per the Company's disclosure, its portfolio generates EUR 113 million of EBITDA and the holding company incurs costs of EUR 36 million a year. However, the regulatory filings of Aurelius' holdings suggest these businesses made only EUR 24 million of EBITDA in 2018. Unless there is a miracle turnaround, we do not see its portfolio companies generating enough profits to cover the holding company's costs. In our view, Aurelius' leverage ratio is on its way to be even higher.

9M 2019 Group Leverage: Incalculable			
EUR M	Group	HoldCo	Portfolio
Financial liabilities	510	178	332
Less: Cash	387	208	179
Net Debt (LTM Q319)	123	(30)	153
Aurelius disclosed EBITDA (2018)	103	(10)	113
Aurelius Net Debt/EBITDA	1.2x	3.1x	1.4x
<b>Adjusted EBITDA (2018)</b>	<b>(12)</b>	<b>(36)</b>	<b>24</b>
<b>Adjusted Net Debt/EBITDA</b>	<b>-10.6x</b>	<b>0.8x</b>	<b>6.4x</b>

Source: Aurelius Bond Memorandum, Ontake Calculation

Note: 1. Included full year of Ideal EBITDA in Aurelius disclosed portfolio EBITDA

1. Included the newly raised EUR 75 million in Group's financial liabilities and cash

### a) Impending Liquidity Issues?

In section 2, we presented evidence that shows Aurelius' portfolio companies generate only EUR 24 million of EBITDA. This is not enough to cover capital expenditures let alone EUR 36 million of holding company costs. At the current cash burn rate, we believe that Aurelius will need to raise more capital<sup>34</sup>.

Historically, Aurelius' portfolio spends on average more than EUR 50 million in capital expenditure.<sup>35</sup>

<sup>33</sup> Use the net debt reported for 9M 19 and the EBITDA reported for portfolio companies for FY 2018

<sup>34</sup> Aurelius had intended to raise [EUR 200 million](#) in October 2019 but despite going "[all out on the marketing](#)" with a "[long roadshow](#)", the Company came away with just [EUR 75 million](#). Was there insufficient demand for Aurelius' unrated bond?

<sup>35</sup> Assume all capital expenditures occur at the portfolio level.

## 7.6 Consolidated cash flow statement

EURm	2014	2015	2016	2017	2018	Q3'19 YTD
Cash inflows/outflows from the acquisition of shares in subsidiaries	48.5	18.1	(5.7)	125.2	(98.8)	7.6
Cash inflows/outflows from the sale of subsidiaries less cash sold	44.6	31.1	41.3	360.3	(9.5)	212.4
Proceeds from sales of non-current assets	7.8	22.5	25.4	18.5	22.3	2.0
Payments for investments in non-current assets	(60.1)	(56.0)	(34.5)	(72.0)	(62.4)	(46.1)
<b>Cash flow from investing activities</b>	<b>40.8</b>	<b>15.7</b>	<b>26.6</b>	<b>432.0</b>	<b>(148.4)</b>	<b>175.9</b>

Taking 2018 for example, we calculate that Aurelius' holdings generated EUR 24 million of EBITDA and spent EUR 62 million in capital expenditure. At the portfolio level, there is a cash shortage of EUR 38 million. After including the holding company's costs, we calculate that Aurelius burns EUR 74 million of cash in 2018.

EUR M	2018
Current Portfolio EBITDA	24
Reported CapEx	(62)
Minimum cash burn at portfolio	(38)
Holding Company costs	(36)
<b>Operating cash need</b>	<b>(74)</b>

Source: Company Public Filings

### Portfolio Can't Support Holding Company Costs

Entity	Cash Flows		Net Debt	
Aurelius Group	EBITDA	(12)	Debt	510
	CapEx	(62)	Cash	387
	FCF	(74)	Net Debt	123
Holding Company	EBITDA	(36)	Debt	178
	CapEx	0	Cash	208
	FCF	(36)	Net Debt	(30)
Portfolio Companies	EBITDA	24	Debt	332
	CapEx	(62)	Cash	179
	FCF	(38)	Net Debt	153

Source: Aurelius Bond Memorandum, Ontake Calculation

Aurelius will be forced to sell its assets or raise new debts. As we discussed in section 2, we value Aurelius' portfolio at EUR 257 million. Yet investors should note that every time an asset is sold, management take an average 34% of the cash proceeds. Therefore, just EUR 171 million is available to meet the Company's cash needs. That won't last long.

## VALUATION

As of the 30<sup>st</sup> September 2019, Aurelius claims a NAV of EUR 1.2 billion. The NAV is split between the underlying portfolio, supposedly worth EUR 934 million, and the holding company, named “other”, which Aurelius values at EUR 311 million.

### NET ASSET VALUE OF THE AURELIUS PORTFOLIO (IN EUR MILLIONS)

	9/30/2019
Services & Solutions	171.6
Industrial Production	273.4
Retail & Consumer Products	488.5
<b>NAV of portfolio companies</b>	<b>933.5</b>
Other	310.7
<b>Total</b>	<b>1,244.2</b>
<b>NAV per share (in EUR)</b>	<b>40.43</b>

Source: [Aurelius 9M 19 Press Release](#)

Per its disclosure, Aurelius’ NAV per share is EUR 40.43. Therefore, it currently trades at 0.9x price to its NAV.

EUR	
Reported NAV per share	40.43
Last traded price	35.88
Price to NAV multiple	0.9 x

Source: Bloomberg, Ontake Calculation

Unable to use traditional metrics such as cash generation, investors rely on Aurelius’ DCF based NAV calculations. This method of valuation is ripe for manipulation by management who have discretion over all key inputs; namely the three-year cash flow forecasts for portfolio companies and the discount rate applied to these projections.

Valuations are carried out using a discounted cash flow model based on actuals plus the budget of each individual portfolio company for the next three years, 0.5 percent growth rate is assumed thereafter as basis for the terminal value. The listed company HanseYachts AG is valued based on AURELIUS’ share of the company’s market capitalization as at the reporting date. Weighted average cost of capital is based on respective individual peer groups, ranging from 4.87 percent to 11.33 percent as on 30 September, 2019. The Group’s NAV is auditor by KPMG.

Source: Aurelius Bond Memorandum 2019

These assets with a [purported worth](#) of EUR 1.2 billion as of the 30<sup>th</sup> September 2019 generate increasingly negative free cash flow, despite an increase in the claimed operating EBITDA.<sup>36</sup>

### Aurelius Operating Cash Flow is Increasingly Dire

EUR M	2013	2014	2015	2016	2017	2018	9M 19	Sum
<b>Reported Operating EBITDA</b>	<b>106.2</b>	<b>94.8</b>	<b>123.2</b>	<b>114.0</b>	<b>114.9</b>	<b>103.0</b>	<b>134.6</b>	<b>790.7</b>
Less: Reported restructuring charges	(58.8)	(59.8)	(63.3)	(79.2)	(128.2)	(99.5)	(61.0)	(549.8)
Less: IFRS impact							(68.0)	(68.0)
<b>Adjusted EBITDA</b>	<b>47.4</b>	<b>35.0</b>	<b>59.9</b>	<b>34.8</b>	<b>(13.3)</b>	<b>3.5</b>	<b>5.6</b>	<b>172.9</b>
Operating cash flow	54.3	109.9	138.0	1.1	(132.2)	(49.8)	(44.8)	76.7
Capital expenditures	(61.8)	(60.1)	(56.0)	(34.5)	(72.0)	(62.4)	(46.1)	(392.8)
<b>Recurring cash flow</b>	<b>(7.5)</b>	<b>49.9</b>	<b>82.0</b>	<b>(33.4)</b>	<b>(204.1)</b>	<b>(112.2)</b>	<b>(99.5)</b>	<b>(316.1)</b>

Source: Company Filings

<sup>36</sup> See appendix B for how Aurelius inflates the “Operating EBITDA” reported in Company press releases.

In a recent bond memorandum, Aurelius revealed the supposed EBITDA of each holdings. A cross check of this bond document with the underlying regulatory filings for Aurelius' Top Holdings suggests that Aurelius systematically overstates the reported EBITDA in order to justify its inflated NAV. We calculate that the true NAV of Aurelius' portfolio companies is only EUR 257 million, significantly less than the EUR 934 million claimed by the Company.

In addition, when Aurelius sells its investments, management takes an excessive 34% of the cash proceeds as its "virtual co-investment" compensation. Therefore, we believe out of our estimated portfolio value of EUR 257 million, only EUR 171 million is available to the Company.

#### Management Takes 34% as Virtual Co-investment

EUR M	
Adjusted portfolio NAV	257
Less: virtual co-investment payout %	34%
<b>Adjusted portfolio NAV, net of payout</b>	<b>171</b>

Source: Aurelius Filings, Ontake Calculation

However, this does not take into account the spiraling costs at the holding company.

Adding up the adjusted NAV of its portfolio and the holding company, we calculate the NAV of Aurelius is *EUR 1 million*. Applying its current price to NAV multiple, we value Aurelius at *EUR €0.04 per share*.

#### Ontake Valuation: Aurelius €0.04 per share

EUR M	
Adjusted Portfolio NAV	257
Adjusted HoldCo NAV	(256)
Total	1
Aurelius shares outstanding (M)	31
NAV per share	€0.05
Price to NAV multiple	0.9x
Ontake Valuation	€0.04
Last traded price	€35.88
<b>Downside %</b>	<b>-99.9%</b>

Source: Ontake Calculation

## Appendix A

### Ghotel: Financial Engineering to Pay Management's "Virtual Co-Investment" Compensation

Ghotel's margin has been falling since 2015. We believe this is driven by sale and lease back transactions, which sap value from GHotel and Aurelius shareholders but allow for a one-off payment to management in the form of "virtual co-investment" payouts.

In 2015, Aurelius states no operating group companies were sold but four hotel properties were disposed of worth EUR 52 million.

In contrast to 2014, there were no companies or groups of companies that met the definition of discontinued operations according to IFRS 5 and were removed from the consolidation group of AURELIUS in financial year 2015.

However, AURELIUS did conclude the sale of the four hotel properties of the GHOTEL Group effective December 31, 2015. AURELIUS acquired the four properties from the Deutsche Annington Group at the beginning of 2011. The restructuring and sale of the hotel property portfolio has thus been successfully concluded, leading to a positive contribution to earnings well into the double-digit millions in financial year 2015.

Source: Company Filings

#### Portfolio performance exits, EURm

Company	Purchase	Exit	Peak exposure	Money at risk after 1 year	Total returns	Total return multiple
Company 1-20	Pre-2008	Pre-2015	37.1	19.9	344.4	9.3x
GHOTEL Real Estate	Dec. 10	2015	11.0	10.3	52.4	4.8x

Source: Company Filings

The decisive factor in selling these assets to a "private investor with an affinity for hotels" is the ability to lease-back the asset on a 20-year lease.

Munich, November 6, 2015 – The AURELIUS Group (ISIN DE000A0JK2A8) is selling its biggest hotel property in Hanover to a private investor with an affinity for hotels. The decisive factor in choosing this particular buyer was the assurance that the new owner will enter into a new, 20-year lease with GHOTEL. Therefore, GHOTEL has secured this location in Hanover on a long-term basis. The transaction is intended to be closed by the end of the year.

Source: [Company Press Release](#)

It seems the three largest hotels (of the four sold) were sold under such a lease-back arrangement as detailed in Ghotel's regulatory filings.

Drei weitere Hotels, die samt und sonders im Eigentum des Gesellschafters waren, wurden mit neuen, langjährigen Mietverträgen ausgestattet und verkauft. Damit ist einerseits der Standort langfristig gesichert, andererseits bringen die neuen Mietverträge auch erhöhte Pachtzahlungen mit sich.

Translation: Three other hotels, all of which were owned by the shareholder were furnished and sold with new, long-term leases. On the one hand, the location is secured on a long-term basis, on the other hand, the new leases bring increased lease payments with them.

Source: GHOTEL German Regulatory filings

For undertaking this piece of financial engineering, management received variable compensation of EUR 14 million in 2015 or 28% of the gross disposal proceeds. This is despite the value of Ghotel falling from EUR 118 million to EUR 50 million after the transaction, and that is based on Aurelius' own NAV estimate.



NET ASSET VALUES OF AURELIUS PORTFOLIO COMPANIES (IN € MILLIONS)

Group companies / units	09/30/2015	Group entities/units	3/31/2016
SECOP	247.4	SECOP	255.6
UK Chemicals	158.0	UK Chemicals	154.4
Getronics	126.7	IT Services	169.8
GHOTEL Group	117.5	GHOTEL Group	46.6

Source: Company Press Release, [Q3 15](#), [Q1 16](#)

Yet again this is further proof that management receive exorbitant compensation which incentivizes worse practice.

## Appendix B

### Unaudited restructuring costs and IFRS 16 inflate EBITDA.

The Company calculates Operating EBITDA by adjusting gains on bargain purchases, restructuring, non-recurring expenses and gains on exits. However, we believe Aurelius inflates its self-defined “Operating EBITDA” to mask the dire operating performance of the underlying portfolio.

The Company reports restructuring provisions on its balance sheet of just EUR 41 million in 2018. The total additions to restructuring provisions in the last four years come to just EUR 67 million. Yet when Aurelius calculates Operating EBITDA as reported in press releases, the Company adds back EUR 370 million of restructuring costs, *EUR 303 million more than the additions reported in the audited annual accounts.*

#### Unaudited Restructuring Costs Inflate EBITDA

EUR M	2015	2016	2017	2018	2015-18
Restructuring provisions on B/S	9	8	40	41	98
<b>Additions (a)</b>	<b>5</b>	<b>9</b>	<b>26</b>	<b>27</b>	<b>67</b>
Restructuring and one-off costs in press releases (b)	63	79	128	100	370
<b>Unaudited restructuring costs? (b-a)</b>	<b>58</b>	<b>69</b>	<b>102</b>	<b>73</b>	<b>303</b>

Source: Company Filings, Ontake Calculation

Aurelius states that “restructuring provisions are recognized when there exists a detailed restructuring plan”.

Restructuring provisions are recognized when there exists a detailed restructuring plan that meets the requirements of IAS 37, or in case of a new acquisition in conjunction with IFRS 3. However, this is only the case when the Group has adopted a detailed, formal restructuring plan, which has created a justified impression in the minds of the affected persons that the restructuring measures will be carried out, either because implementation of the plan has commenced or significant elements of the plan have been announced. Only the direct expenses for the restructuring are included in the measurement. These are only those amounts that were caused by the restructuring and are not in connection with the continued business operations of the Group.

Source: Aurelius 2018 Annual Report

We believe the missing EUR 303 million of restructuring costs likely failed to meet this IFRS standard.

Aurelius reports EUR 135 million for Operating EBITDA in 9M 19. However, after adjusting for the impact of IFRS 16, Aurelius’ EBITDA was actually 75% down on 9M 18.

#### Aurelius Financial Performance Deteriorates

EUR M	9M 18	9M 19
Revenue	2,792	2,704
EBITDA	37	187
Gains on bargain purchases	(13)	(15)
Restructuring and non-recurring costs	58	61
Gains on exits	(3)	(98)

Operating EBITDA	80	135
Restructuring and non-recurring costs	(58)	(61)
Operating EBITDA less restructuring costs	22	74
<b>Less: Impact of IFRS 16</b>	<b>0</b>	<b>(68)</b>
Adjusted EBITDA (IFRS 16)	22	6
<b>Difference</b>		<b>-75%</b>

Source: [Aurelius Q3 2019 Interim Report](#), [Q3 2019 Earnings Call Transcript](#)



From the above calculation, we can see that the ‘improvement’ in Aurelius’ operating EBITDA is due to a change in accounting standards, not the underlying operations.

## Appendix C

For completeness, we provide details on the remaining two top holdings. We didn’t find material discrepancies between regulatory filings and what the Company reports. Therefore, we used Aurelius’ purported EBITDA figures, applied an industry based EV/EBITDA multiple and subtracted net debt to calculate the NAVs of these two businesses.

### Calumet Wex

Calumet Wex is a high-street retailer of cameras largely in the UK. Aurelius claims that Calumet Wex generated EUR 186 million of revenue and EUR 10 million of EBITDA in 2018.

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
	CalumetWex is a retail chain for photo equipment and manufacturer of professional lighting systems		EUR 186m EUR 10m	UK, Germany, Belgium and Netherlands	2016 / 2017	94.9%

Source: Aurelius Bond Memorandum November 2019

The local filings of Calumet Wex’s major entities suggest total revenue of EUR 186 million and an EBITDA of EUR 8.3 million. Given the limited difference, we use Aurelius’ figures.

To value Calumet Wex, we reviewed European publicly traded electronics retailers.

	Revenue	EBITDA	Margin	Market Cap	Enterprise Value	EV/EBITDA	EV/Sales
Dixons	10,219	466	4.6%	1,670	3,270	7.0x	0.32x
Ceconomy AG	16,150	557	3.4%	1,460	646	1.2x	0.04x
Mobilezone Holding	1,193	52	4.4%	387	525	10.0x	0.44x
FNAC Darty SA	6,457	441	6.8%	1,020	2,260	5.1x	0.35x
<b>Median</b>	<b>8,338</b>	<b>454</b>	<b>4.5%</b>	<b>1,240</b>	<b>1,453</b>	<b>6.1x</b>	<b>0.34x</b>

Source: Bloomberg

We apply an 8x EBITDA multiple, a premium to larger public peers., to Aurelius’ EBITDA figure for Calumet Wex. After deducting net debt of EUR 20 million reported in local filings, we estimate that Aurelius’ proportional share of Calumet Wex’s NAV is EUR 56.8 million.

#### Calumet Wex NAV: EUR 57 Million

EUR M	2018
Aurelius Reported EBITDA	10.0
Multiple	8.0 x
Enterprise value	80.0
Debts at Wex Photo Ltd	21.7
Cash	1.6
<b>NAV</b>	<b>59.9</b>
<b>NAV to Aurelius (95%)</b>	<b>56.8</b>

Source: Companies Regulatory Filings, Ontake Calculation

**B+P NAV**

B+P is a regional scaffolding business based in Berlin-Brandenburg region of Germany. Aurelius claims B+P generated EUR 6 million of EBITDA in 2018. *Yet Aurelius only owns 51% of B+P.* The Company quietly disposed of 25% of B+P in 2019. It is unclear if any cash was received from this sale.

Company	Description	Industry	Revenues/ EBITDA <sup>1</sup>	Geographical reach	Entry year	Ownership
	<ul style="list-style-type: none"> <li>B+P Gerüstbau is a providing scaffold building and construction site services</li> <li>One of the few companies in Germany to possess the capacity and technical capability to build the most complex scaffold design</li> </ul>		<b>EUR 36m</b> <b>EUR 6m</b>	Germany	2014	<b>51.0%</b>

Source: Bond Memorandum 2019

Corporate group	Country of main activity	Main activity	Share of equity 2018	Share of equity 2017
<b>B+P Gerüstbau</b>	Germany	Scaffold building and services for building site facilities	<b>75.00%</b>	75.00%

Source: Annual Report 2018

Aurelius valued B+P at EUR 30 million on the 30<sup>th</sup> September 2016. The last time a specific NAV was provided.

Net Asset Value of AURELIUS Group entities (in € millions)

Group entities/units	9/30/2016
Scholl Footwear	51.8
<b>B+P Gerüstbau</b>	<b>29.9</b>

Source: [NAV Press release September 2016](#)

We value B+P at EUR 60 million, 10x *Aurelius'* reported EBITDA. This is a 25% [premium](#) to the Construction Products EV/EBITDA multiple sector average for German small caps. It is also *double* Aurelius' last disclosed NAV. As of 30<sup>th</sup> September, 2016, Aurelius owns just 51% of B+P, therefore we attribute an adjusted NAV of EUR 31 million to B+P.

**DISCLAIMER**

This report has been prepared for informational purposes only and expresses our opinions. Our reports are for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject Ontake Research to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in our reports. Our report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the report. Ontake Research does not undertake to update or keep current the report. Any opinions expressed in our reports may change without notice. Any statements contained in this report attributed to a third party represent Ontake Research's interpretation of the data, and such use and interpretation have not been reviewed by the third party.

To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. We have a good-faith belief in everything we write; however, all such information is presented "as is," without warranty of any kind – whether expressed or implied.

In no event will we be liable for any direct or indirect trading losses caused by any information available on this report. Think critically about our opinions and do your own research and analysis before making any investment decisions. We are not registered as an investment advisor in any jurisdiction. By downloading, reading or otherwise using this report, you agree to do your own research and due diligence before making any investment decision with respect to securities discussed herein, and by doing so, you represent to us that you have sufficient investment sophistication to critically assess the information, analysis and opinions in this report. You should seek the advice of a security professional regarding your stock transactions.

Nothing in our reports constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky.

The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. Neither Ontake Research nor any of its principals or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of our reports.

You should also assume that as of the publication date of our reports, Ontake Research may have an investment position in the stocks (and/or options, swaps, and other derivatives related to the stock) and bonds covered therein (either long or short depending on Ontake Research's opinion), and therefore stands to realize significant gains in the event that the price of changes in conjunction with Ontake Research's opinion. Ontake Research may continue transacting in the securities of issuers covered in our reports for an indefinite period after the publication date of our reports, and Ontake Research may be long, short, or neutral at any time hereafter regardless of the initial opinion stated in our reports.

Any prices stated in our reports are for information purposes only. There is no representation that any transaction can or could have been executed at those prices.

Our reports are provided to you solely for general background information. Ontake Research has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. In no circumstances may our reports be used for valuation or accounting purposes.

By receiving our reports, you will be deemed to represent and warrant to Ontake Research that you will not use our reports for any of the above purposes or otherwise rely upon our reports.

Research will initiate, update and cease coverage solely at the discretion of Ontake Research, which will also have sole discretion on the timing and frequency of any published research product. The analysis contained in our reports is based on numerous assumptions which may not be necessarily realistic.

This report should only be considered in its entirety. Each section should be read in the context of the entire report, and no section, paragraph, sentence or phrase is intended to stand alone or to be interpreted in isolation without reference to the rest of the report. The section headings contained in this report are for reference purposes only and may only be considered in conjunction with the detailed statements of opinion in their respective sections.

By downloading, opening and/or reading this report you knowingly and independently agree that: (i) any dispute arising from your use of this report or viewing the material herein shall be governed by the laws of the State of New York, United States, without regard to any conflict of law provisions; (ii) to submit to the personal and exclusive jurisdiction of the superior courts located within the State of New York and waive your right to any other jurisdiction or applicable law.