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CR-2023-000936



## Independent expert report to the High Court of Justice by Lisa Rickelton

In the High Court of Justice  
Business and Property Courts of England and Wales  
Insolvency and Companies List

In the matter of AGPS Bondco PLC  
And in the matter of the Companies Act 2006

## — Table of Contents

1.	Introduction and instructions .....	4
	<i>Expert's background and summary of relevant experience.....</i>	<i>4</i>
	<i>My independence.....</i>	<i>4</i>
	<i>Assistance from FTI Consulting partners and employees .....</i>	<i>5</i>
	<i>Limitations and restrictions .....</i>	<i>5</i>
	<i>My instructions.....</i>	<i>5</i>
	<i>Defined Terms .....</i>	<i>5</i>
2.	Executive summary.....	6
	<i>Introduction.....</i>	<i>6</i>
	<i>Restructuring Plan: key areas of consideration .....</i>	<i>8</i>
	<i>Restructuring Plan: capital structure implications.....</i>	<i>8</i>
	<i>Restructuring Plan: asset valuation overview.....</i>	<i>10</i>
	<i>Restructuring Plan: cross holding implications for creditor motivations.....</i>	<i>12</i>
	<i>Restructuring Plan: Knight Frank Valuation Case .....</i>	<i>13</i>
	<i>Restructuring Plan: BCG Market Model valuation approach .....</i>	<i>15</i>
	<i>Restructuring Plan: illustrative quantified sensitivities .....</i>	<i>17</i>
	<i>Restructuring Plan: conclusion.....</i>	<i>19</i>
	<i>Relevant Alternative: key considerations &amp; outcomes .....</i>	<i>21</i>
	<i>Overall conclusions .....</i>	<i>23</i>
3.	Overview of the Restructuring Plan.....	25
	<i>Solvent wind-down.....</i>	<i>25</i>
	<i>Impact of capital structure changes .....</i>	<i>26</i>
4.	Restructuring Plan outcomes.....	29
	<i>The level of surplus and margin of error.....</i>	<i>29</i>
	<i>Sources of value in the Restructuring Plan .....</i>	<i>30</i>
	<i>Knight Frank Valuation Case.....</i>	<i>30</i>
	<i>BCG Market Model valuation approach .....</i>	<i>36</i>
	<i>Illustrative quantified sensitivities .....</i>	<i>40</i>
	<i>Other (unquantified) risks to the Restructuring Plan outcomes .....</i>	<i>44</i>
5.	Relevant Alternative outcomes .....	49
	<i>Introduction.....</i>	<i>49</i>

<i>Knight Frank Relevant Alternative valuation .....</i>	<i>50</i>
<i>Assessment of insolvency discount assumptions .....</i>	<i>51</i>
6. Analysis of the Restructuring Plan from the SteerCo perspective .....	58
<i>Sources and uses for the New Money proposed under the Restructuring Plan.....</i>	<i>58</i>
<i>SteerCo returns .....</i>	<i>61</i>
<i>SteerCo security position.....</i>	<i>62</i>
7. Expert's declaration .....	65
<i>Statement of compliance .....</i>	<i>65</i>
<i>Declaration.....</i>	<i>65</i>
<i>Statement of Truth.....</i>	<i>65</i>
Appendix 1: Curriculum vitae .....	66
Appendix 2: Glossary .....	68
Appendix 3: Methodology: Knight Frank Valuation Case .....	71
Appendix 4: Methodology: Illustrative quantified sensitivities.....	74
Appendix 5: Methodology: Relevant Alternative .....	78
Appendix 6: Sources of information .....	80
Appendix 7: Instructions .....	81

## 1. Introduction and instructions

### Expert's background and summary of relevant experience

- 1.1. My name is Lisa Rickelton. I am a licensed UK insolvency practitioner, ICAEW Chartered Accountant, and Senior Managing Director in the London office of FTI Consulting LLP.
- 1.2. I have over 20 years' experience in the accounting profession, specialising in insolvency and restructuring. My experience includes contingency planning, insolvency appointments and insolvency outcome analysis.
- 1.3. I have taken various insolvency appointments including as administrator, liquidator, provisional liquidator, and receiver. Such appointments have been primarily UK appointments and also include certain cross-border cases.
- 1.4. I have also undertaken and reviewed relevant alternative analysis for restructuring plans, schemes of arrangements and the equivalent 'best interests' analysis for a US Chapter 11 process. I have also been awarded the Cardiff University Bond Solon Expert Witness Certificate.
- 1.5. A copy of my full qualifications and relevant experience is attached as Appendix 1 to this report (the "Report").
- 1.6. There is now produced and shown to me, and exhibited hereto marked "LR1", a paginated bundle of true copy documents to which I refer in this witness statement. References to page numbers are to page numbers of LR1.

### My independence

- 1.7. The Ad Hoc Group instructed FTI Financial Services Limited on 10 January 2023 to provide financial advice in respect of the Senior Unsecured Notes ("SUNs") (primarily the 2029 Notes, but also the 2027 Notes depending on valuation). I have not had any professional relationship in respect of the Group prior to this.
- 1.8. I understand that certain individuals at FTI presented a client pitch to SteerCo in August 2022, to act as financial advisors in respect of the Adler Group. I was not part of that team, but I understand from those who were involved that the pitch was prepared on the basis of publicly available information at the time. FTI was not engaged for this role.
- 1.9. I confirm that I have no conflict of interest. I do not consider that any interest which I have disclosed affects my suitability to give expert evidence on any issue on which I have given evidence and I will advise the party by whom I am instructed if, between the date of this Report and the sanction hearing, there is any change in circumstances which affects this statement.

## **Assistance from FTI Consulting partners and employees**

- 1.10. In preparing this Report, I received assistance from members of the team at FTI Consulting. All such assistance was provided under my supervision and I am satisfied that this Report reflects my expert opinion.

## **Limitations and restrictions**

- 1.11. This Report is strictly private and confidential and has been prepared solely for the use of the Court. It is not to be shown or copied, in whole or in part, to anyone other than the Court, the Parties and their legal and other professional advisers and experts, nor otherwise referred to, without my prior written consent and that of FTI Consulting, nor used for any other purpose.
- 1.12. No responsibility is accepted by FTI Consulting or by me personally to anyone other than the Court for the contents of this Report.
- 1.13. This Report is based on the information available to me at the time of writing it. I reserve the right to reconsider the conclusions in this Report should further information be made available to me. However, I accept no responsibility for updating the Report, nor for informing anyone of the receipt of any such new information, save for my obligation to advise those instructing me immediately if, for any reason, this Report requires any correction or qualifications.

## **My instructions**

- 1.14. I have prepared this Report on the instructions of Akin Gump LLP enclosed at Appendix 7 of this Report.

## **Defined Terms**

- 1.15. I make use of defined terms throughout this Report. Where these terms are not defined in the body of this Report, their definition can be found in the Glossary attached at Appendix 2.

## 2. Executive summary

### Introduction

- 2.1. The primary purpose of this Report is to analyse the projected recoveries under the Restructuring Plan and Relevant Alternative, particularly from the perspective of the longer dated SUNs.
- 2.2. My conclusions rely on:
  - 2.2.1. The valuation work undertaken by Knight Frank Valuation & Advisory GmbH & Co. KG (“Knight Frank”, and the report prepared by Knight Frank, the “Knight Frank Report”); and
  - 2.2.2. Analysis by me and my team related to the capital structure as proposed by AGPS BondCo PLC (the “Plan Company”) and certain other pieces of analysis as discussed below.
- 2.3. My analysis is intended to provide the Court with the benefit of my independent professional opinion in respect of the likely outcomes under the Restructuring Plan and Relevant Alternative and to demonstrate the impacts to the SUNs’ recoveries of the Knight Frank valuation evidence. Related analysis performed by my team seeks to check and corroborate the resulting Knight Frank conclusions, and in certain cases extrapolate from their conclusions.
- 2.4. The **Restructuring Plan** contemplates a solvent wind down of all assets over time, with significant disposals occurring at two primary dates, being Q4/24 and Q4/26.
  - 2.4.1. The Restructuring Plan as presented by BCG in their report (the “BCG Comparator Report”) shows a 100% recovery to all SUNs (including interest)<sup>1</sup>, plus the generation of a €0.4bn cash surplus for equity.

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<sup>1</sup> BCG Comparator Report (p. 31)

2.4.2. The Restructuring Plan as presented in this Report (the “Knight Frank Valuation Case”) shows a 10.6%<sup>2</sup> recovery for the 2029 Notes, 44.8% recovery for 2027 Notes and 100% recovery for the remaining SUNs with a €1.2bn cash deficit.

2.5. In contrast, the **Relevant Alternative** as presented in the BCG Comparator Report represents an insolvent liquidation of the Group assets over time and in two phases ending Q4/27, and with distribution of proceeds to creditors occurring in years 3 and 5 of the insolvency.

2.5.1. The Relevant Alternative as presented by BCG shows a recovery of 63% to all series of SUNs on a pari passu basis<sup>3</sup>.

2.5.2. The Relevant Alternative as presented in this Report shows a recovery of 56% to all series of SUNs on a pari passu basis.

*Figure 1: Summary of Knight Frank Valuation Case in comparison to BCG Comparator Report recoveries under the (i) Restructuring Plan and (ii) Relevant Alternative*

€m	BCG Comparator Report	Knight Frank Valuation Case
<b>Restructuring Plan - Gross Proceeds</b>		
Yielding Assets	5,185	3,875
Development Assets	1,934	1,497
<b>Total Gross Proceeds</b>	<b>7,119</b>	<b>5,372</b>
2029 Notes Recovery (%)	100.0%	10.6%
2027 Notes Recovery (%)	100.0%	44.8%
<b>Relevant Alternative - Gross Proceeds</b>		
Yielding Assets	3,959	3,783
Development Assets	1,395	1,296
<b>Total Gross Proceeds</b>	<b>5,354</b>	<b>5,079</b>
2029 Notes Recovery (%)	63.2%	56.1%
2027 Notes Recovery (%)	63.2%	56.1%

<sup>2</sup> At 31-Jul-25 all SUNs receive payment of PIK that accrues at the coupon rate plus 2.75%, and so the 2029 Notes receive €98m cash payment as at this date, reflecting the PIK amount. I therefore include PIK in their recovery. The 2029 Notes recovery is calculated at their fair value ("FV") claim of €925m (Principal €800m + PIK €98m + Cash Interest €27m). This is the same approach in the BCG Comparator Report, which allows for a like-for-like recovery comparison. For completeness, in the Relevant Alternative I only compare recoveries on a principal basis i.e. for the 2029 Notes, recovery is calculated as a percentage to the principal outstanding of €800m. This again maintains consistency with the approach taken in the BCG Comparator Report. The 2029 Notes receive a payment of PIK in the amount of €98m at 31-Jul-25. Accordingly, the first 10.6% of the recovery for the 2029 Notes is the PIK received in 2025.

<sup>3</sup> BCG Comparator Report (p. 31)

## Restructuring Plan: key areas of consideration

- 2.6. There are three primary areas of consideration and contention related to the Restructuring Plan, namely:
- 2.6.1. The **capital structure changes** proposed; primarily the €937.5m new money (“New Money”) which receives first rank security and its uses; the elevation of the 2024 Notes, Convertible Notes and Schuldscheindarlehen (“SSDs”) to second rank security; and the third rank security of the remaining SUNs which are to be paid in order of their existing maturities, rather than rateably (as would be the case in a liquidation). This has the effect of ranking the 2029 Notes last in the planned solvent wind down.
  - 2.6.2. The **valuation** and therefore gross disposal proceeds assumed for the assets which the BCG Comparator Report indicated will result in the full recovery of the SUNs according to the Restructuring Plan.
  - 2.6.3. The implications of **cross holdings** across the debt structure and the potential resulting impacts on creditor motivations.
- 2.7. I set out below the three primary areas of consideration and contention in further detail.

## Restructuring Plan: capital structure implications

### Summary Observations

- Near-dated Adler RE debt is repaid with expensive New Money (12.5% + fees) ranking in priority and priming the remaining debt facilities.
- Other pari passu near-term maturities (2024 Notes, SSDs and 2023 Convertible Notes) given second ranking security, priming the remaining SUNs.
- The €487m cost of this additional priority debt claim further subordinates the later dated SUNs.

- 2.8. Currently, all the SUNs at Parent/Issuer<sup>4</sup> are unsecured pari passu debt, ranking equally in terms of recoveries in an insolvency, such as the Relevant Alternative presented.
- 2.9. The Restructuring Plan, however, involves the creation of additional debt and a more levered Group balance sheet with a significant amount of debt scheduled to be repaid prior to any scheduled repayment of principal in respect of the 2029 Notes. The scheduled repayment profile of the SUNs results in the 2029 Notes effectively bearing the ‘first loss’ should there ultimately be insufficient assets to repay all of the SUNs in full at

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<sup>4</sup> Parent/Issuer is used interchangeably. Parent was the original issuer and following the purported Issuer Substitution, Parent remains liable due to guarantee arrangement.



par, as the Restructuring Plan essentially reinstates existing maturities (other than for the 2024 Notes).

2.10. There are two primary implications of the capital structure changes proposed under the Restructuring Plan, which I set out below and highlight further in the table below:

2.10.1. I am instructed by Akin Gump that, pursuant to the application of proceeds waterfall in the proposed intercreditor agreement, the New Money ranks first and the elevated 2024 Notes (among other debt) rank second (in each case behind customary administrative amounts). This means a significant amount of debt is effectively elevated to a security and waterfall ranking in priority to the residual SUNs (excluding the 2024 Notes). This results in €1,465m of debt of Parent issuer ranking ahead of the residual SUNs, excluding the 2024 Notes on Day 1, which increases over time to €1,650m due to accrued payment-in-kind ("PIK") interest<sup>5</sup>, as shown in the table below at 2.12.

2.10.2. The second implication is that this transaction therefore results in significant incremental financing costs to be paid or repaid prior to any scheduled repayment of principal in respect of the 2029 Notes. This additional cost comes from the following:

2.10.2.1. Repayment of €800m of Adler Real Estate AG ("Adler RE") notes using the bulk of the €937.5m New Money. This results in €137.5m of additional Group debt post repayment of the Adler RE 2023 SUNs and Adler RE 2024 SUNs (which funds fees and capital expenditure at Consus Real Estate AG ("Consus"));

2.10.2.2. Incremental funding costs associated with the New Money (in comparison to the relative funding costs of the Adler RE SUNs repaid);

2.10.2.3. Coupon uplift (as PIK) applied to the SUNs of 2.75% through to 31 July 2025; and

2.10.2.4. Nine months of 2.125% coupon on the Adler RE 2024 SUNs which are not permitted to be redeemed at par or above within a 9-month window, despite the equivalent amount of New Money (which is to be used to refinance the Adler RE 2024 SUNs) being funded on Day 1<sup>6</sup>.

2.10.3. The aggregate impact of the New Money costs and other amendments envisioned by the Restructuring Plan discussed above at 2.10.2.1 – 2.10.2.4 is €487m<sup>7</sup>, and this is

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<sup>5</sup> PIK is interest that is accrued and capitalised, increasing the debt rather than being paid as cash

<sup>6</sup> Explanatory Statement issued 27 February 2023 (part 4, para. 5.21(d)(i))

<sup>7</sup> See 3.9.6 of this Report

included within the quantum of debt (€1,650m) paid prior to any scheduled repayment of principal in respect of the 2029 Notes described above.

- 2.11. An alternative perspective on this is that unless the Restructuring Plan ensures value creation from the Group's assets over time that is greater than €487m, then the 2029 Notes are de facto in a worse position solely because of these isolated capital structure adjustments. This does not consider other potentially adverse capital structure impacts resulting from, for example, the point made in 2.10.1 regarding the elevation of the 2024 Notes to second rank security.
- 2.12. The below table outlines the change in capital structure from the current structure to the proposed capital structure under the Restructuring Plan<sup>8</sup>:

*Figure 2: Current capital structure compared to Restructuring Plan capital structure*

€m	Current Capital Structure				Restructuring Plan Capital Structure						
	Outstanding	Interest Rate	Maturity Date	Rank	Principal	PIK To 31-Jul-25	Interest To 31-Dec-26	Total	Interest Rate To 31-July-25	Maturity Date	Rank
New Money - Super Senior	-	-	-	-	938	133	-	1,071	12.50%	Jul-25	1st Rank
SSD	25	Various	Various	Pari Passu	25	-	-	25	Various	Various	2nd Rank
Convertible Notes	102	2.000%	Nov-23	Pari Passu	102	5	3	109	2.000%	Dec-29	2nd Rank
SUNs 2024	400	1.500%	Jul-24	Pari Passu	400	45	-	445	4.250%	Jul-25	2nd Rank
SUNs 2025	400	3.250%	Aug-25	Pari Passu	400	69	-	469	6.000%	Aug-25	3rd Rank
SUNs Jan 2026	700	1.875%	Jan-26	Pari Passu	700	79	8	787	4.625%	Jan-26	3rd Rank
SUNs Nov 2026	400	2.750%	Nov-26	Pari Passu	400	61	11	472	5.500%	Nov-26	3rd Rank
SUNs 2027	500	2.250%	Apr-27	Pari Passu	500	69	17	586	5.000%	Apr-27	3rd Rank
SUNs 2029	800	2.250%	Jan-29	Pari Passu	800	98	27	925	5.000%	Jan-29	3rd Rank
<b>Total Debt</b>	<b>3,327</b>				<b>4,265</b>	<b>559</b>	<b>66</b>	<b>4,889</b>			
1st Rank					938	133	-	1,071			
2nd Rank					527	50	3	579			
Cumulative 1st & 2nd Rank					1,465	183	3	1,650			
3rd Rank					2,800	376	63	3,239			
Temporal Debt Ahead Of 2029 Notes								3,964			

## Restructuring Plan: asset valuation overview

### Summary Observations

- The Group is forecast to sell €7.7bn worth of assets by Q4/26, the primary asset class by value being yielding assets (67%).
- BCG forecasts a cash surplus of €394m after repayment of all of the SUNs, which is just 5% of total gross proceeds, suggesting a very small margin for error with the longer dated SUNs disproportionately bearing the risk of any shortfall against BCG value assumptions.
- Small changes in forecast assumptions (such as interest rate movements) could easily erode this headroom resulting in a shortfall to the 2029 Notes recovery prospects.

<sup>8</sup> Per the Restructuring Plan, the New Money is forecast to repaid by Q3/24, and therefore the PIK is calculated until repayment.

- 2.13. The wind down in the Restructuring Plan derives value from three main sources, namely the disposal of the following asset categories<sup>9</sup>:

*Figure 3: Restructuring Plan gross proceeds by category*

€m	Yielding Assets	Development Assets	BCP	Total	Cash Surplus
Gross Proceeds	5,185	1,934	563	7,682	394
% Total Proceeds	67%	25%	7%		5%

- 2.14. The Plan Company relies primarily on CBRE GmbH (“CBRE”), apollo real estate GmbH & Co. KG (“NAI Apollo”) and Van Lanschot Kempen N.V. (“Kempen”) for historical valuations related to the above categories.
- 2.15. Total gross disposal proceeds for the above three categories are projected to be €7.7bn, of which the vast majority (67%) is projected to come from disposal of yielding assets. The projected recoveries under the Restructuring Plan are based on an extrapolation of historical values, with future values calculated by reference to and in accordance with a Market Model prepared by BCG (the “Market Model”).
- 2.16. Per the Restructuring Plan, it is said that this will deliver SUNs recoveries of 100% and a cash surplus to shareholders of €0.4bn. I note that this surplus represents just 5% of gross disposal proceeds.
- 2.17. Therefore, if gross proceeds are 5% (or more) lower than the Restructuring Plan forecasts and the SUNs are otherwise repaid at their respective maturities, then the 2029 Notes start to suffer a shortfall and will not receive repayment in full. Being temporally last in the maturity profile, this places the 2029 Notes in a different recovery position as compared to the SUNs with earlier dated maturities that may have been repaid in full.
- 2.18. The largest projected contributor to value are the yielding assets (67%). There are two fundamental points to consider when looking at how the Plan Company approaches the value it assumes from the yielding asset portfolio:

2.18.1. CBRE has valued the yielding assets quarterly; the reference points in the BCG Comparator Report are Q2/22 and Q3/22<sup>10</sup>.

2.18.2. BCG has created its own forecast model and methodology to deal with the longer period required for asset realisation under the Restructuring Plan, based on

<sup>9</sup> BCG Comparator Report (p. 35, 42, 43)

<sup>10</sup> BCG has stated that the Restructuring Plan and Relevant Alternative analysis use Q3/22 as their starting point, however, the BCG Comparator Report primarily references GAVs at Q2/22, therefore for consistency this Report primarily references Q2/22

macroeconomic factors, such as refinancing interest rates, and factors such as rent expectations, property location, maintenance costs, and vacancy rates.

- 2.19. The Knight Frank Report strongly disagrees with the valuations of CBRE and NAI Apollo with regard to the value of both yielding and development assets.

### Restructuring Plan: cross holding implications for creditor motivations

#### Summary Observations

- The SteerCo are providing up to €727.5m of New Money and will receive up to €53.3m in debt-related fees.

- [REDACTED]
- [REDACTED]
- [REDACTED]

- 2.20. The SteerCo stands to be a significant beneficiary in a number of respects if the Restructuring Plan is sanctioned and I describe some of these benefits here (and in more detail later in this Report).

- 2.21. [REDACTED]  
[REDACTED]  
[REDACTED] The SteerCo is also a backstop provider of the New Money.

- 2.22. The primary benefits to the SteerCo in respect of the New Money that they are providing can be summarised as follows:

- 2.22.1. Fees: The SteerCo is due to receive up to €53.3m in debt-related fees, including a €28.1m Backstop Fee not available to any other party.

- 2.22.2. [REDACTED]

- 2.22.2.1. [REDACTED]  
[REDACTED]  
[REDACTED]

- 2.22.2.2. [REDACTED]  
[REDACTED]  
[REDACTED]

### 2.22.3. Financial returns:

2.22.3.1. New Money: the SteerCo stands to make a €156m return (25.8% IRR<sup>11</sup>) in less than 18 months, according to the proposed Restructuring Plan, from its provision of up to €727.5m of the New Money (and as a backstop provider).

2.22.3.2. [REDACTED]

2.22.3.3. [REDACTED]

2.23. I explain the above to provide context to the valuation and other conclusions which follow.

## Restructuring Plan: Knight Frank Valuation Case

### Summary Observations

- Knight Frank has valued the yielding and development portfolio assets of the Group.
- They assess that gross disposal proceeds in the Restructuring Plan are overstated by €1.7bn in the BCG Comparator Report.
- The Knight Frank Valuation Case forecasts a 10.6% recovery to the 2029 Notes and only a 44.8% recovery to the 2027 Notes.

2.24. Knight Frank has reviewed the CBRE and NAI Apollo valuations of the yielding and development assets respectively on a level of the portfolios in which they are presented by BCG.

2.25. Knight Frank's approach for the yielding assets (which underpins most of the projected disposal proceeds under the Restructuring Plan) was to:

2.25.1. Provide its own valuation of the assets as at the date of disposal assumed in the Restructuring Plan; and

2.25.2. Value the assets as at Q2/22 (to compare directly to CBRE data).

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<sup>11</sup> See 6.12 of this Report

2.26. Following this valuation from Knight Frank, my team has undertaken the following:

2.26.1. Used Knight Frank's yielding and development asset values as at the dates of disposal assumed in the Restructuring Plan.

2.26.2. Applied Knight Frank's asset values as at the date of disposal, in addition to the other adjustments to the capital structure as assumed in the Restructuring Plan to derive overall debt recovery conclusions.

2.27. The above application of Knight Frank's valuation results in the following recoveries for 2029 Notes and 2027 Notes:

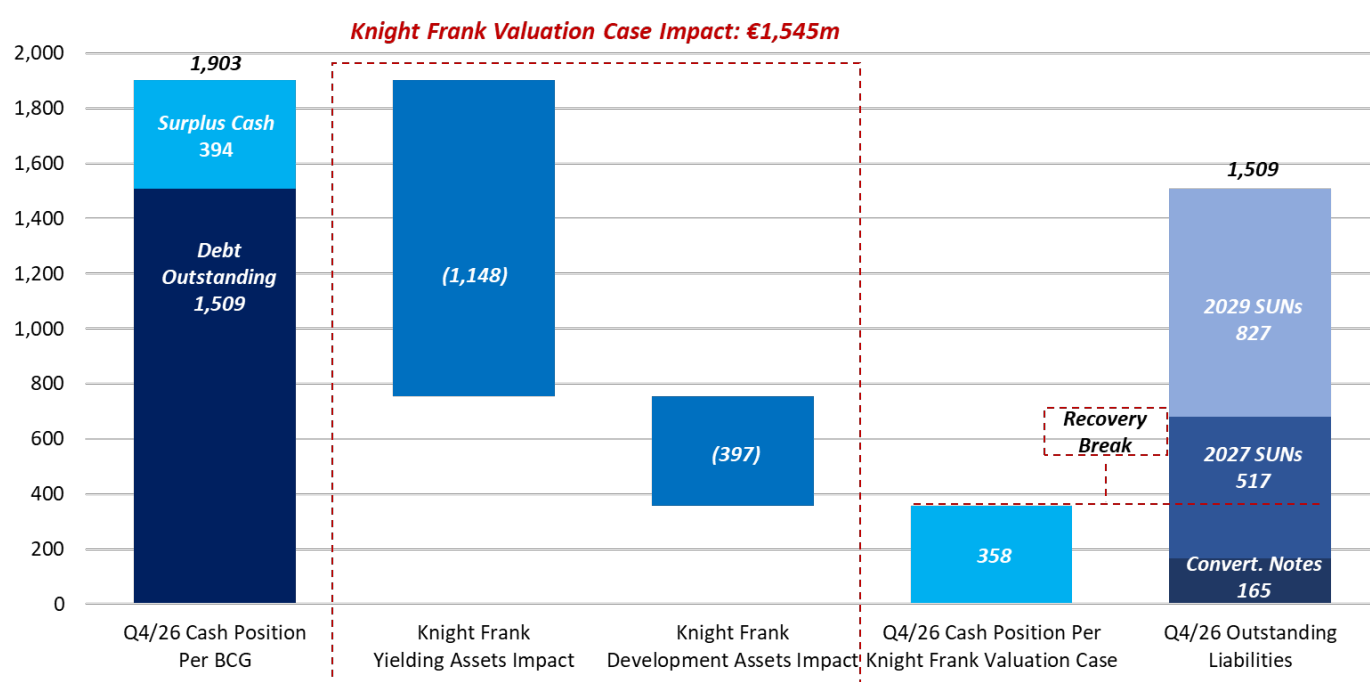
*Figure 4: Knight Frank Valuation Case recoveries compared to BCG Comparator Report<sup>12</sup>*

€m	BCG Comparator Report	Knight Frank Valuation Case	Δ
<b>Restructuring Plan - Gross Proceeds</b>			
Yielding Assets	5,185	3,875	(1,310)
Development Assets	1,934	1,497	(437)
<b>Total Gross Proceeds</b>	<b>7,119</b>	<b>5,372</b>	<b>(1,747)</b>
2029 Notes Recovery (%)	100.0%	10.6%	
2027 Notes Recovery (%)	100.0%	44.8%	

2.28. The impact of the Knight Frank Valuation Case on the cash available to repay debt is also illustrated in the bridge below. The total impact of the valuations below is at a net proceeds level (i.e., rather than gross proceeds as set out in the table above).

<sup>12</sup> The 2029 Notes receive a payment of PIK in the amount of €98m at 31-Jul-25. Accordingly, the first 10.6% of the recovery for the 2029 Notes is the PIK received in 2025.

Figure 5: Knight Frank Valuation Case bridge (net proceeds) to BCG Comparator Report<sup>13</sup>



2.29. As can be seen from both the table and the chart, under the Knight Frank Valuation Case (which retains the contractual maturities for the SUNs (other than the 2024 Notes)), the 2029 Notes would only receive a 10.6% recovery (this recovery represents payment of PIK interest, thus nil recovery of principal). Indeed the 2027 Notes would also be significantly impaired (44.8% recovery).

## Restructuring Plan: BCG Market Model valuation approach

### Summary Observations

- There is a lack of external real estate market forecasts beyond 2024.
- BCG has therefore developed a Market Model to forecast the long term movement in the Group's asset values (the "BCG Market Model").
- A key component of the BCG Market Model is the forecast interest rate development of the ECB Main Refinancing Rate.
- Interest rates have increased significantly since finalisation of the BCG Market Model (announcements that the interest rate would increase by 50 basis points were made on 2 February 2023 and a further 50 basis points increase was announced on 16 March 2023)

<sup>13</sup> Outstanding liabilities as at Q4/26 is comprised of Principal and Interest for the 2027 Notes (500m principal + 17m interest), 2029 Notes (800m principal + 27m interest) and Convertible Notes (165m principal only)

which, all else remaining equal, should imply a reduction in forecast disposal values. Interest rate forecasts have also increased.

- 2.30. BCG developed their Market Model to forecast property price developments (i.e. forecast increases or decreases in values) until 2030<sup>14</sup>. In respect of the Group's yielding portfolio, it results in an average asset price decrease of 10% in 2023 (vs Q2/22) and an average compound annual growth rate ("CAGR") of 3.1% thereafter.
- 2.31. BCG has stated that the multiplier aspect of their analysis was "*primarily driven by interest rate development*"<sup>15</sup>. Accordingly, interest rate assumptions will affect the forecasted value of assets at time of disposal (higher interest rates are expected to lead to a reduction in values).
- 2.32. Since BCG finalised their Market Model, the forecast ECB Main Refinancing Rate for the horizon to 2025 has increased significantly, as shown in the table below:

Figure 6: Jan-23 in comparison to Mar-23 ECB Main Refinancing Rate<sup>16,17,18</sup>

Rate	Source	As of	Q4/22	Q4/23	Q4/24	Q1/25
BCG Assumption	BCG Report	Jan-23	2.50	2.70	2.45	2.15
BCG Assumption + 125 bps	BCG Report	Jan-23	3.75	3.95	3.70	3.40
ECB Main Refin. Rate	Bloomberg	06 Mar 2023	2.50	3.75	3.00	2.70
ECB Main Refin. Rate + 125 bps		06 Mar 2023	3.75	5.00	4.25	3.95
ECB Main Refin. Rate	Bloomberg	16 Mar 2023	2.50	4.10	3.35	3.05
ECB Main Refin. Rate + 125 bps		16 Mar 2023	3.75	5.35	4.60	4.30
<i>Δ BCG Market Model (6 March Forecast)</i>	<i>+ 125 bps assumption</i>		0.00	(1.05)	(0.55)	(0.55)
<i>Δ BCG Market Model (16 March Forecast)</i>	<i>+ 125 bps assumption</i>		0.00	(1.40)	(0.90)	(0.90)

- 2.33. I asked BCG to re-run their Market Model for the latest ECB Main Refinancing Rate forecast (as at 6 March 2023) to quantify the impact that the forecast rates would have on their asset value assumptions and therefore the SUNs recoveries in the Restructuring Plan.
- 2.34. In reply, White & Case ("W&C") stated that it would be inappropriate for BCG to undertake the requested analysis, noting that it was not clear that modifying one series of input data without also considering the need to update other inputs would be appropriate. W&C further noted that this could be a potentially very time-consuming exercise, and that it would be inappropriate for BCG to undertake it at FTI's request<sup>19</sup>. To

<sup>14</sup> BCG Comparator Report (p. 38)

<sup>15</sup> BCG Comparator Report (p. 84)

<sup>16</sup> The 125 basis points represents the additional financing costs above the ECB Main Refinancing Rate assumed by BCG in their Comparator Report

<sup>17</sup> Bloomberg Weighted Average Forecast (accessed 6 March 2023, 15:00) [LR1/3]

<sup>18</sup> Bloomberg Weighted Average Forecast (accessed 16 March 2023, 15:00) [LR1/4]

<sup>19</sup> Letter from W&C to Akin Gump and Gleiss Lutz dated 8 March 2023



our knowledge BCG has not re-run the Market Model for the change in actual or expected interest rates. As a result, I have run an illustrative Market Model sensitivity, the outcome of which is discussed below.

- 2.35. Market sources do not forecast real estate market development over the timeframe considered under the Restructuring Plan for asset disposals.
- 2.36. As a result, I conclude that BCG has been required to develop their own proprietary forecast model as there are no market analysts who forecast market movements to Q4/26<sup>20</sup>. The BCG Market Model was developed when underlying interest rates and forecasts were lower and which I believe means their imputed valuations must be overstated if current rates and forecast rates are assumed.
- 2.37. Knight Frank set out in their report the relationship of financing costs and yield (value) development<sup>21</sup>. Put simply, if all else is held equal, higher interest rates will increase the cost of finance, and the value of real estate assets would be expected to reduce.

### Restructuring Plan: illustrative quantified sensitivities

#### Summary Observations

- For balance, I have performed two illustrative sensitivities to Knight Frank Q2/22 yielding asset values to test the SUNs recoveries against different market recovery profiles.
- Per the two illustrative sensitivities performed, the 2029 Notes recoveries are significantly below par, at 17.3% and 10.6% respectively.

- 2.38. As summarised above, there are limitations to the BCG Market Model.
- 2.39. The Knight Frank Valuation Case does not rely on a market model; rather, it presents the Knight Frank views of the asset values as at the assumed Restructuring Plan sale dates. These valuations indicate that the BCG Market Model results in a more optimistic view of market recovery than Knight Frank.
- 2.40. Therefore, I have undertaken two illustrative sensitivities to the Knight Frank Valuation Case to provide additional insights and to illustrate a potential range of outcomes. However, on the basis of the evidence provided by the Knight Frank Report, it is my view that the Knight Frank Valuation Case is the likely outcome.

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<sup>20</sup> Being the date by which all assets are expected to have been disposed of in the Restructuring Plan

<sup>21</sup> E.g. in the graphs at 3.19, 3.23, 3.42, 3.60, and 3.90 of the Knight Frank Report

2.41. The two illustrative sensitivities relate to the yielding assets gross proceeds only (i.e. development assets per Knight Frank's valuations are held constant), which I set out below:

2.41.1. Illustrative Sensitivity 1: Uses the Knight Frank Q2/22 yielding asset values and applies the BCG Market Model assumptions.

2.41.2. Illustrative Sensitivity 2: Uses the Knight Frank Q2/22 yielding asset values and applies a sensitised BCG Market Model assumption, aimed at reflecting the lower end of the property price development forecasts shown in the recovery curve in the BCG Comparator Report<sup>22</sup>.

2.42. The reason, in the interest of balance, that I have considered Illustrative Sensitivity 1 (i.e., to apply the BCG Market Model to Knight Frank Q2/22 yielding asset values) is two-fold:

2.42.1. It uses an historical point in time valuation that does not include Knight Frank's view on market development and progression to 2026; and

2.42.2. I want to allow the growth assumed by BCG in their Market Model to be applied as a sense check to consider whether this would result in a 100% recovery to the 2029 Notes.

2.43. The reason that I have considered Illustrative Sensitivity 2 is to seek to understand the extent to which outcomes may move further based on a longer and deeper market discount curve before recovering. A slower recovery may arise due to factors such as the increases in interest rate forecasts summarised above.

2.44. In respect of both Illustrative Sensitivity 1 and 2, the recoveries to the 2029 Notes are significantly impaired (17.3% and 10.6% respectively; further detail set out in Section 4 of this Report). Therefore, even applying the more optimistic BCG Market Model recovery results in significant impairment.

*Figure 7: Gross proceeds and SUNs recoveries per Illustrative Sensitivity 1, Illustrative Sensitivity 2 and BCG Comparator Report*

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<sup>22</sup> BCG Comparator Report (p. 41)

€m	BCG Comparator Report	Illustrative Sensitivity 1	Illustrative Sensitivity 2
<b>Relevant Alternative - Gross Proceeds</b>			
Yielding Assets	5,185	4,319	4,093
Development Assets	1,934	1,497	1,497
<b>Total Gross Proceeds</b>	<b>7,119</b>	<b>5,816</b>	<b>5,590</b>
2029 Notes Recovery (%)	100.0%	17.3%	10.6%
2027 Notes Recovery (%)	100.0%	100.0%	76.9%

- 2.45. I also consider there to be a number of other areas of potential sensitivity or risk, although for balance I have not chosen to present all of these in this executive summary or in quantified sensitivity calculations. These include (i) Deferred Tax Liability assumptions; (ii) rent assumptions; (iii) Brack Capital Properties N.V. (“BCP”) valuation and intercompany repayment; and (iv) the potential impact of the maturity wall in August 2025 (i.e., the €2.3bn<sup>23</sup> of debt that is due to be repaid by 31 August 2025).

### Restructuring Plan: conclusion

- 2.46. Based on the expert evidence provided by Knight Frank, the values assumed in the Restructuring Plan for yielding assets and development assets are likely to be significantly overstated.
- 2.47. Applying the Knight Frank valuations for both yielding and development assets at the date of disposal as assumed in the Restructuring Plan results in a 10.6% recovery to the 2029 Notes and only a 44.8% recovery for the 2027 Notes.
- 2.48. I note that the 10.6% recovery to the 2029 Notes represents the payment of PIK interest assumed in 2025 and that in reality there is a nil recovery of principal to the 2029 Notes in the Knight Frank Valuation Case.
- 2.49. Whilst BCG has relied on its Market Model to forecast disposal values for the yielding assets due to the lack of external market forecasts beyond 2024, there are limitations to that approach for the reasons set out in this Report, including the fact that interest rates and interest rate forecasts have increased since the finalisation of the BCG Comparator Report. Such market models will always have a meaningful level of risk, which I assume is exactly why there were no credible external forecasts which BCG was able to find and rely on.
- 2.50. Despite these concerns, in order to provide balance, my team has run two illustrative (quantified) sensitivities as described in the previous section. Even applying the full BCG

<sup>23</sup> Includes New Money €938m, New Money PIK €133m, 2024 Notes €400m, 2025 Notes €400m, SUNs PIK €421m. Certain of these payments are anticipated to be made in 2023 and 2024 following assumed asset sales.

Market Model growth to the Knight Frank yielding asset valuations at Q2/22 would only provide a 17.3% recovery to the 2029 Notes.

- 2.51. I therefore conclude that based on the Knight Frank valuation evidence under the Restructuring Plan, as proposed, there would likely be little or no recovery of principal for the 2029 Notes.**

## Relevant Alternative: key considerations & outcomes

### Summary Observations

- The BCG Relevant Alternative reduces gross disposal proceeds by €1.6bn due to the 'insolvency effect'. They forecast the SUNs recovery to be 63% on a pari passu basis.
- Knight Frank headline valuations are lower than the BCG assumptions.
- However, Knight Frank do not consider the 'insolvency effect' in the Relevant Alternative to be as significant as BCG and I concur that this would be closer to 5% than the average of 23.5% assumed by BCG for yielding and development assets.
- Per the Knight Frank Valuation Case, the SUNs recovery in the Relevant Alternative is forecast to be 56% on a pari passu basis.

- 2.52. The BCG Comparator Report sets out a Relevant Alternative which reflects an immediate insolvency of the Group and forecasts a recovery of 63% for the SUNs.
- 2.53. The recovery in an insolvency represents a pro-rata distribution to all unsecured creditors on a pari passu basis.
- 2.54. Per the BCG Comparator Report the insolvency is conducted in two phases, with all assets sold by Q4/27.
- 2.55. BCG has assumed material insolvency discounts which they refer to as the 'insolvency effect' for each of the yielding assets, development assets, and BCP. There is a range of insolvency effect discounts, the average of which across yielding and development assets is c.23.5%.
- 2.56. The total impact of the 'insolvency effect' is to reduce net disposal proceeds generated in the Relevant Alternative by €1.6bn (in comparison to the Restructuring Plan case set out in the BCG Comparator Report).
- 2.57. BCG state the key considerations given to the 'insolvency effect' were i) fire sales; ii) taint of insolvency; iii) limited representations and warranties; and iv) limited buyer competition.
- 2.58. I have discussed the 'insolvency effect' key considerations as set out above with senior restructuring colleagues at FTI in Germany, Knight Frank and Gleiss Lutz (a German law firm). They have all been consistent in their view that the 'insolvency effect' as applied by BCG in their Relevant Alternative is overstated, given the nature of the assets and discounts already applied in the Restructuring Plan assumptions. I have assessed their input and I have also considered this input in the context of my own experience as a licenced insolvency practitioner. **On balance, I have concluded that, in the context of a**

**real estate wind down such as this, the insolvency discount would not be significant and Knight Frank's approach set out below is reasonable.**

- 2.59. Per the Knight Frank Report, they consider the 'insolvency effect' in the Relevant Alternative for yielding assets. They quantify, based on their assessment, an impact to this asset class of 5% (which equates to €0.2bn) in addition to adjustments already made under the Restructuring Plan assumptions, which I apply to our Relevant Alternative analysis.
- 2.60. I understand from Knight Frank that many development asset sites have not seen any active development for a prolonged period and therefore the Relevant Alternative does not represent a significant change in status for these assets. Knight Frank has determined a Relevant Alternative valuation for the development assets, and I have applied this to our Relevant Alternative analysis.
- 2.61. The resulting recovery for the SUNs in the Relevant Alternative is set out in the table below as compared to the recovery as set out in the BCG Comparator Report. Broadly, the Knight Frank Relevant Alternative outcomes are based on lower headline valuations, but then smaller insolvency discounts as compared to the BCG Comparator Report.

*Figure 8: Knight Frank valuations in the Relevant Alternative compared to BCG Comparator Report*

€m	BCG Comparator Report	Knight Frank Valuation Case	Δ
<b>Relevant Alternative - Gross Proceeds</b>			
Yielding Assets	3,959	3,783	(175)
Development Assets	1,395	1,296	(99)
<b>Total Gross Proceeds</b>	<b>5,354</b>	<b>5,079</b>	<b>(274)</b>
2029 Notes Recovery (%)	63.2%	56.1%	
2027 Notes Recovery (%)	63.2%	56.1%	

- 2.62. As shown in the table, the Knight Frank Valuation Case suggests a 56.1% recovery to the 2029 Notes under the Relevant Alternative. Whilst this is lower than the 63.2% suggested in the BCG Comparator Report, I note that it is significantly in excess of the Knight Frank Valuation Case recoveries under the Restructuring Plan as set out earlier (10.6%), and also significantly higher than the illustrative sensitivities discussed. This is largely a result of both the pari passu ranking amongst SUNs, and no introduction of €938m priority debt in the Relevant Alternative.

## Overall conclusions

- 2.63. The Restructuring Plan envisages €1.5bn of debt being secured ahead of the SUNs (other than the 2024 Notes) and this priority debt increases over time due to PIK/interest.
- 2.64. The Restructuring Plan appears to disproportionately benefit the SteerCo and holders of the shorter dated SUNs [REDACTED] and to be to the detriment of the longer dated SUNs who, absent sanction, would rank pari passu with a significantly smaller debt pile at Parent.
- 2.65. Given the timeframe considered under the Restructuring Plan for the wind down, there is material subjectivity and therefore risk related to the asset valuations and outcomes for the Plan Company's creditors assumed by BCG.
- 2.66. The projected headroom (€0.4bn, 5% of gross proceeds) on the Plan Company's own projections is insufficient in the context of the above subjectivity and risk. The risk related to this subjectivity is borne disproportionately by the longer dated SUNs under the Restructuring Plan, which seeks to reinstate pre-Restructuring Plan maturities in the context of an asset wind down.
- 2.67. The asset valuations assumed in the Restructuring Plan appear to be significantly overstated based on Knight Frank's expert evidence.
- 2.68. The Knight Frank valuation evidence and the Knight Frank Valuation Case suggests the 2029 Notes will recover 10.6% (being a cash payment for accrued PIK interest in July 2025, but no recovery of the principal debt) under the Restructuring Plan.
- 2.69. Turning to the Relevant Alternative, the insolvency discounts assumed are material and unjustified in the context of the nature of the assets to be sold in an insolvency and Knight Frank's expert evidence on this. The insolvency effect is likely to be closer to 5%, not an average of 23.5% as assumed by BCG.
- 2.70. The Knight Frank valuation evidence and my analysis suggests the 2029 Notes will recover 56.1% under the Relevant Alternative. This is proximate to the Plan Company's own figure (within 7ppts). The key differences in analysis are the lower property values which are offset in part by a smaller insolvency discount.
- 2.71. Therefore, I conclude that the par recovery to the 2029 Notes set out in the BCG Comparator Report is unlikely and that the likely recovery will be significantly lower, to the extent that there is likely to be insufficient value to repay any principal of the 2029 Notes. At the 10.6% recovery rate, only PIK is paid.**
- 2.72. I also conclude that the outcomes to at least the 2029 Notes (and potentially also the 2027 Notes) are lower in the Restructuring Plan than in the Relevant Alternative,**

**whether using BCG's assessment of the Relevant Alternative or the Knight Frank assessment of the Relevant Alternative.**

- 2.73. The table below demonstrates how the recoveries to the longer dated Notes compare between the Knight Frank valuation evidence and the BCG Comparator Report, under both the Restructuring Plan and the Relevant Alternative.

*Figure 9: Summary of Knight Frank Valuation Case in comparison to BCG Comparator Report recoveries under the (i) Restructuring Plan and (ii) Relevant Alternative*

€m	BCG Comparator Report	Knight Frank Valuation Case	Δ
<b>Restructuring Plan - Gross Proceeds</b>			
Yielding Assets	5,185	3,875	(1,310)
Development Assets	1,934	1,497	(437)
<b>Total Gross Proceeds</b>	<b>7,119</b>	<b>5,372</b>	<b>(1,747)</b>
2029 Notes Recovery (%)	100.0%	10.6%	
2027 Notes Recovery (%)	100.0%	44.8%	
<b>Relevant Alternative - Gross Proceeds</b>			
Yielding Assets	3,959	3,783	(175)
Development Assets	1,395	1,296	(99)
<b>Total Gross Proceeds</b>	<b>5,354</b>	<b>5,079</b>	<b>(274)</b>
2029 Notes Recovery (%)	63.2%	56.1%	
2027 Notes Recovery (%)	63.2%	56.1%	



### 3. Overview of the Restructuring Plan

- 3.1. I set out in this section of my Report a brief overview of the Restructuring Plan which is relevant to my evidence. I have not sought to set out an overview of the Restructuring Plan as a whole.

#### Solvent wind-down

- 3.2. If the Restructuring Plan is sanctioned, the Group intends to implement a liquidation of the Group's assets which the Plan Company projects to result in a solvent wind-down with a surplus after payment to the Plan Company's creditors of €0.4bn.
- 3.3. This is clear from the BCG Comparator Report, both in terms of properties to be sold and the intended reduction in personnel:
- 3.3.1. *"The Management Case foresees a disposal of €2.8bn GAV yielding assets... and €1.7bn development assets through upfront sales by Q4/24"*<sup>24</sup>.
- 3.3.2. *"The remaining portfolio of 9,744 residential units (€2.6bn GAV) and some development assets (€0.4bn GAV) is forecast to be sold until Q4/26"*<sup>25</sup>.
- 3.3.3. *"Upon completion of asset disposals in Q4/24, the target organisational structure is reduced to ~150 FTE, implying ~78% reduction in personnel costs compared to status quo"*<sup>26</sup>.
- 3.3.4. *"Sale of entire Adler asset base would also drive the cost base down to zero by FY27"*<sup>27</sup>.
- 3.4. An overview of the planned wind down of the Group in accordance with the Restructuring Plan scenario is set out in the table below:

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<sup>24</sup> BCG Comparator Report (p. 15)

<sup>25</sup> BCG Comparator Report (p. 15)

<sup>26</sup> BCG Comparator Report (p. 44)

<sup>27</sup> BCG Comparator Report (p. 45)

Figure 10: Adler Group wind down by year per BCG Comparator Report (Restructuring Plan)<sup>28</sup>

(€m) Year End Position	2022	2023	2024	2025	2026
GAV of Yielding Assets	5,442	5,405	2,630	2,630	-
GAV of Development Assets	2,426	1,275	331	-	-
<b>Total GAV of Assets</b>	<b>7,868</b>	<b>6,680</b>	<b>2,961</b>	<b>2,630</b>	-
No. yielding units	26,225	25,591	9,744	9,744	-
Income from rental activities		205	203	97	83
FTE		681		150	30

3.5. Given the wind-down strategy, the BCG Comparator Report conclusion of par recovery for all creditors over time is a critical consideration. If the sell-off of assets over time is insufficient to satisfy all creditors at the staggered maturities under the Restructuring Plan<sup>29</sup>, it would be the longer dated SUNs that bear the risk of less than full payment under the proposed Restructuring Plan.

3.6. The current position is that all of the series of SUNs are unsecured debts and they would rank pari passu in a liquidation under the potentially applicable laws.

### Impact of capital structure changes

3.7. The Restructuring Plan envisions the following broad steps which impact the capital structure in terms of the waterfall:

3.7.1. New Money which ranks super senior (opening principal of €937.5m).

3.7.2. Elevation to '1.5 lien' or 'second rank' as described in the table below in respect of the SSDs (€24.5m), Convertible Notes (€165m<sup>30</sup>), and 2024 Notes (€400m).

3.7.3. PIK on New Money and the SUNs. New Money pays 12.5% PIK (includes 12-month non call/make whole). No cash interest on the SUNs until July 2025 and in this period a further 2.75% PIK on all SUNs.

3.8. This is illustrated in the table below which compares the capital structure at Parent/Issuer as is currently, and the capital structure in accordance with the Restructuring Plan.

<sup>28</sup> GAV values are as at 06/2022 and relate to value at year end. Yielding units relate to units at year end. Income from rental activities in 2026 relates to income received in 2026 prior to sale of assets in Q4/26. Where blank, no information is provided in the BCG Comparator Report.

<sup>29</sup> Which reflect the contractual maturities under the SUNs as varied in one respect by the Restructuring Plan by the extension of the 2024 Notes maturity to 31 July 2025.

<sup>30</sup> €102m externally held, balance held by Adler RE

Figure 11: Parent/Issuer capital structure pre and post Restructuring Plan (excludes debt at PropCo entities)<sup>31</sup>:

€m	Current Capital Structure				Restructuring Plan Capital Structure						
	Outstanding	Interest Rate	Maturity Date	Rank	Principal	PIK To 31-Jul-25	Interest To 31-Dec-26	Total	Interest Rate To 31-July-25	Maturity Date	Rank
New Money - Super Senior	-	-	-	-	938	133	-	1,071	12.50%	Jul-25	1st Rank
SSD	25	Various	Various	Pari Passu	25	-	-	25	Various	Various	2nd Rank
Convertible Notes	102	2.000%	Nov-23	Pari Passu	102	5	3	109	2.000%	Dec-29	2nd Rank
SUNs 2024	400	1.500%	Jul-24	Pari Passu	400	45	-	445	4.250%	Jul-25	2nd Rank
SUNs 2025	400	3.250%	Aug-25	Pari Passu	400	69	-	469	6.000%	Aug-25	3rd Rank
SUNs Jan 2026	700	1.875%	Jan-26	Pari Passu	700	79	8	787	4.625%	Jan-26	3rd Rank
SUNs Nov 2026	400	2.750%	Nov-26	Pari Passu	400	61	11	472	5.500%	Nov-26	3rd Rank
SUNs 2027	500	2.250%	Apr-27	Pari Passu	500	69	17	586	5.000%	Apr-27	3rd Rank
SUNs 2029	800	2.250%	Jan-29	Pari Passu	800	98	27	925	5.000%	Jan-29	3rd Rank
<b>Total Debt</b>	<b>3,327</b>				<b>4,265</b>	<b>559</b>	<b>66</b>	<b>4,889</b>			
1st Rank					938	133	-	1,071			
2nd Rank					527	50	3	579			
<b>Cumulative 1st &amp; 2nd Rank</b>					<b>1,465</b>	<b>183</b>	<b>3</b>	<b>1,650</b>			
3rd Rank					2,800	376	63	3,239			
Temporal Debt Ahead Of 2029 Notes								3,964			

3.9. The following points can be noted from the table:

- 3.9.1. The Restructuring Plan results in €938m of New Money being first rank, and elevation of other facilities totalling €527m being second rank, ahead of the remainder of the SUNs at third rank. This results in €1,465m of principal debt ranking ahead of the SUNs other than the 2024 Notes.
- 3.9.2. Over time PIK and interest on this €1,465m results in a further priority claim of €186m, all of which rank ahead of the SUNs other than the 2024 Notes (which will have been elevated to second rank).
- 3.9.3. Under the proposed Restructuring Plan, €3,964m<sup>32</sup> of total debt (inc. PIK, excluding asset level debt) is due to be repaid temporally prior to any repayment of principal to the 2029 Notes.
- 3.9.4. I note that €800m of the New Money provided is used to repay debt at Adler RE; Adler RE 2023 SUNs (€500m) and Adler RE 2024 SUNs (€300m), which are currently structurally senior in respect of Adler RE assets.
- 3.9.5. All else remaining equal, the difference in the temporal repayment includes the following effects on a consolidated Group basis:

<sup>31</sup> Per the Restructuring Plan, the New Money is repaid by Q3/24 and therefore the PIK is calculated until repayment.

<sup>32</sup> 1<sup>st</sup> rank (€1,071m), plus 2<sup>nd</sup> rank (€579m), plus 3<sup>rd</sup> rank (€3,239m), less 2029 Notes (€925m).

- 3.9.5.1. Pricing delta on €800m New Money in comparison to €800m Adler RE SUNs repaid results in an incremental increase in interest costs for the Group (€120m).
- 3.9.5.2. Residual New Money of €137.5m (€937.5m less €800m used to repay Adler RE 2023 SUNs and Adler RE 2024 SUNs), which is additional debt to pay fees and to provide funding to Consus.
- 3.9.5.3. 12.5% coupon on the €137.5m of additional New Money.
- 3.9.5.4. 2.75% PIK increment proposed as part of the Restructuring Plan to the SUNs coupon from the date of transaction until 31 July 2025. This is an increased financing cost which is due to be paid temporally prior to the 2029 Notes principal.
- 3.9.5.5. Per the Explanatory Statement, the New Money terms do not allow for a redemption of the Adler RE 2024 €300m SUNs at par or above within the first nine months<sup>33</sup>. Interest continues to accrue at 2.125% on these Notes until the repayment is made in February 2024, despite the Group being in funds to repay the Adler RE 2024 SUNs.
- 3.9.6. The total effect of the above impacts is €487m and is included within the €3,964m of debt due to be paid temporally before the 2029 Notes.
- 3.9.7. In the event of an insolvency today, the full amount of the debt at Parent/Issuer ranks equally as unsecured debt.
- 3.9.8. In addition, there are substantial fees in relation to the New Money which are set out in section 6, the majority of which are paid to the SteerCo.
- 3.10. In summary, the Restructuring Plan aims to implement a solvent wind-down, while at the same time introducing changes to the capital structure which significantly deviate from the pari passu approach that would arise in the event of an insolvency.**

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<sup>33</sup> Explanatory Statement issued 27 February 2023 (part 4, para. 5.21(d)(i))

## 4. Restructuring Plan outcomes

### The level of surplus and margin of error

- 4.1. The BCG Comparator Report projects that €0.4bn surplus cash is available to shareholders under the Restructuring Plan<sup>34</sup>:
- 4.1.1. This can be seen from “*excess cash*” on the chart on page 32 and “*excess cash after deleveraging*” on the chart on page 53.
- 4.1.2. This is also described on bullet point 7 of page 52: “*total repayment of financial liabilities, including €1.3bn corporate bonds and €0.2bn convertible bond*”.
- 4.2. This €0.4bn surplus is effectively the headroom which supports the conclusion on page 14 of the BCG Comparator Report that “*under the Restructuring Plan, SUN noteholders are expected to recover 100% of FV including interest and fees*”.
- 4.3. However, to the extent that the surplus is eroded due to lower than projected net disposal proceeds in the Restructuring Plan, the SUNs (starting with 2029 Notes) would not receive a full recovery<sup>35</sup>.

Figure 12: Restructuring Plan gross proceeds by category

€m	Yielding Assets	Development Assets	BCP	Total	Cash Surplus
Gross Proceeds	5,185	1,934	563	7,682	394
% Total Proceeds	67%	25%	7%		5%

- 4.4. As shown above, the surplus of €0.4bn equates to 5% of the gross proceeds of €7.7bn according to the BCG Comparator Report<sup>36</sup>. Therefore, as a proportion of the values assumed, the surplus represents a small margin for error. Or to put it another way:
- 4.5. **If the gross proceeds from asset sales are 5% (or more) lower than assumed in the BCG Comparator Report there would be no surplus cash and due to the fact that the maturity of the 2029 Notes is last in time, every Euro of reduction in value would reduce the recovery to the 2029 Notes by a Euro.**

<sup>34</sup> Page numbers provided in 4.1 refer to the BCG Comparator Report

<sup>35</sup> I have assumed that the Convertible Notes are paid in priority based on elevation to 1.5 rank as per the terms of the proposed Restructuring Plan.

<sup>36</sup> BCG Comparator Report (p. 42, 43, 53)

## Sources of value in the Restructuring Plan

- 4.6. The principal sources of value in the Restructuring Plan (at a gross proceeds level) as set out in the BCG Comparator Report are as follows:
- 4.6.1. Yielding assets of €5.2bn<sup>37</sup> based on CBRE valuations.
  - 4.6.2. Development assets of €1.9bn<sup>38</sup> based on NAI Apollo valuations.
  - 4.6.3. The BCP proceeds assumed in the Restructuring Plan are €0.6bn<sup>39</sup> based on the Kempen valuation. BCP is a 63% subsidiary of Adler Real Estate AG and owns a combination of development and yielding real estate assets in Germany.
- 4.7. Knight Frank has undertaken a review of the Group's real estate assets. In the remainder of this section of my Report I address the following:
- 4.7.1. Knight Frank valuations and their impact on SUNs recoveries;
  - 4.7.2. The BCG Market Model valuation approach and its limitations;
  - 4.7.3. Illustrative quantified sensitivities; and
  - 4.7.4. Other (unquantified) risks to the Restructuring Plan outcomes.

## Knight Frank Valuation Case

### Introduction

- 4.8. Knight Frank has reviewed the valuations presented in the BCG Comparator Report and the underlying CBRE and NAI Apollo valuation data. Knight Frank has also reviewed valuation reports prepared by CBRE and NAI Apollo. Set out below (in respect of both yielding assets and development assets) is a summary of the valuations presented in the BCG Comparator Report and the Knight Frank concluded valuations in comparison.

### Yielding assets

- 4.9. The starting point for the BCG Comparator Report in relation to the yielding asset assumptions is the CBRE valuations of €5.4bn as at 30 June 2022<sup>40</sup>. As summarised in the table below, the BCG Comparator Report sets out BCG's adjustments to the CBRE

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<sup>37</sup> BCG Comparator Report (p. 32)

<sup>38</sup> BCG Comparator Report (p. 32)

<sup>39</sup> €0.6bn comprises €0.4bn proceeds from the 63% share sale at BCP and €0.2bn from the repayment of the BCP intercompany loan, per the BCG Comparator Report (p. 35).

<sup>40</sup> BCG has stated that the Restructuring Plan and Relevant Alternative analysis use Q3/22 as their starting point, however, the BCG Comparator Report primarily references GAVs at Q2/22, therefore for consistency this Report primarily references Q2/22.

valuations to determine net disposal proceeds. These adjustments primarily comprise i) discount (or growth) based on the BCG Market Model to estimate the value as at assumed sale date; and ii) other adjustments e.g., deferred tax, PropCo debt repayments and minority interests.

*Figure 13: Breakdown of yielding asset portfolios per BCG Comparator Report:*

	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Total
<b>Date Of Sale</b>	<b>Dec-24</b>	<b>Dec-24</b>	<b>Dec-24</b>	<b>Jun-23</b>	<b>Dec-26</b>	
Rental Units	6,906	4,975	3,966	634	9,744	<b>26,225</b>
GAV June-22	669	999	1,107	38	2,630	<b>5,442</b>
Discount To GAV	(59)	(73)	(81)	(6)	(39)	<b>(258)</b>
<b>Gross Sales Proceeds</b>	<b>610</b>	<b>926</b>	<b>1,026</b>	<b>32</b>	<b>2,591</b>	<b>5,185</b>
Discount To GAV %	8.8%	7.3%	7.3%	16.2%	1.5%	4.745%
Capitalised Capex	32	5	15		56	<b>108</b>
Deferred Tax	(38)	(55)	(52)		(139)	<b>(284)</b>
Minorities	(55)	(59)	(24)		(105)	<b>(243)</b>
<b>Net Proceeds Pre-Debt</b>	<b>549</b>	<b>817</b>	<b>965</b>	<b>32</b>	<b>2,403</b>	<b>4,766</b>
Debt Repayment	(72)	(269)	(361)		(661)	<b>(1,363)</b>
RETT Loans	16	28	17		42	<b>103</b>
<b>Net Proceeds</b>	<b>493</b>	<b>576</b>	<b>621</b>	<b>32</b>	<b>1,784</b>	<b>3,506</b>

4.10. The BCG Market Model has been developed by BCG to allow them to forecast the Group's asset prices at their assumed future sale dates under the Restructuring Plan, because there is a lack of market forecasts beyond 2024. The BCG Market Model is based on various macroeconomic data as set out in the BCG Comparator Report<sup>41</sup>. In respect of the Group's yielding portfolio, it results in an average asset price decrease of 10% in 2023 (vs Q2/22) and an average compound growth (CAGR) recovery of 3.1% thereafter<sup>42</sup>. In summary, due to a lack of market forecasts, BCG has developed their own market forecast to roll forward the CBRE valuations to the assumed future sale dates in Q4/24 and Q4/26.

4.11. Knight Frank has undertaken a review of the CBRE Q2/22 and Q3/22 valuations. In addition, Knight Frank has valued the assets as at the assumed Restructuring Plan sales dates. This is the subject of a separate report submitted in evidence. I have relied on the Knight Frank Report in relation to a number of aspects of the analysis undertaken by myself and my team, and this is stated clearly throughout my Report.

4.12. Knight Frank has explained in their report that, based on their analysis, the CBRE valuations are overly optimistic. The methodology and rationale for these valuations is set out in detail in the Knight Frank Report.

4.13. Knight Frank has determined valuations for the yielding asset portfolios based on the Restructuring Plan assumed sale dates (in Q4/24 and Q4/26) and these are summarised

<sup>41</sup> BCG Comparator Report (p. 84-90)

<sup>42</sup> BCG Comparator Report (p. 35)

in the table below. The Knight Frank valuations as at the Restructuring Plan assumed sale dates represent a materially lower valuation (25.3% lower across the total portfolio) than BCG valuations at the assumed portfolio sale dates.

*Figure 14: Knight Frank valuations of yielding assets (at Restructuring Plan sale dates) compared to BCG Comparator Report gross proceeds<sup>43</sup>*

€m	BCG Comparator Report	Knight Frank Valuation Case	Δ	Δ%
Portfolio 1	610	521	(89)	(14.6%)
Portfolio 2	926	529	(397)	(42.9%)
Portfolio 3	1,026	759	(267)	(26.0%)
Portfolio 4	32	32	-	0.0%
Portfolio 5	2,591	2,034	(557)	(21.5%)
<b>Gross Sales Proceeds</b>	<b>5,185</b>	<b>3,875</b>	<b>(1,310)</b>	<b>(25.3%)</b>

4.14. My team has undertaken analysis which reflects solely the impact of the Knight Frank yielding asset valuations as at the Restructuring Plan sale dates on the recovery to the SUNs in the Restructuring Plan.

4.14.1. **This shows that the 2029 Notes would receive an 18.5% recovery.**

4.15. The outcomes below are illustrated based on the full impact of the shortfall impairing the 2029 Notes because of the maturity profile of the SUNs and the new capital structure following a sanction of the Restructuring Plan. If at a future date the directors of Parent were to become aware that the anticipated sale proceeds were insufficient to meet all remaining creditors at that time, a subsequent restructuring or an insolvency may arise. Therefore, the impact may be suffered more equally amongst the remaining creditors at that time. However, the outcome of such a scenario is unknown and so for present purposes we have to assume that temporal order of the maturities of the SUNs is followed.

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<sup>43</sup> Valuations are prepared on a GAV, like-for-like (gross sale proceeds level), prior to any other adjustments (e.g. capital expenditure, deferred taxes etc).



Figure 15: SUNs recoveries based on Knight Frank valuations of yielding assets (at Restructuring Plan sale dates)<sup>44</sup>

SUNs / €m	FV	2024	2025	2026	Total	Recovery
2024 Notes	445	-	445	-	445	100.0%
2025 Notes	469	-	469	-	469	100.0%
Jan-2026 Notes	787	-	79	708	787	100.0%
Nov-2026 Notes	472	-	61	411	472	100.0%
2027 Notes	586	-	69	517	586	100.0%
2029 Notes	925	-	98	73	171	18.5%
<b>Total</b>	<b>3,684</b>	<b>-</b>	<b>1,221</b>	<b>1,709</b>	<b>2,930</b>	<b>79.5%</b>
Q4/26 Outstanding Debt Balance Prior to Repayment					(1,509)	
Q4/26 Cash Available for Debt Repayment					755	
Surplus / (Deficit) To Service All Outstanding Debt					(754)	

4.16. The 18.5% recovery set out in the table above results from only changing the valuations in respect of yielding assets used in the BCG Comparator Report to the Knight Frank valuations. All other assumptions included in the above outcomes are based on the BCG assumptions.

4.17. The following section addresses development asset valuations. The methodology for the above calculations and for other similar analysis referenced in this Report is summarised in Appendix 3.

#### Development assets

4.18. The BCG Comparator Report approach to development assets is broadly to review valuations (provided by NAI Apollo), determine an asset-specific market discount based on the Market Model, and forecast disposal values based on an individual assessment of each project with management input, including reviewing Letters of Intent and offer letters for Consus sales planned to be completed in Q1/23 and Q2/23<sup>45</sup>.

4.19. The Knight Frank Report sets out their valuation of the development assets in more detail. The table below summarises their concluded valuations as at the Restructuring Plan assumed sale dates, which are 22.6% lower than the equivalent value assumed in the BCG Comparator Report.

<sup>44</sup> The 2029 Notes receive a payment of PIK in the amount of €98m at 31-Jul-25. Accordingly, the first 10.6% of the recovery for the 2029 Notes is the PIK received in 2025.

<sup>45</sup> BCG Comparator Report (p. 35)

Figure 16: Knight Frank valuations of development assets compared to BCG Comparator Report (at Restructuring Plan sale dates)

€m	BCG Comparitor Report	Knight Frank Valuation Case	Δ	Δ%
Developments excl. Fwd Sales	1,674	1,234	(440)	(26.3%)
Forward Sales	169	169	-	0.0%
Advanced Negotiations	74	76	2	2.7%
Unidentified	18	18	-	0.0%
<b>Total</b>	<b>1,935</b>	<b>1,497</b>	<b>(438)</b>	<b>(22.6%)</b>

4.20. The impact of the Knight Frank development assets valuations is that the recovery rate for the 2029 Notes is 99.7% on a standalone basis (i.e., BCG yielding asset values are held constant to illustrate the isolated impact of the Knight Frank development asset valuation). This is illustrated in the table below.

Figure 17: SUNs recoveries based on Knight Frank valuations of development assets (at Restructuring Plan sale dates)<sup>46</sup>

SUNs / €m	FV	2024	2025	2026	Total	Recovery
2024 Notes	445	-	445	-	445	100.0%
2025 Notes	469	-	469	-	469	100.0%
Jan-2026 Notes	787	-	79	708	787	100.0%
Nov-2026 Notes	472	-	61	411	472	100.0%
2027 Notes	586	-	69	517	586	100.0%
2029 Notes	925	-	98	824	922	99.7%
<b>Total</b>	<b>3,684</b>	<b>-</b>	<b>1,221</b>	<b>2,460</b>	<b>3,681</b>	<b>99.9%</b>
Q4/26 Outstanding Debt Balance Prior to Repayment					(1,509)	
Q4/26 Cash Available for Debt Repayment					1,506	
Surplus / (Deficit) To Service All Outstanding Debt					(3)	

4.21. The reason for the 99.7% recovery to the 2029 Notes is that the surplus cash under the Restructuring Plan is €394m and the total cash impact of Knight Frank development asset valuation is €397m. Applying the Knight Frank view on the development assets sensitivity only (i.e., without the impact of the Knight Frank valuation of yielding assets), fully erodes the surplus cash and results in a further €3m erosion of the 2029 Notes i.e., even without any changes to yielding assets compared to what BCG assumes, there begins to be a shortfall to the 2029 Notes.

### Knight Frank Valuation Case

4.22. The total impact to the SUNs based on the Knight Frank valuations of both yielding assets and development assets as described above (as at the assumed Restructuring Plan sale

<sup>46</sup> The 2029 Notes receive a payment of PIK in the amount of €98m at 31-Jul-25. Accordingly, the first 10.6% of the recovery for the 2029 Notes is the PIK received in 2025.

dates) is set out in the table below. This shows a €1.75bn delta (24.5%) in terms of gross proceeds when compared to the BCG Comparator Report.

*Figure 18: Knight Frank Valuation Case: yielding and development assets (at Restructuring Plan sale dates)*

€m	BCG Comparator Report	Knight Frank Valuation Case	Δ	Δ%
<b>Restructuring Plan - Gross Proceeds</b>				
Yielding Assets	5,185	3,875	(1,310)	(25.3%)
Development Assets	1,934	1,497	(437)	(22.6%)
<b>Total Gross Proceeds</b>	<b>7,119</b>	<b>5,372</b>	<b>(1,747)</b>	<b>(24.5%)</b>

4.23. The Knight Frank valuations of yielding and development assets results in a recovery of 10.6% for the 2029 Notes, with the 2029 Notes receiving nil repayment of principal debt in the Knight Frank Valuation Case. The 10.6% recovery is entirely from PIK interest which is due and payable as at 31 July 2025 per the Restructuring Plan. There are no proceeds available in Q4/26 (after the final asset disposals) to allow any further repayment of 2029 Notes. There is also a significant shortfall to the 2027 Notes. All of this is set out in the table below.

*Figure 19: Knight Frank Valuation Case: SUNs recoveries based on Knight Frank valuations for yielding assets and development assets (as at the assumed Restructuring Plan sale dates)<sup>47</sup>*

SUNs / €m	FV	2024	2025	2026	Total	Recovery
2024 Notes	445	-	445	-	445	100.0%
2025 Notes	469	-	469	-	469	100.0%
Jan-2026 Notes	787	-	79	708	787	100.0%
Nov-2026 Notes	472	-	61	411	472	100.0%
2027 Notes	586	-	69	193	262	44.8%
2029 Notes	925	-	98	-	98	10.6%
<b>Total</b>	<b>3,684</b>	<b>-</b>	<b>1,221</b>	<b>1,312</b>	<b>2,533</b>	<b>68.8%</b>
Q4/26 Outstanding Debt Balance Prior to Repayment					(1,509)	
Q4/26 Cash Available for Debt Repayment					358	
Surplus / (Deficit) To Service All Outstanding Debt					(1,151)	

## Conclusions on impact of Knight Frank Valuation Case

**4.24. Based on applying the Knight Frank valuations (as at the assumed Restructuring Plan sale dates) for both yielding assets and development assets together, the 2029 Notes would receive a significantly below par recovery under the Restructuring Plan. In fact, the 2029 Notes would not recover any principal as the recovery only relates to recovery**

<sup>47</sup> The 2029 Notes receive a payment of PIK in the amount of €98m at 31-Jul-25. Accordingly, the first 10.6% of the recovery for the 2029 Notes is the PIK received in 2025.

**of PIK interest. The 2027 Notes would also receive a significantly below par recovery on this basis.**

**4.25. I have also set out later in this section of my Report additional risks to the Restructuring Plan outcomes that are not quantified in the Knight Frank valuation work.**

### **BCG Market Model valuation approach**

4.26. BCG developed their Market Model to forecast property price developments (i.e., forecast increases or decreases in values) until 2030<sup>48</sup>. In respect of the Group's yielding portfolio, it results in an average asset price decrease of 10% in 2023 (vs Q2/22) and an average recovery of 3.1% CAGR thereafter<sup>49</sup>.

4.27. To the extent that the BCG Market Model is not able to accurately predict market values for the yielding assets as at their respective sale dates, there would be a risk to the estimated gross proceeds and in turn the estimated recoveries for SUNs. Knight Frank's valuations as at the projected sale dates are reflected in the Knight Frank Valuation Case. Accordingly, Knight Frank's work does not rely on the BCG Market Model.

4.28. I note the following in relation to the BCG Market Model:

4.28.1. BCG has stated that the multiplier aspect of their analysis was "*primarily driven by interest rate development*"<sup>50</sup>. Accordingly, interest rates assumptions will affect the forecasted value of assets at time of disposal (higher interest rates are expected to lead to a reduction in values).

4.28.2. Subsequent to BCG's calculations, the Bloomberg ECB Main Refinancing Rate forecast for Q4/23 increased by 140 basis points from 2.70% (per the BCG Comparator Report<sup>51</sup>) to 4.10%<sup>52</sup>.

4.28.3. BCG informed me that they did not update their model for the ECB Main Refinancing Rate forecast after January 2023 as they needed to conclude their model at a point in time (notwithstanding an announcement of a rate increase of 50 basis points on 2 February 2023).

4.28.4. On 16 March 2023 the ECB Main Refinancing Rate was again announced to be increasing by 50 basis points to 3.5%. At the same time, the Bloomberg interest rate forecast was also increased.

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<sup>48</sup> BCG Comparator Report (p. 38)

<sup>49</sup> BCG Comparator Report (p. 35)

<sup>50</sup> BCG Comparator Report (p. 84)

<sup>51</sup> BCG Comparator Report (p. 85)

<sup>52</sup> Bloomberg Weighted Average Forecast (accessed 16 March 2023, 15:00) [LR1/4]

4.29. I have set out these movements in forecasts in the graph and table below:

Figure 20: Comparison of ECB Main Refinancing Rate forecast per Bloomberg as at 6 March 2023, 16 March 2023 and the ECB Main Refinancing Rate forecast used by BCG per their Comparator Report<sup>53</sup>

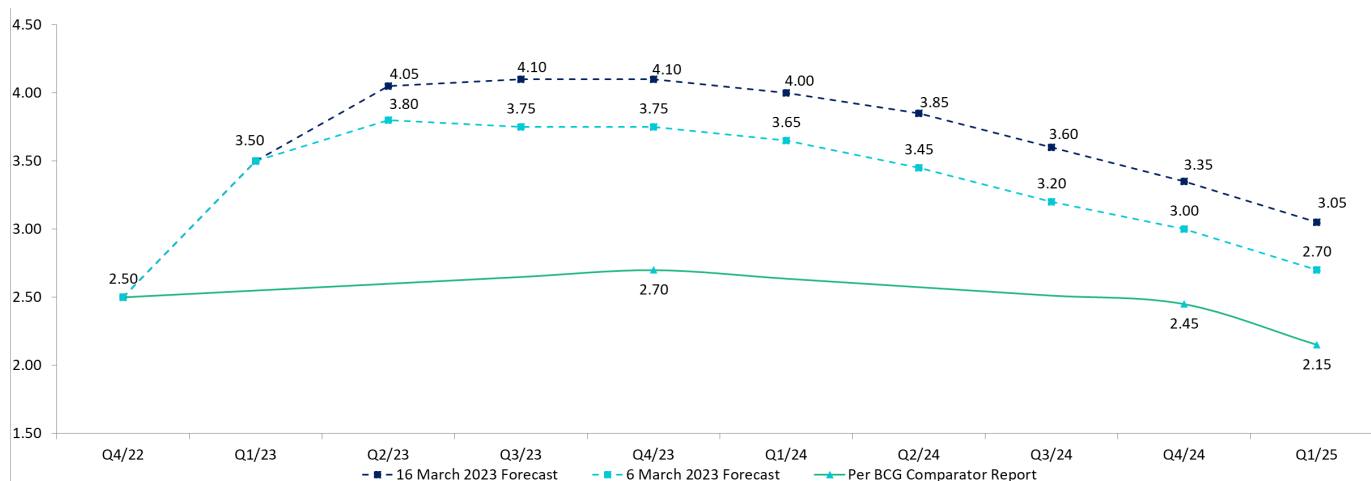


Figure 21: Jan-23 in comparison to Mar-23 ECB Main Refinancing Rate<sup>54</sup>

Rate	Source	As of	Q4/22	Q4/23	Q4/24	Q1/25
BCG Assumption	BCG Report	Jan-23	2.50	2.70	2.45	2.15
BCG Assumption + 125 bps	BCG Report	Jan-23	3.75	3.95	3.70	3.40
ECB Main Refin. Rate	Bloomberg	06 Mar 2023	2.50	3.75	3.00	2.70
ECB Main Refin. Rate + 125 bps		06 Mar 2023	3.75	5.00	4.25	3.95
ECB Main Refin. Rate	Bloomberg	16 Mar 2023	2.50	4.10	3.35	3.05
ECB Main Refin. Rate + 125 bps		16 Mar 2023	3.75	5.35	4.60	4.30
<b>Δ BCG Market Model (6 March Forecast) + 125 bps assumption</b>			<b>0.00</b>	<b>(1.05)</b>	<b>(0.55)</b>	<b>(0.55)</b>
<b>Δ BCG Market Model (16 March Forecast) + 125 bps assumption</b>			<b>0.00</b>	<b>(1.40)</b>	<b>(0.90)</b>	<b>(0.90)</b>

4.30. The interest rate assumption that BCG apply to the Market Model is the Bloomberg ECB Main Refinancing Rate forecast plus 125 basis points. The 125 basis points represents the additional financing costs (i.e., the ‘spread’), above the ECB Main Refinancing Rate assumed by BCG in their Comparator Report. I note that they estimate the spread of the additional financing cost to be 125-150 basis points.

4.31. As summarised in the table above, the Bloomberg ECB Main Refinancing Rate forecast is expected to remain 90 basis points above those BCG has assumed at Q4/24 (from 2.45% in the BCG Comparator Report to 3.35%) and Q1/25 (from 2.15% in the BCG Comparator

<sup>53</sup> BCG Comparator Report (p. 85), Bloomberg Weighted Average Forecast (accessed 6 March 2023, 15:00) [LR1/3], Bloomberg Weighted Average Forecast (accessed 16 March 2023, 15:00) [LR1/4]

<sup>54</sup> BCG Comparator Report (p. 85), Bloomberg Weighted Average Forecast (accessed 6 March 2023, 15:00) [LR1/3], Bloomberg Weighted Average Forecast (accessed 16 March 2023, 15:00) [LR1/4]

Report to 3.05%). Per the BCG Comparator Report, Q4/24 is the period within which three of the Group's yielding asset portfolios are due to be sold.

4.32. I also note the following in relation to the interest rate assumptions:

4.32.1. BCG has informed me that, despite BCG's table indicating a Bloomberg forecast to 2030<sup>55</sup>, the table erroneously contains the IHS Markit intelligence number of 2.0% carried forward<sup>56</sup>. This therefore represents a single source of forecast, not corroborated by Bloomberg or another source, given at the time of the BCG analysis Bloomberg did not forecast beyond Q1/25.

4.32.2. The BCG Comparator Report states that the Survey of Monetary Analysts forecasts the ECB main interest rate at 2.5% for 2025 and 2026 and 2.38% in the long term<sup>57</sup>. However, BCG has assumed a rate of 2.0% during 2026 (based on IHS Markit as described above).

4.33. As BCG has stated in the BCG Comparator Report, interest rates are a primary driver of real estate value<sup>58</sup>. This relationship is also explained in the Adler Group Annual Report for the year ended 31 December 2021, which states that: "The current economic environment is characterised by low *interest rates* [the ECB Main Refinancing Rate in December 2021 was 0%<sup>59</sup>] and comparatively high valuations of residential real estate portfolios in Germany. A change in general interest rate levels may increase our financing costs, and the values of our properties and the prices at which we are able to sell our properties may decrease"<sup>60</sup>.

4.34. Accordingly, if all else is held equal, higher interest rates increase the cost of finance, and the value of real estate assets would be expected to reduce.

4.35. BCG advised me that they did not undertake a 'sensitivity analysis' of their Market Model<sup>61</sup>. By 'sensitivity analysis', I mean varying a key input (e.g., interest rates, as I describe the above table) to understand the potential impact of small changes to determine whether these are material to outcomes.

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<sup>55</sup> BCG Comparator Report (p. 85)

<sup>56</sup> Meeting of Advisors (including BCG, PJT, and FTI) on 13 March 2023

<sup>57</sup> BCG Comparator Report (p. 85)

<sup>58</sup> BCG Comparator Report (p. 84)

<sup>59</sup> European Central Bank - Key ECB interest rates

([https://www.ecb.europa.eu/stats/policy\\_and\\_exchange\\_rates/key\\_ecb\\_interest\\_rates/html/index.en.html](https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html)), accessed 17 March 2023) [LR1/5-9]

<sup>60</sup> Adler Group Annual Report year ended 31 December 2021 [LR1/10-297]

<sup>61</sup> Meeting of Advisors (including Akin Gump, BCG, Knight Frank, W&C, PJT, and FTI) on 2 March 2023

- 4.36. However, BCG did undertake cross-checks of their Market Model outputs. This included a review of analyst forecasts in comparison to the outlook arising from their analysis, which is illustrated in the graph below.
- 4.37. I have not received the BCG Market Model because I understand it to be BCG's proprietary analysis; I therefore requested that BCG undertake an illustrative sensitivity to show the Market Model outputs<sup>62</sup> that reflect the Bloomberg ECB Main Refinancing Rate Forecast as at 6 March 2023.
- 4.38. I have been advised by W&C that it would be inappropriate for BCG to undertake the requested analysis, noting that it was not clear that modifying one series of input data without also considering the need to update other inputs would be appropriate. W&C further noted that this could be a potentially very time-consuming exercise, and that it would be inappropriate for BCG to undertake it at FTI's<sup>63</sup> request.
- 4.39. I therefore believe that it is appropriate to consider a sensitivity to the Market Model outcomes given the material risk related to the interest rate assumptions explained above and because BCG indicated that the German real estate market has a lack of long-term forecasts<sup>64</sup>.
- 4.40. The graph below is replicated from the BCG Report. It illustrates analyst forecasts and plots these alongside BCG's Market Model outlook curve (indexed to Q2/22 being 100).
- 4.40.1. BCG advised us that no relevant analyst forecasts were identified for 2025 and 2026 (when a significant amount of the assets are projected to be sold under the Restructuring Plan, from which the 2029 Notes are due to be repaid).
- 4.40.2. In relation to 2024, the BCG Market Model outlook curve tracks the Kempen datapoint of 92 (an asset value recovery versus 90 in 2023); this is a forecast prepared for the Group by Kempen. The only other 2024 forecast is the BNP/LEG datapoint of 88 (an asset value decrease since 2023); this is a publicly available analyst forecast.
- 4.40.3. The dotted line on the graph below illustrates a potential market outlook curve based on the starting point of the BNP/LEG forecast with BCG's annual growth assumption applied. In other words, this dotted line indicates the market outlook if the BNP/LEG view of 2024 is the correct starting point for that year and the BCG annual growth of 3.1% is accurate from that point onwards. This dotted line is used in respect of my Illustrative Sensitivity 2 (see below).

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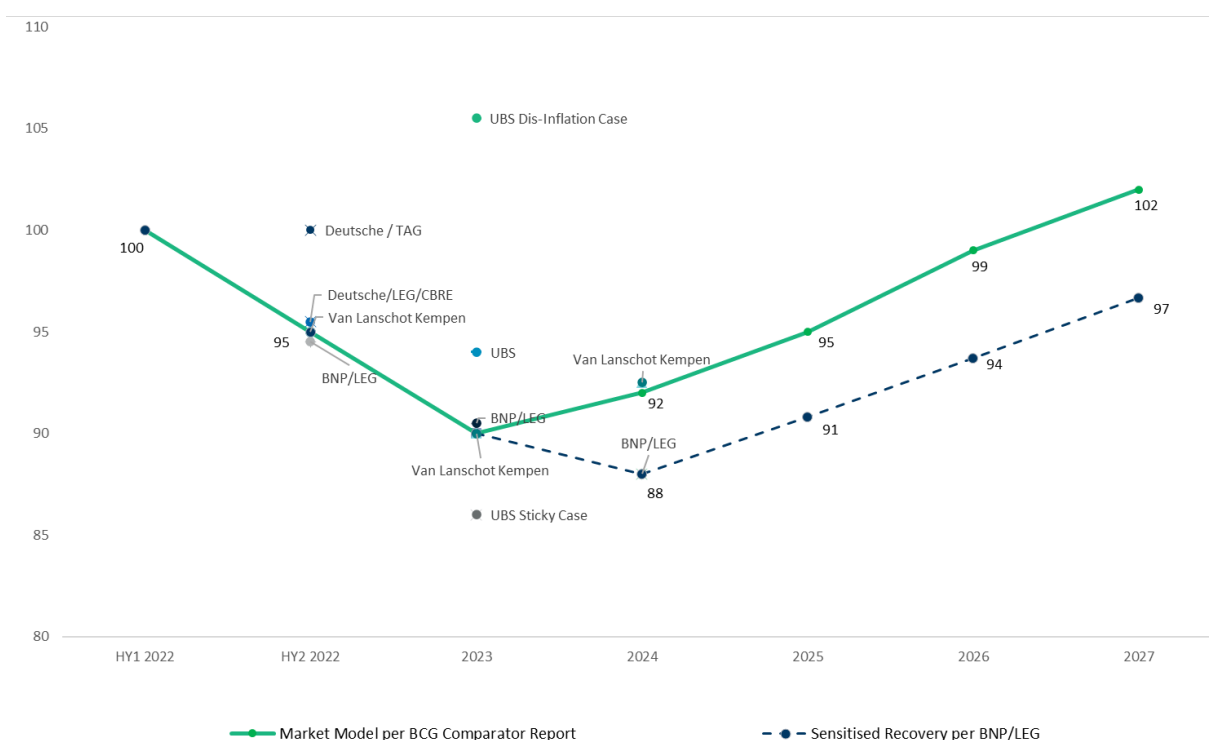
<sup>62</sup> E.g. an updated model outlook graph (as per page 41 of the BCG Comparator Report)

<sup>63</sup> Letter from W&C to Akin Gump and Gleiss Lutz dated 8 March 2023

<sup>64</sup> Meeting of Advisors (including Akin Gump, BCG, Knight Frank, W&C, PJT, and FTI) on 2 March 2023



Figure 22: Comparison of BCG Market Model outlook and a sensitised recovery based on the 2024 BNP/LEG analyst forecast and applying BCG's 2023-2030 CAGR thereafter



4.41. I conclude that BCG has been required to develop their own proprietary forecast model. A key component of their Market Model is interest rates, which have materially changed since the preparation of the Comparator Report. As described in the Knight Frank Report, interest rates are a key driver of value in real estate given the effect on financing asset purchases via debt.

4.42. I have therefore decided to present an illustrative sensitivity designed to reflect this risk in the following section.

## Illustrative quantified sensitivities

### Introduction

4.43. As summarised above, there are potential limitations to the BCG Market Model.

4.44. The Knight Frank Valuation Case does not rely on a market model, it presents the Knight Frank views of the valuations as at the assumed Restructuring Plan sale dates. The Knight Frank valuation approach comprised determining their valuation as at March 2023 and then applying professional judgement based on understanding of the market, current transactions, anticipated market rent trends, macroeconomic forecasts and nature of the assets in each portfolio. These valuations show that the BCG Market Model results in a more optimistic view of market recovery than Knight Frank.



- 4.45. Considering the above, I have undertaken two illustrative sensitivities to the Knight Frank Valuation Case to provide additional insight and test Knight Frank's forecast valuations against the BCG Market Model growth assumptions.

#### Illustrative Sensitivity 1

- 4.46. In addition to their valuations as at the assumed Restructuring Plan sale dates, Knight Frank also provided their valuations of yielding assets as at Q2/22 (i.e., before any forecast assumptions are applied to gross disposal proceeds).
- 4.47. Illustrative Sensitivity 1 substitutes GAV Q2/22 valuations per the BCG Comparator Report with Knight Frank Q2/22 valuations. The BCG Market Model growth rates are then applied to the Knight Frank valuations. The output is therefore an illustrative gross proceeds value as at the date of sale per the Restructuring Plan, based on Knight Frank Q2/22 valuations and BCG's view of market outlook.
- 4.48. I have set out below a comparison of the gross proceeds per the BCG Comparator Report and Illustrative Sensitivity 1.

Figure 23: Q2/22 Knight Frank valuations with BCG Market Model growth assumptions, compared to the BCG Comparator Report used in (Illustrative Sensitivity 1)<sup>65</sup>

€m	BCG Comparator Report	Illustrative Sensitivity 1	Δ	Δ%
<b>Restructuring Plan - Gross Proceeds</b>				
Yielding Assets	5,185	4,319	(866)	(16.7%)
Development Assets	1,934	1,497	(437)	(22.6%)
<b>Total Gross Proceeds</b>	<b>7,119</b>	<b>5,816</b>	<b>(1,303)</b>	<b>(18.3%)</b>

- 4.49. My team has undertaken analysis which reflects the recoveries to the SUNs from the above gross proceeds. The development assets gross proceeds are as per the Knight Frank Valuation Case whereas the yielding assets are based on Knight Frank Q2/22 valuations with BCG Market Model growth assumptions. No other adjustments have been made. This results in the SUNs recoveries set out in the table below:

<sup>65</sup> Valuations are prepared on a GAV, like-for-like, prior to any other adjustments (e.g. capital expenditure, deferred taxes etc).

Figure 24: SUNs recoveries based on Illustrative Sensitivity 1<sup>66</sup>

SUNs / €m	FV	2024	2025	2026	Total	Recovery
2024 Notes	445	-	445	-	445	100.0%
2025 Notes	469	-	469	-	469	100.0%
Jan-2026 Notes	787	-	79	708	787	100.0%
Nov-2026 Notes	472	-	61	411	472	100.0%
2027 Notes	586	-	69	517	586	100.0%
2029 Notes	925	-	98	62	160	17.3%
<b>Total</b>	<b>3,684</b>	<b>-</b>	<b>1,221</b>	<b>1,698</b>	<b>2,919</b>	<b>79.2%</b>
Q4/26 Outstanding Debt Balance Prior to Repayment					(1,509)	
Q4/26 Cash Available for Debt Repayment					744	
Surplus / (Deficit) To Service All Outstanding Debt					(765)	

- 4.50. This illustrative sensitivity shows a recovery of 17.3% to the 2029 Notes. Therefore, even applying BCG's more optimistic growth assumptions to Knight Frank Q2/22 valuations still leads to a significantly less than par recovery on the 2029 Notes.

#### Illustrative Sensitivity 2

- 4.51. As set out above, in relation to Figure 22, the BCG Market Model outlook was consistent with the Kempen forecast for 2024, this was more optimistic than the BNP/LEG analyst forecast for 2024.
- 4.52. Figure 22 illustrated a market outlook consistent with a 2024 starting point of the BNP/LEG analyst forecast (see dotted line). This is also summarised in the table below.

Figure 25: Sensitised BCG Market Model, indexed at Q2/22 GAV

Index (100 = Q2/22 GAV)	Q2/22	Q4/22	2023	2024	2025	2026
BCG Market Model	100	95	90	92	95	99
Sensitised BCG Market Model	100	95	90	88	91	94
Delta	-	-	-	(4)	(4)	(5)

- 4.53. Illustrative Sensitivity 2 is based on the above data and represents a sensitivity to the BCG Market Model assumptions. Illustrative Sensitivity 2 reflects a longer and deeper market discount than the BCG Market Model itself, beginning to recover in 2025 as versus the BCG model which begins to recover in 2024.
- 4.54. I note that Illustrative Sensitivity 2 is not necessarily a worse case scenario, particularly given the increase in interest rate forecasts since the BNP/LEG analyst forecast was prepared in November 2022.

<sup>66</sup> The 2029 Notes receive a payment of PIK in the amount of €98m at 31-Jul-25. Accordingly, the first 10.6% of the recovery for the 2029 Notes is the PIK received in 2025.

- 4.55. Using the Knight Frank Q2/22 yielding asset valuations I apply the above sensitised BCG Market Model assumptions. The development assets gross proceeds are as per the Knight Frank Valuation Case.
- 4.56. I have set out below a comparison of the gross proceeds per the BCG Comparator Report and Illustrative Sensitivity 2.

Figure 26: Q2/22 Knight Frank valuations with sensitised BCG Market Model growth assumptions, compared to the BCG Comparator Report (used in Illustrative Sensitivity 2)

€m	BCG Comparator Report	Illustrative Sensitivity 2	Δ	Δ%
<b>Restructuring Plan - Gross Proceeds</b>				
Yielding Assets Gross Proceeds	5,185	4,093	(1,092)	(21.1%)
Development Assets	1,934	1,497	(437)	(22.6%)
<b>Total Gross Proceeds</b>	<b>7,119</b>	<b>5,590</b>	<b>(1,529)</b>	<b>(21.5%)</b>

- 4.57. My team has undertaken analysis which reflects the recoveries to the SUNs based on the above Illustrative Sensitivity 2 gross proceeds assumptions. The table below shows overall recoveries for the SUNs:

Figure 27: SUNs recoveries based on Illustrative Sensitivity 2<sup>67</sup>

SUNs / €m	FV	2024	2025	2026	Total	Recovery
2024 Notes	445	-	445	-	445	100.0%
2025 Notes	469	-	469	-	469	100.0%
Jan-2026 Notes	787	-	79	708	787	100.0%
Nov-2026 Notes	472	-	61	411	472	100.0%
2027 Notes	586	-	69	382	451	76.9%
2029 Notes	925	-	98	-	98	10.6%
<b>Total</b>	<b>3,684</b>	<b>-</b>	<b>1,221</b>	<b>1,501</b>	<b>2,722</b>	<b>73.9%</b>
Q4/26 Outstanding Debt Balance Prior to Repayment					(1,509)	
Q4/26 Cash Available for Debt Repayment					547	
Surplus / (Deficit) To Service All Outstanding Debt					(962)	

- 4.58. As shown in the table above, our Illustrative Sensitivity 2 shows recoveries for the 2029 Notes of 10.6%, and recoveries for the 2027 Notes of 76.9% in a scenario where Knight Frank Q2/22 valuations are subject to a sensitised version of BCG growth assumptions. In the Knight Frank Valuation Case the recoveries for the 2029 Notes are 10.6% and the recoveries for the 2027 Notes are 44.8%. Therefore, Illustrative Sensitivity 2 reflects a

<sup>67</sup> The 2029 Notes receive a payment of PIK in the amount of €98m at 31-Jul-25. Accordingly, the first 10.6% of the recovery for the 2029 Notes is the PIK received in 2025.

**somewhat more optimistic recovery outlook than that in the Knight Frank Valuation Case, but nevertheless 2029 Notes and 2027 Notes remain impaired.**

- 4.59. I have also considered the outcomes where the sensitised BCG Market Model assumptions are applied to the CBRE valuations used by BCG. This results in a €0.2bn erosion of the €0.4bn surplus estimated in the BCG Comparator Report.

### **Other (unquantified) risks to the Restructuring Plan outcomes**

- 4.60. The impact of the Knight Frank Valuation Case (and the illustrative sensitivities to this) on SUNs recoveries, as set out in the above sections, is significant.
- 4.61. In addition to this, based on my review, I have assessed other material risks to the Restructuring Plan outcomes. These risks are set out in this section of my Report as follows:
- 4.61.1. Maturity wall in August 2025;
  - 4.61.2. Deferred Tax Liabilities;
  - 4.61.3. Rent increases on yielding assets;
  - 4.61.4. BCP valuation and operating losses; and
  - 4.61.5. BCP intercompany repayment.

### **Maturity wall in August 2025**

- 4.62. In the Group's Restructuring Plan scenario, the real estate investor market in Germany would be likely to be familiar with the broad terms of the Restructuring and although the shorter-term maturities will have been addressed, a maturity wall would still exist of €2.3bn<sup>68</sup> due to be repaid by 31 August 2025, in addition to the €0.9bn other loans and borrowings that is forecast to be repaid by the Group from asset disposal proceeds in the period Q4/22 to Q4/24<sup>69</sup>. Potential buyers may seek to take advantage of this position, particularly where there is a lack of competitive tension.
- 4.63. The first witness statement of Mr Trozzi makes a similar point: *"The public knowledge of a forthcoming maturity wall may also serve to weaken the Group's negotiating leverage with respect to future sales"*<sup>70</sup>. I note that Mr Trozzi's point was made in a different context in reference to his rationale in not bringing forward the maturities on the 2027

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<sup>68</sup> Includes New Money €938m, New Money PIK €133m, 2024 Notes €400m, 2025 Notes €400m, SUNs PIK €421m. Certain of these payments are anticipated to be made in 2023 and 2024 following assumed asset sales.

<sup>69</sup> "20230224\_Adlar Group\_Business Plan\_vsent\_updated" received 27 February 2023 [LR1/298-312]

<sup>70</sup> First Witness Statement of Andrea Trozzi dated 20 February 2023 (para. 200)

Notes and the 2029 Notes despite the BCG Comparator Report indicating that these can be repaid early.

- 4.64. Real estate investors are likely to be aware of the post Restructuring Plan SUNs maturities and they may therefore perceive that assets will need to be sold within a reasonable timeframe and seek to use this to obtain price reductions. I have not applied a specific sensitivity in respect of this risk.
- 4.65. The time pressure to realise assets could well be greater in the Restructuring Plan than the Relevant Alternative (where there are no maturity dates), and this may be reflected in the longer disposal timeframe proposed under the Relevant Alternative assumptions made by BCG<sup>71</sup>.

#### Deferred Tax Liabilities

- 4.66. The BCG Comparator Report sets out the Restructuring Plan assumption that the Group would dispose of yielding assets implemented via a sale of shares with Deferred Tax Liabilities shared 50/50 between buyer and seller<sup>72</sup>. This assumption results in a deduction to proceeds of €0.3bn in relation to the sale of yielding assets<sup>73</sup>.
- 4.67. BCG provided a rationale for this assumption and explained that a 50/50 allocation in a share deal is a standard assumption and is a fairly common approach<sup>74</sup>. This means that there is a purchase price adjustment such that the buyer only deducts 50% of the Deferred Tax Liability from the price that they are willing to pay, rather than 100%. BCG explained that the Group had completed two transactions in the last two years where the buyer took the full amount of the Deferred Tax Liabilities.
- 4.68. Knight Frank advised me that “in good times” a buyer will sometimes take the full amount of the Deferred Tax Liabilities, and that when share deals are more difficult that there can be rather more of a discount (i.e., the seller retaining more than 50% of the liability). Knight Frank advised that 50/50 is a reasonable base case.
- 4.69. I have confirmed my understanding (via discussion with my real estate tax colleagues), that should disposals be transacted on an asset basis rather than a sale of
- 4.70. shares, the full amount of the Deferred Tax Liability would be payable by the seller.
- 4.71. I have concluded, based on my review of the above factors, that although there may be some risk in the deferred tax assumption due to the potential for not achieving share**

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<sup>71</sup> BCG Comparator Report (p. 35, 75)

<sup>72</sup> BCG Comparator Report (p. 36)

<sup>73</sup> BCG Comparator Report (p. 42)

<sup>74</sup> Meeting of Advisors (including Akin Gump, BCG, Knight Frank, W&C, PJT, and FTI) on 2 March 2023

**deals, the existing assumption appears to be reasonably balanced and therefore a sensitivity for this assumption is not reflected in my analysis.**

#### Rent increases on yielding assets

- 4.72. I have considered the assumptions set out in the BCG Comparator Report<sup>75</sup> in relation to assumed rent increases and discussed these assumptions with BCG.
- 4.73. I understand from discussion with BCG that the Group has not increased rents much in recent years which means that they consider that there is scope to increase rents in accordance with their stated assumptions and remain within the rent control index.
- 4.74. Knight Frank consider that there may be some doubt as to the ability of the Group's management to undertake rent increases to a greater extent than in recent years while undertaking a solvent wind-down process.
- 4.75. However, any sensitivities in respect of net operating income over the wind-down period may not be material. Therefore, **I have not illustrated any sensitivities to net operating income in respect of the rent increase assumptions.** I understand that Knight Frank has considered rental income in relation to their assessment of valuations.

#### BCP valuation

- 4.76. BCP is a 63% subsidiary of Adler RE. Although it is incorporated in the Netherlands and listed on the Tel Aviv Stock Exchange, consistent with the rest of the Group, BCP owns a combination of development and yielding real estate assets in Germany.
- 4.77. The BCP proceeds assumed in the Restructuring Plan are €0.6bn comprising €413m proceeds from a sale of the equity stake and an assumed €150m repayment of intercompany loan<sup>76</sup>. The Restructuring Plan assumptions for BCP are described as follows in the BCG Comparator Report:
- 4.77.1. BCP repays its intercompany loan due to Adler RE on maturity in December 2023<sup>77</sup>.
- 4.77.2. An equity sale in September 2024. The BCG Comparator Report explains the source of this assumption as follows: *"purchase price assumption made based on process run by an internationally recognised investment bank and valuation dated 8 February 2023"*<sup>78</sup>.

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<sup>75</sup> BCG Comparator Report (p. 37)

<sup>76</sup> BCG Comparator Report (p. 35)

<sup>77</sup> BCG Comparator Report (p. 35)

<sup>78</sup> BCG Comparator Report (p. 35)

- 4.78. The BCG Comparator Report does not contain any further material information in relation to the assumed BCP value in the Restructuring Plan. W&C has provided a one-page valuation summary dated 8 February 2023 prepared by Van Kempen<sup>79</sup>. W&C confirmed that *“the BCP Valuation provided to you is the sole document BCG has relied on to value BCP for the purposes of the Comparator Report”*<sup>80</sup>.
- 4.79. The approach taken by Kempen is to take the book value of equity from Q3/22 and apply certain adjustments in relation to factors such as debt; revaluation of development assets which are accounted for at cost; disposals; a market discount of 8.5% on yielding assets and an associated Deferred Tax Liability adjustment.
- 4.80. The majority of the equity book value of BCP is partly underpinned by CBRE valuations for yielding assets<sup>81,82</sup>.
- 4.81. Knight Frank has not undertaken a valuation of BCP’s underlying assets, as given the time available Knight Frank has prioritised the two larger sources of value (the Group’s yielding and development assets). However, Knight Frank has advised me that the BCP yielding assets are similar in characteristics and regional locations to portfolio 1. Knight Frank has adjusted the opening GAV of portfolio 1 downwards by 15% in their valuation.
- 4.82. I also note that the BCP valuation approach does not appear to include the risk of BCP incurring losses in the period up to the assumed disposal, despite BCP incurring losses in three of the last four reported quarters<sup>83</sup>.
- 4.83. While there is a risk that the proceeds from a sale of Adler RE’s shareholding in BCP is overstated (particularly given the high-level valuation relied on and the potential read-across to portfolio 1 discounts), on the basis that BCP is not a material source of value, and Knight Frank have been unable to undertake a detailed valuation of BCP’s assets, this has not been included within the sensitivity analysis.**

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<sup>79</sup> BCP Valuation update by Van Lanschot Kempen NV dated 8 February 2023 [LR1/313-315]

<sup>80</sup> Letter from W&C to Akin Gump and Gleiss Lutz dated 1 March 2023

<sup>81</sup> BCP Board of Directors Report, Q3/22 30 September 2022 [LR1/355-439] (p. 30) states that the assets valued by CBRE constitutes 82.1% of total assets in the BCP balance sheet.

<sup>82</sup> BCP Interim Financial Statements dated 30 September 2022 [LR1/316-354] (p. 30) states that investment property is measured by fair value according to the valuations carried out as of the report date by an external appraiser except assets that were classified as part of disposal groups held for sale which were measured according to their expected price.

<sup>83</sup> BCP Board of Directors Report, Q3/22 dated 30 September 2022 [LR1/355-439] (p. 2); BCP Board of Directors Report, Q2/22 dated 30 June 2022 [LR1/440-518] (p. 2); BCP Board of Directors Report, Q1/22 dated 31 March 2022 [LR1/519-580] (p. 2); BCP Board of Directors Report, Q4/22 dated 31 December 2022 [LR1/581-731] (p. 2)

### BCP intercompany repayment

- 4.84. As noted in the BCP valuation section above, it is assumed in the Restructuring Plan that BCP repays its intercompany loan to Adler RE in December 2023 as it becomes due<sup>84</sup>.
- 4.85. The consolidated cash balance for BCP and its subsidiaries as at 30 September 2022 was €172.5m as reported in the BCP Board of Directors' Report Q3/22<sup>85</sup>. This Report also sets out that BCP are examining a sale of 30% - 35% of its entire asset portfolio at a discount to fair value; this is in order to meet liquidity needs<sup>86</sup>.
- 4.86. Further, this Report also states that without qualifying the review report, the auditors drew attention to uncertainty concerning the delivery of management's plans for the payment of BCP's obligations. However, the board of BCP noted that having examined the projected cash flow for the period to September 2024 BCP is expected to repay its obligations during the projected period. The €150m intercompany liability due to Adler RE is included within the anticipated obligations in the projected period<sup>87</sup>.
- 4.87. Based on my review of the above, it appears that there is some risk to the assumed timing of the €150m BCP intercompany repayment. This has not been included within the sensitivity analysis given it is likely to be a timing point, rather than a value point.**

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<sup>84</sup> BCG Comparator Report (p. 35)

<sup>85</sup> BCP Board of Directors Report, Q3/22 dated 30 September 2022 [LR1/355-439] (p. 3)

<sup>86</sup> BCP Board of Directors Report, Q3/22 dated 30 September 2022 [LR1/355-439] (p. 4)

<sup>87</sup> BCP Board of Directors Report, Q3/22 dated 30 September 2022 [LR1/355-439] (p. 15-16)



## 5. Relevant Alternative outcomes

### Introduction

- 5.1. The BCG Comparator Report sets out a Relevant Alternative which reflects an insolvency scenario: *“insolvency in each of the three Subgroup Entities is the most likely outcome in the event of non-sanction of the Restructuring Plan”*<sup>88</sup>. The Subgroup Entities being the holding companies of the three main divisions of the Group, being Parent, Adler RE and Consus. It is also envisioned that there would be liquidations at certain PropCo entity levels<sup>89</sup>.
- 5.2. For the purposes of the drafting of this section of my Report I have assumed that the Relevant Alternative as set out in the BCG Comparator Report is the Relevant Alternative.
- 5.3. Certain of the key high-level BCG assumptions for the Relevant Alternative include:
- 5.3.1. Asset disposals over two phases: Phase 1 starting March 2023 through to March 2024 and Phase 2 between Q2/24 through to Q4/27 in order to benefit from market recovery<sup>90</sup>.
- 5.3.2. The real estate value assumptions are lower in the Relevant Alternative than the Restructuring Plan based on insolvency discounts and differing market discounts. For example:
- Development assets (excluding Forward Sales) are assumed to be 23% (~€0.4bn) lower in the Relevant Alternative than the Restructuring Plan<sup>91</sup>.
  - Yielding assets are assumed to be 24% (~€1.2bn) lower in the Relevant Alternative than the Restructuring Plan on a gross proceeds basis<sup>92</sup>.
  - BCP equity proceeds are assumed to be 20% (~€80m) lower in the Relevant Alternative than the Restructuring Plan<sup>93</sup>.
- 5.4. The projected outcomes to SUNs in the Relevant Alternative as a result of applying the BCG Relevant Alternative assumptions is 63%. The analysis represents a pro-rata distribution of value to the SUNs on a pari passu basis; this is clear from page 31 of the

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<sup>88</sup> BCG Comparator Report (p. 55)

<sup>89</sup> BCG Comparator Report (p. 74-75)

<sup>90</sup> BCG Comparator Report (p. 75)

<sup>91</sup> BCG Comparator Report (p. 78). This excludes Forward Sales.

<sup>92</sup> Per 20230314\_59.2\_RA\_Asset\_Valuation\_vUpdate.xlsx [LR1/732-744]

<sup>93</sup> BCG Comparator Report (p. 71)

BCG Comparator Report which sets out that each series of the SUNs receives a 63% recovery.

## Knight Frank Relevant Alternative valuation

5.5. The table below reflects the impact of the following on the outcomes for the SUNs:

5.5.1. The Knight Frank view on Relevant Alternative values for yielding assets i.e., a 5% insolvency discount, based on BCG assumptions on market movements.

5.5.2. The Knight view on Relevant Alternative values for development assets.

5.6. The estimated recovery for unsecured creditors at Parent in the BCG Comparator Report<sup>94</sup> and per the Knight Frank valuations is shown below.

Figure 28: Recoveries in Relevant Alternative per BCG and per Knight Frank valuations<sup>95</sup>

€m	Relevant Alternative Recoveries Per BCG Comparator Report			Relevant Alternative Recoveries Per Knight Frank Valuations		
	Claim	Recoveries	%	Claim	Recoveries	%
SSD	25	16	63.2%	25	14	56.1%
Convertible SUNs	102	65	63.2%	102	57	56.1%
SUNs July 2024	400	253	63.2%	400	224	56.1%
SUNs August 2025	400	253	63.2%	400	224	56.1%
SUNs January 2026	700	443	63.2%	700	393	56.1%
SUNs November 2026	400	253	63.2%	400	224	56.1%
SUNs April 2027	500	316	63.2%	500	280	56.1%
SUNs January 2029	800	506	63.2%	800	449	56.1%
New Money - Fees	45	28	63.2%	45	25	56.1%
Other Unsecured	24	15	63.2%	24	13	56.1%
<b>Total Debt</b>	<b>3,396</b>	<b>2,148</b>	<b>63.2%</b>	<b>3,396</b>	<b>1,905</b>	<b>56.1%</b>

5.7. The outcome for the SUNs in the Relevant Alternative using the Knight Frank valuation inputs is estimated to be 56.1%; broadly, this is not too dissimilar to the 63.2% in the BCG Comparator Report.

5.8. The reason that the outcomes are not too dissimilar, is that in the Relevant Alternative, the Knight Frank valuations for yielding assets are i) lower than the headline values in the BCG Comparator Report, but ii) they are subject to proportionately lower insolvency specific discounts. The net outcome is similar.

<sup>94</sup> BCG Comparator Report (p. 80)

<sup>95</sup> BCG Unsecured Recoveries per the BCG Comparator Report (p. 80)

## Assessment of insolvency discount assumptions

- 5.9. BCG has assumed material insolvency discounts which they refer to as the ‘insolvency effect’ for each of the yielding assets, development assets, and BCP in the Relevant Alternative<sup>96</sup>. In this section I assess the rationale for these assumed discounts and set out why I consider the insolvency effect to be overstated, with reference to the Group.
- 5.10. The BCG Comparator Report cites the following reasons as contributing to the insolvency effect in the Relevant Alternative<sup>97</sup>:
- 5.10.1. Fire sales: certain secured lenders are assumed to demand immediate repayment of their loans, forcing an administrator to liquidate secured assets even at steep discounts to GAV.
  - 5.10.2. ‘Taint of insolvency’: negative market perception as the administrator is perceived as being required to sell the assets within a reasonable timeframe.
  - 5.10.3. Limited representations and warranties: administrator will not provide representations and warranties, leading to buyers being required to factor any risks in the purchase price.
  - 5.10.4. Limited competition: insolvency limits interested parties to mostly opportunistic buyers where financial investors face less competition due to reduced market liquidity as former competitors have reduced their buying activity.
- 5.11. I have addressed each of these points in turn below:

### Fire sales

- 5.12. I would agree that sometimes an insolvency may result in fire sales of assets. The extent to which an insolvency may require fire sales of assets is typically dependent on a range of different factors including, for example, holding costs and the related liquidity position.
- 5.13. Fire sales would be more likely to be required in a real estate business in respect of complex operational aspects (such as a development asset in active stages of construction) or a yielding asset which is financially onerous. There would not typically be a rationale for fire sales in the context of net income generating yielding assets. Yielding assets account for 67% of the Group’s assets. In addition, I understand that the majority<sup>98</sup> of BCP’s assets are yielding assets.

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<sup>96</sup> BCG Comparator Report (p. 71, 76, 78)

<sup>97</sup> BCG Comparator Report (p. 76)

<sup>98</sup> Adler Group, Investor Update – 25<sup>th</sup> November 2022

5.14. The example cited by BCG, is that certain secured lenders would force an administrator to liquidate secured assets at steeper discounts to GAV<sup>99</sup>. I have discussed this assumption with i) senior restructuring colleagues at FTI Consulting in Germany; ii) Knight Frank; and iii) Gleiss Lutz (a German law firm). They have provided consistent responses which are summarised as follows:

5.14.1. An insolvency administrator in Germany does not have pressure to sell assets quickly if there is no cash flow problem.

5.14.2. An insolvency administrator in Germany is usually interested in a high recovery and not necessarily a quick cash recovery. The administrator is obligated to seek the best possible value for the asset and retains a high level of discretion in determining the best method to realise value. They are also incentivised to achieve value accordingly by receiving administrator fees which are based on a percentage of realisations.

5.14.3. It is not common for a lender to a German property asset to enforce the mortgage on that property as the sale process would then be a court run process with a public auction, which is likely to result in a lower return than what could be achieved in an orderly process with sale process undertaken by an agent. Instead, an administrator and the secured creditor would usually agree an asset realisation strategy that would maximise value in an orderly manner.

5.14.4. German lenders are initially likely to avoid mortgage enforcement and/or grant waivers as long as there is *“professional property management in place, interest and amortisation are covered and there is a realistic outlook that the bank will be repaid”*<sup>100</sup>.

5.15. Gleiss Lutz has advised that they have been involved in advising on a number of real estate insolvency situations in Germany in recent years and in their experience, they have not seen a fire sale, or sale of property assets with a specific insolvency discount. They have also advised that an insolvency administrator in Germany would typically need consent for any significant disposals from a creditor committee which would be incentivised to maximise value.

5.16. In respect of the Group’s development assets, I understand from Knight Frank that many have not seen any active development work in two years or more. Of the 22 development assets that Knight Frank reviewed, 11 have not yet started development, seven have been stopped since at least 2021 (and in several cases earlier), two projects are active, and two are completed<sup>101</sup>. That being the case, there would be less need for a

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<sup>99</sup> BCG Comparator Report (p. 76)

<sup>100</sup> Knight Frank Report (para 3.32a)

<sup>101</sup> Knight Frank Report (para. 3.113-3.117)

fire sale. Further the insolvency discount relating to a stalled development should already be factored into valuation and there should not be a material difference between the Relevant Alternative and the Restructuring Plan in this respect.

5.17. The BCG Comparator Report also notes that *“the administrator is not under immediate time pressure to sell all assets”*<sup>102</sup>. This contrasts with the Restructuring Plan where the anticipated disposal strategy is *“driven by [the] debt repayment schedule”*<sup>103</sup>.

5.18. Based on the above observations and considering the nature of the Group’s interests, I would consider that the below approach would be logical:

5.18.1. There may be a rationale to prioritise the sale of development assets. Albeit this should not be a fire sale by default; the specifics of each asset should be considered by an administrator.

5.18.2. There is a rationale to prioritise the sale of yielding PropCos with net negative cashflow. However, subject to available funds there should be a cost/benefit analysis on the discount to value compared to the losses that would be incurred. So again, not necessarily a default fire sale.

5.18.3. Fire sales should be avoided where possible on collateral holding PropCos for Lender 1, 2 & 3’s securitised loans<sup>104</sup>; I can see no rationale for these assets to be subject to fire sale given administrator duties.

5.19. Further, I note that the sale period set out for the asset disposals in the Relevant Alternative are anticipated in the BCG assumptions to run to Q4/27<sup>105</sup>. Whereas the Restructuring Plan is based on the projected sale of all yielding assets by Q4/26 and all development assets by Q4/25. Therefore, it seems incongruous to assume material discounts as a result of fire sales in the scenario which contemplates a more elongated disposal timeframe based on the assumptions set out in the BCG Comparator Report.

#### Taint of insolvency

5.20. Many of the points set out in relation to fire sales are also relevant to the rationale for the discount due to ‘taint of insolvency’, given this was referred to as *“market perception assumed to remain ‘negative’ as the administrator is being perceived as being required to sell the assets within reasonable timeframe”*<sup>106</sup>. In particular, I would note that:

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<sup>102</sup> BCG Comparator Report (p. 76)

<sup>103</sup> BCG Comparator Report (p. 42)

<sup>104</sup> BCG Comparator Report (p. 75)

<sup>105</sup> BCG Comparator Report (p. 75)

<sup>106</sup> BCG Comparator Report (p. 76)

5.20.1. The asset disposal period in the Restructuring Plan is shorter than the Relevant Alternative.

5.20.2. Real estate investors are likely to be aware of the post Restructuring Plan SUNs maturities and they may therefore perceive that assets will need to be sold within a reasonable timeframe and seek to use this to obtain price reductions.

5.21. Therefore, I would consider that there should not be a need for a material discount in the Relevant Alternative as compared with the Restructuring Plan in respect of this point.

5.22. There may even be some buyers in specific situations who may prefer to purchase assets from an insolvency administrator due to a perception of certainty e.g., in relation to clawback risks.

#### Limited representations and warranties

5.23. I have received input from Knight Frank on the likely importance of representations and warranties to buyers in acquiring the yielding asset portfolios. Knight Frank has advised that the three typical asks of a buyer would be i) title guarantee; ii) confirmation as to rental receipts; and iii) confirmation of full disclosure as to all buildings damage.

5.24. The BCG Comparator Report appears to indicate that title guarantees would be granted by an insolvency administrator (given reference to provision of warranties such as ownership and capacity to transact<sup>107</sup>).

5.25. Knight Frank advise that a buyer would be able to purchase title insurance, as well as undertake additional due diligence to satisfy themselves as to rental receipts and buildings damage, and therefore discounts arising due to the lack of representations and warranties should not be material, and likely to be below 1% of GAV.

5.26. Knight Frank also noted that buyers may query the value of representations and warranties from a refinanced Adler Group undertaking a solvent wind-down in accordance with the Restructuring Plan scenario. Therefore, the differential between the Restructuring Plan and the Relevant Alternative in respect of this matter should not be material.

5.27. I have also received input on this topic from my real estate tax colleagues, based on their extensive experience of real estate transactions. They confirmed the three typical representations and warranties 'asks' which Knight Frank mentioned. They also confirmed that they often see title guarantees covered by insurance and they agreed that

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<sup>107</sup> BCG Comparator Report (p. 76)

buyers can obtain comfort on both rental income and condition of buildings via appropriate diligence.

- 5.28. Based on my assessment of the above points, I conclude that the impact of limited representations and warranties could be managed by buyers with enhanced diligence, albeit buyers may seek to use this as a negotiating tactic to request a discount. The extent to which an insolvency administrator can push back on such negotiation tactics would largely be driven by the extent of competitive tension in a sale process (see below).

#### Limited competition

- 5.29. The final rationale for insolvency discount referenced in the BCG Comparator Report relates to insolvency potentially narrowing the interested buyer pool, particularly in the current market of reduced liquidity<sup>108</sup>.
- 5.30. I agree that insolvency can narrow a buyer pool in certain circumstances. However, the extent to which this may be the case varies according to the nature of business and/or asset that is being purchased. In respect of the Group's yielding portfolios (the largest source of value), this is a relatively straightforward asset class i.e., an established residential property portfolio where the asset and its associated rental income can be ascertained by buyer diligence. Further, the reference to a reduced liquidity market applies at least equally to the Restructuring Plan scenario given the disposal programme in that scenario is assumed to be completed 12 months earlier than in the Relevant Alternative.

#### Other considerations on the insolvency effect discount

- 5.31. BCP equity valuation:

- 5.31.1. The sale of the Group's equity stake in BCP in the Relevant Alternative presented in the BCG Comparator Report is subject to a 20% insolvency effect discount applied to the equity interest given the administrator is assumed to be in a less favourable negotiation position<sup>109</sup>.
- 5.31.2. Based on a review of the Knight Frank Report, the 5% insolvency discount proposed in relation to the rest of the Group's assets also appears reasonable in respect of BCP. However, on the basis of BCP being a less material source of value in the Relevant Alternative than the rest of the Group's assets, and therefore out of scope

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<sup>108</sup> BCG Comparator Report (p. 76)

<sup>109</sup> BCG Comparator Report (p. 71)

in the analysis undertaken by Knight Frank, the BCP assumptions are unchanged in my analysis (i.e., held constant at the BCG assumptions).

5.32. Other assumptions:

5.32.1. There are a wide range of other assumptions and calculations which form part of the Relevant Alternative analysis undertaken by BCG e.g., in relation to aspects such as insolvency fees, process costs and default interest. I have considered certain other assumptions at a relatively high level and concluded that they are unlikely to be material to outcomes in comparison to the valuation of yielding and development assets. Accordingly, in my calculations these assumptions are unchanged from BCG's approach.

Conclusions on insolvency discount rationale

5.33. There are a number of reasons set out above as to the rationale for the insolvency discount being less than that presented in the BCG Comparator Report, and reasons why the gap between projected sale proceeds under the Relevant Alternative as compared with under the Restructuring Plan may well be relatively narrow. In summary:

5.33.1. An administrator has a responsibility to seek to maximise value (to the extent practicable) and a creditors' committee must approve material disposals. A creditors' committee would have a rationale to seek to maximise value and may object to a fire sale of the assets.

5.33.2. The administrator has no time pressure to sell assets quickly or to any specified timeline (albeit an assessment of holding costs versus potential proceeds would be expected to form part of an administrator assessment); an administrator could be expected to approach a disposal of assets of this nature in an orderly manner. However, under the Restructuring Plan assets need to be sold in order to meet debt repayment schedules, and the planned disposal timeframe is shorter than under the Relevant Alternative.

5.33.3. There may be an immaterial difference in the value that buyers place on representations and warranties in a managed wind-down versus the limited representations and warranties that would be available from an insolvency administrator. Further, the nature of the representations and warranties required for assets of this nature are likely to be capable of being addressed via diligence and/or insurance.

5.33.4. Many of the development assets are effectively already in an 'insolvency state' given development work has been on hold for an extended period of time. Certain other



development assets are effectively just land assets, and it is difficult to see that a sale of land should attract a material insolvency discount.

- 5.34. Knight Frank has undertaken analysis as to their view of the insolvency sale discounts to yielding asset values and concluded on a 5% discount. In respect of development assets, depending on the status of the asset Knight Frank has applied an asset specific discount. I consider that this is reasonable based on my evaluation of the forgoing points.

## 6. Analysis of the Restructuring Plan from the SteerCo perspective

- 6.1. I have been asked to comment on the quantification of interests held by certain of the creditors who are subject to the Restructuring Plan. Therefore, set out within this section of my Report is analysis of the sources and uses of New Money funding.

### Sources and uses for the New Money proposed under the Restructuring Plan

- 6.2. The uses of the €937.5m New Money funding are i) repaying debt (of Adler RE); ii) payment of fees; and iii) other net liquidity provision (capital expenditure at Consus).
- 6.3. I set out below a simple table of the sources and uses for the New Money as described by the Plan Company<sup>110</sup>:

Figure 29: Sources and uses of the New Money

Sources	€m	Uses	€m
Facility SA	322.5	Repay Adler RE Intercompany, then Adler RE 2023s	265.0
Facility ARE	235.0	Repayment of Adler RE 2023s	235.0
		<b>Adler RE 2023s</b>	<b>500.0</b>
		Fees	57.5
			<b>557.5</b>
<b>Total SA and ARE</b>	<b>557.5</b>		
Facility C	80.0	Consus Capex	80.0
Facility 2024	300.0	Repayment of Adler RE 2024s	300.0
<b>Total Sources</b>	<b>937.5</b>	<b>Total Uses</b>	<b>937.5</b>

- 6.4. The above simplified statement of sources and uses appears to mask in some respects how the uses of the New Money funding are to be applied compared to when one is furnished with greater visibility regarding the holdings in the various debt tranches by certain parties, in particular the SteerCo.
- 6.5. The critical additional pieces of information required to understand the fuller picture are:
- 6.5.1. The percentage of the SUNs held by the SteerCo;
  - 6.5.2. The percentage of the Adler RE 2023 SUNs held by the SteerCo;
  - 6.5.3. The percentage of the Adler RE 2024 SUNs held by the SteerCo; and
  - 6.5.4. The various fees (OID, Backstop, Lock Up Consent, Ticking, Earlybird) and who receives them.

<sup>110</sup> Explanatory Statement issued 27 February 2023 (part 1, para. 4.2 and part 4, para.5.21)

- 6.6. The picture could become relatively complicated as some of the fees depend on i) New Money take-up levels, and ii) the percentage of SUNs who lock up (noting parties can elect to provide New Money and not lock up).
- 6.7. However, it is known (as at 14 December 2022) that 67.8% of the SUNs had already elected to provide New Money (SteerCo at 44.06%<sup>111</sup> and others at 22.4%<sup>112</sup>), plus I know that 68.1% of SUNs had locked up by 17 Feb 2023<sup>113</sup>. Therefore, the book-ends can easily be presented, and these are set out below:
- 6.7.1. The SteerCo holds 44.06% (€1.4bn) of the SUNs<sup>114</sup>;
- 6.7.2. [REDACTED]
- [REDACTED]
- 6.7.4. The SteerCo is expected to provide 77.6% (€727.5m) of the New Money funding<sup>117</sup>; and
- 6.7.5. New Money elections and lock up percentages as described at 6.7.
- 6.8. Therefore, assuming no further New Money elections post 14 December 2022, the sources and uses of SteerCo New Money funding are as follows:

Figure 30: Sources and uses of the New Money provided by the SteerCo

Sources	€m	Uses	€m
SteerCo NM	727.5	SteerCo OID	7.3
		SteerCo Backstop Fee	28.1
		SteerCo Lock Up Consent Fee	3.5
		SteerCo Ticking Fee (both elements)	7.1
		SteerCo Earlybird Fee	7.3
		<b>Total SteerCo Fees</b>	<b>53.3</b>
		[REDACTED]	
<b>Total</b>	<b>727.5</b>		

<sup>111</sup> [REDACTED]

<sup>112</sup> First Witness Statement of Andrea Trozzi dated 20 February 2023 (para. 116); Explanatory Statement (part 4, para. 4.3), note the 67.8% does not 100% tally to the exact 44.06% SteerCo figure which was rounded to 45%

<sup>113</sup> Explanatory Statement issued 27 February 2023 (part 1, para. 6.13)

[REDACTED]

<sup>117</sup> Being 100% of the New Money requirement, less the 22.4% of other SUNs who have elected to provide New Money

6.9. What this shows is that of the €727.5m of New Money provided by the SteerCo, the following funds are expected to flow back to SteerCo:

6.9.1. €53.3m in fees, including a €28.1m Backstop Fee which is not available to other parties and which, in part, backstops repayment of debt which is itself owed to the SteerCo. [REDACTED]

6.9.2. [REDACTED]

6.10. When adding then the New Money provided by non-SteerCo members, the picture is as follows:

Figure 31: Detailed sources and uses of New Money

Sources	€m	Uses	€m
SteerCo NM	727.5	Total SteerCo Fees	53.3
Non-SteerCo NM	210.0	Total Non-SteerCo Fees	8.2
<b>Total NM</b>	<b>937.5</b>	<b>Total Fees</b>	<b>61.5</b>
		[REDACTED]	
		<b>Total Adler RE 2023s Repayment &amp; 2024</b>	<b>800.0</b>
		Other uses	76.0
<b>Total</b>	<b>937.5</b>	<b>Total</b>	<b>937.5</b>

6.11. I note that the fees presented above (€61.5m) do not tally exactly to the figure referred to throughout the Explanatory Statement of €57.5m. This is for two primary reasons:

6.11.1. Firstly, the €57.5m excludes the Lock-up Consent Fee<sup>118</sup> which is €5.5m in my analysis but could be higher depending on the level of SUNs that lock up.

6.11.2. Secondly, the Ticking Fee depends on New Money elections made after 14 December 2022 but prior to 31 March 2023, thus it is possible fees could increase by a further small amount due to additional Ticking Fees.

<sup>118</sup> First Witness Statement of Andrea Trozzi dated 20 February 2023 (p. 36)

## SteerCo returns

6.12. Presenting the returns to the SteerCo members resulting from the above re-presentation of the figures provides further detail summarised below:

*Figure 32: IRR of the New Money provided by SteerCo*

€m	25/04/2023	25/07/2023	24/10/2023	23/01/2024	24/04/2024	24/07/2024	30/09/2024
SteerCo Gross NM funding	(727.5)	-	-	-	-	-	-
SteerCo Fees	53.3	-	-	-	-	-	-
PIK on NM, 12 month make whole	-	-	-	-	90.9	-	-
NM Repayment	-	178.4	73.6	12.2	130.3	173.4	159.7
Other PIK Interest after make whole	-	-	-	-	-	-	12.2
<b>Net Cash Flow</b>	<b>(674.2)</b>	<b>178.4</b>	<b>73.6</b>	<b>12.2</b>	<b>221.2</b>	<b>173.4</b>	<b>171.8</b>
<b>IRR:</b>	<b>25.8%</b>						

6.13. The above shows that on Day 1<sup>119</sup>, despite providing €727.5m of New Money, the SteerCo net cash outlay is only €674.2m due to the fees paid to SteerCo.

6.14. Taking all of the above into account, [REDACTED]

6.15. The above returns do not include the impacts of the following:

6.15.1.

6.15.2. Any return from the SteerCo share of the 22.5% equity in Parent (which had a total value of €32.6m based on market capitalisation at the date of the First Witness Statement of Andrea Trozzi<sup>123</sup>), the SteerCo share of which would be a minimum of €14.4m (assuming 44% New Money share), and increasing potentially depending on New Money take up by parties who have not yet elected. I note that under the

<sup>119</sup> Assumed to be 25 April 2023 per footnote on p. 3,172 of Convening Bundle

<sup>120</sup> Letter from W&C to Akin Gump and Gleiss Lutz dated 6 March 2023

<sup>121</sup> Explanatory Statement issued 27 February 2023 (part 4, para. 5.21(d)(i))

<sup>122</sup> Explanatory Statement issued 27 February 2023 (part 4, para. 5.25)

<sup>123</sup> First Witness Statement of Andrea Trozzi dated 20 February 2023 (para. 125)

Restructuring Plan there is €400m surplus cash (per the BCG Comparator Report) which would accrue to equity, suggesting in that scenario the SteerCo share could be as much as €39.7m (which also assumes 44% New Money share).

6.15.3.

[REDACTED]

6.15.4.

[REDACTED]

[REDACTED]

[REDACTED]

6.16.1.

[REDACTED] and

6.16.2.

[REDACTED]

6.17.

[REDACTED]

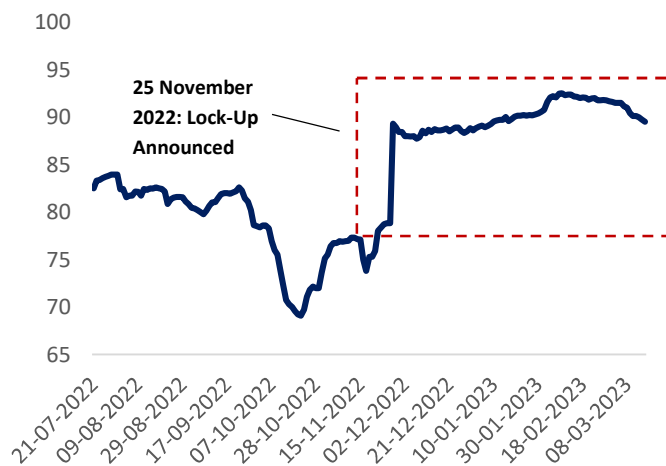
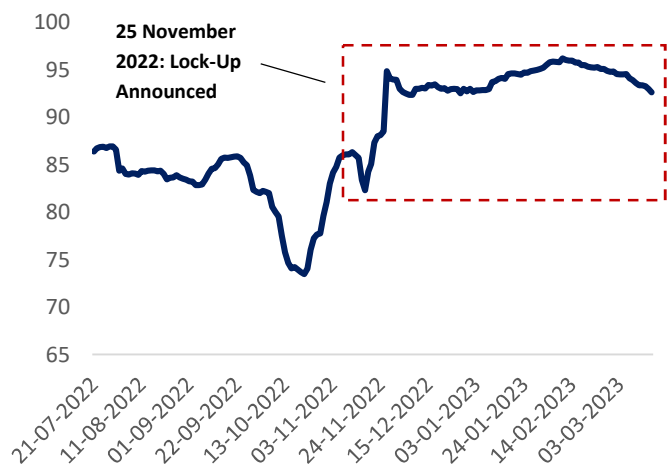
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[REDACTED]

Figure 33: Adler RE SUNs and Adler Group Notes history since July 2022<sup>126</sup>

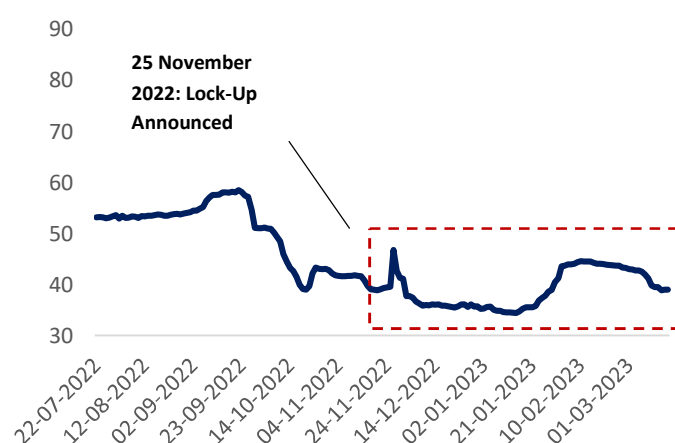
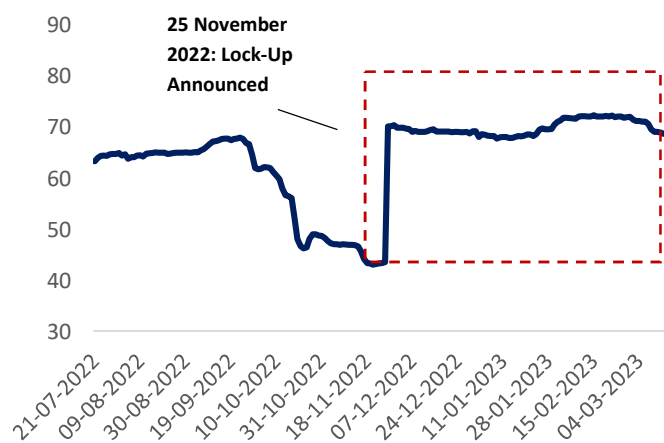
€500m Adler RE 2023 SUN Price History Since July

€300m Adler RE 2024 SUN Price History Since July



€400m Adler Group 2024 Notes Price History Since July 2022

€500m Adler Group 2027 Notes Price History Since July 2022



<sup>126</sup> 9fin.com

6.18 [REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]

[REDACTED]  
[REDACTED]

[REDACTED]  
[REDACTED]

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<sup>127</sup> Per 9fin.com. Accessed 16 March 2023.

<sup>128</sup> Per 9fin.com. Accessed 15 March 2023.

<sup>129</sup> Per 9fin.com. Accessed 15 March 2023.



## 7. Expert's declaration

### Statement of compliance

- 7.1. I understand my duty as an expert witness is to the Court. I have complied with that duty and will continue to comply with it. This Report includes all matters relevant to the issues on which my expert evidence is given. I have given details in this Report of any matters which might affect the validity of this Report. I have addressed this Report to the Court. I further understand that my duty to the Court overrides any obligation to the party from whom I received instructions.

### Declaration

- 7.2. I confirm that I am aware of the requirements of Part 35 and Practice Direction 35, and the Guidance for the Instruction of Experts in Civil Claims 2014.

### Statement of Truth

- 7.3. I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.
- 7.4. I understand that proceedings for contempt of Court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.



Lisa Rickelton  
18 March 2023  
FTI Consulting LLP  
200 Aldersgate  
Aldersgate Street  
London EC1A 4HD

## Appendix 1: Curriculum vitae

### Lisa Rickelton

Senior Managing Director – Corporate Finance & Restructuring

[lisa.rickelton@fticonsulting.com](mailto:lisa.rickelton@fticonsulting.com)



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#### **QUALIFICATIONS**

Insolvency Practitioner  
ICAEW Chartered  
Accountant  
Certified Expert Witness  
M.A. Economics

#### **PROFESSIONAL AFFILIATIONS**

ICAEW member  
INSOL member  
R3 Fellow  
IWIRC committee member

**Lisa Rickelton has over 20 years of insolvency and restructuring experience advising stakeholders across a wide range of sectors.**

Ms Rickelton specialises in contingency planning, insolvency solutions and insolvency outcome analysis / entity priority models.

Her experience includes many cross-border situations such as COMI shift administrations, offshore appointments, insolvency appointments over UK holding companies of international groups and use of international insolvency frameworks to achieve restructuring solutions.

Ms Rickelton's appointment taking experience spans a wide range of processes including trading administrations, pre-packaged sales, receiver appointments over shares and other assets, CVA nominee and supervisor roles and liquidations.

She seeks to use insolvency processes as a tool to achieve value maximising outcomes. She also undertakes contingency planning and insolvency outcome analysis.

Her work includes leading Entity Priority Model ("EPM") analysis in respect of complex international groups on the comparator or relevant alternative in support of Schemes of Arrangement or Restructuring Plans.

Prior to joining FTI Consulting in 2008, Ms Rickelton worked within the restructuring teams at EY and Andersen.

Ms Rickelton is a chartered accountant, a fellow of the Association of Business Recovery Professionals, and a licensed UK insolvency practitioner. She has also taken Cayman and BVI appointments and is registered as an insolvency practitioner with the DIFC (Dubai International Finance Centre).

## Relevant Experience

- IHC: advising lenders in respect of contingency planning options for a Dutch capital goods manufacturer which was ultimately restructured through a WHOA process
- Altera: 'best interests' liquidation analysis for the Ch11 process in respect of a Norwegian headquartered oil and gas services business with international operations
- ED&F Man: Relevant Alternative analysis for Restructuring Plan in respect of a soft commodities trader with international operations
- Mapeley: appointed as liquidator in respect of the solvent liquidation of a UK real estate Group
- Noble: insolvency outcome analysis, contingency planning and BVI share receiver appointment to deliver a pre-pack sale in respect of hard commodities trader headquartered in Asia with international operations
- DeepOcean: advised lenders in relation to the first Restructuring Plan cross-class cram down including review of the Relevant Alternative analysis
- Polarcus: appointed as Provisional Liquidator (and subsequently Liquidator) of a Cayman holding company of an oil and gas services business with international operations
- Clerkenwell: Members' voluntary liquidations of property companies following a sale
- Gate Group: advised lenders on Restructuring Plan including review of the Relevant Alternative analysis in respect of global airline catering business
- SeaMex: lender advisory options which included assessment of potential Bermuda insolvency processes
- Azzurri: advised secured lenders on lender led contingency planning and debt rollover transaction in respect of UK restaurant chain
- ED&F Man: Comparator analysis for Scheme of Arrangement
- Steinhoff: review of entity priority model report and analysis for the bank lenders
- Global Gaming Ventures: appointed receiver of shares in holding company of a casino business, subsequent sale transaction to secured creditor
- Elder Homes: trading administration of a UK care homes business
- THC (Sandwell): contingency planning advice to the project finance lenders to a major UK hospital development following the cessation of development works due to the insolvency of the lead contractor
- Carillion: review of entity priority model report and analysis for the bank lenders
- QMH: liquidator of certain entities of a hotels group
- Iona Energy: appointed joint administrator over a North Sea oil and gas business, achieved a solvent exit following a CVA process to restructure debt

## Appendix 2: Glossary

Term/Abbreviation	Definition
<b>2024 Notes</b>	€400,000,000 1.500 per cent. unsecured notes due 2024 (ISIN: XS1652965085)
<b>2025 Notes</b>	€400,000,000 3.250 per cent. unsecured notes due 2025 (ISIN: XS2010029663)
<b>2027 Notes</b>	€500,000,000 2.250 per cent. unsecured notes due 2027 (ISIN: XS2336188029)
<b>2029 Notes</b>	€800,000,000 2.250 per cent. unsecured notes due 2029 (ISIN: XS2283225477)
<b>Ad Hoc Group</b>	Ad hoc group of SUN Holders with holdings concentrated in the 2029 SUNs
<b>Adler RE</b>	Adler Real Estate AG, a stock corporation organised under the laws of the Federal Republic of Germany, registered on the Frankfurt Stock Exchange and XETRA German Electronic Exchange, and registered in the commercial register of the local court of Berlin-Charlottenburg under numbers HRB 180360 B
<b>Adler RE 2023 SUNs</b>	€500,000,000, 1.875 per cent. senior unsecured notes due 27 April 2023 (ISIN: XS1713464441)
<b>Adler RE 2024 SUNs</b>	€300,000,000, 2.125 per cent. senior unsecured notes due 6 February 2024 (ISIN: XS1731858715)
<b>Adler RE 2026 SUNs</b>	€300,000,000, 3.000 per cent. senior unsecured notes due 27 April 2026 (ISIN: XS1713464441)
<b>Adler RE SUNs</b>	The following series of notes issued by Adler RE: a) the Adler RE 2023 SUNs; b) the Adler RE 2024 SUNs; and c) the Adler RE 2026 SUNs
<b>Akin Gump</b>	Akin Gump LLP
<b>Backstop Fee</b>	Fee of 3% payable to SteerCo members who backstopped the New Money, (payable on the amount of the initial New Money Commitment as of 25 November 2022)
<b>BCG</b>	The Boston Consulting Group GmbH and The Boston Consulting Group UK LLP
<b>BCG Comparator Report</b>	Comparator report dated 15 March 2023 prepared by BCG, amended from the report dated 20 February 2023 to include updates to the calculation of the proceeds from the sale of yielding assets in the Relevant Alternative.
<b>BCG Market Model / Market Model</b>	The market model created by BCG to forecast property price developments until 2030
<b>BCP</b>	Brack Capital Properties N.V., a subsidiary of Adler Real Estate AG, incorporated in the Kingdom of the Netherlands and registered on the Tel Aviv Stock Exchange under corporate number 35240659
<b>Bloomberg</b>	Bloomberg L.P., data from which is used for ECB Refinancing Rates (historic and forecast)
<b>CAGR</b>	Compound Annual Growth Rates
<b>CBRE</b>	CBRE GmbH
<b>CDS</b>	Credit Default Swap
<b>Consus</b>	Consus Real Estate AG, a stock corporation organised under the laws of the Federal Republic of Germany and registered in the commercial register of the local court of Berlin-Charlottenburg under number HRB 191887 B
<b>Convertible Notes</b>	€165,000,000, 2.000 per cent. senior unsecured convertible notes due 23 November 2023
<b>Court</b>	The High Court of Justice, Business and Property Courts of England and Wales, Insolvency and Companies List
<b>Deferred Tax Liabilities</b>	Deferred Tax Liabilities, meaning taxes that are owed but not due to be paid until a future date
<b>ECB</b>	European Central Bank
<b>Explanatory Statement</b>	The explanatory statement in relation to the Restructuring Plan dated 27 February 2023 and updated on 15 March 2023
<b>Fair Value (FV)</b>	Fair Value is the principal amount plus the interest for the period, including Payment in Kind as defined below
<b>Forward Sale</b>	A transaction in which a development asset is sold prior to completion for a pre-agreed purchase price (which may also include a variable component subject to

	successfully letting the property). The seller is contractually obliged to complete the construction and bears the risk of rising construction costs
<b>Free Cash Flow</b>	All cash flows before financing cash flows
<b>FTE</b>	Full Time Equivalent, referring to unit to measure employed persons although they work a different number of hours per week
<b>FTI Consulting</b>	FTI Consulting LLP, FTI Financial Services Limited, or FTI Consulting Inc. and subsidiaries
<b>FV</b>	Face Value, the nominal amount of each respective SUN excluding interest
<b>FY</b>	Full Year
<b>GAV</b>	Gross Asset Value
<b>Gleiss Lutz</b>	Gleiss Lutz Hootz Hirsch PartmbB Rechtsanwälte Steuerberater
<b>Group</b>	The parent company and its subsidiaries (including Adler RE, Consus and the Plan Company)
<b>HoldCo(s)</b>	A subsidiary of the Group that is a holding company
<b>IHS Markit</b>	IHS Markit Ltd
<b>IRR</b>	Internal Rate of Return
<b>Issuer</b>	Adler Group S.A., the original issuer of the SUNs, noting the purported Issuer Substitution on 11 January 2023
<b>Issuer Substitution</b>	The process by which the Plan Company was purported to be substituted in place of the Parent as Issuer of the SUNs on 11 January 2023
<b>January 2026 Notes</b>	€700,000,000 1.875 per cent. unsecured notes due 2026 (ISIN: XS2283224231)
<b>Kempen</b>	Van Lanschot Kempen N.V.
<b>Knight Frank / KF</b>	Knight Frank Valuation & Advisory GmbH & Co. KG
<b>Knight Frank Report / Knight Frank Valuation Case</b>	Expert Witness Report – Valuation of Properties belonging to Adler Group S.A. and its direct and indirect subsidiaries, located across Germany by Christoph Gerlinger, dated 18 March 2023
<b>Lock-up Agreement / Lock-up</b>	The lock-up agreement dated 25 November 2022 entered into by, amongst others, the parent company, Adler RE, Consus and the Participating Noteholders in connection with the Restructuring, as amended and/or amended and restated from time to time
<b>Lock-up Consent Fee</b>	Payment offered to creditors agreeing to sign up to a Lock-up Agreement
<b>Milbank</b>	Milbank LLP
<b>NAI Apollo</b>	apollo real estate GmbH & Co. KG, partner of NAI Global in Germany
<b>New Money (Facility)</b>	An amount of up to €937.5M provided to the Group, upon successful restructuring
<b>November 2026 Notes</b>	€400,000,000 2.750 per cent. unsecured notes due 2026 (ISIN: XS2248826294)
<b>OID</b>	Original Issue Discount, being the fee payable to each New Money Provider at the rate of 1.00 per cent calculated on the full initial nominal amount of the New Money Notes
<b>Parent</b>	Adler Group S.A., a Luxembourg public limited liability company, incorporated under the laws of the Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B197554, whose shares are admitted to trading on the regulated market segment of the Frankfurt Stock Exchange, which originally issued the SUNs and was purportedly substituted by the Plan Company by operation of the Issuer Substitution
<b>PIK</b>	Payment-in-kind, interest that is accrued and capitalised, increasing the debt rather than being paid as cash
<b>PJT</b>	PJT Partners (UK) Limited
<b>Plan Company</b>	AGPS BondCo PLC, a public limited company incorporated under the laws of England and Wales with company number 14556926 and its registered office at 16 Eastcheap, London, EC3M 1BD, United Kingdom.
<b>PropCo(s)</b>	Property-owning subsidiaries of the Group
<b>Relevant Alternative</b>	The most likely outcome in case the Restructuring Plan is not implemented, which is the insolvency of the subgroups parent, Adler RE and Consus
<b>The Report</b>	This Independent expert report to the Court by Lisa Rickelton
<b>Restructuring Plan</b>	The Restructuring Plan proposed by the Plan Company under Part 26A of the Companies Act 2006

<b>SSD</b>	Schuldscheindarlehen, totalling €24,500,000, issued by ADO Lux S.a.r.l. on 31 October 2018
<b>SteerCo Advisers</b>	a) Houlihan Lokey EMEA LLP; b) Hengeler Mueller Partnerschaft von Rechtsanwälten mbB; c) Milbank; d) Loyens & Loeff Luxembourg S.à R L.; and e) counsel instructed by any of the above to advise on, and to appear before the Court in relation to, the Restructuring Plan
<b>SteerCo</b>	i) members of a steering committee of Noteholders (including certain funds or accounts managed or advised by each of them, as applicable) that are advised by the SteerCo Advisers; and ii) any other person that the SteerCo Advisers notify the Plan Company or its advisers is a member of the SteerCo.
<b>SUNs</b>	The following series of notes issued by originally by the Parent: a) the 2024 Notes; b) the 2025 Notes; c) the January 2026 Notes; d) the November 2026 Notes; e) the 2027 Notes; and f) the 2029 Notes
<b>Ticking Fee</b>	Commitment fee on undrawn, uncanceled New Money Facilities.
<b>Upfront sale</b>	A transaction in which a development asset is sold prior to completion
<b>W&amp;C</b>	White & Case LLP

## Appendix 3: Methodology: Knight Frank Valuation Case

### Yielding assets

- 1.1. The Knight Frank Valuation Case reflects the SUNs recoveries based on the Knight Frank valuations of yielding assets as at Restructuring Plan sale dates.
- 1.2. Knight Frank in their expert opinion report determine, based on their industry knowledge, the value of yielding assets as at the Restructuring Plan sale dates for portfolios 1 to 5.
- 1.3. Knight Frank's yielding asset valuation reflects the gross proceeds that they believe achievable by the Group. It reflects their current view of the portfolio and forecast movements in the German real estate market based on their professional view.
- 1.4. I have overlayed Knight Frank's gross proceeds to the forecast cash flow provided<sup>130</sup> by BCG, to compare the effect of their valuations to the BCG Comparator Report. This has been undertaken in respect of each of the portfolios.
- 1.5. To reflect the cash impact of Knight Frank's assumptions, I adjusted for Deferred Tax Liabilities and minorities. All other assumptions as outlined in the BCG Comparator Report<sup>131</sup> are held constant. These items include capitalised capex and associated debt repayment. This provides the net proceeds. These adjustments have been taken on an asset-by-asset basis, which is summarised at a portfolio basis. This is consistent with the approach taken by BCG in its Comparator Report.
- 1.6. This has been reflected through a Free Cash Flow adjustment of the respective cashflows provided. For the yielding assets this relates to the cashflows of the PropCo subsidiaries of Adler Group S.A. and Adler RE.
- 1.7. Having applied the adjustments above, I arrive at the impact of Knight Frank yielding asset valuations to the recoveries of the SUNs.

### Development assets

- 1.8. The Knight Frank Valuation Case reflects the SUNs recoveries based on Knight Frank's development asset valuations.

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<sup>130</sup> Provided in 20230224\_Adler GroupBusiness Plan\_vsent\_updated.xls [LR1/298-312]

<sup>131</sup> BCG Comparator Report (p. 42)

- 1.9. Knight Frank in their expert opinion report determine, based on their industry knowledge, the value of the development assets as at the sale date in the Restructuring Plan.
- 1.10. Knight Frank's development asset valuation reflects the gross proceeds that they believe are achievable by the Group. It reflects their current view of the assets and forecast movements in the German real estate market.
- 1.11. To reflect the cash impact of Knight Frank's assumptions, I have adjusted for Deferred Tax Liabilities and minorities. I have held all other assumptions as outlined in the BCG Comparator Report<sup>132</sup> constant. These items include capex, external debt, and restricted cash release. This provides me with the net proceeds. These steps have been taken on an asset-by-asset basis. This is consistent with the approach taken by BCG in their Comparator Report.
- 1.12. This has been reflected through a Free Cash Flow adjustment of the respective cashflows provided. For the development assets this includes Consus cashflows, in addition to the cashflows adjusted in respect of the yielding assets.
- 1.13. Having applied the adjustment, I arrive at the impact of Knight Frank development asset valuation to the recoveries of the SUNs.

#### Knight Frank Valuation Case

- 1.14. The Knight Frank Valuation Case applies Knight Frank valuations for yielding assets and development assets at the date of sale per the Restructuring Plan. I set out the gross proceeds' adjustments compared to the BCG Comparator Report below. The 2029 Notes recoveries per the Knight Frank Valuation Case is 10.6%.

*Figure 34: Summary of Knight Frank Valuation Case in comparison to BCG Comparator Report recoveries under the Restructuring Plan*

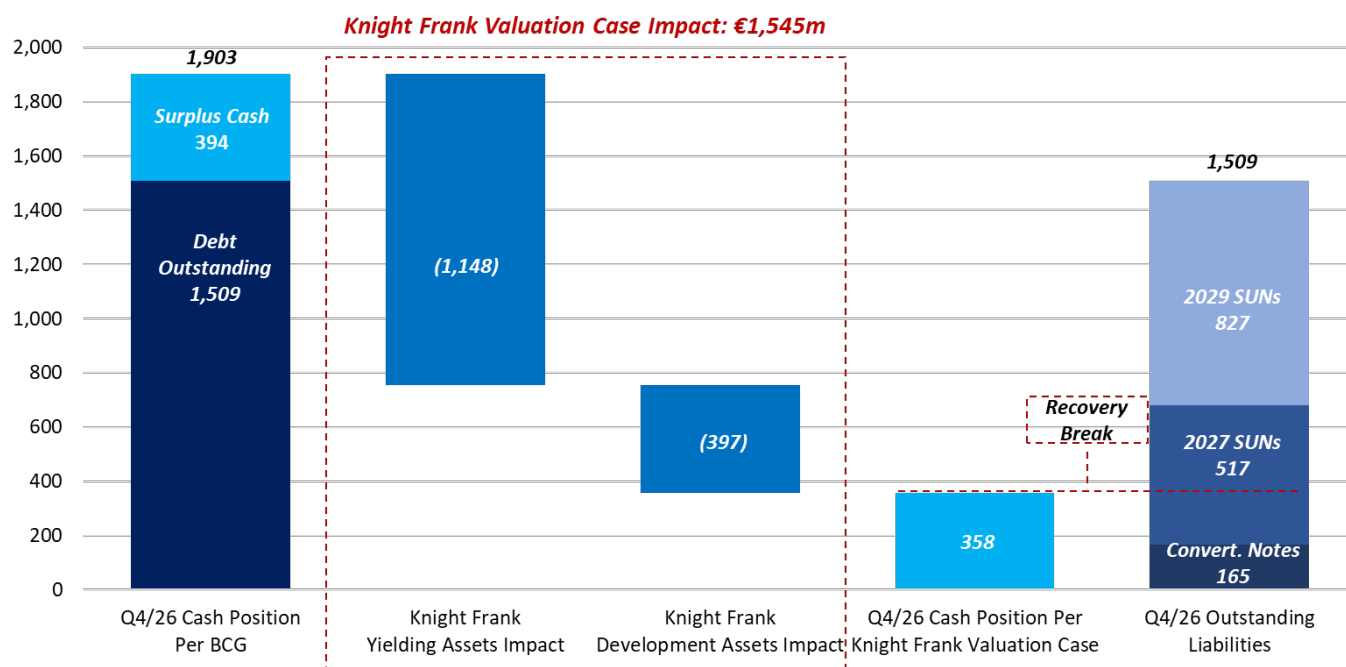
€m	BCG Comparator Report	Knight Frank Valuation Case	Δ
<b>Restructuring Plan - Gross Proceeds</b>			
Yielding Assets	5,185	3,875	(1,310)
Development Assets	1,934	1,497	(437)
<b>Total Gross Proceeds</b>	<b>7,119</b>	<b>5,372</b>	<b>(1,747)</b>
2029 Notes Recovery (%)	100.0%	10.6%	
2027 Notes Recovery (%)	100.0%	44.8%	

<sup>132</sup> BCG Comparator Report (p. 42)



1.15. I also show the net impact of the Knight Frank Valuation Case on closing cash as at Q4/26 below.

Figure 35: Knight Frank Valuation Case bridge (net proceeds) to BCG Comparator Report<sup>133</sup>



<sup>133</sup> Outstanding liabilities as at Q4/26 is comprised of Principal and Interest for the 2027 Notes (500m principal + 17m interest), 2029 Notes (800m principal + 27m interest) and Convertible Notes (165m principal only)

## Appendix 4: Methodology: Illustrative quantified sensitivities

### Illustrative Sensitivity 1

- 1.16. This illustrative sensitivity reflects the impact to SUNs recoveries when applying Knight Frank Q2/22 valuation to the BCG Market Model.
- 1.17. Knight Frank has provided me with Q2/22 valuations for the yielding asset portfolio.
- 1.18. I have substituted these values in replacement of the CBRE Q2/22 valuations set out in the BCG Comparator Report.
- 1.19. I then apply the BCG Market Model as outlined in their Comparator Report to Knight Frank Q2/22 valuations as at the Restructuring Plan date of sales.
- 1.20. This provides the gross proceeds for the yielding asset portfolio for the Restructuring Plan at the asset disposal dates outlined by BCG.
- 1.21. To reflect the cash impact of illustrative sensitivity 1, Deferred Tax Liabilities and minorities have been adjusted accordingly. I have held all other assumptions as outlined in the BCG Comparator Report<sup>134</sup> constant. These items include capitalised capex and associated debt repayment. This provides the net proceeds. These steps have been taken on an asset-by-asset basis, which is summarised at a portfolio basis. This is consistent with the approach taken by BCG in their Comparator Report.
- 1.22. This has been reflected through a Free Cash Flow adjustment of the respective cashflows provided. For the yielding assets this relates to the cashflows of the PropCo subsidiaries of Adler Group S.A. and Adler RE.
- 1.23. I have used Knight Frank development asset valuations per the Knight Frank Valuation Case. No other adjustments have been applied.
- 1.24. The resulting outcome is set out in the table below.

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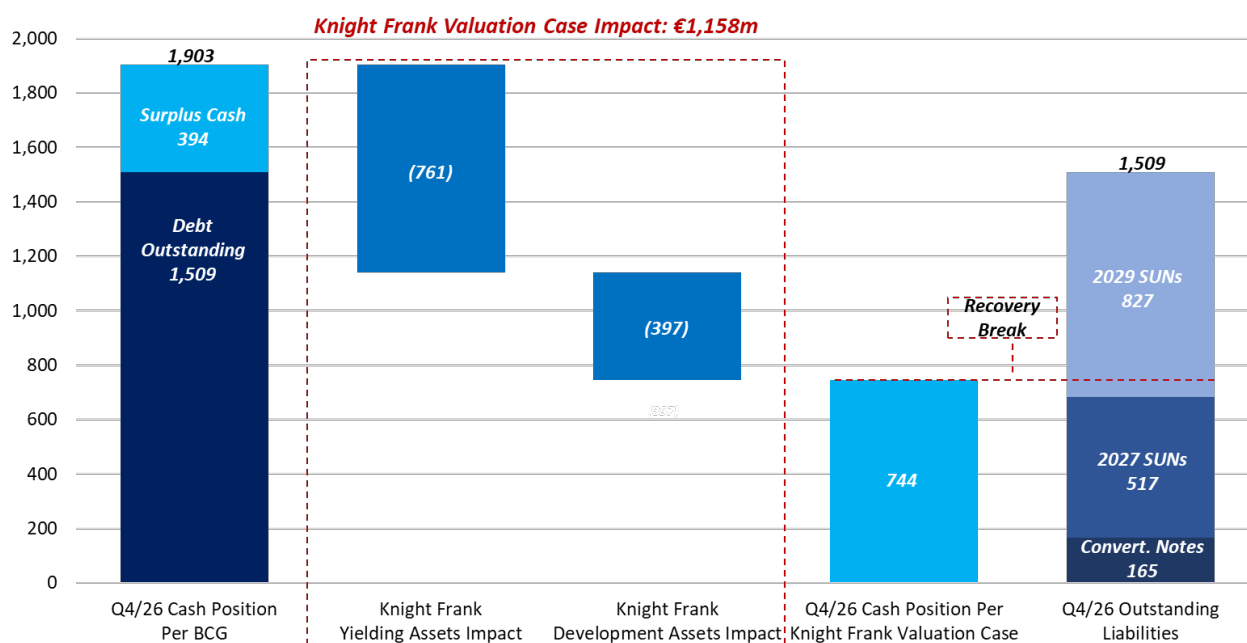
<sup>134</sup> BCG Comparator Report (p. 42)

Figure 36: SUNs recoveries per Illustrative Sensitivity 1

SUNs / €m	FV	2024	2025	2026	Total	Recovery
2024 Notes	445	-	445	-	445	100.0%
2025 Notes	469	-	469	-	469	100.0%
Jan-2026 Notes	787	-	79	708	787	100.0%
Nov-2026 Notes	472	-	61	411	472	100.0%
2027 Notes	586	-	69	517	586	100.0%
2029 Notes	925	-	98	62	160	17.3%
<b>Total</b>	<b>3,684</b>	<b>-</b>	<b>1,221</b>	<b>1,698</b>	<b>2,919</b>	<b>79.2%</b>
Q4/26 Outstanding Debt Balance Prior to Repayment					(1,509)	
Q4/26 Cash Available for Debt Repayment					744	
Surplus / (Deficit) To Service All Outstanding Debt					(765)	

1.25. I also show the net impact of illustrative sensitivity 1 on closing cash as at Q4/26 below.

Figure 37: Q4/26 closing cash bridge from BCG Comparator Report to Illustrative Sensitivity 1<sup>135</sup>



<sup>135</sup> Outstanding liabilities as at Q4/26 is comprised of Principal and Interest for the 2027 Notes (500m principal + 17m interest), 2029 Notes (800m principal + 27m interest) and Convertible Notes (165m principal only)

## Illustrative Sensitivity 2

- 1.26. This illustrative sensitivity reflects the impact to SUNs recoveries when applying Knight Frank Q2/22 valuation to a sensitised BCG Market Model.
- 1.27. Knight Frank has provided me with Q2/22 valuations for the yielding asset portfolio.
- 1.28. I have substituted these values in replacement of the CBRE Q2/22 set out in the BCG Comparator Report.
- 1.29. I then apply a sensitised BCG Market Model to Knight Frank Q2/22 values as at the Restructuring Plan sale dates.
  - 1.29.1. The sensitised BCG Market Model approach uses BNP/LEG development forecast index value per the BCG Comparator Report.
  - 1.29.2. From the BNP/LEG index value in 2024, I apply a 3.1% CAGR for 2025-2027.
- 1.30. The application of the sensitised BCG Market Model to Knight Frank Q2/22 figures provides the gross proceeds per Illustrative Sensitivity 2.
- 1.31. To reflect the cash impact of Illustrative Sensitivity 2 gross proceeds, I have adjusted for Deferred Tax Liabilities and minorities. I have held all other assumptions as outlined in the BCG Comparator Report<sup>136</sup> constant. These items include capitalised capex and associated debt repayment. This provides the net proceeds. These steps have been taken on an asset-by-asset basis, which is summarised at a portfolio basis. This is consistent with the approach taken by BCG in their Comparator Report.
- 1.32. This has been reflected through a Free Cash Flow adjustment of the respective cashflows provided. For the yielding assets this relates to the cashflows of the PropCo subsidiaries of Adler Group S.A. and Adler RE.
- 1.33. I have used Knight Frank development asset valuations per the Knight Frank Valuation Case. No other adjustments have been applied.
- 1.34. The resulting outcome is set out in the table below.

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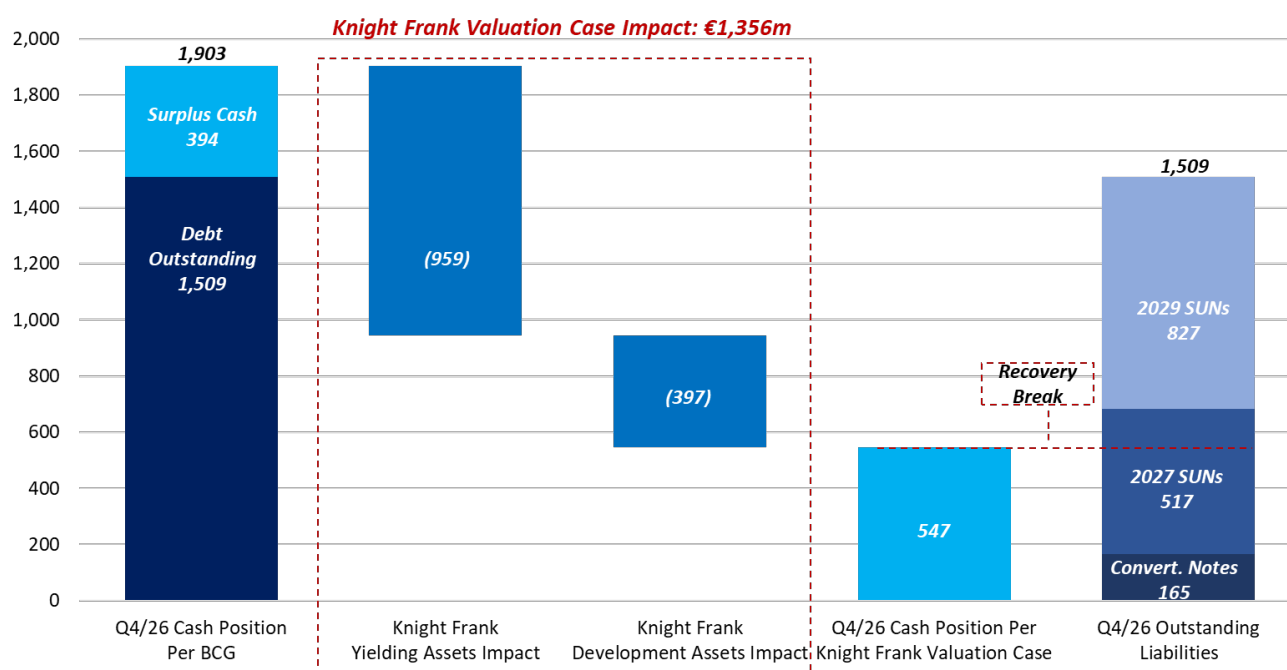
<sup>136</sup> BCG Comparator Report (p. 42)

Figure 38: SUNs recoveries per Illustrative Sensitivity 2

SUNs / €m	FV	2024	2025	2026	Total	Recovery
2024 Notes	445	-	445	-	445	100.0%
2025 Notes	469	-	469	-	469	100.0%
Jan-2026 Notes	787	-	79	708	787	100.0%
Nov-2026 Notes	472	-	61	411	472	100.0%
2027 Notes	586	-	69	382	451	76.9%
2029 Notes	925	-	98	-	98	10.6%
<b>Total</b>	<b>3,684</b>	<b>-</b>	<b>1,221</b>	<b>1,501</b>	<b>2,722</b>	<b>73.9%</b>
Q4/26 Outstanding Debt Balance Prior to Repayment					(1,509)	
Q4/26 Cash Available for Debt Repayment					547	
Surplus / (Deficit) To Service All Outstanding Debt					(962)	

1.35. I also show the net impact of illustrative sensitivity 2 on closing cash as at Q4/26 below.

Figure 39: Q4/26 closing cash bridge from BCG Comparator Report to Illustrative Sensitivity 2<sup>137</sup>



<sup>137</sup> Outstanding liabilities as at Q4/26 is comprised of Principal and Interest for the 2027 Notes (500m principal + 17m interest), 2029 Notes (800m principal + 27m interest) and Convertible Notes (165m principal only)

## **Appendix 5: Methodology: Relevant Alternative**

- 1.1. I set out below our methodology for the Relevant Alternative recoveries as set out in the main body of the Report.
- 1.2. For yielding assets Knight Frank provided me with their assessment of Q2/22 valuations per the Knight Frank Report, their current value as at Q1/23 and the value as at the Restructuring Plan sale dates.
- 1.3. The Relevant Alternative valuation begins at Q3/22 for the yielding assets which Knight Frank has not provided.
- 1.4. Through discussion with Knight Frank it was concluded that the best approach for the yielding assets is to assume a straight-line movement between Q2/22 and Q1/23 values to derive an implied Q3/22 valuation.
- 1.5. Using this implied Q3/22 valuation as the starting point of the Relevant Alternative, I apply the BCG Market Model discount. This provides the market value of the yielding assets as at their sale date based on BCG market assumptions.
- 1.6. The recommended insolvency discount of 5% referenced in the Knight Frank Report is applied to the market value of the yielding assets. This provides the gross proceeds.
- 1.7. Adjustments have been applied to gross proceeds, for example, in respect of deferred taxes and minority interests.
- 1.8. For development assets gross proceeds for the Relevant Alternative per the Knight Frank Report are applied.
- 1.9. Taking the proceeds from the sale of real estate assets as summarised above, the value is flowed through the capital structure using the same approach as BCG in the Comparator Report.

*Figure 40: SUNs recoveries in the Relevant Alternative per the BCG Comparator Report and Knight Frank valuation:*

€m	BCG Comparator Report	Knight Frank Valuation Case	Δ
<b>Relevant Alternative - Gross Proceeds</b>			
Yielding Assets	3,959	3,783	(175)
Development Assets	1,395	1,296	(99)
<b>Total Gross Proceeds</b>	<b>5,354</b>	<b>5,079</b>	<b>(274)</b>
2029 Notes Recovery (%)	63.2%	56.1%	
2027 Notes Recovery (%)	63.2%	56.1%	

## Appendix 6: Sources of information

First BCG Comparator Report dated 20 February 2023

Second BCG Comparator Report dated 15 March 2023 ("**BCG Comparator Report**")

Expert Witness Report – Valuation of Properties belonging to Adler Group S.A. and its direct and indirect subsidiaries, located across Germany by Christoph Gerlinger, dated 18 March 2023 ("**Knight Frank Report**")

First Witness Statement of Andrea Trozzi dated 20 February 2023

Explanatory Statement issued 27 February 2023

Meeting of Advisors (including BCG, PJT, and me and my team) on 13 March 2023

Meeting of Advisors (including Akin Gump, BCG, Knight Frank, W&C, PJT, and me and my team) on 2 March 2023

European Central Bank - Key ECB interest rates

([https://www.ecb.europa.eu/stats/policy\\_and\\_exchange\\_rates/key\\_ecb\\_interest\\_rates/html/index.en.html](https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html), accessed 17 March 2023) [LR1/5-9]

Bloomberg Weighted Average Forecast (accessed 6 March 2023, 15:00) [LR1/3]

Bloomberg Weighted Average Forecast (accessed 16 March 2023, 15:00) [LR1/4]

Adler Group Annual Report year ended 31 December 2021 [LR1/10-297]

BCP Interim Financial Statements dated 30 September 2022 [LR1/316-354]

BCP Board of Directors Report, Q3/22 dated 30 September 2022 [LR1/355-439]

BCP Board of Directors Report, Q2/22 dated 30 June 2022 [LR1/440-518]

BCP Board of Directors Report, Q1/22 dated 31 March 2022 [LR1/519-580]

BCP Board of Directors Report, Q4/22 dated 31 December 2022 [LR1/581-731]

BCP Valuation update by Van Lanschot Kempen NV dated 8 February 2023 [LR1/313-315]

Adler Group, Investor Update dated 25 November 2022 [LR1/745-750]

20230224Per 20230314\_59.2\_RA\_Asset\_Valuation\_vUpdate.xlsx received 14 March 2023 [LR1/732-744]

20230224\_Adler GroupBusiness Plan\_vsent\_updated.xlsx received 27 February 2023 [LR1/298-312]

[REDACTED]

Letter from W&C to Akin Gump and Gleiss Lutz dated 6 March 2023

Letter from W&C to Akin Gump and Gleiss Lutz dated 8 March 2023

Convening Bundle



## **Appendix 7: Instructions**

Richard Hornshaw  
+44 20.7661.5489/fax: +44 20.7012.9601  
richard.hornshaw@akingump.com

18 March 2023

**BY EMAIL**

Lisa Rickelton  
[Lisa.Rickelton@fticonsulting.com](mailto:Lisa.Rickelton@fticonsulting.com)

Dear Ms Rickelton,

**In the matter of AGPS BondCo PLC (the “Plan Company”): Analysis of Projected Recoveries**

**1. INTRODUCTION**

- 1.1 We act for an ad hoc group of holders (the “AHG”) of EUR 800 million 2.250% senior unsecured fixed rate notes due 2029 (the “2029 SUNs”), issued by Adler Group S.A. (the “Issuer”).
- 1.2 The purpose of this letter is to instruct you to produce an expert report analysing the projected recoveries under the Plan and Relevant Alternative (respectively defined below).

**2. BACKGROUND TO THE DISPUTE**

- 2.1 The Issuer is a listed stock corporation incorporated under the laws of Luxembourg operating in the real estate sector and whose principal business activities are conducted through subsidiaries in Germany. The Issuer is involved in particular in the rental and management of rental flats via its subsidiary Adler Real Estate AG and in project development via its subsidiary Consus Real Estate AG.
- 2.2 The Issuer issued six bonds, including the 2029 SUNs, with a total volume of approximately EUR 3.2 billion for its general corporate financing, including, real estate financing (the “SUNs”).
- 2.3 The Plan Company, a subsidiary of the Issuer, is a UK incorporated company. The Plan Company commenced proceedings in the English High Court on 20 February 2023 under Part 26A of the Companies Act 2006 for sanction of a restructuring plan (the “Plan”) which proposes to (amongst other things) amend the terms of the Notes. Pursuant to a purported issuer substitution mechanism under the Terms and Conditions of the SUNs, the Plan Company purports to now be the issuer of the SUNs.

18 March 2023

Page 2

2.4 According to the Plan Company, the most likely occurrence if the Plan is not sanctioned is a formal insolvency or bankruptcy proceeding of the Plan Company and certain key Group companies (the “**Relevant Alternative**”).

2.5 You have been provided with the following documents and information:

- (a) The Explanatory Statement issued by the Plan Company on 27 February 2023;
- (b) The revised Explanatory Statement issued by the Plan Company on 15 March 2023;
- (c) The First Witness Statement of Andrea Trozzi dated 20 February 2023
- (d) The Expert Report of Mr Christoph Gerlinger dated 18 March 2023;
- (e) The Boston Consulting Group Comparator Report dated 20 February 2023;
- (f) The Boston Consulting Group Revised Comparator Report dated 14 March 2023 (together with the report dated 20 February 2023, “the **BCG Reports**”); and
- (g) Information and documents regarding the Plan made available to you directly on an “advisor only” basis by the Plan Company, including as provided in advisor meetings (with, amongst others, Boston Consulting Group) and/or in inter-solicitor correspondence between Akin Gump LLP, White & Case LL and/or Milbank LLP.

### 3. SCOPE OF YOUR REPORT

3.1 Including by reference to the Expert Report of Mr Christoph Gerlinger, please provide a report which sets out your expert opinion on the projected recoveries under the Restructuring Plan and Relevant Alternative, particularly from the perspective of the longer dated SUNs (primarily the 2029 Notes, but also the 2027 Notes depending on valuation), and including by reference to the Expert Report of Mr Christoph Gerlinger. In this regard, please also provide an analysis of the Plan from the perspective of the economic interests of the SteerCo in the Issuer’s capital structure.

3.2 Please assume for the purposes of your report that, under the Plan, and in particular pursuant to the application of proceeds waterfall in the proposed intercreditor agreement, the proposed facility of up to €937.5M provided to the Group under the Plan, ranks first; and the elevated 2024 Notes (among other debt) rank second (albeit in each case behind customary administrative amounts) and therefore ahead of the residual SUNs (excluding the 2024 Notes).

18 March 2023

Page 3

- 3.3 If, having read this letter, you feel that you may not, after all, have the appropriate experience or expertise to deal with these matters, please let us know immediately.

#### 4. DUTIES OF THE EXPERT WITNESS AND THE CONTENT OF YOUR REPORT

- 4.1 Your duties and the content of your report are prescribed by the Civil Procedure Rules 1998 (“CPR”) and the Civil Justice Council “**Guidance for the Instruction of Experts to give Evidence in Civil Claims**” published in 2014 (the “**Guidance**”) which give guidance on what your duties are and how your report should be presented. We enclose a copy of the relevant parts of the CPR and the Guidance and a note that sets out more fully what your duties as an expert are and what your report must contain (Appendix 1). You must ensure that you comply with these duties as failure to do so can lead to costs sanctions or a refusal to allow us to use your expert evidence. If you have any queries about your duties as an expert or your duty to the court generally, please feel free to raise them with us.
- 4.2 You should also be aware that the CPR require that the substance of all material instructions given to you are disclosed by you in your report.

#### 5. OVERRIDING DUTY TO THE COURT

- 5.1 As an expert witness in this case, your overriding duty is to assist the court in understanding those aspects of the case which fall within your expertise. This duty is paramount and overrides any obligation to the parties (CPR 35.3 and paras 1, 2, 3, 9, 10, 11, 12, 13, 16(b), 52, 53 and 89-92 of the Guidance). You must ensure that, as the expert, you exercise reasonable skill and care in carrying out your instructions and comply with any relevant professional code of practice. You must also be aware that:
- (a) Your evidence should be your own independent product uninfluenced by the pressures of litigation;
  - (b) You should consider any material facts which could diminish your considered opinion, and seek to address those facts in your report. You should also make it clear if a particular question or issue falls outside your area of expertise;
  - (c) If you are not able to reach a definite opinion, because, for example, you consider that insufficient data is available, you must clearly state this in your report. You should also provide an indication that your opinion is only provisional in this respect. Similarly, you should make it clear if a question or issue falls outside your area of expertise;
  - (d) You should remember that all questions of law and fact are ultimately for the judge to decide. You should therefore avoid assuming the role of advocate or drawing any final legal or factual conclusions from the

18 March 2023

Page 4

facts which are relevant to your area of expertise. The court is seeking the benefit of your objective expert opinion derived from your specialist knowledge; and

- (e) You should be aware that any failure by you to comply with the CPR provisions and/or court orders as well as any excessive delay for which you are responsible may result in the parties who instructed you being penalised in costs or in extreme cases being debarred from placing your evidence before the court.

- 5.2 If, after producing a report, you change your view on any material matter then you must ensure that such change of view is communicated to us immediately so that we may advise all the parties without delay and, if appropriate, the court.

## **6. CONFLICT OF INTEREST**

- 6.1 If you become aware that you may have any potential conflict of interest or you recall a previous involvement in the facts of the case which may lead to any suggestion of partiality or bias, please contact us immediately.
- 6.2 Once you have accepted these instructions, you should not take any fresh instructions which may create conflict or any suggestion of partiality or bias.

## **7. PROCEDURE AND TIMING**

- 7.1 Your report will be required to be filed and served by 19 March 2023. The sanction hearing is listed for 3-5 April 2023, with two days of pre-reading on 30-31 March 2023.
- 7.2 Experts are entitled to ask the court for directions to assist them in carrying out their functions if they feel that this is necessary. Please do let me know if you intend to make an application for directions. I may be able to help with the matter, either by resolving any difficulties you may be experiencing and avoiding the need to seek directions, or by helping you to formulate the request. If you do wish to seek directions we will explain the applicable procedure.
- 7.3 Once your report has been served, the other party has the right to ask "proportionate" questions, which you will be under a duty to answer. Your answers will form part of your report. If the other party sends any such questions directly to you instead of me, please let me know as soon as you receive them, so we can discuss the appropriate action. Please also let me see a copy of your answers before finalising them.

## **8. CONCLUSION**

- 8.1 We look forward to receiving your report.

18 March 2023

Page 5

8.2 If you would like to discuss any points arising from this letter or if you require any further information please contact: Richard Hornshaw  
([Richard.Hornshaw@akingump.com](mailto:Richard.Hornshaw@akingump.com)) and James Terry  
([James.Terry@akingump.com](mailto:James.Terry@akingump.com)).

Yours sincerely,

A handwritten signature in black ink that reads "Akin Gump LLP". The signature is written in a cursive, stylized font.

Akin Gump LLP

Encl.

CPR Part 35

Practice Direction 35

The Guidance

18 March 2023

Page 6

## **APPENDIX 1: EXPERTS' DUTIES AND THE CONTENTS OF EXPERTS' REPORTS**

### **1. USEFUL REFERENCE MATERIALS**

We attach the following documents which you should read together with these notes:

1.1 CPR Part 35 and Practice Direction 35; and

1.2 The Guidance.

### **2. DUTIES OF AN EXPERT**

2.1 When instructed to provide expert evidence for the purpose of proceedings, your duty is to help the court on the matters within your expertise. This duty overrides any obligations to the person from whom you have received your instructions or by whom you are paid. You will of course continue to owe a duty to those who are instructing or paying you to exercise reasonable skill and care in carrying out those instructions and you will also be expected to comply with any relevant professional code of ethics, but your duty to the court is paramount.

2.2 It is important that expert evidence is, and is seen to be, the independent product of you the expert, uninfluenced by the demands of litigation. A useful test of independence is whether you would express the same opinion if instructed by an opposing party.

2.3 You should take into account all material facts, including those which may detract from your opinion.

2.4 You should make it clear when a particular question or issue falls outside your area of expertise and when you are not able to reach a definite opinion, for example, because you have insufficient information.

2.5 You should never assume the role of an advocate, nor should you take it upon yourself to promote the point of view of the party instructing or paying you.

2.6 You should inform us as soon as possible of any change of opinion on any material matter and the reasons for it. It is likely that we will have to disclose this change of opinion to the other party and, when appropriate, to the court.

### **3. CONTENTS OF YOUR REPORT**

3.1 You should address your report to the court and not to our client or us.

3.2 You should use the first person throughout the report to indicate that the opinions expressed are your own.

18 March 2023

Page 7

- 3.3 The report must set out your qualifications. These should include your academic and professional qualifications and, where the case calls for highly specialised expertise, details of the training or experience which qualifies you to provide such highly specialised evidence. We recommend that you attach your CV as an appendix to the report. Your CV should include details of any employment or activity which raises a possible conflict of interest.
- 3.4 Your report must contain a statement setting out the substance of all material facts and instructions, whether written or oral, which are material to the opinions expressed in the report or on which you have based your opinions. You must distinguish clearly between facts which you know to be true and facts which you assume. It is important for the statement to be complete and accurate. If it is not, the court may order disclosure of the instructions, including all of the accompanying documents, or allow cross-examination on them.
- 3.5 Your report should set out details of any literature or other documents that you have relied on in making the report.
- 3.6 You should make clear which of the facts stated in your report are within your own knowledge. Where there are material facts in dispute, you should express your opinion on each version of the facts. You should not express a preference for one version over another, unless because of your experience and expertise you consider one version to be less probable. In these circumstances, you should express your view and give reasons for it.
- 3.7 Where tests of a scientific or technical nature have been carried out, you should state:
- a) The methodology used: and
  - b) Who undertook the tests, under whose supervision, and their respective qualifications and experience.
- 3.8 Where there is a range of opinions on the matters dealt with in your report, summarise the range and give reasons for your own opinion.
- 3.9 If you are unable to give your opinion without qualification (for example, because there is insufficient data or information available), state the qualification.
- 3.10 It is helpful to use separate sections with clear headings when setting out your analysis for each of the issues on which we have asked you to express your opinion.
- 3.11 Consider whether it would be helpful to include a glossary of significant technical terms.
- 3.12 Consider whether it would be helpful to include visual aids, such as computer graphics or models, to help others understand your report.



18 March 2023

Page 8

- 3.13 The report must include a summary of your conclusions at the end. Consider whether it would be helpful to include a short summary of your conclusions at the beginning of your report too.
- 3.14 At the end of your report you must include a statement that you:
- a) Understand, have complied with and will continue to comply with, your duty to the court; and
  - b) Are aware of the requirements of CPR 35, PD 35 and the Guidance.
- 3.15 You must include a statement of truth at the end of your report. The form of statement of truth is as follows: “ I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.” This wording is mandatory and you must not modify it. Please note that proceedings for contempt of court may be brought against a person who makes a false statement in a document verified by a statement of truth without an honest belief in its truth.
- 3.16 You must sign the report.