

# Independent expert report to the High Court

IN THE MATTER OF AGPS BONDCO PLC  
AND IN THE MATTER OF THE COMPANIES ACT 2006

## Capital markets considerations

Date of Issue: 23/03/2023

Claim No. CR-2023-000936

In the High Court of Justice

Business and Property Courts of England & Wales

Insolvency and Companies List (ChD)

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# 1 Introduction and instructions

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

- 1.1.1 I, Wolf Waschkuhn, have been instructed by White & Case LLP on behalf of AGPS Bondco plc to provide this independent expert opinion on the matters identified at Section 1.5 below. In setting out my opinions, I understand that I owe a duty of care to the High Court of Justice of England & Wales to exercise reasonable skill and care in carrying out my instructions; that I must provide unbiased evidence as an independent expert witness in relation to the matters contemplated in this expert report; and that I must be aware of and comply with the requirements of Part 35 of the Civil Procedure Rules, the Practice Direction to Part 35 and the Guidance for the Instruction of Experts in Civil Claims 2014. I have read those requirements and guidance and I have complied with them in producing this report.
- 1.1.2 I have been a restructuring professional since 1995. I hold a German Diplom-Ingenieur (i.e. a degree in engineering) and have, in addition, a Master's degree awarded by the London Business School in Management.
- 1.1.3 Between 1995 and 2007, I was a director with Arthur Andersen, London and Prague, in its corporate recovery department; a partner of KPMG in corporate restructuring, Frankfurt; and a partner of Kroll Talbot Hughes McKillop, London, a firm taking insolvency appointments and acting as financial restructuring advisor.
- 1.1.4 I have also served as vice president and group head of corporate development/M&A of the publicly listed Swiss group Société Générale de Surveillance S.A., Geneva.
- 1.1.5 Since 2008, I have been a shareholder and managing director of One Square, a group of firms engaged in providing financial restructuring advice to both debtors and junior as well as senior creditors, often in a cross-border context.
- 1.1.6 In my 28 years as a restructuring and corporate finance professional, I have conducted numerous valuations and led M&A and corporate restructuring transactions involving publicly-listed securities, private equity and corporate debt. I have served on several boards, including assuming the role of chairman of special purpose vehicles set up and run for the benefit of creditors with nominal debt amounts of several hundreds of millions of Euros.
- 1.1.7 I am a regulated finance professional, regulated by the Financial Conduct Authority and the Swiss market regulator FINMA/ARIF.
- 1.1.8 As its chief restructuring officer, I advised the German Cable operator Primacom in the course of its Scheme of Arrangement proceedings before the High Court, and gave written evidence on behalf of the company in that case.

## 1.2 Independence

- 1.2.1 I have no current professional connection with any of the principals or advisors, acting for either the debtor or its creditors, involved in the current restructuring of Adler Group, as defined below. I have had no professional relationship with the Adler Group prior to this assignment. One Square Advisors' compensation for the preparation of this opinion is not dependent on the opinion I express in it, or upon the outcome of the Plan Company's application.

## 1.3 Assistance from One Square Advisors

- 1.3.1 In preparing this Report, I was supported by the employees and senior advisors of both One Square Advisors GmbH and One Square Advisors Ltd. All such assistance was provided under my supervision and I am satisfied that this Report reflects my expert opinion.

## 1.4 Limitation and restrictions

- 1.4.1 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 One Square, nor used for any other purpose.
- 1.4.2 No responsibility is accepted by One Square or by me personally to anyone other than the Court for the contents of this Report.
- 1.4.3 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.

## 1.5 Instructions

- 1.5.1 I have prepared this report on the instruction of White & Case LLP. A copy of my instruction letter is exhibited hereto at was instructed to furnish my expert opinion on the following:

- a) whether the factors identified at paragraph 3.3 of the Ritter Report would have the potential consequences on credit markets generally (identified in Sections 6 to 15 of the Ritter Report) if the Plan is approved and implemented; and
- b) what are the likely potential consequences (if any) on credit markets generally if the Plan, including the factors identified in paragraph 3.3 of the Ritter Report (or other elements of the Plan of which you are aware from the documents provided to you), is approved and implemented.

## 1.6 Defined Terms

2024 Notes	€400,000,000 1.5% unsecured notes due 2024
2025 Notes	€400,000,000 3.25% unsecured notes due 2025
2026-01 Notes	€700,000,000 1.875% unsecured notes due 2026
2026-11 Notes	€400,000,000 2.75% unsecured notes due 2026
2027 Notes	€500,000,000 2.25% unsecured notes due 2027
2029 Notes	€800,000,000 2.25% unsecured notes due 2029
Adler Group	Adler Group S.A., Luxembourg, together with its group companies
AGPS	AGPS Bondco plc, a company incorporated in the United Kingdom
Comparator Report	The Boston Consulting Group Comparator Report dated 20 February 2023, as amended on 15 March 2023
InsO	German insolvency act in its current form
ICA	Proposed intercreditor agreement included in the Plan
Report	Expert Report of Mr Wolf Waschkuhn, dated 23 March 2023
Ritter Report	Expert Report of Mr Bradley S Ritter, dated 15 March 2023
Plan	Restructuring Plan as submitted by AGPS Bondco plc under Part 26A Companies Act 2006
Relevant Alternative	The alternative scenario for the SUNs described in the Comparator Report, page 54 onwards
SUNs	collectively the 2024 Notes, 2025 Notes, 2026-01 Notes, 2026-11 Notes, 2027 Notes and 2029 Notes

## **2 Summary of key points raised in Expert Report of Bradley S Ritter, dated 18 March 2023**

### **2.1 Main conclusions of Ritter Report**

- 2.1.1 In his Expert Report, Mr. Bradley S. Ritter makes several statements regarding the Plan, questioning its soundness and the fairness of the treatment of certain Noteholders, most notably the holders of the 2027 Notes and the 2029 Notes.
- 2.1.2 The Ritter Report concludes that if the Plan is sanctioned, it will have a significant negative impact on debt capital markets generally for both issuers and investors. Specifically, Mr. Ritter expects an increase in financing costs, lower demand from investors for longer dated maturities, lower demand for debt instrument under English law, negative repricing of existing bond portfolios and credit ratings, uncertainty about legal risk of different debt instruments from the same issuer and fewer investment options for fixed income investors. Mr Ritter's opinion is that the order of magnitude of these effects is impossible to quantify. Mr. Ritter also argues that the Plan, if sanctioned, effectively changes the ranking of SUNs to the detriment of the notes with longer maturities.

## **3 Implication of the treatment of the Noteholders for the capital markets**

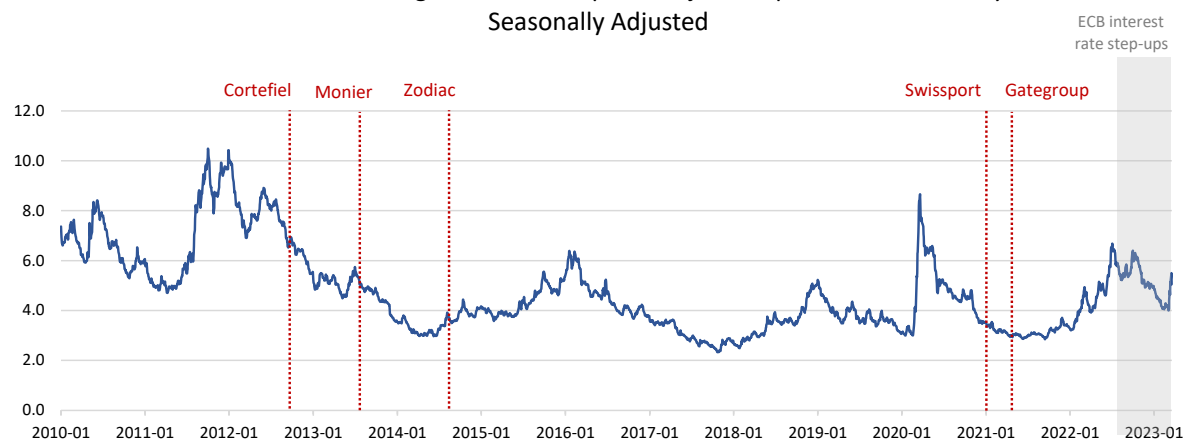
### **3.1 Implications on pari passu treatment**

- 3.1.1 At paragraph 5.3 of his Expert Report, Mr. Ritter states that the bond investors expect that "different classes of debt that are issued on a pari passu basis are expected to be treated on a pari passu basis under the relevant laws for life". In the context of Mr. Ritter's report, I understand this to mean that investors investing in unsecured debt issued on a pari passu basis expect such debt to be treated pari passu in the event of the issuer's insolvency. I agree with Mr. Ritter that this expectation is indeed a central consideration in credit analyses undertaken by investors in both public and private markets.
- 3.1.2 However, I disagree with Mr. Ritter's claim that the treatment of the SUNs in the Plan runs against these expectations. The differences in maturities existed before the restructuring and were properly priced in by efficient capital markets. In particular, the longer-dated SUNs have a higher spread above the risk-free government bonds of the same term than the short-term SUNs (see Chart 1 in the

appendix below). Therefore, the preservation of the difference in maturities of the SUNs resulting from the Plan is not contrary to the expectation of the capital markets, as the risks were priced in upon issuance and throughout the life of the SUNs in secondary trading.

- 3.1.3 The differentiated treatment of the 2024 Notes reflects additional concessions made by the Noteholders, which is a common feature of financial restructurings.
- 3.1.4 Mr. Ritter further states at paragraph 5.3 of this opinion that this treatment of the SUNs “...will have detrimental ramifications across credit markets, both for issuers and investors.” I disagree, as this treatment is in fact a common feature of financial restructurings and will not have come as a surprise to experienced credit analysts on the basis of the cases as described below.
- 3.1.5 I note that there are several previous schemes of arrangement and restructuring plans which preserved the maturity differences between different series of unsecured notes. These cases are as follows: Re Cortefiel SA [2012] EWHC 2998 (Ch); Re Monier Group Services GmbH [2013] EWHC 3406 (Ch); Re Zodiac Pool Solutions SAS [2014] EWHC 2365 (Ch); and Re Swissport Fuelling Ltd [2020] EWHC 1499 (Ch); and Re Gategroup Guarantee Ltd [2021] BCC 549. Whilst I am not able to comment on any legal issues relating to these schemes and plans, I note that none of these cases had any impact whatsoever on the wider securities market, and there is no reason to think that the present Plan will do so either.
- 3.1.6 This can be observed in the high yield spreads of euro-denominated securities over time. One indicator is the Euro High Yield Index Option-Adjusted Spread, an index that tracks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. As visible in the Chart 2 immediately below, there was no increase in spread after each of the aforementioned cases that would indicate higher risk perceived by the capital markets, as one could reasonably expect if Mr. Ritter’s assumptions were correct.

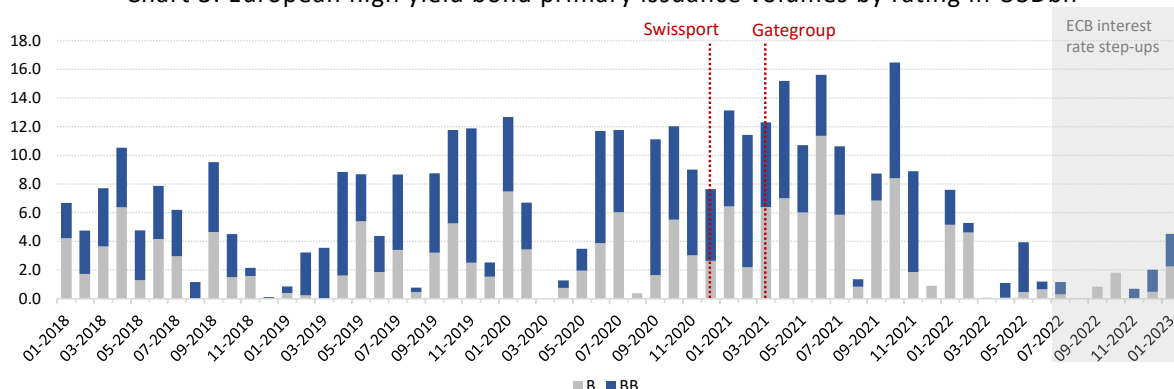
Chart 2: ICE BofA Euro High Yield Index Option-Adjusted Spread, Percent, Daily, Not Seasonally Adjusted



Source: Federal Reserve Bank of St. Louis

- 3.1.7 The most recent and comparable case is the restructuring of Gategroup in March 2021. The borrower had two outstanding tranches of debt: a senior facilities agreement (SFA) which was due to mature on 20 October 2021, and a series of bonds which were due to mature on 28 February 2022. Under the terms of the finance documents, these two tranches of debt had the same ranking. Under the terms of the Plan, the maturity of the SFA was extended to 20 October 2026 and the maturity of the bonds was extended to 28 February 2027, with the relevant alternative being an insolvency. There were therefore different maturity dates for each of the equal-ranking tranches of debt, despite the equal ranking in the alternative to the Plan. According to Mr. Ritter's opinion, this restructuring should have led to a significant increase of risk premia as well as a decrease in the issuance of riskier bonds and loans.
- 3.1.8 Another recent case in which the differing maturity dates were not affected by a restructuring was the pre-packed scheme of arrangement of Swissport, a major provider of airport ground services and air cargo handling, in 2020. Here, three facilities with different maturities were grouped into a single class, but the differences were preserved.
- 3.1.9 Both these recent examples are similar to the Plan in several ways: the group is headquartered outside of England used English law instruments to restructure their liabilities, both preserved the differences in maturities within a single class and both had insolvency proceedings as the relevant alternative or comparator.
- 3.1.10 There is no clear evidence that these cases had any detrimental effect on credit markets or the ability of companies to raise debt. This is corroborated by the volumes and pricing of both loan and bond issuances in Europe in the recent past (as demonstrated in Charts 3 and 4 immediately below): the volumes issued in the year 2021, after the Swissport and Gategroup restructuring, were exceptionally high:

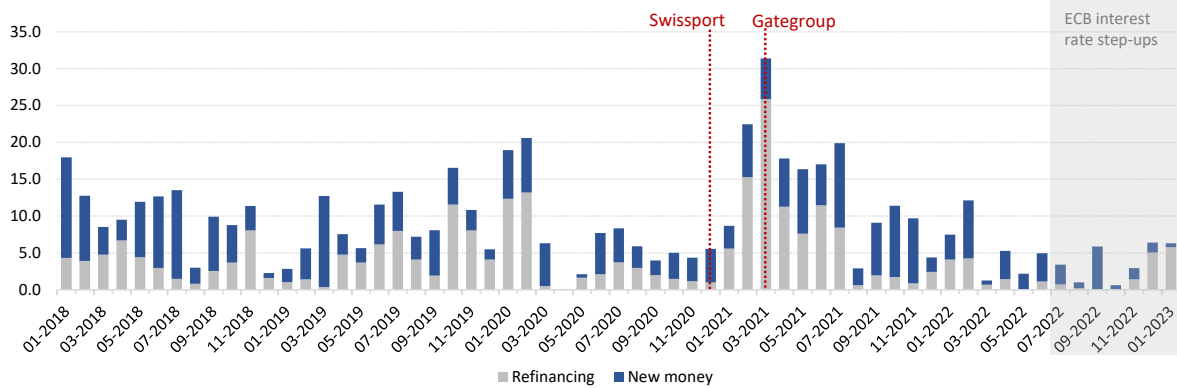
Chart 3: European high yield bond primary issuance volumes by rating in USDbn



Source: Debtwire, European Central Bank

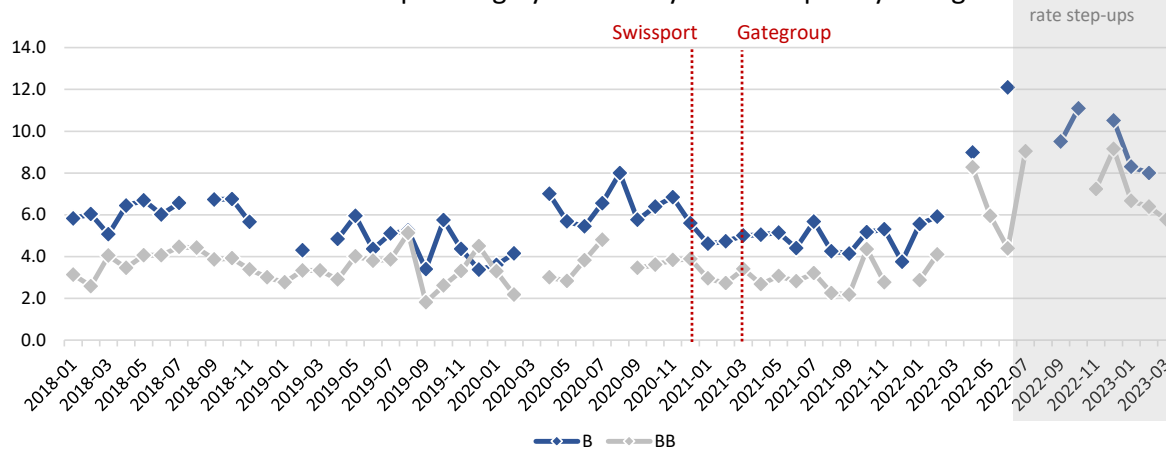


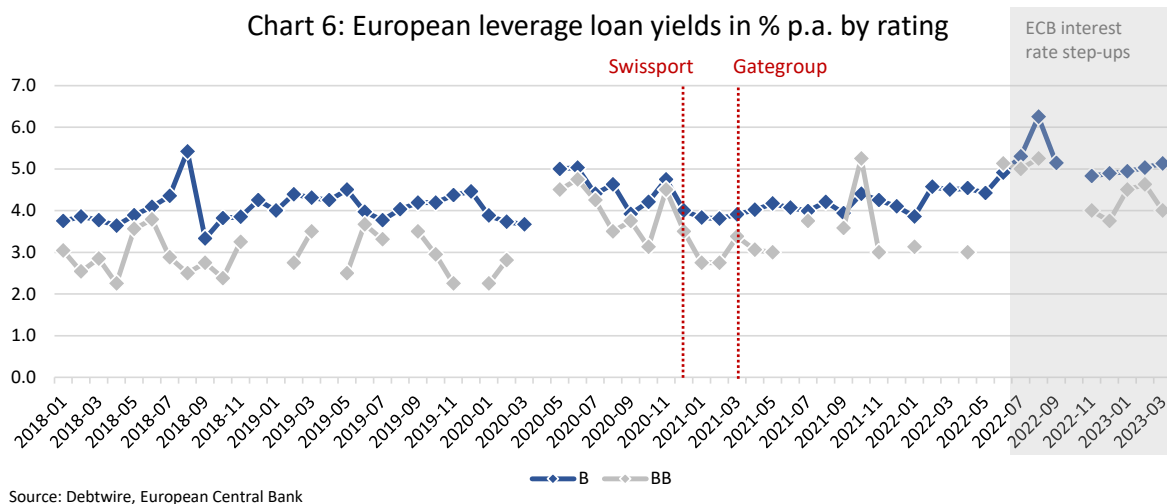
Chart 4: European leverage loan issuance volumes primary vs refinancing in USDbn



3.1.11 Likewise, the European yields did not increase in 2021, for bonds or for loans. The yield remained exceptionally stable until 2022, when the Russian invasion of Ukraine and the interest rate increases of ECB changed the risk perception in European capital markets (as demonstrated in Charts 5 and 6 immediately below).

Chart 5: European high yield bond yields in % p.a. by rating





- 3.1.12 In fact, Swissport was able to complete a €600m Term Loan offering in October 2022, less than two years after it completed its second round restructuring.
- 3.1.13 I also see no reason why the financial markets should adversely react to the Plan, as the treatment of the SUNs does not deviate from previous precedent. Similar restructurings in the past have had no discernible negative effect on bond placements. To my knowledge, there is also no capital market literature or research that would observe and confirm such phenomenon.

## 3.2 Implication on future restructurings

- 3.2.1 In his Expert Report, Mr. Ritter opines that the treatment of the SUNs in the Plan will lower the willingness of long-term creditors to engage in consensual restructurings in the future, in order to protect their position relative to other pari passu lenders.
- 3.2.2 However, in my experience, the ability to reflect different original risk profiles of different securities increases the chances of a consensual resolution of a corporate crisis. This gives the debtors, creditors and other relevant stakeholders the necessary flexibility to ensure that no party is worse off than it would be in an insolvency, enabling the continuation of a company or, as in this case, an orderly wind-down.
- 3.2.3 This view was also confirmed by the voting results of the SUNs holders on 21st March 2023. Over 84% of all noteholders voted for the plan, while a majority of noteholders of every individual SUN approved the plan. Even the 2029 Notes, which, according to the Ritter Report are prejudiced by the Plan, voted for the Plan by a majority of in excess of 60% (see section 5 of the Report for more details).

## 4 Additional protections for SUNs

### 4.1 Security

- 4.1.1 As part of the transaction, Adler Group has undertaken to reorganise its corporate structure to allow creditors (including the new money investors and the SUNs) to benefit from security over certain assets.
- 4.1.2 A key feature of the reorganisation is the implementation of a double LuxCo structure under which the majority of all relevant assets will be transferred.
- 4.1.3 In addition to other security, 100% of the shares in those LuxCos will be pledged for the benefit of the SUNs and other creditors, providing creditors with a single point of enforcement in case of a default and the ability to preserve value by avoiding an insolvency.

### 4.2 LTV covenant

- 4.2.1 All series of SUNs will benefit from a quarterly maintenance LTV covenant, first tested in the first quarter of 2025, with reference to the Group's financials as at 31 December 2024 and therefore prior to maturity of the first SUNs in July 2025, being the amended maturity date of the 2024 Notes.
- 4.2.2 The covenant is defined as net financial debt divided by total assets less cash & equivalents and therefore is in line with market standards. The covenant value has been set at 87.5% on or prior to December 2025 and at 85% thereafter to provide value cushion to the SUNs.
- 4.2.3 Should the asset value deteriorate materially and the covenant is broken, the holders of the SUNs will be able to pursue a controlled enforcement of the security.

### 4.3 Release price mechanism

- 4.3.1 As long as the New Money Facility is outstanding, the Group is contractually restricted from disposing of yielding assets below a 20% discount with reference to the June 2022 valuations and disposing of development assets below a 30% discount based on the relevant GAV as reflected in Adler Group S.A.'s IFRS financial report as of 30 June 2022.
- 4.3.2 The purpose of this covenant is to restrict the Company from liquidating assets at steep discounts in 2023 when the market is forecasted to reach its trough in valuation as per the BCG forecast and therefore to preserve the asset value of the company for short and longer dated bonds equally.

#### 4.4 Implications of the additional protection for SUNs

- 4.4.1 In his report, Mr. Ritter argues that the treatment of the longer dated SUNs in the Plan would increase the perceived risks of similar capital market instruments in the future. In my view, the additional protections described above mitigates the risk of the SUNs and send a clear signal to the market that any concessions made by investors in a restructuring scenario are compensated by either higher returns and / or additional security.

### 5 Voting results

- 5.1 The Plan has received significant support from its creditors. Across all classes of bonds and based on votes cast, in excess of 84% of the creditors to the Plan Company have voted in favour of the Plan. When excluding the SUNs with the maturity in 2024, support for the Plan amounts to over 82%. In five out of the six bond series in excess of 80% have voted in favour, including the SUNs with maturity in 2027. Even among the SUNs with maturity in 2029, in excess of 60% have voted in favour of the plan.
- 5.2 The overwhelming support among the creditors clearly proves the terms of the Plan are sensible, and in line with professional investor expectations and those of an honest SUN Holder, acting rationally.
- 5.3 In addition to the overall support received from creditors, the voting results also show that certain creditors who only have holdings in the longer dated notes (being the SUNs with maturity in 2027 and 2029) have also voted in favour of the Plan, which provides clear market evidence that Mr. Ritter's concerns are unfounded.
- 5.4 5.1.4 Lastly, it is important to note that some of the largest par money managers, and it is therefore fair to assume some of the larger investors in longer dated bonds in companies across the world, are creditors of the Plan Company. It would be counterintuitive for those money managers to risk a wider systematic repricing of their entire long dated book by voting in favour of the Plan. It seems rather unlikely that these professional managers, with sophisticated risk management and investment processes, would have completely misjudged the consequences of their action by supporting the Plan Company as suggested by Mr. Ritter.

## 6 Summary

- a) The Plan does not change the ranking of the SUNs save that the 2024 SUNs will receive a higher ranking in exchange for their maturity extension.
- b) The different maturities of the SUNs and the associated different risks have been reflected in different spreads and prices. Market prices and spreads reflect the balance of investor expectation. I see no evidence that this correlation is distorted by the Plan.
- c) Precedent cases demonstrate that the treatment of the SUNs conforms with market practice in restructurings or, at least, what has been done in a number of other restructurings. There is no evidence that these cases had any distorting or detrimental effect on the capital markets in general or the ability of companies to raise debt, or for that matter, on the pricing of fixed income instruments.
- d) All of the SUN Holders will benefit from new, risk mitigating measures in exchange for the concessions granted by them. These measures are customary in European financial restructurings and known to market participants.
- e) The results of the voting support my view that the Plan is in alignment with overall market expectations.

## 7 Statement of compliance and truth

### 7.1 Statement of compliance

- 7.1.1 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.

### 7.2 Statement of truth

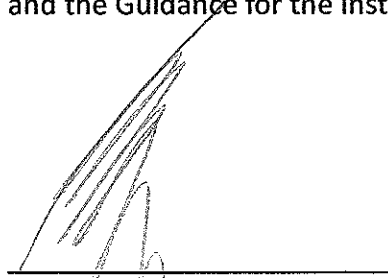
- 7.2.1 I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

- 7.2.2 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.

## 8 Declaration

- 8.1 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.

Signed:



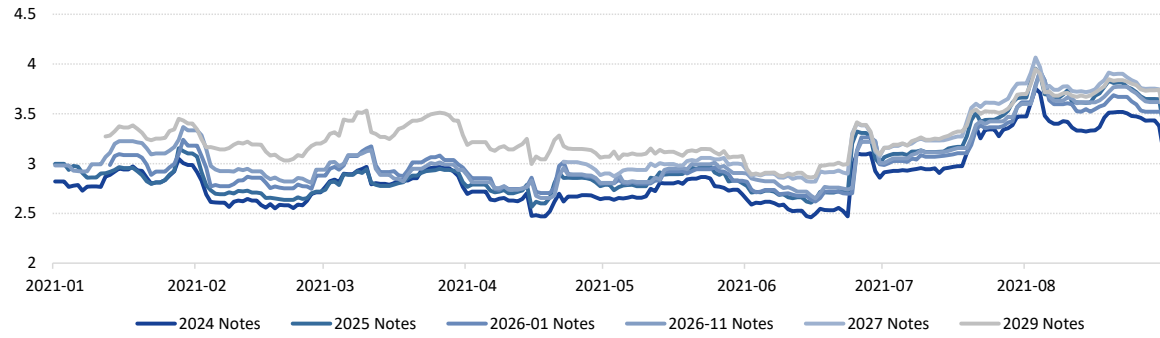
Wolf Waschkuhn

Date: 23<sup>rd</sup> March 2023

## 9 Appendix 1: Charts

### 9.1 Chart 1 Spreads of Adler Group bonds over the relevant risk-free securities

Chart 1: Spreads of the SUNs over risk-free rate January - August 2021 in %



Source: Capital IQ