CdR Advance Capital

Sector: Diversified Financials

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Business model profitability is proven

CdR Advance Capital Group is a leading direct investor in "single names" non-performing special situations also offering sophisticated advisory and wealth management services.

Fair Value (€)(*)	**1.76**
Market Price (€)(*)	**1.02**
Market Cap. (€m)(*)	**13.0**

Deal flow and financial results = proven business model

In the latest quarters, CdR Advance Capital Group has been increasing the number of finalized investments in non-performing assets. This is, in our view, a clear proof of the viability of the Group's business model, whose profitability is also demonstrated by 2017FY financial results, where we underline Reported Net Profit at ca. €2.8mn vs. €1.2mn in 2016FY and Net Asset Value at €22.6mn, up more than 20% YoY.

Borgosesia deal finalization getting closer and closer

After many "stop and go" phases and complex negotiations, the finalization of the aggregation deal with Borgosesia SpA is getting closer, i.e. 2018 year-end. If successfully finalized, the deal would boost CdR Advance evolution from direct and sole investor in special situations towards a fully integrated illiquid asset management group that: 1) scouts investment opportunities, 2) finds the proper way to transform the assets from non performing to performing, 3) organizes the funding of the deal with third parties, 4) remains as a minor co-investor and as Management and Advisor Company.

Invest at one and disinvest at two remains the "rule"

Our 208E-19E estimates are slightly more conservative compared to those announced by the Group as we are assuming an average 26% IRR from investments vs. the 32% targeted by the company. Overall, we expect NAV to increase at a higher than 5% CAGR17A-19E and DPS (A shares) to increase at ca. 9% CAGR17A-19E.

Fair value at €1.76 for A shares (up from previous €1.59)

A shares (listed on AIM Italia MTF) are trading at very affordable multiples i.e. 6.3x P/E, 5.4% Dividend Yield and 0.60x P/NAV (Peers are trading at 0.86x P/NAV). We set an updated **€1.76 fair value per share**, (before taking into account possible small size / liquidity discount) and we reckon that there's an increasing interest from abroad in starting to address the Italian market by acquiring already active domestic players.

As far as B shares are concerned (privately held by top managers, with different rights in terms of dividends / earnings attribution), we calculate a €0.64 fair value per share.

KEY FINANCIALS (€m)	2017A	2018E	2019E
REVENUES	7.8	9.5	10.4
OPERATING PROFIT	5.0	4.9	5.3
NET PROFIT	2.8	2.5	2.7
EQUITY	27.6	29.4	31.3
NET FIN. POS.	-6.3	-16.6	-14.7
EPS (€) (*)	0.179	0.162	0.176
DPS (€) (*)	0.051	0.055	0.060
NAVPS (€) (*)	1.62	1.69	1.77

Source: CdR Advance Capital Group (historical figures), Value Track (2018E-19E estimates)

RATIOS & MULTIPLES	2017A	2018E	2019E
ROE (%) (*)	11.0	9.6	9.9
OP. PROF. / CAP.EMP.(%)	14.9	10.7	11.5
NET DEBT / CAP.EMP (x)	0.19	0.36	0.22
NET DEBT / EQUITY (x)	0.23	0.57	0.47
EV / OP.PROFIT (x)	4.2	6.4	5.6
P/NAV (x) (*)	0.63	0.60	0.58
P/E (x) (*)	5.7	6.3	5.8
DIV YIELD (%) (*)	5.0	5.4	5.8

Source: CdR Advance Capital Group (historical figures), Value Track (2018E-19E estimates)

STOCK DATA (*)	
FAIR VALUE (€)	1.76
MARKET PRICE (€)	1.02
SHS. OUT. (m)	12.8
MARKET CAP. (€m)	13.0
FREE FLOAT (%)	61.6
AVG. -20D VOL. (# shs.)	25,000
RIC / BBG	CDR.MI / CDR IM
52 WK RANGE	0.93-1.16

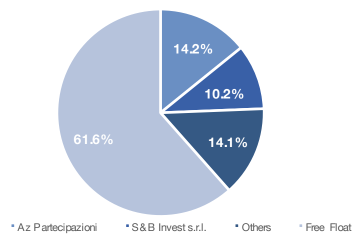
Source: Stock Market Data

(*) Values for A shares only

Business Description

CdR Advance Capital is an Italian focused investor in "special situations" i.e. basically non-performing credits where the underlying asset is either real estate assets under interrupted construction or troubled assets such as tax credits and receivables borne by companies that are either active or have already shut. CdR Advance Capital has a "single-name" approach, i.e. it doesn't buy generic NPL portfolios, and aims to evolve from direct and solo investor in special situations to a fully integrated illiquid asset management group structuring products in which to co-invest with other investors.

Shareholders Structure (Shares A)



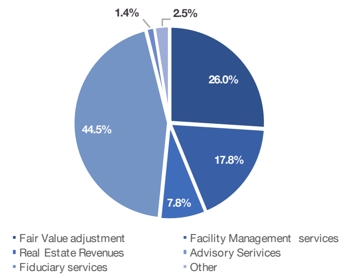
Source: Company SpA

Key Financials

€ mn	2015A	2016A	2017A
Net Revenues	**4.5**	**3.8**	**7.8**
Chg. % YoY	n.m.	n.m.	n.m.
EBITDA	**2.2**	**3.2**	**6.4**
EBITDA Margin (% of Net Revenues)	48.3%	84.3%	81.4%
EBIT	**2.0**	**2.8**	**6.1**
EBIT Margin (% of Net Revenues)	43.9%	74.5%	78.1%
Group Net Profit	**2.2**	**1.0**	**3.5**
Chg. % YoY	n.m.	n.m.	n.m.
Net Profit	**2.5**	**1.2**	**2.8**
Net Fin. Position	**2.8**	**-4.9**	**-6.3**
Net Fin. Pos. / EBITDA (x)	n.m.	1.7	1.0
Capex	-0.6	-7.2	-10.9
OpFCF b.t.	**2.3**	**-4.0**	**2.2**
OpFCF b.t. as % of EBITDA	108.1%	n.m.	34.9%

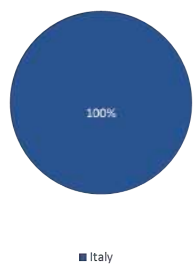
Source: Company SpA (historical figures), Value Track (estimates)

Sales breakdown by Business Unit



Source: Company SpA

Sales breakdown by geography



Source: Company SpA

Investment case

Strengths / Opportunities

- Top management extensive experience in insolvency proceedings
- Wide network of contacts generating "leads"
- Strong funds raising capability
- Light fixed costs structure

Weaknesses / Risks

- Dependence on macroeconomic cycle and Italy's bankruptcy legislation
- Lag from revenues recognition to cash in dates

Stock multiples @ €1.76 Fair Value

	2018E	2019E
EV / Op. PROFIT (x)	8.0	7.1
EV / CAP.EMP. (x)	0.8	0.8
P / E (x)	10.8	10.0
P / NAV (x)	1.04	1.00
Div. Yield. (%)	3.1%	3.4%

Source: Value Track

CdR Advance Capital in a nutshell

A distressed assets investor specialist

CdR Advance Capital is an Italian focused investor in special situation, with a huge expertise in both real estate investments and non-performing loan recovery.

The Group investment strategy is characterized by a "**single-name" approach**, which means that only unique assets are acquired after a careful due diligence process has been fulfilled.

CdR Investment types can be classified in two different types;

- **Financial distress situation.** CdR invests in asset owned by ceased firms;
- **Operative distress situation.** CdR invests in active firms but dealing with financial crisis.

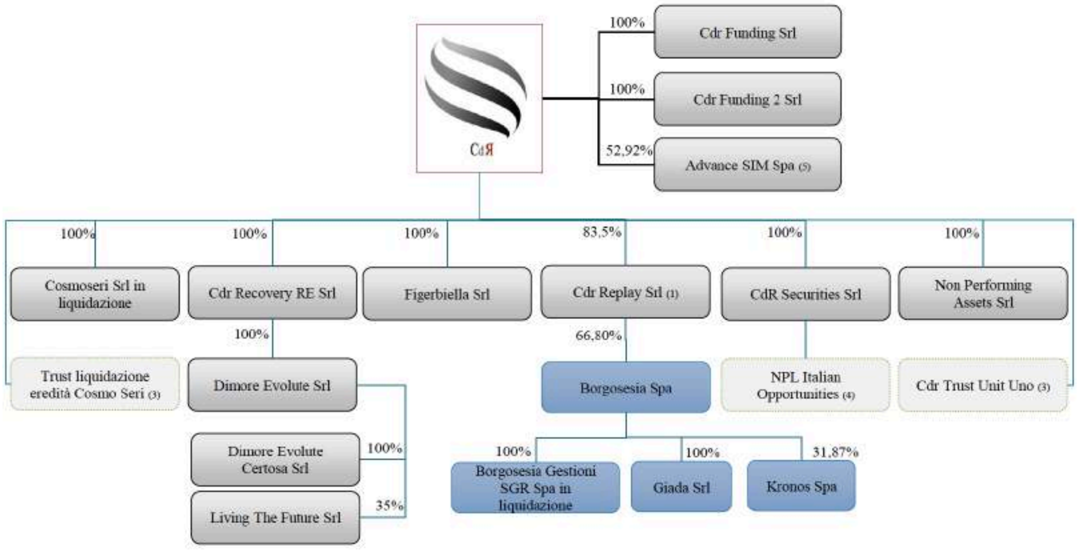
(*Please see Appendix 3 for further details on CdR Advance Capital investment process).*

Integrated business model leading to operating and financial synergies

The Group, listed on the Italian Stock Exchange since 2012, deploys its activities through a fully integrated corporate structure based on three main functional areas:

- **Non-performing "movable" assets.** It groups all companies active in the acquisition at a huge discount, in exchange of the responsibility of repaying a certain percentage to its creditors, and restructuring of non-performing movable asset such as loans, securities, commercial / other credit and so on;
- **Non-performing "non-movable" assets**. It groups all companies active in the acquisition and restructuring of non-performing assets mainly backed by real estate properties such as land, buildings and so on;
- **Ancillary companies**. It groups all companies which are "instrumental" to the first two areas i.e. which offer to both group and third party clients the following services:
    - Corporate finance advisory services / Capital markets activities;
    - Wealth / Asset management services;
    - Fiduciary services / Trusteeship.

CdR Advance Capital Group: Current Group structure



Source: CdR Advance Group

Such a group structure drives a high synergic interchange where every sub-holding brings it own competences and plays a specific role in any deal origination / execution, thus allowing both operating and financial synergies.

Operating and financial synergies

	Investment opportunities	Cost reduction	Exit opportunities
Real Estate b.u.	Investments in distressed companies with significant real estate assets in their balance sheet.	Internalization of marginality, overseeing the entire process of intervention, requalification and facility management.	Sale of the requalified real estate, with focus on the social housing market-
Fiduciary	Facilitates interventions in situations that require shareholders' agreements or similar pacts.	Savings in administrative expenses, centralizing the bureaucracy and consequently simplifying its treatment.	Not relevant
Corporate Finance	Investments in minor procedures where there is an industrial asset still in activity, as advisory services can find a buyer more easily	Internal advisory on restructuring plans and diversification effect that allows to spread fixed costs on more activities.	New potential buyers from the business network of industrial players advised, even for future securitization products
Dynamic Individual Asset Management (Advance SIM)	Not relevant	Funding capabilities and network of investors should decrease the cost of funding of the company	Deals with the distribution of CdR Advance's products to investors.
Securitization	Investments in more types of credits, given the possibility to structure and sell them in diversified bundles.	Not relevant	New exit opportunity through the sale of diversified instruments, instead of the ownership of the entire credit.

Source: CdR Advance Group, Value Track Analysis

Solid origination and execution capability driven by experienced managers

In order to develop and successfully run such a sophisticated business model, it has been key the top management extensive experience in insolvency proceeding that is bringing vital several enabling factors such as:

- Extensive network of relationships;
- Continuous presence in the market;
- Deep fund raising skills;
- Proven execution capability of the revitalization of underlying assets;
- "Light" and mostly variable cost structure.

Strong dependence on Italy's legislation and macroeconomics cycle

The Group operates only in Italy, and as a consequence it's heavy exposed to Italian legislative framework, in particular to the never settled Italian Bankruptcy Law and annexes. This is a very complicated framework as it includes several types of In-court and Out-of-court procedures. (*Please see Appendix 1 for a thorough recap of the Italian legislative Bankruptcy framework*).

At the same time, CdR investment activity depends on Italian macro fundamentals, which have been weak over the last decade, thus allowing for an extremely high number of restructuring opportunities, even if we note that in the latest two years there was a slight reduction in the amount of new non-performing situations. (*Please refer to Appendix 2 for updated statistics on the Non Performing reference market*).

Corporate Governance and dividend policy designed ad hoc

As of now the Group Capital structure is split in two different categories of shares with different voting rights and dividend privileges:

- **"A" shares.** Listed on AIM Italia market. They embody all the rights reserved to ordinary shares and privileged dividend distribution;
- **"B" shares.** Not listed shares, assigned to Top Management. They have equal voting rights as for A shares but enjoy different dividend rights.

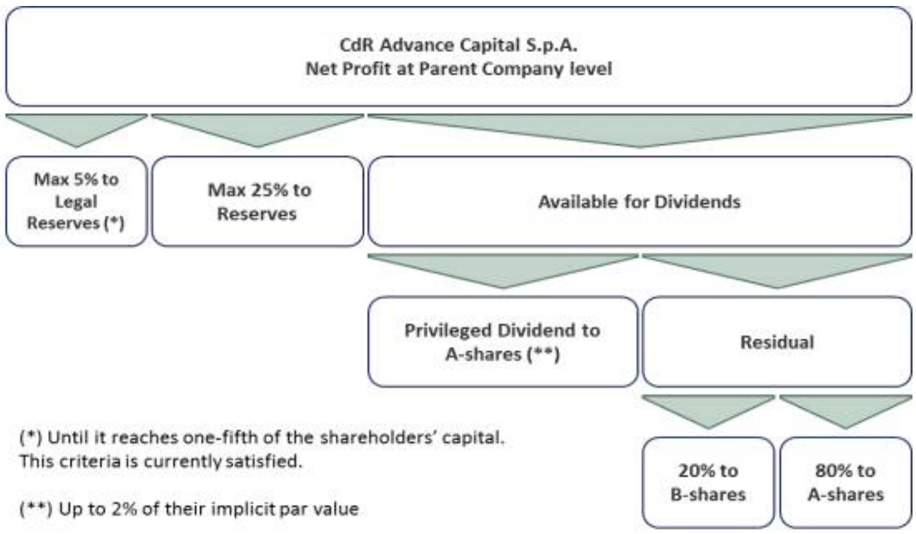
More in particular, as far as the dividend policy is concerned, we note that it is designed to align the interests of management and common shareholders. Indeed, parent company's net profit is distributed to shareholders according to the following scheme:

1. First priority. The legal reserve has to be fed by the minimum between the amount necessary to make it equal to one-fifth of the shareholders' capital, and the 5% of the net profit;
2. Second priority. The implicit nominal value of A shares is computed, dividing the shareholders' capital by the number of shares entitled to profit distribution, and summed with the share premium reserve belonging to category A shares. The 2% of this value is the privileged dividend to be delivered to A shareholders;
3. If any profit is left, the 20% of it belongs to B-shares;
4. The entire remaining surplus (80%) is then allocated again to A shares.

There are two additional points to be mentioned:

- In case of insufficient profits or losses the privileged dividend belonging to A shares (see the second priority above) can be cumulated through years, without time constraints;
- Board of Directors has the right to set aside a maximum 25% of the Net Profit, net of legal reserve requirements only, into a so-called "extraordinary reserve". In the following years, and in case this reserve isn't used to cover any losses, it can be split to fulfil the privileged dividends that may not have been satisfied when the reserve was created.

CdR Advance Capital Spa: Dividend Policy



Source: Various, Value Track Analysis

Financial performance steadily above expectations

Latest years have been busy for CdR Advance Capital, as the company kept on strengthening its core business (NPL investments and Fee-driven services) and, at the same time, continued its development process aimed at capitalising Borgosesia's stake (*please, see next sections of the report*).

However, the latest full year financial results highlight Group's key success factors / enabling factors, such as the dynamic investment approach based on a continuous access to deal flow as well as the value creation capabilities proved by attractive IRR.

Introduction

CdR Advance Capital financial figures are the combined result of the Fee driven business unit and of the NPL one. As far as the NPL business is concerned, we remind that typical deals finalized by the company are structured in two consequent steps:

1) The purchase of single name loans classified as non performing (bad loans, unlikely to pay or past due) at a price that on average stands at ca. 30% of the related nominal value;
2) The acquisition of the related underlying asset, almost always a real estate asset under construction in valuable areas such as Milan city.

We also remind that usually the financial results of this business are not very straightforward to be interpreted. This is not the result of a lack of transparency from CdR Advance but rather the combined effect of:

- The intrinsic nature of investment activity that would probably better fit with holding / financial reporting schemes rather than with industrial ones based on EBITDA or OpFCF;
- IFRS – IAS accounting principles. Indeed, accounting distressed assets at market value (and moving from a liquidation perspective to an on-going concern one) implies the almost automatic creation of P&L capital gains even if real cash flow generation lags two or three years;
- The accounting treatment of Real Estate assets that have to be booked among Net Fixed Assets if their disposal is due to come only in the medium long term and have to be moved in Inventories if their disposal is due to come in the short term. This adds volatility to the Value of Production line.

Please see Appendix 3 for more details on the accounting treatment of NPL deals.

Group's P&L from an operating point of view: well-managed investments lead to excellent results

That said, CdR Advance Capital latest full year results recorded a double digit growth in its main financial items, i.e. Operating Profit grew 52% YoY and Net Profit more than doubled YoY.

Looking at Group's P&L as the sum of Core business (Distressed investments and Fee driven businesses such as advisory, capital markets, facility management and other services) and Non-Core one (mainly fiduciary services) we see that most of the contribution to Group's Operating Result has been generated by Core activities (ca. €7mn, up 65% YoY).

However, we note that profitability attributable to Fee driven business is by nature lower, since by contract a large part of generated Gross Profit is distributed as variable remuneration component to the management.

CdR Advance Capital Group: Contribution of "Core" and "Non-Core" activities to P&L

(€ '000)	2016	2017	YoY (%)
Operating Result "Core" activities	**4,221**	**6,986**	**+65.5%**
Operating Result "Non-Core" activities	**132**	**76**	**-42.4%**
G&A Costs	-1,049	-2,027	
Group Operating Profit (net of minorities	**3,304**	**5,035**	**+52.4%**
Net Fin. Charges	-914	-1,617	
Pre Tax Profit (net of minorities)	**2,390**	**3,418**	**+43.0%**
Taxes	-1,167	-632	
Net Profit	**1,223**	**2,787**	**n.m.**

Source: CdR Advance Capital, Value Track Analysis

P&L from an accountancy point of view

Looking at Group's P&L from an accountancy point of view can be misleading as EBITDA is more the result of Real Estate assets mark to market rather than of the difference between Sales and Operating Expenses.

However, just for the sake of completeness, we underline the growth of this figure, almost doubled YoY that demonstrates how business is gaining momentum. And in the long run, sooner or later, EBITDA becomes real cash.

CdR Advance Capital Group: 2016A-17A P&L key items

€	2016	2017	YoY (%)
Value of Production	3,830,165	12,145,185	n.m.
EBITDA*	**3,209,714**	**6,366,010**	**+98.3%**
EBIT Adj. i.e. Operating Result	2,836,832	6,110,725	n.m.
Pre-tax profit	**2,176,894**	**4,135,468**	**+90.0%**
Taxes	-1,167,278	-631,609	
Group Net profit before minorities	**1,009,616**	**3,503,859**	**n.m.**
Minorities	213,861	-717,183	
Net Profit (Loss)	**1,223,477**	**2,786,676**	**n.m.**

Source: CdR Advance Capital, Value Track Analysis

** Gross of other operating expenses (TASI;IMU, TARI etc..)*

Focus on Revenues evolution: steady and healthy growth in the fee driven business

As concern Revenues composition and evolution, we highlight that:

- **"Fee driven" business** is growing healthy, with operating revenues standing at ca. €5.1mn (more than doubled YoY). In particular, we point out the good result achieved by advisory activities and facility management services, with operating revenues at ca. €3.5mn and 1.4mn respectively. The residual item refers to fiduciary services provided by Figierbiella;
- **Distressed assets investments** generated ca. €2.7mn operating revenues vs. ca. €2.2mn as of 2016FY, attributable to €2.0mn to fair value adjustment of non-performing loans acquired within the NPL Italian Opportunities deal, and ca. €0.6mn to the sale of real estate assets.

CdR Advance Capital Group: 2016A-17A Revenues structure and evolution

€	2016	2017	YoY (%)
Fair Value adjustment of distressed assets investments	1,471,859	2,049,709	+39.3%
Real Estate Revenues (incl. Cosmo Seri deal)	714,991	616,010	-13.8%
Fiduciary Services	103,918	109,585	+5.5%
Advisory Services	755,771	3,506,483	n.m.
Facility Management	700,000	1,400,000	+100.0%
Other Services	547,665	198,000	-63.8%
Operating Revenues	**4,294,204**	**7,879,787**	+83.5%
Change in inventory, raw materials, etc.	-464,039	4,265,398	n.m.
Value of Production	**3,830,165**	**12,145,185**	**n.m.**

Source: CdR Advance Capital, Value Track Analysis

Group Balance Sheet: Higher Net Debt but also higher Net Asset Value

CdR Advance Capital's Net financial debt has shown a slight expansion as of 2017 year-end (ca. €6.3mn vs. €4.8mn as of 2016FY). This was the result of Net Fixed Assets increasing by ca. 66% YoY, (from ca. €23.5mn in 2016 to ca. €39.2mn as of 2017YE), as an outcome of the NPL investment activity pursued by the Group and of Advance Sim and Borgosesia SpA deals.

Net working Capital was negative by ca. €2.1mn mainly due to the weight of trade payables and of initial deposits paid in advance by clients who committed to acquire real estate assets (in particular via Cosenz building), respectively at €3.3mn and €5.7mn.

CdR Advance Capital Group: 2016A-17A Balance Sheet key items

€	2016A	2017A
Net Fixed assets	23,489,599	39,240,048
Net Working Capital	3,315,389	-2,137,379
Severance pay and other funds	1,972,049	3,217,079
Total Capital Employed	**24,832,939**	**33,885,590**
Total Shareholders' Equity (i.e. Net Asset Value)	**18,306,798**	**22,613,986**
Minorities' Equity	1,646,219	4,976,063
Group Net Equity	**19,953,017**	**27,590,049**
Net Fin. Position [Net debt (-) / Cash (+)]	**-4,879,922**	**-6,295,541**

Source: CdR Advance Capital, Value Track Analysis

More important is the evolution of Group Net Equity that, despite dividend distribution, has increased to ca. €28mn, gross of minority interests.

This is a proof of the quality of the business model, indeed we remind that due to the above-mentioned accounting principles, Net Equity is marked to market every year in its Distressed Assets component.

As such, **Total Shareholders' Equity equals Net Asset Value**.

Net Financial Position structure

We always said that financing capability is crucial in order to succeed in CdR Advance Capital business. Looking at 2017 year-end financial structure we appreciate how the company has further raised money (now there are more than €20mn of bonds outstanding) and still has unexploited cash to deploy in its investment activity (see the €7mn cash available and the €9mn Held For Trading securities that are mainly short term marketable securities).

CdR Advance Capital Group: Structure of Net Financial Position 2016A-17A

€	2016A	2017A
Cash and deposits (+)	4,448,352	7,343,884
Short term financial credits (+)	2,189,224	3,191,831
HFT Securities (+)	1,482,659	9,176,373
Debt to Banks within 12 months (-)	-253,163	-4,055,495
Other current financial debt (-)	-312,827	-625,790
Current Net Financial Position	**7,554,245**	**15,030,803**
Long term financial credits (+)	59,520	315,748
Debt to Banks over 12 months (-)	-1,298,315	0
Bonds (-)	-11,195,372	-21,642,092
o/w Conv. 2014/19 (N.V. €4.95mn)	*-4,652,169*	-4,764,279
Conv. 2015/21 (N.V. €4.95mn)	*-4,331,299*	-4,541,037
Conv. 2016/22 (N.V. €4.95mn)	*-1,776,548*	-4,372,924
NPL IT Opp. 2016/21	*-435,356*	-1,400,169
NPL Global 2017/22 (N:V: €7.0mn)		-6,563,683
Non-Current Financial Position	**-12,434,167**	**-21,326,344**
Net Fin. Position [Net debt (-) / Cash (+)]	**-4,879,922**	**-6,295,541**

Source: CdR Advance Capital, Value Track Analysis

Cash Flow Statement

Again, we note that the intrinsic nature of distressed investment activity would probably better fit with financial based reporting rather than with industrial one based on EBITDA or Operating Cash Flow. Indeed investing activity, i.e. increasing the Capital Employed figure, is the mission of the Group provided that returns are positive and lead to higher Net Equity value.

CdR Advance Capital Group: 2016A-17A Cash Flow Statement

€	2016A	2017A
Cash Earnings i.e. Net Profit adj. for non-monetary items	**560,565**	**3,114,686**
Op. WC needs	-678,017	5,452,768
Net Investments (Tang.+Intang.+Financial)	-7,235,628	-9,599,082
Dividends paid	-329,378	-385,124
Other Source / Uses	760	1,133
Change in Net Fin Position	**-7,681,698**	**-1,415,619**

Source: CdR Advance Capital, Value Track Analysis

Deal flow remaining abundant

As long as time goes by, the number of investments in distressed assets finalized by CdR Advance Capital is increasing with a positive acceleration. We view this trend as a proof of the viability of CdR Advance business model.

Indeed, while in 2012-15 we count not more than one deal per annum, on the contrary in 2017-18 the company is signing on average a couple of deals per semester. In a nutshell we believe we can identify three periods in the group's recent life:

1. Start up period;
2. Fine Arts deal;
3. Maturity period.

We remind that some deals imply two closings, one for the acquisition of the "troubled" credit and one for the acquisition of the underlying asset.

1. Start up period

Two deals are worth mentioning in this initial period:

- "**BCC Cherasco**". Back in 2012, the company (at that time called Compagnia della Ruota) bought from a local bank (BCC Cherasco) a package of NPL with a nominal value of €3mn, paying immediately ca. €90,000 and then collecting at least 2x amount from debtors;
- "**Teknoenergy**". In 2013, the company advanced an offer to buy the troubled Teknoenergy Srl, with a €1.65mn investment, within a procedure of in-court settlement with creditors. In the balance sheet of the company, there were patents, goodwill, brand, movable assets and real estates. Unfortunately, the deal was not finalised, as the company was not able to win the approval of the creditors.

2. Fine Arts deal

In our view this deal is the one that first demonstrated the real viability and profitability of CdR Advance business model. Here follows a brief recap:

- **Step 1 – NPL acquisition.** Back in 2015 CdR Advance bought a NPL from Banca Monte dei Paschi di Siena for €3.82mn, corresponding to a nominal value of €17.4mn;
- **Step 2 - "Bovisa" securitisation**. The acquired credit was securitised by the subsidiary CdR Securities in late 2016;
- **Step 3- "Fine Arts" acquisition.** The debtor of the credit bought from MPS was actually Fine Arts Srl, owner of a building under-construction in the periphery of Milan (Via Cosenz) and a tax credit worth €2.9mn;
- **Step 4 – Underlying assets valorisation**. The tax credit was partly utilised and partly sold on a "pro solute" basis while the building is being finalised in these months and commercialisation is almost over with more than 95% of available flats being already sold. Overall the deal has generated an operating margin of roughly €8mn.

3. Maturity period

- **5 June 2017 - Single name loan on Viale Certosa building.** CdR Advance Capital signed a €2.0mn investment for the acquisition of a single name loan worth €4.2mn nominal value whose underlying asset is a residential building under construction located in Milan (Viale Certosa).
- **6 December 2017 – Viale Certosa building.** CdR Advance Capital paid a further €300k to finalize through "Dimore Evolute Certosa", controlled by "Dimore Evolute", the purchase of the underlying asset of Viale Certosa single name loan i.e. the residential real estate building under construction in Milan, Viale Certosa;

- **28 December 2017– Via Lattanzio deal**. The Group has finalized the purchase of a single name loan worth a nominal €2.5mn by paying €1.2mn cash at the end of February 2018. The underlying asset is residential building placed in via Lattanzio (Milan);
- **31 January 2018 – Non-Performing Assets deal.** CdR Advance Capital through the subsidiary Non Performing Assets acquired a vehicle company that owns a property in Milano. The deal, which relates to a maximum investment of €1mn, should ensure a net profit of €0.3mn within the end of February 2019;
- **10 May 2018 – New single name loan.** The Group purchased a non-performing loan worth a nominal €4.1mn value, mostly guaranteed by first and second mortgages registered on a real estate asset located in Milan. CdR Advance paid a €1.1mn money consideration;
- **4 June 2018 – D.A. Capital.** The Group acquired a 10% stake in D.A. Capital Spa, a newly incorporated company based in Macerata (Marche region, Italy), whose activities mainly focus on the purchasing of "movable" non-performing assets in Central Italy;
- **28 June 2018 – Real Estate assets portfolio.** CdR Advance Capital paid €1.5mn for the acquisition of a 5% stake in an investment vehicle owning a portfolio of real estate assets located in Lombardy, including both buildings already built and land eligible for development. CdR Advance has also made a commitment to provide the vehicle with an additional €1.5mn financial support. We underline that CdR Advance will be entitled with 51% of profits and assets liquidation value.

Borgosesia deal close to finalization

It's now more than six years from the moment when CdR Advance initially acquired shares in Borgosesia SpA, an Italian based holding company listed on the Italian Stock Exchange (MTA) now substantially inactive after having been primarily involved in the Real Estate business and, in the past, in the textile one.

To be more precise, Borgosesia SpA's assets are currently almost entirely composed by the full ownership of Borgosesia SGR, and Giada Srl, as well as by a minority stake (ca.32%) in Kronos, which in turn owns an estimated real estate portfolio worth ca. €93mn, and a 40% stake in Penelope textile group. On the liability side, Borgosesia SpA is not burdened by any debt obligation, since all liabilities are allocated to Kronos.

We remind that CdR Advance Capital acquired an initial 3.9% stake of Borgosesia SpA back in December 2011 and was followed by other purchases for a total of ca. 6.32mn ordinary shares, corresponding to ca. 16.7% of "old" share capital. Average carrying price stood at €0.898 and total cash out at €5.68mn.

Rationale of the acquisition of a stake in Borgosesia

CdR Advance Capital aims to evolve **from direct and sole investor in special situations towards a fully integrated illiquid asset management group** that:

- Scouts the investment opportunities;
- Finds the proper way to transform the assets from non performing to performing;
- Organizes the funding of the deal where third parties (institutional investors, family offices and high net worth individual) should put the most of the money needed;
- Remains as a minor co-investor and as Management and Advisor Company.

An aggregation with Borgosesia SpA would allow CdR Advance to post a paramount step forward in such a strategy and would also have further positive consequences:

- Becoming listed on the official Borsa Italiana's MTA Stock Market would unlock access to a wider number of institutional investors and increase "distressed assets" business model flexibility as MTA listed companies are granted by Bank of Italy special exemptions in order to run investment activities;
- After the closing of Borgosesia agreement, the company would add dynamic" aggregated wealth management services, (i.e. a SGR involved in the investing and administration on investor name and on his behalf of securities, stocks, bonds and other movables) to its portfolio, through which it can improve the structuring of financial products addressed to third-party investors.

Steps finalized so far in order to go towards a CdR – Borgosesia aggregation

The idea to somehow aggregate CdR Advance and Borgosesia has had some stop and go in the latest few years, and went through complex negotiations among all shareholders. We deem useful to recap the main steps that took place so far:

- **Step 0 – Agreement with Borgosesia shareholders.** Back on November 30th, 2015 Borgosesia SpA announced a voluntary liquidation procedure but CdR Advance filed an official claim to Florence Court as it judged the liquidation not in the company's interest. It was only on June 14th, 2016 that CdR Advance Capital and Borgosesia SpA's main shareholder (Bini Group) signed a complex agreement whose main features were:
    - Set up of a binding Shareholder's pact representing 87.8% of voting rights;
    - Conferral to CdR Advance Capital of the Borgosesia SpA's debt restructuring task;
    - Promise to finalize an aggregation between CdR Advance Capital group and Borgosesia SpA.

- **Step 1 - Approval of Borgosesia SpA's debt-restructuring plan.** Back on March 16th, 2017 Borgosesia SpA's financial creditors approved the proposed debt-restructuring plan. This was a necessary step in order to go on with any type of deal.
- **Step 2 - Establishment of Kronos**. Conferral of all Borgosesia SpA's assets and liabilities, with the exception of Borgosesia SGR and Giada Srl, to a NewCo (called Kronos) aimed at: 1) disposing existing assets; 2) settling pending liabilities; 3) distributing any residual cash to shareholders.
- **Step 3 - Public Exchange Offer.** Back in December 2017 Borgosesia SpA launched a voluntarily Public Exchange Offer between its shares and Kronos' ones. According to the binding shareholder's pact signed by CdR Advance and Borgosesia's majority shareholders (Bini Group), the latter was obliged to contribute its shares to the Offer on the contrary of CdR Advance Capital Group that, after the cancellation of tendered shares, acquired Borgosesia SpA's control through its subsidiary CdR Replay. As a result, CdR Advance currently holds approximately 52.5% of total share capital (ordinary + savings shares) and ca. 66.8% of voting rights.

Borgosesia SpA: Current shareholders' structure post Public Exchange Offer

Shareholders	Nosh	As (%) of ordinary share capital	As (%) of voting rights
CdR Replay S.r.l	6.321.099	52.48%	66.80%
Boselli Silvio Maurizio	819.496	6.81%	8.66%
Free Float	2.321.673	19.28%	25.54%
Treasury shares	2.581.239	21.44%	--
Total Ordinary shares	**12.906.198**	**100.00%**	**100.00%**
Savings shares	862.691	--	--

Source: CdR Advance Group

- **Step 4 – Official revocation of the liquidation procedure.** As of the end of July 2018, Borgosesia SpA announced that, given the absence of opposition to the resolution taken by the Extraordinary Shareholders' Meeting of its subsidiary Borgosesia Gestioni SGR SpA, the revocation of the liquidation procedure has officially become effective.

CdR Advance Capital – Borgosesia aggregation eventually taking shape

CdR Advance Capital's BoD meeting held in May 2018 approved the Industrial Plan 2018-22 which gave some hints on how the aggregation between CdR Advance and Borgosesia could take place.

Main driver of the reorganization deal should be a **non-proportional demerger of all CdR Advance Capital SpA's assets, but for the participation in Advance Sim SpA, and their contribution to Borgosesia SpA that should pay for these assets by issuing new ordinary shares**. Borgosesia SpA's activities should then be focused on non-performing assets, in problematic situations, whether in bankruptcy proceedings or in financial distressed conditions. Two autonomous business units should run the operations:

1. **Dimore Evolute**, which should remain active in non-performing "non-movable" assets, through the investment in the real estate sector and the finalization of non-performing residential interventions;
2. **CdR,** which should remain active in investments non-performing "movable" assets such as problem loans, litigation or industrial assets in the middle of a turnaround process.

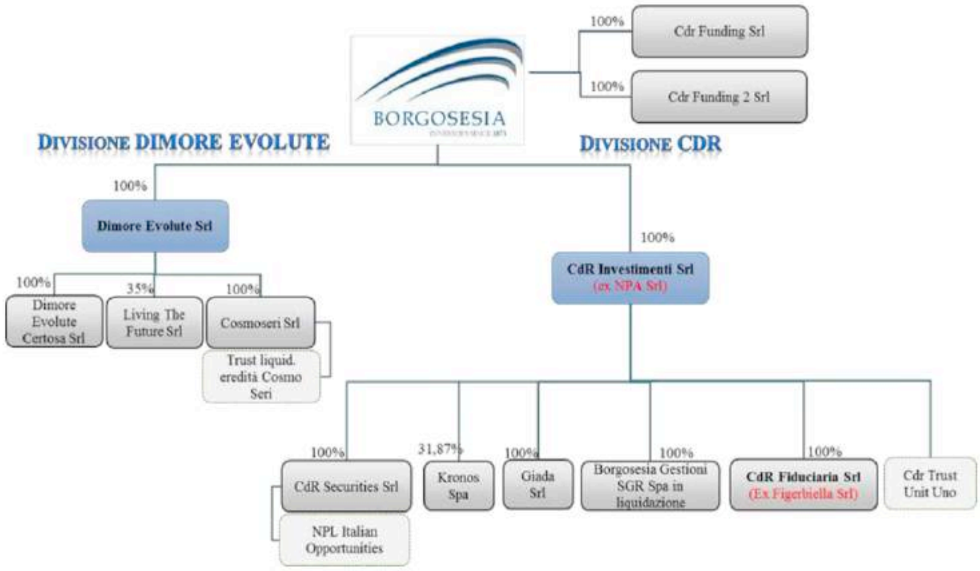
As concern the participation in Borgosesia Gestioni SGR SpA, and more generally, those held by CdR Advance Capital, they should be functionally allocated to "CdR" division.

At the end of the aggregation / reorganization plan, the new Group structure should be as follows:

CdR Advance Capital: The expected Group structure post reorganization

"New" CdR Adv. Group

"New" Borgosesia Group



Source: CdR Advance Group

The integration process ahead step by step

The above-mentioned spin-off should be approved by CdR Advance Capital shareholders' meeting within October 2018, and **the deal should then eventually be finalized by the end of 2018**. Main steps ahead:

- **Step 0 - CdR Advance Capital Spa and its shareholders becoming direct owner of Borgosesia SpA shares**
  - Acquisition by CdR Advance Capital SpA of the minority stake (ca. 16.5% of share capital) in CdR Replay Srl (currently the owner of Borgosesia shares), to be paid through newly issued shares of CdR Advance Capital SpA;
  - Liquidation of CdR Reply (currently fully controlled by CdR Advance Capital SpA). As a result, CdR Advance should become direct shareholder of Borgosesia SpA.
  - Assignment of a certain number of Borgosesia SpA shares (as a dividend in kind) to CdR Advance Capital SpA shareholders;
- **Step 1 – CdR Advance Capital SpA demerger and contribution to Borgosesia**
  - CdR Advance Capital SpA should spin off all its assets, but for Advance Sim, and transfer them to Borgosesia. Current shareholders of CdR Advance Capital SpA should be entitled newly issued Borgosesia SpA ordinary shares on the basis of exchange ratios to be decided;
  - Borgosesia SpA should also receive shares held by CdR Advance Capital SpA on the spin-off date, i.e. those not allocated to the CdR Advance Capital SpA shareholders as a dividend in kind for 2017 financial year. These shares should therefore become treasury shares;

- **Step 2 – Reshuffle of currently outstanding financial instruments**
  - **Bond structure**. It should be issued a new non-convertible bond, for a maximum amount of €25mn, to be partially allocated to the anticipated repayment of three convertible bonds currently outstanding ("CdR Advance Capital 2014- 2019 6.5% "," CdR Advance Capital 2015-2021 6% "," CdR Advance Capital 2016-2022 5% ") and partially to increase the group investment availabilities. CdR bondholders should decide whether to keep the old bonds in portfolio, becoming these convertible into ordinary Borgosesia SpA shares, or to be early repaid. Last but not least, Borgosesia should also become the issuer of the two loans currently listed on the Third Market of the Vienna Exchange (NPL Italian Opportunities 2016-2021 TV "and" NPL Global 2017-2022 5% ");
  - **Shares.** CdR Advance Capital "B" shares, currently in circulation, should be converted into "A" shares on the basis of exchange ratios to be decided;
  - **Warrants.** All CdR Advance Capital 2012 -2022 warrants in circulation on the effective date of the spin-off should be transferred to Borgosesia and, therefore, they should become convertible only into Borgosesia SpA shares;
  - **Other financial instruments.** It's foreseen the possible conversion of those financial instruments historically issued as consideration for the shares tendered within the exchange offer promoted (back as of 2013) to a maximum of n. 3,200,000 ordinary shares of Borgosesia SpA.

What about Advance SIM

Corporate finance / Wealth management / Capital markets one-stop shop

Back as of 2017FY, CdR Advance Capital Group achieved the control over Advance SIM, a Partner Equity Market of Borsa Italiana which not only is active in the field of Corporate Finance and Capital Markets services but also but also in Wealth management. Indeed, the company is the result of the merger between Advance Corporate Finance, already controlled by the Group - which provided different types of advisory services from M&A, to equity and debt capital markets - and 3P SIM, a company involved in fund raising business, already owned at 30% by CdR Advance Capital Group.

The merged company (Advance Sim) has been authorized from Bank of Italy to offer placement services for listing / listed companies, and this, together with the role of Nomad on the AIM market, makes such a SIM a full service provider to SMEs wishing to access capital markets.

Advance SIM to become directly listed on AIM Italia

As a result of the previously described assets spin-off deal (and contribution to Borgosesia), the currently listed vehicle CdR Advance Capital SpA should remain with only one business i.e. the stake in Advance SIM, which after getting the necessary additional authorizations from the regulator should undergo the following steps:

- Reverse takeover into CdR Advance Capital, which should be renamed as Advance SIM and should, as a consequence, be directly listed on AIM Italia;
- Strengthening of shareholding's equity, also by aggregating companies already active in capital market business.

According to the business plan, there should be a commercial agreement between two "new" groups aimed at the development of wealth management activities.

Such an agreement may be followed by Borgosesia SpA acquiring a small minority stake in Advance SIM, however not higher than 10%.

Financial forecasts 2018E-19E

Introduction

Underlying once again how building (and interpreting) CdR Advance Capital Group's financials could be not so straightforward, we believe the best way to approach forecasts is as follows:

- Taking into consideration an operating point of view rather than an accountancy one;
- Considering Fee driven business and Distressed Assets investment one on a separate basis;
- Applying IFRS-IAS based industrial reporting scheme to Distressed Assets Investments.

Please note that our estimates are based on the current business perimeter, even if we are aware that it should materially change if and when CdR Advance – Borgosesia deal is positively finalized. For the same reason we are limiting our detailed forecasts to 2018E-19E periods.

Fee driven business

The bulk of this business growth should come from Advance Sim, which cover ca. 90% of the overall unit, while the remaining should arise from fiduciary and advisory services, and wealth management activity.

As such, visibility is obviously not that high. Indeed, capital markets activities can rapidly improve or worsen depending on macro conditions or on investors' trust on Italian political stance.

That said, we believe that over the next two years, "Fee driven" business can keep growing in size vs. the ca. €3.2mn Revenues recorded in 2017FY.

Overall, we expect this business unit to achieve ca. €3.5mn turnover in 2018E and ca. €4.0mn in 2019E, with a ca. 11% CAGR.

We note that based on the agreement with the various top managers running this business, the most of revenues are paid back to them as variable component of their remuneration package.

As an effect, we estimate that the Operating Profit margin that CdR Advance Capital Group can consolidate stands at ca. 15% of the top line leading to ca. €525k-€600k Operating margin as of 2018E-19E respectively.

Fee driven business: 2018E-19E evolution at a glance

(€' 000)	2018E	2019E
Corporate Finance	1,200	1,300
Capital Markets	2,000	2,300
Wealth Management	100	200
Risk Management	200	200
Total Revenues	**3,500**	**4,000**
Top management fees	-2,450	-2,800
G&A	-525	-600
EBIT to CdR	**525**	**600**
As % of Revenues	15%	15%

Source: Value Track Analysis

Distressed Assets Investment activity

We expect the Group to be able to capitalize on its long lasting experience in non-performing assets investments, adopting as usual a "single-name" approach aimed at revitalizing the underlying asset, i.e. not with a trading approach.

Waiting for the positive finalization of Borgosesia deal, we also expect the Group to try to more and more involve third party investors / family offices / high net worth individuals in its investment activity.

That said, we remind that back as of May the Group has announced brand new 2018-2022 financial targets of the activity of investments in non-performing asset. These targets can be summarized as follows:

- Additional €10mn financial resources to be invested thanks to the issue of a new €25mn non-convertible bond and to €15mn repayment of outstanding convertible bonds;
- Cumulative 2018E-22E investments for a value of around €37mn;
- Average expected IRR at ca. 32%.

In our estimates we are a little bit more conservative on the time to exit from investments and, as a consequence, on potential IRR. Indeed, we remind that the longer the time to exit and the lower the IRR of investments, all other things remaining equal. In a nutshell, we estimate:

- An investment pipeline of €6.0mn as of 2018E, €6.4mn as of 2019E which may increase by ca. 10% from 2019E onwards;
- A cash multiplier of the investment equal to 2x in a three years' period, corresponding to a ca. 26% IRR, in line with what we said in our Initiation of Coverage report published back as of September 2017.

  (Please see Appendix 3 a detailed analysis of IRR profile of a typical non performing assets investment deal).

To be more precise on 2018E-19E P&L forecasts, we expect the company to almost achieve its targets in terms of number of new investments and of "potential" cash multiple (as certified by Real Estate appraisal companies). Indeed, already finalized acquisitions of single names distressed loans and assets in FY18 increase visibility on the achievement of a ca. €6.0mn top line figure as of 2018E. Revenues at ca. €6.4mn as of 2019E are, as well, a very affordable target.

Taking into account some €1.6mn annual opex, due to increase by some €100k per annum we get to a contribution to CdR Advance Group Operating Result before corporate costs of roughly €4.4mn and €4.7mn respectively as of 2018E-19E.

Distressed Assets business: 2018E-19E evolution at a glance

(€' 000)	2018E	2019E
Total Revenues	**6,000**	**6,400**
Opex	-1,600	-1,700
EBIT to CdR	**4,400**	**4,700**

Source: Value Track Analysis

CdR Advance Capital Group 2018E-19E estimates

2018E-19E P&L forecasts

Our Group's P&L forecasts for 2018E-19E are based on:

- Group's Operating Profit being substantially the sum of the operating result generated by the above-mentioned separate business units;
- €1.6mn Net Financial Charges as of 2018E, stable YoY vs. 2017 while in 2019E they should increase as an effect of a higher average Net Debt position;
- 24% average 2018E-19E tax rate.

As a result, we estimate Group's Net Profit to remain in the €2.5mn - €2.7mn region as of 2018E and 2019E respectively, i.e. substantially stable vs. the €2.8mn recorded as of 2017FY, that includes more than €1mn non recurring contribution from the write up of: 1) Borgosesia's stake, and 2) Advance Corporate Finance – Advance SIM.

Later on (2019E onwards) we expect Group's bottom line to grow at high single digit CAGR driven by the higher investment effort.

We underline that the more the money raised by the company and available to be deployed in new investment opportunities and the higher the growth rate of bottom line could be.

CdR Advance Capital Group: 2018E-19E P&L forecasts at a glance

(€ '000)	2017A	2018E	2019E
Group Operating Profit	**5,035**	**4,925**	**5,300**
Net Fin. Charges	-1,617	-1,600	-1,700
Pre Tax Profit	**3,418**	**3,325**	**3,600**
Taxes	-632	-798	-864
Net Profit	**2,787**	**2,527**	**2,736**

Source: CdR Advance Capital (historical figures), Value Track Analysis (forecasts)

Based on CdR Advance Capital Group's dividend policy we can calculate forecasted Earnings and EPS for both A shares and B shares. These values are to be considered as the maximum dividend distributable to the two classes of shares.

CdR Advance Capital Group: Net Profit to A and B shares in 2018E-19E

(€ '000)	2014A	2015A	2016A	2017A	2018E	2019E
Group Net Profit	**353**	**2,573**	**1,223**	**2,787**	**2,527**	**2,736**
Net Profit to Legal Reserve	12	0.1	0.0	0.0	2.3	0.0
Net Profit to shareholders	341	2,572	1,223	2,787	2,525	2,736
o/w Net Profit pertaining to A Shares	**321**	**2,107**	**1,028**	**2,283**	**2,073**	**2,242**
and Net Profit pertaining to B Shares	**20**	**465**	**195**	**504**	**452**	**494**
EPS A shares	**0.0278**	**0.1759**	**0.0858**	**0.1788**	**0.1623**	**0.1756**
EPS B shares	**0.0035**	**0.0776**	**0.0326**	**0.0790**	**0.0708**	**0.0774**

Source: CdR Advance Capital (historical figures), Value Track Analysis (forecasts)

2018E-19E Dividend estimates

As we underlined in a previous chapter (see "CdR Advance Capital in a nutshell"), CdR Advance Capital Spa's dividend policy is aimed at aligning the interests of investors and of top managers based on two share classes (A shares and B shares) entitled to receive dividends according to a sophisticated scheme.

Such a dividend policy is obviously based on Parent company's net profit that is the result of dividends from subsidiaries, so visibility here is quite low. However, we note that so far the company has been able to maintain a steady increase in DPS for both A and B shares.

We forecast that also in 2018E-19E there should be a slight improvement in absolute dividend distribution.

CdR Advance Capital Group: DPS calculation for A and B shares

€, except shares data		2015A	2016A	2017A	2018E	2019E
Parent Company Net Profit	**(a)**	**446,757**	**604,642**	**1,336,444**	**1,212,960**	**1,313,280**
To Legal Reserve	(b)	1,149	0	2,292	2,292	0
As % of (a)		0.3%	0.0%	0.2%	0.2%	0.0%
To non-distributable reserve	(c)	45,608	173,893	348,475	303,240	328,320
As % of (a)		10.2%	28.8%	26.1%	25.0%	25.0%
Net Profit available for distribution	(d)=(a)-(b)-(c)	400,000	430,749	985,677	907,428	984,960
To Extraordinary reserve	(e)	70,622	45,625	237,987	100,000	100,000
As % of (d)		17.7%	10.6%	24.1%	11.0%	10.2%
Net Profit to be distributed	**(f)=(d)-(e)**	**329,378**	**385,124**	**747,690**	**807,428**	**884,960**
Distribution to A shares of 2% of Par Value plus Premium Reserve						
Par Value	(g)	106,453	106,453	114,092	114,092	114,092
Premium Reserve	(h)	12,242,149	12,242,149	13,135,116	13,135,116	13,135,116
Total	(i)=(g)+(h)	12,348,602	12,348,602	13,249,208	13,249,208	13,249,208
To A shares @ 2.0%	(j)=(i)*2.0%	246,972	246,972	264,984	264,984	264,984
Distribution to A and B shares of remaining Net Profit						
Remaining Net Profit	(k)=(f)-(j)	82,406	138,152	482,706	542,444	619,976
To A shares @ 80.0%	(l)	65,925	110,522	386,165	433,955	495,981
To B shares @ 20.0% (if A shares are satisfied)	(m)	0	27,630	96,541	108,489	123,995
Distribution to A and B shares of accrued available reserves						
Now available reserves to be distributed		16,481				
To A shares @ 80.0%		16,481				
To B shares @ 20.0%		0				
A Shares Total Dividends	**(n)=(j)+(l)**	**329,378**	**357,494**	**651,149**	**698,939**	**760,965**
B Shares Total Dividends	**(m)**	**0**	**27,630**	**96,541**	**108,489**	**123,995**
Number of A shares outstanding at distribution	(o)	11,977,388	12,767,624	12,767,624	12,767,624	12,767,624
Number of B shares outstanding at distribution	(p)	5,882,018	6,383,811	6,383,811	6,383,811	6,383,811
DPS A shares	**(q)=(n)/(o)**	**0.0275**	**0.0280**	**0.0510**	**0.0547**	**0.0596**
DPS B shares	**(r=(m)/(p)**	**0.0000**	**0.0043**	**0.0151**	**0.0170**	**0.0194**
Pay-out (% on Parent Company Net Profit)		**74%**	**64%**	**56%**	**67%**	**67%**

Source: CdR Advance Capital, Value Track Analysis

2018E-19E Free Cash Flow and Balance Sheet forecasts

Our 2018E-19E Free Cash Flow forecasts are substantially the result of:

- Group's cash costs (G&A, Financial charges, Tax charges);
- Dividends to shareholders in line with company's policy as stated in the By-Laws (see later on);
- The net effect of cash need for new investments opportunities (€6mn as of 2018E and €6.4mn as of 2019E) minus cash generated by the exit on "old" investment deals (roughly €13.5mn out of which the bulk coming from Fine Arts deal monetization i.e. disposal of Via Cosenz building).

Overall we estimate a €16.6mn and €14.6mn Net Financial Debt as of the end of 2018E-19E respectively, up vs. the figure as of 2017 year-end. If Via Cosenz monetization should be anticipated to Q4 18 (50% likelihood), then 2018YE Net Financial Position could be substantially stable vs. 2017 year end.

We note that based on our current hypotheses, as of the end of 2019FY there would be the necessity to raise new financial resources (debt or equity or hybrid) to be deployed in new investment opportunities.

CdR Advance Capital Group: 2018E-19E Free Cash Flow forecasts

(€ '000)	2018E	2019E
Net Fin Position Start of Period	**-6,296**	**-16,601**
Cash operating costs	-3,200	-3,400
Taxes	-798	-864
Dividends	-807	-885
Cash out for old investments	-1,200	0
Cash out for new investments	-6,000	-6,400
Cash in for old investments monetization	1,700	13,500
Free Cash Flow	**-10,305**	**1,951**
Net Fin Position End of Period	**-16,601**	**-14,650**

Source: CdR Advance Capital (historical figures), Value Track Analysis (forecasts)

CdR Advance Capital Group: 2018E-19E Balance Sheet forecasts

(€ '000)	2017A	2018E	2019E
Total Capital Employed	**33,886**	**45,968**	**45,945**
Shareholders' Equity	22,614	23,741	24,965
Minorities' Equity	4,976	5,625	6,330
Group Net Equity	**27,590**	**29,367**	**31,295**
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	**-6,296**	**-16,601**	**-14,650**

Source: CdR Advance Capital (historical figures), Value Track Analysis (forecasts)

Valuation

Valuation summary

As we said, CdR Advance Capital Group share capital is currently made of A shares (listed) and B shares (privately held by CdR's top management) with different rights in terms of dividends / earnings attribution (please refer to the company's profile section for additional hints). It is planned that B shares are converted into A ones if and when Borgosesia deal is finalised, however for the time being we separately assess the updated value of both A and B shares by applying one mixed earnings-equity based valuation methodology, two purely equity based ones and, eventually, a pure earnings based one:

- **Residual Income Model (R.I.M.)**, i.e. adding to Net Asset Value the present value of future profits exceeding the estimated charge/cost of equity capital;
- **Net Asset Value** methodology cross checked with ROE and based on a panel of companies sharing some business model features with CdR Advance Capital Group;
- **Sum-Of-the-Parts** methodology separately assessing the value of fee driven business, Borgosesia SpA stake and non-performing assets activity;
- **Earnings based Peers Analysis,** i.e. taking into account some selected comparables and applying their earnings multiples (geared and ungeared) to CdR Advance Capital fundamentals.

Averaging the four above mentioned methods we get to **€1.76 fair value for A shares that compares with the current €1.02 market price**, implying a ca. 70% upside potential before taking into account possible small size / liquidity discount. As far as the non-listed B shares, we calculate an average €0.64 per share fair valuation, but we note that forward looking methods return a much higher valuation as the expected future ramp up of business (and profits) should progressively overshadow the historical disproportion between the Equity (i.e. NAV) reserved to A shareholders and the one reserved to B shareholders. We underline that Fair Values of A and B shares are not to be added each other on a 1:1 basis as they are calculated on a different number of outstanding shares.

CdR Advance Capital Group: Fair Market value summary

Valuation model	A shares	B shares	ToT A class		ToT B class	
	(€ p.s.)	(€ p.s.)	(€ '000)	% of A+B	(€ '000)	% of A+B
Residual Income Model	1.91	1.07	24,363	78%	6,804	22%
NAV 2017E vs. ROE	1.58	0.32	20,173	91%	2,043	9%
S-O-P	1.63	0.41	20,811	89%	2,603	11%
Earnings based Peers Analysis	1.90	0.76	24,286	83%	4,869	17%
Average Fair Value	**1.76**	**0.64**	**22,408**	**85%**	**4,080**	**15%**

Source: Value Track Analysis

CdR Advance Capital Group: Implied Div. Yield, P/E, P/BV at Fair Values for A and B shares

	A shares @ €1.76 Fair Value		B shares @ €0.64 Fair Value	
	2018E	2019E	2018E	2019E
DPS (€)	0.055	0.060	0.017	0.019
EPS (€)	0.162	0.176	0.071	0.077
BVPS i.e. NAV per share (€)	1.69	1.77	0.33	0.37
ROE (%)	9.6%	9.9%	21.1%	20.7%
Div. yield (%)	**3.1%**	**3.4%**	**2.7%**	**3.0%**
P/E (x)	**10.8x**	**10.0x**	**9.0x**	**8.3x**
P/BV (x)	**1.04x**	**1.00x**	**1.91x**	**1.71x**

Source: Value Track Analysis

Residual Income Model (R.I.M.) valuation methodology

Residual Income Model aims to assess the economic profitability of a firm, rather than just its accounting profitability, by calculating the income generated by a firm once taken into account the true cost of its capital. Calculation steps are as follows:

1st - Calculation of the equity charge that can be determined as required rate of return (we are assuming a base case centred on a **12% K_e**) multiplied the equity capital.

2nd - Calculation of the residual income as attributable net income minus the calculated equity charge;

3rd - Actualization as of today (at 12% K_e) of future residual income flows;

4th – Sum of the Present Value (PV) of future residual income flows (including a terminal value based on 2.0% perpetuity growth rate "g") to current book value (i.e. NAV) of the two share classes.

We note that while for A shares the value spread between ROE and K_e over the projection period 2018E-22E is negative, on the contrary it is positive for B shares as a result of their much lower Book Value and, as a consequence, higher ROE (> 20% on average in 2018E-19E). Terminal Value, on the contrary, should be positive for both classes of shares as a result of the structural growth of the business. Overall, with this method we calculate fair values of €1.91 (A shares) and €1.07 (B shares).

CdR Advance Capital Group: Summary of Residual Income Model Fair Values breakdown

	Book Value 2017A	PV RIM 2018E-22E flows	PV RIM Terminal Value	Total Fair Value
A shares (€ '000)	20,704	-245	3,904	**24,363**
Per each A share (€)	1.62	-0.02	0.31	**1.91**
As % of A+B	91.6%	n.m.	52.6%	**78.2%**
B shares (€ '000)	1,910	1,372	3,521	**6,804**
Per each B share (€)	0.30	0.21	0.55	**1.07**
As % of A+B	8.4%	n.m.	47.4%	**21.8%**
Total A+B shares (€ '000)	**22,614**	**1,127**	**7,425**	**31,166**

Source: Value Track Analysis

CdR Advance Capital Group: A shares R.I.M. based Fair Value sensitivity

(€ per A share)		Cost of Equity				
		10%	11%	12%	13%	14%
Perpetuity Growth Rate	1.5%	2.47	2.15	1.89	1.68	1.49
	2.0%	2.52	2.18	**1.91**	1.68	1.50
	2.5%	2.57	2.21	1.93	1.69	1.50

Source: Value Track Analysis

CdR Advance Capital Group: B shares R.I.M. based Fair Value sensitivity

(€ per B share)		Cost of Equity				
		10%	11%	12%	13%	14%
Perpetuity Growth Rate	1.5%	1.33	1.17	1.04	0.93	0.84
	2.0%	1.38	1.21	**1.07**	0.95	0.85
	2.5%	1.44	1.25	1.10	0.97	0.87

Source: Value Track Analysis

Net Asset Value methodology based on Peers' analysis

As mentioned in our Initiation of Coverage report, published back as of September 2017, it is not so easy to identify listed companies with a business model similar to CdR Advance Capital's one.

Some companies / investment vehicles that share with CdR some common features such as exposure to illiquid asset management business or to advisory services are: DeA Capital SpA, Mittel SpA, Tamburi Investment Partners, Tetragon Financial Group, IDI SCA, Volvere PLC, EPE Special Opportunities PLC.

Peers description

DeA Capital SpA: Italy based investment vehicle controlled by De Agostini Group. The Company operates through two business areas: Private Equity Investment and Alternative Asset Management.

Mittel SpA: Italy based merchant bank involved in advisory and investment activity focused on Italian small medium enterprises (SMES). Committed with medium/long term investments with an industrial approach and a whole range of corporate service offered.

Tamburi Investment Partners: Italy based investment-merchant bank focused on medium-sized Italian companies. The Company is active in the investment activity, including acquisition of minority equity interests in listed and unlisted companies.

Tetragon Financial Group: Holland listed closed-end investment company. The Company invests in a range of assets, including bank loans, real estate, equities, credit, convertible bonds and infrastructure, and TFG asset management, a diversified alternative asset management business.

IDI SCA: France based investment operator that is active in the French private equity market. The Company specializes in capital investments in France, such as leveraged acquisitions and private investments in public equity (PIPE), as well as mezzanine financing.

Volvere PLC: UK based holding company that identifies and invests in undervalued and distressed businesses and securities, as well as businesses that are complementary to existing group companies.

EPE Special Opportunities PLC: UK based investment company engaged in arranging income yielding financing for growth, buyout and special situations. The Company's goal is to provide long-term return on equity for its shareholders by way of investment in a portfolio of private equity assets.

Peers stock trading multiples

Investment vehicles / companies are usually valued based on P/BV or P/NAV multiples, better if crosschecked with ROE, as higher ROEs justify higher P/BV and P/NAV.

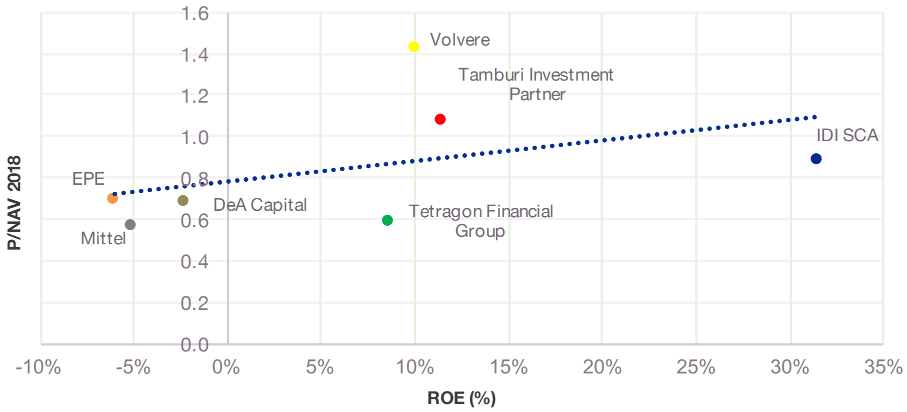
That said, we calculate that **on average the stock market is currently valuing investment vehicles / diversified financials at 0.86x P/NAV with a ROE standing at ca. 7%.**

CdR Advance Capital: Peers' main fundamental metrics

Companies	Currency	Book Value (mn, 2017FY)	Net Profit (mn, 2017FY)	NAV (Per Share)
DeA CAPITAL	EUR	489	-12	1.9
MITTEL	EUR	247	-13	2.9
TAMBURI INVESTMENT	EUR	628	72	5.6
TETRAGON FINANCIAL	USD	1995	171	21.1
IDI SCA	EUR	457	143	59.3
VOLVERE PLC	GBP	24	2	6.6
EPE SPECIAL OPPORTUNITIES	GBP	66	-4	2.3

Source: Companies data, Market data, Value Track Analysis

CdR Advance Capital's Peers: Value Map P/NAV vs. ROE (*)



Source: Companies data, Market data, Value Track Analysis (*) Mittel and EPE's ROEs are adjusted for non-recurring items

CdR Advance Capital: Peers' P/NAV, P/BV, ROE figures

Companies	ROE	P/NAV	P/BV
DeA CAPITAL	-2.4%	0.68	0.82
MITTEL (*)	-5.1%	0.59	0.59
TAMBURI INVESTMENT	11.4%	1.08	1.52
TETRAGON FINANCIAL	8.6%	0.59	0.88
IDI SCA	31.4%	0.89	0.84
VOLVERE PLC	10.0%	1.46	1.77
EPE SPECIAL OPPORTUNITIES (**)	-6.0%	0.70	0.82

Source: Companies data, Market data, Value Track Analysis

(*) ROE adjusted for capital gains, non-recurring costs and inventory value adjustments

(**) ROE adjusted for non recurring loss/profits of associated companies

Comparing CdR Advance and Peers based on historical ROEs crosschecked with P/NAVs underlines how the former has historically traded at discount vs. Peers (14% average, 9% median discount).

CdR Advance Capital vs. Peers: P/NAV, ROE 2012-17 evolution

Year	PEERS		CdR ADV.		Premium (+)/Discount (-) CdR vs. Peers
	ROE	P/NAV	ROE	P/NAV	
2012	4.1%	0.68	2.7%	1.03	52.4%
2013	4.0%	0.72	2.3%	0.70	-1.6%
2014	5.7%	0.70	2.6%	0.69	-2.2%
2015	5.9%	0.72	15.0%	0.49	-31.7%
2016	8.4%	0.86	6.7%	0.39	-54.6%
2017	6.7%	0.86	12.3%	0.62	-27.9%
Current (*)	**6.8%**	**0.86**	**12.3%**	**0.56**	**-34.9%**
Mean 2012-17	**5.8%**	**0.76**	**6.9%**	**0.65**	**-13.7%**
Median 2012-17	**5.8%**	**0.72**	**4.7%**	**0.66**	**-9.0%**

Source: Company data, Market data, Value Track Analysis

(*) P stands for Current Market Price, ROE at 2017FY, and NAV are those at 2017YE

Based on our estimates for NAV 2018E-19E evolution and for ROE 2018E-19E (we get an average 11%) we point at a fair 0.91x P/NAV to be applied on the average 2018E-19E NAVps.

Overall, with this methodology we get a €1.58 theoretical fair value for A shares and €0.32 for B shares.

CdR Advance Capital: Net Asset Value evolution in 2018E-19E

€	2016FY	2017FY	2018E	2019E
Net Asset Value – A shares				
NAV p.s. A shares (€ p.s.)	1.4258	1.6216	1.6920	1.7685
Total NAV pertaining to A shares (€)	17,077,173	20,703,979	21,602,322	22,579,050
Net Asset Value – B shares				
NAV p.s. B shares (€ p.s.)	0.2053	0.2993	0.3350	0.3738
Total NAV pertaining to B shares (€)	1,229,625	1,910,674	2,138,330	2,386,032
Total CdR Advance Capital NAV (€)	**18,306,798**	**22,613,639**	**23,740,651**	**24,965,082**

Source: CdR Advance Capital, Value Track Analysis

Sum-of-the-Parts approach

CdR Advance Capital Group can be viewed as the sum of:

- Fee driven business, i.e. mainly Advance SIM;
- Non-performing assets investment business;
- Stake in Borgosesia SpA (held indirectly via CdR Replay).

A Sum-Of-the-Parts approach adding up the value of the single business units leads to a total fair value of CdR Group at ca. €23.4mn, i.e. €1.63 for A shares and €0.41 for B shares.

CdR Advance Capital Group: Sum-Of-the-Parts valuation

Business Units	CdR's stake (%)	Stake value (€ '000)	As % of Total	Driver
Advance SIM	52.9%	2,461	10.5%	Merger ACF-SIM
CdR Replay / Borgosesia SpA (*)	83.5%	5,632	24.0%	Book Value
Non-performing business	100.0%	15,325	65.4%	P/NAV vs. ROE
CdR Advance Group		**23,418**	**100%**	

Source: CdR Advance Capital, Value Track Analysis

(*) Borgosesia's equity stake is held by CdR Replay and is ca. 52.5% of share capital, corresponding to 66.8% of voting rights

Here follow more details on the valuation of the various units.

Fee driven businesses

The bulk of the fee driven business is currently represented by the "new" Advance SIM, held at 52.9% by Cdr Advance Capital Group, which is the result of the merger between the "old" Advance SIM (previously 3P SIM) and Advance Corporate Finance (ACF).

Within the merger, ACF (held at 100%) has been valued €1.4mn while the "old" Advance SIM has been valued ca. €3.2mn. As an effect of the merger, CdR Advance Capital Group now controls ca. 52.9% of the new Advance SIM and the stake value is assessed in ca. €2.46mn.

CdR Advance Capital Group: Advance SIM "fair" Equity value at deal value

	(€ '000)
Advance SIM post-merger (Equity Value)	4,563
Of which CdR Advance Capital stake	2,461
CdR stake as % of Total	53%

Source: CdR Advance Capital, Value Track Analysis

Borgosesia SpA

CdR Advance Capital Group includes in its consolidated Balance Sheet a 83.5% stake in CdR Replay - which in turn owns ca. 52.5% in Borgosesia Spa - at a pro-quota Net Equity of ca. €5.63mn, that we assume to be the result of:

1. €1.1789 per each of the ca. 6.3mn Borgosesia shares held, where €1.1789 is an independent third party valuation mentioned in the 2017FY Annual Report;
2. Some debt, that we calculate at ca. €0.5mn.

Non-performing assets business

By carving out from CdR Advance Capital Group's 2017A book value (net of minority stakes) the book value of Advance SIM and CdR Replay / Borgosesia SpA, we obtain the Book Value of the Non-performing assets investment unit alone i.e. ca. €15.6mn.

By applying the above calculated 0.98x P/NAV 2017 (corresponding to 0.91x P/NAV on average 2018E-19E NAV, see previous valuation model and value-maps for further hints), we calculate a value of ca. €15.3mn for this business unit.

Earnings based Peers analysis

A earnings based Peers analysis aims to assess the economic profitability of a firm, rather than just its accounting profitability, benchmarking the target company with stock trading multiples of a selected group of comparable companies.

The peculiarity of CdR Advance Capital's business model makes it necessary to identify companies that are only partially comparables, or better are comparables only for some "angle" of the business model itself, i.e.:

- Retail Real Estate development activity;
- Non Performing Assets management / servicing.

As far as the Real Estate development business is concerned, we take into account the recently AIM Italia listed Abitare In, while as far as the NPA management / servicing activity is concerned we can "cherry pick" the recently MTA Italia listed doBank and the Swedish company Intrum Justitia. If follows a brief description of the selected companies:

- **Abitare In,** based in Italy the company designs, builds and sells residential houses in Milan. Currently, its first project has been completed, and three others are underway, with ca. 1000 buildings to be delivered as of 2022E-23E. We estimate that over the six-years period (2018E-23E), such projects should generate revenues of ca. €380mn, an EBIT of ca. €86mn and Net

Income of ca. €58mn, with positive cash inflows expected to be generated mostly across 2023FY. EBIT is assumed to be a proxy of EBITDA, since D&A are seen close to zero at the end of above-mentioned developments;

- **doBank,** is the main player in the Italian third party servicing market, managing a Gross Book Value of ca. €90bn and boasting long-standing relationship with leading Italian banks and financial investors;
- **Intrum Justitia,** based in Sweden, it is a leading credit management services company across Europe active at every stage of the debt lifecycle. Its business model is plit in two main opetaing divisions: (i) Credit Management Services (CMS) unit, in which it manages and collects overdue receivables on behalf of clients, and (ii) Purchased Debt unit, being Intrum one of the largest buyers of non-performing loan portfolios in Europe, with a carrying value of ca. €2.1bn.

In terms of selected multiples, given the differences in capital structure of the various companies, we believe it is better to take into account EV/EBIT rather than EV/EBITDA. Price Earnings is a useful cross check.

CdR Advance Capital Group: Fair Market value summary

Company	Listing	Currency	Mkt. Cap (mn)	EV / EBITDA		EV / EBIT		P / E	
				2018E	2019E	2018E	2019E	2018E	2019E
Abitare In	ITA	EUR	77	3.9 (*)		3.9 (*)		8.0 (*)	
dobank	ITA	EUR	753	8.3	6.9	8.6	7.0	14.0	11.0
Intrum Justitia	SWE	SEK	29,674	7.9	6.6	16.9	13.5	14.0	9.7
Average				**6.7**	**5.8**	**9.8**	**8.2**	**12.0**	**9.5**
CdR Adv. fair Equity Value based on Peers' multiples (€mn)				**--**	**--**	**31.7**	**28.6**	**30.2**	**26.1**

Source: Value Track Analysis

(*) Multiples are calculated on the basis of a normalized EBITDA / EBIT of ca.€14.4mn, a normalized Net Income of ca. €9.7mn and a six-years business development

Based on Peers' multiples we calculate an average **€29.2mn 100% fair equity value** for CdR Advance Capital. As far as the split between A shares and B ones, we note that based on the above calculated 2018E-19E PE multiples and 2018E-19E EPS for the two classes of shares we get an 83% - 17% split i.e. **€1.90 fair value per A shares and €0.76 fair value per B shares**.

Cross-check with recent Europa Investimenti M&A deal

Europa Investimenti SpA is an originator and manager of Italian distressed debt investments whose business model is not so different from CdR Advance Capital's one.

Back in March 2018 Arrow Global Group, a leading European credit management services provider, whose activities mainly focus on loan purchases and management, acquired the entire share capital of Europa Investimenti, net of the stake in Europa Investimenti Special Situation SpA, and injected €11.5mn of new capital, for a total €62mn deal equity value.

We calculate an implied **EV/EBITDA multiple of ca. 10x** (considering a €14mn Net Cash position and a normalized EBITDA approximately of €5.0mn) and an **EV/GAV (Enterprise Value / Gross Asset Value) multiple of ca. 0.8x**.

Based on these multiples we'd get an average **fair Equity value for CdR Advance of ca. €30mn**, i.e. ca. 30% higher than the fundamental value previously identified.

Appendix 1: Recap on legislative framework

As CdR Advance Capital Group reference market is mostly made of troubled / non-performing situations / insolvency proceedings, it is natural that the evolution of the underlying Italian legislative framework can deeply impact the company's business model and profitability outlook. A recap on the main features of this never settled Bankruptcy Law framework is thus necessary.

Bankruptcy legislation aimed at preservation of businesses continuity

While in the past insolvency proceedings were performed mainly with a liquidation approach, on the contrary as of now the legislative approach is more oriented toward the preservation of business continuity, for example through the transfer or lease of the company, in favour of all stakeholders.

We underline that, depending on the presence of a Judge / Court, the legal instruments and proceedings that a firm in distress can act, can be split into:

- **In-court** insolvency proceedings;
- **Out-of-court** minor insolvency proceedings.

In-court insolvency procedures

Insolvency Proceedings (Procedure Concorsuali") are "in-court", i.e. there is a judge/court directly intervening in the supervision of the legal procedures with various pronunciations and mandates. We can distinguish among:

- **Bankruptcy** ("Fallimento"). Judicial procedure aimed at liquidating the insolvent debtor's assets and distributing the proceeds according to the so-called "*Par condicio creditorum*" criterion. There's also the possibility that the bankruptcy procedure ends up with a **bankruptcy agreement** ("Concordato fallimentare"), i.e. an offer made by a creditor or a third party offering the debt repayment up to a certain level, in exchange of the possession of remaining assets.
- **In-Court Settlement with Creditors** ("Concordato Preventivo"). Insolvency procedure which is both an in-court (an appointed commissioner supervises the process) and debtor-in-possession one (the firm remains in possession of property upon which creditors have security interests). The aim here is to reach an agreement with the majority of creditors legally binding towards the minor ones. Doing that, the debtor prevents formal bankruptcy, and creditors may avoid facing longer times to carry on the more complex bankruptcy procedure.
- **Composition with creditors with reserve** ("Concordato con Riserva" or "Concordato in bianco"). This procedure is actually very similar to the above-mentioned In-Court Settlement with Creditors, of which it is a specific case. Indeed, it consists in an anticipated request for a judicial procedure, in which to propose a recovery plan or a liquidating deal, before having all the required documents. In this way, the debtor has protection from individual enforcement actions from its creditors, and buys some time to work on a restructuring plan that should be submitted, along with remaining documents, by the time set by the court.

In addition, there are other procedures more skewed towards large enterprises, such as:

- **Compulsory Administrative Liquidation** ("Liquidazione Coatta Amministrativa"). It is very similar to bankruptcy, but it is applied only to some precise categories of firms, specified by the law, such as banks, insurance companies, co-operatives and public entities;
- **Extraordinary Administration for Large Insolvent Enterprises** (also known as "Legge Prodi"). It is specifically aimed at insolvent medium-large enterprises with more than 200 employees.
- **Special Extraordinary Administration** (also known as "Legge Marzano"). It s specifically aimed at very large enterprises with more than 500 employees and no less than €300mn of debts.

Out-of-court minor insolvency procedures

Here the arrangements between the debtor and its creditors are negotiated without juridical intervention, which may be required only in some cases and just for an approval of the proposed plans. We can distinguish among:

- **Debt Restructuring Agreement** ("Accordo di Ristrutturazione del Debito"). With this procedure the debtor has the possibility to negotiate a deal with its creditors with a very flexible approach i.e. it is not obliged to respect the *Par condition creditorum* principle as long as: 1) the debtor reaches an agreement with creditors representing at least 60% of total debts, and 2) an independent expert certifies feasibility of the plan (in particular about what concerns the entire payment of the creditors who are not part of the agreement).
- **Certified Recovery Plan** ("Piano di Risanamento"). Financially distressed companies can unilaterally propose a restructuring plan to secure the continuity of business on a going concern basis. The recovery plan can be run completely out of court and therefore can remain confidential. If creditors approve the proposed haircuts, refinancing or rescheduling of the debt which are provided in the plan, and an independent expert certifies the feasibility of the plan, the debtor can implement it and can carry on business as usual.

Main terms and conditions of In-court and Out-of-court procedures

Insolvency proceedings (out-of-court)	Certified recovery plan	Once it has been certified, the debtor must implement it and can carry on business as normal. The plan can be kept confidential, unless the debtor wants register it to gain certain tax benefits.
	Debt restructuring agreement	Once the application has been made, the process generally takes from 30 to 60 days. While the debtor and its creditors can negotiate the deal out of court, it still need to be validated by court decree.
Insolvency proceedings (in-court)	Bankruptcy	Since proceedings generally take a very long time, a provision has been enacted declaring that liquidation of the debtor's assets must be finalised within two years from the bankruptcy declaration. Bankruptcy proceedings are closed either on liquidation of the assets and distribution of the sale proceeds, or as a result of a bankruptcy agreement, which can be an offer made by a creditor, a third party actor or the debtor itself.
	Compulsory administrative liquidation	
	In-court settlement with creditors	The validation decree must be issued within nine months from when the proposal is filed. This term can be extended by the court only once for a maximum of 60 days. In case of composition with creditors with reserve ("Concordato in Bianco"), the remaining documentation shall be deposited to the court by a deadline fixed by the judge between 60 and 120 days, extensible in case of justified reasons for other 60 days.
	Composition with creditors with reserve	
	Extraordinary administration procedure	A rescue plan providing for the transfer of the business as a going concern (or of a bundle of assets and contracts) can last no longer than one year, while a stand-alone reorganisation plan can last no longer than two years. Such terms can be extended by the Ministry. For debtors in essential public utility services, or running a plant of strategic national interest, the duration of the rescue plan can be no longer than four years.
	Special extraordinary administration	

Source: Various, Value-Track analysis

Appendix 2 – Updated statistics on NPL market

CdR Advance Capital chooses among available restructuring opportunities, be them in-court or out-of-court insolvency proceedings, the most promising ones in terms of profitability potential. We underline that this is still a "huge" available basin in which is possible to "go fishing".

Insolvency procedures and Voluntary liquidation down YoY but numbers still huge

For the third year in a row the number of both Bankruptcies and Other Insolvency procedures leading to a "non voluntary" business closure has decreased year-on-year. However, absolute numbers remain quite high.

2009-17 Business closures by type of procedure

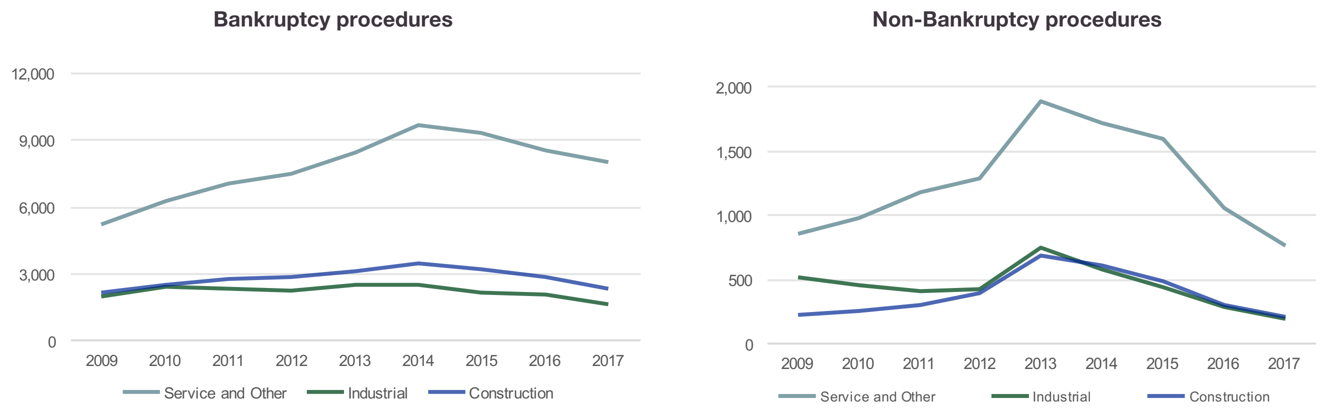
(# procedures)	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bankruptcies	9,381	11,232	12,153	12,543	14,128	15,685	14,729	13,472	12,009
YoY % change	*na*	*19.7%*	*8.2%*	*3.2%*	*12.6%*	*11.0%*	*-6.1%*	*-8.5%*	*-10.9%*
Other procedures	1,599	1,682	1,885	2,106	3,325	2,900	2,526	1,640	1,236
YoY % change	*na*	*5.2%*	*12.1%*	*11.7%*	*57.9%*	*-12.8%*	*-12.9%*	*-35.1%*	*-24.6%*
Voluntary liquidations	83,537	83,473	88,580	89,219	91,157	83,837	78,253	85,465	79,587
YoY % change	*na*	*-0.1%*	*6.1%*	*0.7%*	*2.2%*	*-8.0%*	*-6.7%*	*9.2%*	*-6.9%*

Source: Cerved - Monitor of Bankruptcies, Insolvency Proceedings and Business Closures

Looking at macro sectors, Services (i.e. Distribution, Non-financial services, Real estate, Logistic and IT) still represents nearly 70% of both bankruptcy and non-bankruptcy proceeding.

More important in terms of addressable market to CDR Advance Capital group, Construction accounts for roughly 20% of total in both cases.

Bankruptcies and non-bankruptcy proceedings, by macro sector



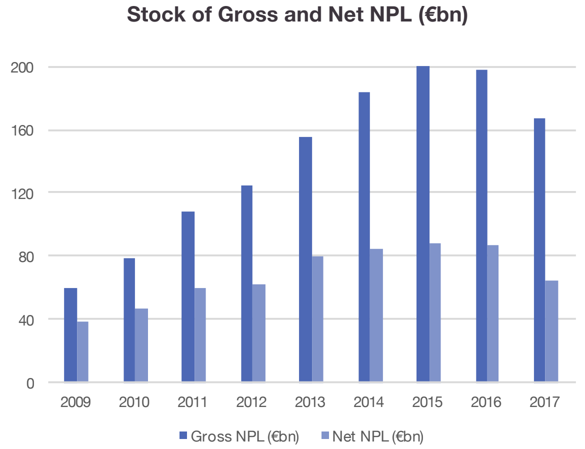
Source: Cerved - Monitor of Bankruptcies, Insolvency Proceedings and Business Closures

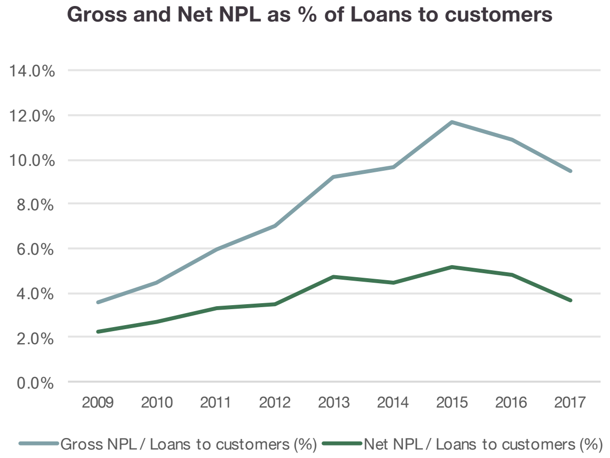
Note: Does not include 'blank' voluntary arrangements, proceedings for business registry cancellations, dissolutions by regulatory authorities, or court-ordered proceedings

Non-Performing Loans 2017 Update

As far as NPL evolution is concerned, we note that here as well there is a reduction in 2017 if compared to 2014-16 peak levels, but the stock in absolute terms remains notable i.e. ca €170bn of Gross NPL (€64bn net of provisions). As far as loan by customer structure is concerned, we underline that the main part of NPL stock i.e. ca. 80% is represented by corporate loans (the reference market for CdR Advance), while retail ones' account for ca. 20%.

Gross NPL and Net NPL, total values and percentage of total loans





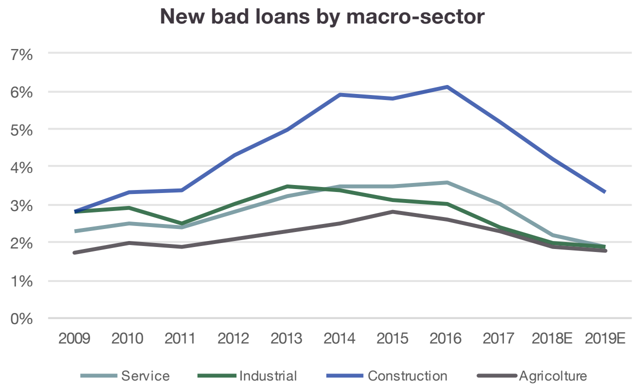
Source: Banca d'Italia, ABI Monthly Outlook, PwC, Value Track Analysis

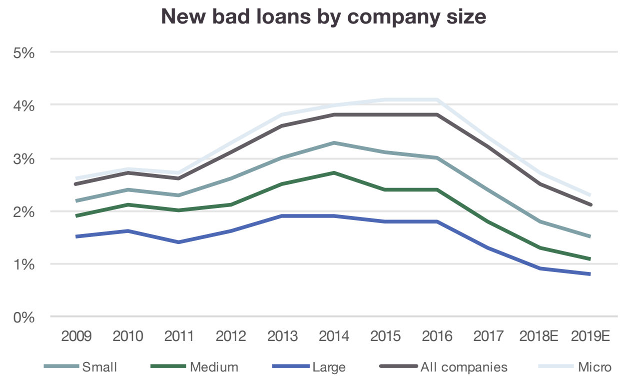
Note: 2016 data refer to End of September figures

Expectations for new bad loans in 2018-2019

New bad loans generation over 2018-2019 period is expected to further decrease, but small size construction companies will keep remaining the most problematic one. Again, we do not expect CdR Advance to remain short of investment opportunities in the next foreseeable future.

Breakdown and forecasts for new bad loans (*), by macro-sector and company size





Source: ABI-Cerved Outlook on bad loans to businesses, Bank of Italy data

(*) Annual influx of bad loans, adjusted and expressed as a percentage of total loans to non-financial companies in each sector

Appendix 3 – CdR Advance investment process

The key differentiation point between CdR Advance and its competitors is the fact that while traditional players are just "asset-traders", on the contrary CdR Advance aims to bring back to a "in-bonis" status the asset underlying the NPL thus willing to accept longer investment periods in exchange for higher margins.

Main steps of CdR Advance investment process in "movable" assets

If we consider the typical investment process for an investment in "movable" assets, we can distinguish the following steps:

- **Step 1** – Scouting of potential investments done by lawyers or other professionals, which signal the opportunity to CdR Advance;
- **Step 2.a** – In case the opportunity is represented by a severe financial distress situation, i.e. the debtor has gone bankrupt and a judicial procedure is currently undergoing, CdR Advance group may submit itself as a third-party actor with a bankruptcy agreement offer. If the offer is accepted, CdR Advance pays a certain percentage of nominal credit to creditors in exchange for receiving debtor's assets;
- **Step 2.b** – In case instead the opportunity is represented by operational distress, CdR Advance group may buy the NPL from creditors (usually banks) in order to get the right to vote in a settlement with creditors (or a debt restructuring plan);
- **Step 3** – Possibly, the NPL is added into a diversified security issued on the market (securitization) and look for co-investors. CdR Advance group does it through the controlled subsidiary CdR Securities, and not many competitors are able to do the same.

Main steps of CdR Advance investment process in "non-movable" assets

Let's consider a typical investment in a bankrupt company with relevant unfinished real estate assets. In this case, the main steps performed by CdR Advance group subsidiaries are:

- **Step 1** – First analysis of current asset situation, to evaluate the opportunity and discover who the debtor is and which are the creditor banks;
- **Step 2** – Once the opportunity has been scouted and deemed worthy of investing, CdR Recovery RE submits an offer of bankruptcy agreement (in case the debtor is already gone bankrupt) or offers to buy the credit from banks. If the proposal is accepted, CdR Advance pays down creditors and acquires the target asset;
- **Step 3** - Abitare Smart is assigned the goal to ultimate the construction of the unfinished real estate asset, leveraging the specific competence of the firm;
- **Step 4** - "Dimore Evolute" intervenes too, stipulating a contract with "Abitare Smart" for the servicing and facility management of the deal.

IRR Analysis and potential of a typical deal

Short and medium-term economic results of the investments performed by CdR Advance Capital are extremely dependent on the number of deals closed and on the return (IRR) on each deal closed, which in turns is a function of:

- Cash Multiple i.e. the multiple of cash invested by the group relative to both the proceeds derived during the investment period and at exit;
- Time needed to exit each deal;
- Abort costs i.e. those scouting costs incurred in connection with the activities of evaluation and negotiation of any investment opportunity that do not lead to a deal because in-depth analysis returns a not interesting return potential.

Assuming, for the sake of simplicity:

- €2.5mn investment deal per semester i.e. €5mn average annual investment flow;
- Cash multiple of 2x i.e. €1mn invested in a deal generates €2mn proceeds, gross of taxes;
- Three years time to exit a single deal;
- Abort costs equal 3% of the invested amount in each deal;

we calculate CdR Advance to possibly generate a ca. **26% gross of tax IRR** (ca. **18% net of tax IRR**). Obviously, different hypothesis on cash multiple and time needed to exit an investment lead to different IRR (gross or net of taxes) as represented in the following theoretical simulation.

IRR (gross of tax, %) - Sensitivity to Time to exit and to Money multiplier

		Time to exit (years)		
		2 yy	3 yy	4 yy
Money Multiplier (x)	1.5. x	22%	14%	11%
	2.0 x	41%	26%	19%
	2.5 x	58%	36%	32%

Source: Value Track Analysis

IRR (net of tax, %) - Sensitivity to Time to exit and to Money multiplier

		Time to exit (years)		
		2 yy	3 yy	4 yy
Money Multiplier (x)	1.5. x	14%	9%	6%
	2.0 x	29%	18%	16%
	2.5 x	42%	26%	23%

Source: Consensus estimates, Value Track Analysis

Dynamics of P&L vs. Cash Flows for investments subject to IFRS-IAS40 accounting

On Tax Credits and Real Estate assets under construction (deriving from a non performing loan), IFRS-IAS40 accounting principle has to be applied and this means immediately booking at the P&L level the operating margin estimated to be gained on the deal even if it has to be cashed in only in future periods. Indeed, let's assume, for instance, a €2mn investment in a non-performing credit with an underlying Real Estate Asset under construction bough at ca. 70% discount vs. the estimated €7mn potential revenue stream once the underlying real estate asset is properly finalized and commercialized. And let's assume that some €3mn opex are needed to finalize the real estate asset.

Based on IFRS-IAS principles, the immediate effect on the P&L would be as follows:

- According to Fair Value treatment the asset value must be written up to €4mn (i.e. potential Revenues net of estimated opex) as it has to be modified the accounting perspective, from a "liquidation" one to an "on going concern" one;
- After subtracting the €2mn NPL acquisition price, the company can immediately post about €2.0mn "non cash" EBITDA. Once booked taxes (e.g. 30% tax rate) we can calculate a €1.4mn positive Net Profit from the deal;
- In years two and three, i.e. as long as the real estate asset finalization goes on, the Value of Production generated is offset by opex so no additional impact on EBITDA arises.

P&L treatment of a "single name" investment subject to IFRS-IAS40 principle

(€mn)	Year 1	Year 2	Year 3	Total
Value of Production	**4.0**	**3.0**	**0.0**	**7.0**
Opex	-2.0	-3.0	0.0	-5.0
EBITDA	**2.0**	**0.0**	**0.0**	**2.0**
EBITDA margin (%)	50.0%	0.0%	nm	28.6%
Depreciation & Amortization	0.0	0.0	0.0	0.0
EBIT	**2.0**	**0.0**	**0.0**	**2.0**
Net Fin. Income (charges)	0.0	0.0	0.0	0.0
Pre-tax Profit	**2.0**	**0.0**	**0.0**	**2.0**
Tax	-0.6	0.0	0.0	-0.6
Tax rate (%)	-30.0%	nm	nm	-30.0%
Net Profit	**1.4**	**0.0**	**0.0**	**1.4**

Source: Value Track Analysis

Looking at the same deal from a Cash Flow Statement point of view returns a different picture. Indeed, what is recorded is the cash out for the non-performing asset acquisition at time zero to be followed later by some further cash out for the above-mentioned operating expenses and by the cash in when the underlying assets are disposed.

Cash Flow treatment of a "single name" investment subject to IFRS-IAS40 principle

(€mn)	Year 1	Year 2	Year 3	Total
Earnings bef. Minorities and D&A	1.4	0.0	0.0	1.4
Working Capital Needs	-1.4	0.8	0.6	0.0
Capex (-)	-2.0	0.0	2.0	0.0
Net Cash generated	**-2.0**	**0.8**	**2.6**	**1.4**
Net Financial Position	**-2.0**	**-1.2**	**1.4**	**1.4**

Source: Value Track Analysis

Dynamics of P&L vs. Cash Flows for investments not subject to IFRS-IAS40 accounting

Very different is the accounting treatment of other types of investments such as those in Real Estate assets held for trading and Revocatory actions. In these cases IAS40 doesn't apply and at P&L level only the difference between purchase price (among costs) and selling one (among revenues) is booked.

Appendix 4 – 2012-17 Group financial figures

CdR Advance Capital Group: 2012FY-17FY P&L evolution

€	2012	2013	2014	2015	2016	2017
Value of Production	**505,286**	**381,104**	**319,504**	**4,596,528**	**3,830,165**	**12,145,185**
Opex	-356,517	-1,276,551	-727,286	-1,630,192	-2,072,038	-8,082,062
Gross Profit	**148,769**	**-895,447**	**-407,782**	**2,966,336**	**1,758,127**	**4,063,123**
As a % of Operating Revenues	29.4%	-235.0%	-110.0%	64.8%	46.2%	51.9%
Labour Cost	0	0	-6,430	-53,603	-196,839	-678,380
As a % of Operating Revenues	0.0%	0.0%	-1.7%	-1.2%	-5.2%	-8.7%
Change in value in financial investments / securities held	0	988,677	-2,277,240	-399,252	-840,951	2,103,798
Change in value in real estate assets	0	0	1,426,424	-352,876	2,489,377	877,469
EBITDA	**148,769**	**93,230**	**-1,265,028**	**2,160,605**	**3,209,714**	**6,366,010**
Chge %	nm	-37.3%	-1456.9%	-270.8%	48.6%	98.3%
EBITDA margin	**29.4%**	**24.5%**	**-341.4%**	**47.2%**	**84.3%**	**81.4%**
Depreciation and Amortisation	-1,906	-41,286	-5,568	-48,464	-26,211	-135,597
Other Operating Revenues	29,356	16,048	77,584	98,379	0	0
Other Operating Expenses	-9,200	-32,169	-74,123	-243,476	-346,671	-119,688
Other provisions	0	0	-319,520	0	0	0
EBIT Adj. i.e. Operating Result	**167,019**	**35,823**	**-1,586,655**	**1,967,044**	**2,836,832**	**6,110,725**
Chge %	nm	-34.1%	nm	nm	44.2%	78.1%
Net Interest income / expense	61,052	37,443	337,514	147,193	-659,938	- 1,075,057
Interest Inc / Total Revenues	12.1%	9.8%	91.1%	3.2%	-17.3%	-25.2%
Pre-tax profit	**228,284**	**73,266**	**-1,249,141**	**2,114,236**	**2,176,894**	**4,135,468**
Pre-tax margin	**45.2%**	**19.2%**	**-337.1%**	46.2%	57.2%	52.9%
Taxes	-12,090	79,730	699,234	57,444	-1,167,278	-631,609
Tax rate	-5.3%	108.8%	-56.0%	2.7%	-53.6%	-15.3%
Group Net profit before minorities	**216,194**	**152,996**	**-549,907**	**2,171,680**	**1,009,616**	**3,503,859**
Minorities	0	36,422	902,972	401,191	213,861	-717,183
Net Profit (Loss)	**216,194**	**189,418**	**353,065**	**2,572,871**	**1,223,477**	**2,786,676**
Chge %	nm	-12.4%	86.4%	nm	-52%	nm

Source: CdR Advance Capital, Value Track Analysis

CdR Advance Capital Group: 2012FY-17FY Balance Sheet evolution

€	2012	2013	2014	2015	2016	2017
Net Fixed assets	4,101,579	8,553,073	13,217,331	14,914,638	23,489,599	39,240,048
Net Working Capital	36,369	-31,573	2,582,869	2,637,372	3,315,389	-2,137,379
Severance pay and other funds	19,675	26,788	444,293	1,319,571	1,972,049	3,217,079
Total Capital Employed	**4,118,273**	**8,494,712**	**15,355,907**	**16,232,439**	**24,832,939**	**33,885,590**
ToT Shareholders' Equity	7,874,622	8,382,564	13,430,369	17,174,136	18,306,798	22,613,986
Minorities' Equity	0	3,164,241	2,261,270	1,860,079	1,646,219	4,976,063
Group Net Equity	**7,874,622**	**11,546,805**	**15,691,639**	**19,034,215**	**19,953,017**	**27,590,049**
Net Fin. Position [Net debt (-) / Cash (+)]	**3,756,349**	**3,052,093**	**335,732**	**2,801,776**	**-4,879,922**	**-6,295,541**

Source: CdR Advance Capital, Value Track Analysis

CdR Advance Capital Group: 2012FY-17FY Cash Flow Statement

€	2012	2013	2014	2015	2016	2017
Initial Cash	**56,773**	**3,757,336**	**3,052,093**	**6,475,563**	**3,465,552**	**4,448,352**
EBITDA	**148,769**	**93,230**	**-1,265,028**	**2,160,605**	**3,209,714**	**6,366,010**
Op. WC requirements	-89,820	67,942	-2,614,442	-54,503	-678,017	5,452,768
Capex (not incl. Fin. Inv.)	-160,336	-63,672	-148,094	-645,181	-7,223,628	-10,885,143
Change in provisions	0	7,113	417,505	875,278	652,478	1,245,030
OpFCF b.t.	**-101,387**	**104,613**	**-3,610,059**	**2,336,199**	**-4,039,453**	**2,178,665**
As a % of EBITDA	-68.2%	112.2%	285.4%	108.1%	-125.9%	34.2%
Cash Taxes	-12,090	79,730	699,234	57,444	-1,167,278	-631,609
OpFCF a.t.	**-113,477**	**184,343**	**-2,910,825**	**2,393,643**	**-5,206,731**	**1,547,056**
As a % of EBITDA	-76.3%	197.7%	230.1%	110.8%	-162.2%	24.3%
Capital Injections	4,556,279	-1,055	5,370	61,744	0	0
Other (incl. Fin. Inv.)	-804,278	-924,987	166,661	163,690	-1,485,651	-602,294
CF available to serve debt / equity investors	**3,638,524**	**-741,699**	**-2,738,794**	**2,619,077**	**-6,692,382**	**944,762**
Net Financial Charges	61,052	37,443	337,514	147,193	-659,938	-1,975,257
Dividend paid	0	0	-315,081	-300,226	-329,378	-385,124
Change in Net Fin Position	**3,699,576**	**-704,256**	**-2,716,361**	**2,466,044**	**-7,681,698**	**-1,415,619**
Debt repayments	0	-987	0	-87,421	-2,720,063	2,816,980
Net New Debt commitment	987	0	6,345,013	5,795,426	3,726,722	10,446,720
Net Change in financial credits and securities	0	0	0	-11,184,060	7,657,839	-8,952,549
Change in Cash available	**3,700,563**	**-705,243**	**3,628,652**	**-3,010,011**	**982,800**	**2,895,532**
Ending Cash	**3,757,336**	**3,052,093**	**6,475,563**	**3,465,552**	**4,448,352**	**7,343,884**

Source: CdR Advance Capital, Value Track Analysis

CdR Advance Capital Group: 2012FY-17FY Structure of Net Financial Position

€	2012	2013	2014	2015	2016	2017
Cash and deposits (+)	3,757,336	3,052,093	6,475,563	3,465,552	4,448,352	7,343,884
Short term financial credits (+)	0	0	150,000	381,285	2,189,224	3,191,831
HFT Securities (+)	0	0	0	3,434,705	1,482,659	9,176,373
Debt to Banks within 12 months (-)	-987	0	-250,931	-270,454	-253,163	-4,055,495
Other current financial debt (-)	0	0	-151,780	-2,897,860	-312,827	-625,790
Current Net Financial Position	**3,756,349**	**3,052,093**	**6,222,852**	**4,113,228**	**7,554,245**	**15,030,803**
Long term financial credits (+)	0	0	55,182	7,573,252	59,520	315,748
Debt to Banks over 12 months (-)	0	0	-1,503,475	-1,416,054	-1,298,315	0
Bonds (-)	0	0	-4,438,827	-7,468,650	-11,195,372	-21,642,092
o/w Conv. 2014/19 (N.V. €4.95mn)			-4,438,827	-4,543,545	-4,652,169	-4,764,279
Conv. 2015/21 (N.V. €4.95mn)				-2,925,105	-4,331,299	-4,541,037
Conv. 2016/22 (N.V. €4.95mn)					-1,776,548	-4,372,924
NPL IT Opp. 2016/21					-435,356	-1,400,169
NPL Global 2017/22 (N:V: €7.0mn)						-6,563,683
Non-Current Financial Position	**0**	**0**	**-5,887,120**	**-1,311,452**	**-12,434,167**	**-21,326,344**
Net Fin. Position [Net debt (-) / Cash (+)]	**3,756,349**	**3,052,093**	**335,732**	**2,801,776**	**-4,879,922**	**-6,295,541**

Source: CdR Advance Capital, Value Track Analysis

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