Viceroy unearths Steinhoff's skeletons – off-balance sheet related party entities inflating earnings, obscuring losses.

How Steinhoff management use off-balance-sheet entities to obscure losses and enrich themselves.

Steinhoff has long been under scrutiny for seemingly inexplicable factors including:

- A long string of acquisitions of stagnating or deteriorating businesses whose performance seems to miraculously improve post-acquisition, even if only on paper.
- Cash flow trends that do not correspond to EBITDA.
- Investigations into senior executives for tax-evasion, document forgery and fraud.
- Rampant and dilutive equity raising.

Viceroy's investigation into Steinhoff has revealed several concerning activities surrounding a number of at least two off-balance sheet, undisclosed related party entities:

- Campion Capital
- Southern View Finance

While the existence of some of these entities has been reported by the media, their activities have not. Viceroy's analysis suggests Steinhoff uses these off-balance sheet vehicles to artificially inflate earnings:

- Steinhoff has issued expensive loans to and booked interest revenue against Campion subsidiaries for the purchase of loss-making Steinhoff subsidiaries. These revenues will never translate to cash.
- Steinhoff has moved two loss-making and predatory consumer loan providers to off-balance sheet entities: JD Consumer Finance and Capfin.
- Steinhoff negotiated the re-purchase of the only profitable portions of JD and Capfin (loan administration and debt collection facilities) while allowing losses to be incurred at off-balance sheet, related party entities under Campion Capital.

Given these loss-making entities, such as SVF UK, are being round tripped back to Steinhoff, Viceroy believe it is possible that Steinhoff are 'repaying' Campion's outlays through acquisition premiums (i.e. losses are being capitalized through round-trip transactions with related parties).

Viceroy believes that, based on the contents of this report, Steinhoff should consolidate Campion Capital and its subsidiaries given that Steinhoff bears full economic liability for these entities through loan arrangements and exert total control through overlapping management.

Viceroy believes the facts presented in this report will bring Steinhoff's behavior to the attention of regulatory authorities. We value Steinhoff's shares at **EUR 1.29 per share, a 57% downside from close on December 6, 2017.**

(EURm)	Low	Mean	High
Earnings	1,234	1,428	1,603
Loans & investments income	*(184)*	*(184)*	*(184)*
Reconsolidate JD consumer finance	*(160)*	*(160)*	*(160)*
Remove non-cash provisions	*(30)*	*(30)*	*(30)*
Add more depreciation	*(261)*	*(261)*	*(261)*
Minority interest re Conforama & Poco	*(72)*	*(72)*	*(72)*
Remove 100% other operating income	*(340)*	*(340)*	*(340)*
Total adjustements	**(1,047)**	**(1,047)**	**(1,047)**
Adjusted 2017 net income	**187**	**381**	**556**
Comp. P/E	10.4	14.7	19.5
Market Cap implied	1,941.78	5,580.12	10,836.35
Current market cap	12,932.70	12,932.70	12,932.70
Upside-Downside	**-85%**	**-57%**	**-16%**

- **Campion Capital**, controlled by Jooste associate George Alan Evans and ex Steinhoff CEO/CFO Siegmar Schmidt purchased GT Global Trademarks from Steinhoff through a loan from a direct Steinhoff subsidiary. Steinhoff does not book these loans as related party transactions even though Campion Capital is a related party entity. Viceroy believes these loans will never be repaid.
- **Southern View Finance**: a Wiese entity which held two loss-making consumer finance issuers operating at Steinhoff entities: JD Consumer Finance and Capfin. Southern View Finance received significant financial support from Steinhoff and kept its loss-making loan portfolio off Steinhoff's books for several years before selling them to Campion Capital. Steinhoff has recently purchased Capfin and JD Consumer Finance's administration and collection facilities, allowing the company to book further income from off-balance sheet, non-performing loans.
- **Genesis Investment Management**, controlled by ex-Steinhoff CEO/CFO Siegmar Schmidt purchased kika-Leiner in deal financed by Steinhoff equity. 6 months later, Steinhoff purchased kika-Leiner Austrian property portfolio for a greater sum it had originally financed the kika-Leiner merger for. The company displayed no signs of any activity prior to its acquisition of kika-Leiner.

As of Tuesday December 6, Markus Jooste resigned as CEO of Steinhoff. On the same day the company announced an investigation into accounting irregularities and that it was determining whether prior year financial statements would need to be restated.

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Background

Steinhoff International (SHF) is a retailer in the furniture, appliances and auto sector operating globally with a primary focus in Europe and South Africa. The company is listed on the Johannesburg Stock Exchange and more recently on the Frankfurt Stock Exchange and now boasts a EUR 14.2b market cap. The company made EUR 16.4b in revenue and EUR 1.8b in operating profit in FY 2016.

For the past decade, Steinhoff has been acquiring businesses in Africa, Europe, the Americas, and Asia Pac at a dizzying pace. Typically, these businesses are in the furniture sector with unremarkable or deteriorating financials. They include Pepkor, Mattress Firm Holdings, Conforama, Poundland Group and kika-Leiner.

The organization as it stands spans 5 continents, over 30 countries and consists of dozens of non-integrated brands. No other retailer has successfully managed this level of operational and managerial complexity. Since 2016 Steinhoff has attempted 8 major acquisitions, none of which were performing or promising businesses (most in structural decline). Nor any which Steinhoff have made an effort to integrate into its greater portfolio to exploit any synergies.

Steinhoff's financials show significant difficulty converting its earnings into cash flow. The source of this discrepancy appears to be a combination of off-balance sheet vehicles inflating earnings and accounting shenanigans.

Our research suggests that at least a vast majority of "loans and investments" issued by Steinhoff are used to fund an off-balance sheet entity's purchase of loss-making Steinhoff subsidiaries. These off-balance sheet entities are used to obscure losses, inflate earnings and on one occasion, round-trip a predatory loan issuer. Their existence brings into question the real nature of Steinhoff's earnings power.

Steinhoff's complexity as an organization has made it difficult for the market to properly understand the off-balance sheet entities contained in this report. We have attached a map of the Steinhoff organization and a timeline of the events of this report in the appendices.

Individuals of Interest

Markus Jooste

Jooste is the former CEO of Steinhoff and personal friend of Christo Wiese and Bruno Steinhoff. Jooste was previously a financial director at Gommagomma Holdings (later Steinhoff Africa Holdings). Jooste completed his articles as a junior accountant at Wiese's company in the late 1980's and worked as deputy director of the South African Revenue Service in 1985. Jooste controls several investment entities interwoven with Steinhoff and its subsidiaries.

Christoffel "Christo" Wiese

Christoffel "Christo" Wiese is Steinhoff chairman and largest shareholder following the sale of his company, Pepkor, to Steinhoff in March 2015. Wiese's companies control Steinhoff's off-balance sheet entity Southern View Finance and numerous Weise associates control Campion Capital. In 2009 Wiese was stopped at London City Airport with GBP 1m in cash, triggering a tax investigation into him in South Africa. Following Jooste's departure as CEO, Wiese was appointed executive chairman in interim.

Siegmar Theodor Schmidt

Schmidt served as CFO and CEO of Steinhoff Europe from at least 1999 through to 2013, as well as holding other positions in the company. In 2013 Schmidt acted as sole director in the incorporation of Genesis Investment Holdings GmbH[1], the entity through which Steinhoff performed its reverse listing on the Frankfurt Stock Exchange in 2015.

Schmidt is or has been director Steinhoff's off-balance sheet entities Campion Capital and its subsidiaries.

Bruno Steinhoff

Bruno Steinhoff is the founder of Steinhoff international. Along with Jooste and Wiese, Steinhoff was investigated in an insider trading scheme triggered by Steinhoff's acquisition of Pepkor[2].

Cedric Schem

Cedric Schem is a former employee of Campion Capital now employed by Steinhoff. For several months after his alleged change of employer Schem was still listed as first point of contact for Campion Capital.

Gunnar George

Gunnar George is CEO of kika-Leiner and the former CEO of Moebel-Kraft where his actions placed him under investigation for several self-enriching actions including falsification of expense reports associated with a never-built Moebel Kraft amusement park[3].

Jean-Noel Pasquier

Jean Noel Pasquier is the director for many of Steinhoff's off-balance sheet entities including Campion Capital and its subsidiaries.

[1] https://svn.kompany.com/p/at/392734a
[2] NEED SOURCE
[3] NEED SOURCE

George Alan Evans

George Alan Evans is a director of Steinhoff's off-balance sheet entity Campion Capital.

Evans is also a close associate of Markus Jooste and CEO of Jooste investment vehicle Kluh Investments. According to consumer protection association FraudAnwalt, Evans was charged along with Jooste, Schmidt, and Steinhoff manager Dirk Schreiber as part of an investigation by regulatory authorities[4].

Johannes "Jan" Van der Werde

Johannes "Jan" Van der Werde was Steinhoff's CEO from 2001 to 2003 and CFO from 2003 to 2009. Like Jooste, he is previously of Gommagomma Holding. Van der Werde is CFO for Steinhoff subsidiary JD Financial Services as well as director of Campion Capital subsidiary Fulcrum Investment Partners SA.

Steinhoff's off-balance sheet entities

Steinhoff operates/operated three main off-balance-sheet entities controlled by former executive officers and associates:

- Campion Capital
- Southern View Finance
- Genesis Investment Holding

The purpose of these entities is threefold:

1. Allowing Steinhoff to book interest revenue on loans to these entities.
2. To move losses off Steinhoff's consolidated accounts.
3. Round-trip its predatory consumer business.

The existence of Campion Capital was touched upon in German business periodical Manager Magazin[5], causing a stir amongst shareholders. The article "Balance sheet sharks" did not report that Campion was only half the picture. **Schmidt ultimately controls Campion Capital through several holding companies. These companies generally have the same naming convention: Top Global (or TG) management.**

Southern View Finance was primarily involved with Steinhoff's subsidiary Pepkor and its Capfin consumer loans facility. Through a series of Steinhoff-financed transactions, revenues and financial benefits were siphoned away from the Steinhoff entity and toward Southern View Finance's ultimate owners, companies heavily invested by Wiese. **Through a "corporate dialysis" process, Steinhoff then re-acquired the consumer finance entity's profitable segments without any of its unrecoverable loan book or running losses.**

Genesis investment Holdings is another Schmidt controlled entity and the company through which Steinhoff reverse-listed on the Frankfurt Stock Exchange. As part of the reverse listing Steinhoff acquired the kika-Leiner group. **Our investigation has revealed that Genesis Investment Holdings acquisition of kika-Leiner just two years earlier was financed by Steinhoff and arrangements were made to enrich Genesis at Steinhoff shareholders expense.**

[4] http://www.fraudanwalt.com/2017/09/15/steinhoff-international-immer-neue-betrugsverdachte/
[5] http://www.manager-magazin.de/unternehmen/artikel/steinhoff-ermittlungen-gegen-markus-jooste-wegen-bilanzfaelschung-a-1164191.html

These entities: their existence, relationship to Steinhoff, actions, and beneficiaries, have all been concealed from the eyes of Steinhoff's shareholders and regulators.

Campion Capital

Campion Capital claims to be an independent private equity firm operating in Switzerland incorporated on June 3, 2014 by long-time Steinhoff associate George Alan Evans, ex-Steinhoff CEO and CFO Siegmar Schmidt and Jean-Noel Pasquier[6]. All three were directors of the business at incorporation. Two of Campion's founding directors has significant ties to the Steinhoff entity.

George Alan Evans	CEO of Steinhoff special purpose entity Kluh investments used to acquire forestry assets in the early 2000's. At the time Kluh was under the control of Fihag Finanz und Handels, controlled by Bruno Steinhoff.
Siegmar Schmidt	Former CEO and CFO on Steinhoff. Schmidt left Steinhoff in 2013 and founded Genesis Investment Holdings. Steinhoff financed Genesis' acquisition of kika-Leiner for EUR 352m only to buy its property portfolio for EUR 452m six months later.

CAMPION CAPITAL SA, à **Martigny**, CHE-499.615.566, c/o Pierre-André VEUTHEY & Fabien BOSON, Rue de l'Hôpital 11, 1920 Martigny, société anonyme (nouvelle inscription). Date des statuts: 03.06.2014. But: acquisition, gestion et exploitation de participations dans toutes sociétés et investissements à titre mobilier ou immobilier, exécution de mandats fiduciaires et des prestations de conseils et de services dans le domaine de la représentation commerciale (cf statuts pour but complet). Capital-actions: CHF 150'000.00. Capital-actions libéré: CHF 150'000.00. Actions: 150'000 actions nominatives de CHF 1.00 avec restriction de transmissibilité selon statuts. Organe de publication: FOSC. Communications aux actionnaires: par avis inséré dans la FOSC ou lettre recommandée pour les convocations aux assemblées générales et par écrit ou courriel pour les autres communications. Personne(s) inscrite(s): Evans, George Alan, citoyen britannique, à Genève, président, avec signature collective à deux; Pasquier, Jean-Noël, citoyen français, à Genève, administrateur, avec signature collective à deux; Schmidt, Siegmar Theodor, citoyen allemand, à Bad Zwischenahn (DE), administrateur, avec signature collective à deux; HORWATH BERNEY AUDIT SA (CHE-109.855.563), à Genève, organe de révision. **Registre journalier no 1287 du 13.06.2014 / CHE-499.615.566 / 01559629**	…for other communications. Registered persons: EVANS, George Alan, British citizen, in Geneva, president with joint signature of; PASQUIER, Jean-Noel, French citizen, in Geneva, administrator, with joint signature of; SCHMIDT, Siegmar Theodor, German citizen in Bad Zwischenahn, administrative, with joint signature of…

Figure 1 Extract and translation of Campion Capital incorporation document

Through filings and enquiries with the Swiss Private Equity Association, Viceroy has deduced that Campion has only ever made three investments:

- GT Global Trademarks (formerly under Steinhoff)
- JD Consumer Finance (formerly under Steinhoff)
- Southern View Finance (formerly owned by Wiese-controlled entities)

[6] https://www.shab.ch/shabforms/servlet/Search?EID=7&DOCID=1559629

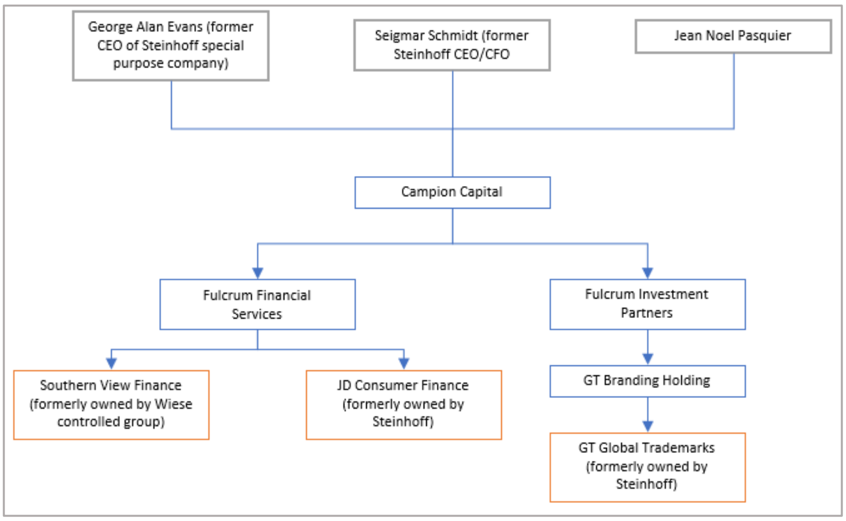

Figure 2 Diagram of Campion Capital's structure

Two Campion investments: **JD Consumer Finance** and **GT Global Trademarks**, were acquired from Steinhoff, the third, **Southern View Finance UK** was acquired from Wiese controlled entities. Additionally, Campion's acquisition of Steinhoff entities were 100% funded through loans issued by Steinhoff.

We see loans from Steinhoff in GT Branding Financial statements obtained by Viceroy and detailed further in this report. Steinhoff's remaining loan book balance is roughly equal to the acquisition cost of JD Consumer Finance.

From	Amount (EUR m)
Steinhoff loans outstanding June 2015	994
Loans to GT Branding Holding	809
Remaining loans outstanding	185
Increase in loans outstanding to June 2016	223
JD Consumer Finance purchase price	248

This is a major red flag to us for numerous obvious reasons:

- Steinhoff bears **full economic exposure** for Campion Capital's acquisitions
- There is **zero transparency** into these businesses which are in essence controlled by Steinhoff
- **Steinhoff books interest on off-balance sheet entity loans**, which we believe does not and will never translate into cash
- Steinhoff appears to **book gains on sales to off-balance sheet entities**
- Steinhoff **disguises these actions through an aggressive roll-up structure funded through dilutive capital raisings**

This is reflected by the fact that 85% of Steinhoff's EBIT is not translated into free cash flows. The above facts indicate that Steinhoff appear to be running a Ponzi scheme, as these non-cash earnings are disguised through issuing fresh equity.

GT Global Trademarks

Steinhoff lends to Campion to buy GT Global Trademarks

GT Global Trademarks was a Steinhoff subsidiary which held several trademarks used by the Steinhoff group of companies. In 2015, Steinhoff facilitated the sale of GT Global Trademarks to GT Branding Holding which is majority owned by Campion Capital subsidiary Fulcrum Investment Partners SA.

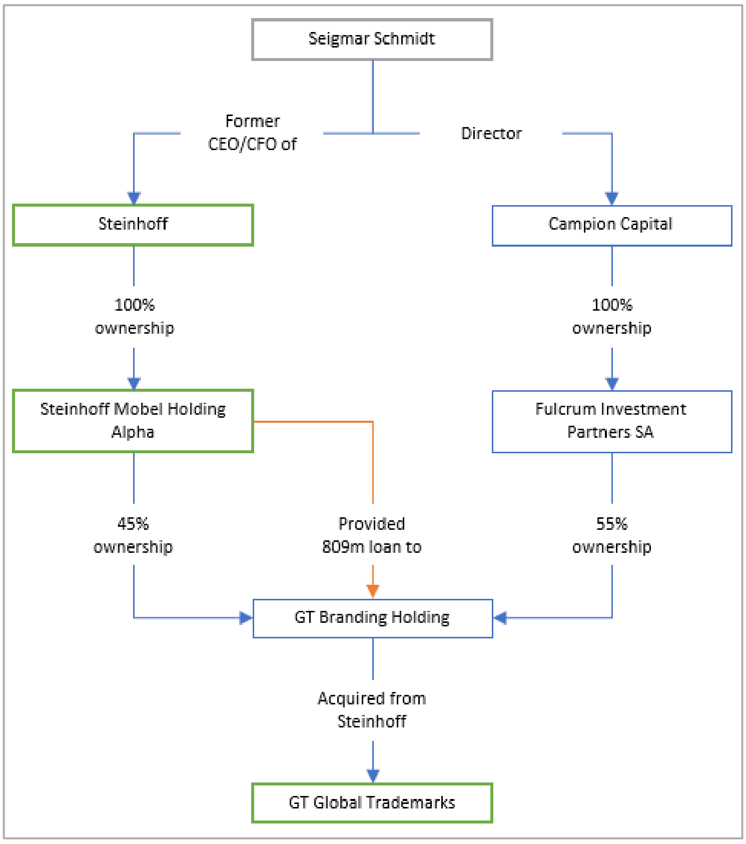

Figure 3 Diagram of GT Global Trademark's sale to GT Branding Holding

GT Branding Holding, the entity that acquired GT Global Trademarks is a Swiss business that holds several brands under the Steinhoff catalogue. Steinhoff's wholly owned subsidiary Steinhoff Mobel Holding Alpha GmbH holds 45% of the company, and the remaining 55% is held by Campion's subsidiary, Fulcrum Investment Partners. GT Branding is not consolidated in Steinhoff's accounts, nor is its related-party ownership disclosed.

Despite the joint ownership of GT Branding Holding, Schmidt and Schmidt entities largely control directorship. The directors are listed in a commerce register document:

- Siegmar Theodor Schmidt
- TG Management Holding GmbH (Schmidt owned/controlled entity)
- Jean Noel Pasquier

GT Branding Holding Sàrl, à Martigny, CHE-250.489.667, société à responsabilité limitée (No. FOSC 141 du 24.07.2015, Publ. 2287949). Nouvelle adresse: Rue du Léman 12, 1920 Martigny. Personne(s) et signature(s) radiée(s): Schmidt, Siegmar Theodor, citoyen allemand, à Bad Zwischenahn (DE), gérant, avec signature individuelle. Inscription ou modification de personne(s): TG Management Holding GmbH (Firmenbuch Landesgericht Wiener Neustadt (Autriche) No FN 392740 i), à Vösendorf (AT), associée, pour 200 parts sociales de CHF 100.00 [précédemment: Top Global Investments Epsilon GmbH (Firmenbuch Landesgericht Wiener Neustadt (Autriche) No FN 392740 i)]; Pasquier, Jean-Noël, citoyen français, à Chêne-Bourg, gérant, avec signature individuelle.

Registre journalier no 2455 du 29.10.2015 / CHE-250.489.667 / 02460293

Figure 4 Extract from GT Branding Holding Sarl commerce register document[7]

After its incorporation, Campion Capital subsidiary Fulcrum Investment Partners and Steinhoff subsidiary Steinhoff Mobel Holding Alpha both became significant shareholders.

GT Branding Holding Sàrl, à Martigny, CHE-250.489.667, société à responsabilité limitée (No. FOSC 213 du 03.11.2015, Publ. 2460293). Personne(s) et signature(s) radiée(s): TG Management Holding GmbH (Firmenbuch Landesgericht Wiener Neustadt (Autriche) No FN 392740 i), à Vösendorf (AT), associée, pour 200 parts sociales de CHF 100.00. Inscription ou modification de personne(s): FULCRUM INVESTMENT PARTNERS SA (CHE-466.903.107), à Martigny, associée, pour 110 parts sociales de CHF 100.00; Steinhoff Möbel Holding Alpha GmbH (Firmenbuch Landesgericht Wiener Neustadt (Autriche) No FN 202439 f), à Brunn am Gebirge (AT), associée, pour 90 parts sociales de CHF 100.00.

Figure 5 Extract from GT Branding Holding Sarl commerce register document[8]

Translation: "…Registration or change of details of entities: ***FULCRUM INVESTMENT PARTNERS SA*** *(CHE-466.903.107) as associate incorporated in Martinique for 110 shares of value CHF 100.00 each****; Steinhoff Mobel Holding Alpha GmbH*** *(registered in district court of Vienna, Austria No. FN 202439 f), an associate in Brunn am Gerbirge for 90 shares of value CHF 100.00"*

Shortly after Steinhoff's Mobel Holding Alpha investment, **Steinhoff facilitated the sale of GT Global Trademarks to GT Branding Holding through a CHF 809m (EUR 673m) loan from Steinhoff Mobel Holding Alpha**. As Schmidt becoming a director and removal of the previous directors occurred within two weeks in August[9] and September[10] we can assume the sale occurred in this time.

[7] https://www.shab.ch/shabforms/servlet/Search?EID=7&DOCID=2460293
[8] https://www.shab.ch/shabforms/servlet/Search?EID=7&DOCID=2705415
[9] https://www.shab.ch/shabforms/servlet/Search?EID=7&DOCID=1685501
[10] https://www.shab.ch/shabforms/servlet/Search?EID=7&DOCID=1711773

SOGC 176/2014 - 12.09.2014

Categories: Personal changes

Publication number: 1711773 , Commercial Registry Office Train (170)

GT Global Trademarks AG , in Baar, CHE-112.398.098, Aktiengesellschaft (SHAB No. 165 dated 28.08.2014, Publ. 1685501).

Deposed persons and extinct signatures:
Schreiber, Dirk , German citizen, in Wildeshausen (DE), Director, with individual **signature** .

SOGC 165/2014 - 28.08.2014

Categories: Personal changes

Publication number: 1685501 , Commercial Registry Office Train (170)

GT Global Trademarks AG , in Baar, CHE-112.398.098, Public Company (SHAB No. 61 dated 27/03/2012, publ. 6611658).

Eliminated persons and extinct signatures:
Berlinger, Katja, von Ganterschwil, in Küsnacht ZH, President of the Board of Directors, with individual **signature** .

Registered persons new or mutant:
Schmidt, Siegmar , German citizen, in Bad Zwischenahn (DE), Director, with individual signature.

Figure 6 Extract from GT Global Trademarks moneyhouse.ch page[11]

Based on research of local filings, Steinhoff entities claim, "other operating income" that stems from the "promotion of brands". **We believe this strange line item relates to transactions with GT Branding, whereby GT Branding (owned by Campion) infuses non-cash earnings into companies within the Steinhoff consolidated perimeter.**

Diving into GT Branding Holding's limited financials

Given GT Branding Holding sits below Fulcrum Investment Partners SA based in Martingy, details available from local filings are very sparse. However, we can get some understanding of the GT Branding Holding SARL structure from both the limited financials which were published when the company reorganized, and its December 2015 balance sheet.

According to GT Branding Holdings' 2015 accounts, the company had related party debts of CHF 809m (EUR 673m).

Note: below amounts in Swiss francs (CHF)

LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES/BORROWED CAPITAL			
Debt due to related parties	809,644,493.90	809,644,493.90	-
TOTAL LIABILITIES/BORROWED CAPITAL	809,644,493.90	809,644,493.90	-

NON CURRENT ASSETS			
Debt due from related parties	323,371,956.83	323,371,956.83	-
Investments in subsidiaries	486,272,537.07	486,272,537.07	-
TOTAL NON CURRENT ASSETS	809,644,493.90	809,644,493.90	-
TOTAL ASSETS	809,736,943.42	809,656,943.42	16,417.03

Figures 7 & 8 Extract from GT Branding Holding SARL Balance Sheet dated December 31, 2015

[11] https://www.moneyhouse.ch/en/company/gt-global-trademarks-ag-13750088811/messages?toggleMessage=2976927

The related party is **Steinhoff Moebel Holding Alpha GmbH, a fully owned Steinhoff subsidiary** as shown in notes to the accounts. Note the incongruity on display here: GT Branding Holding refers to Steinhoff as a related party but Steinhoff itself does not disclose GT Branding Holding.

2. Au passif est inscrite une dette de CHF 809'644'493.90 envers la société liée Steinhoff Möbel Holding Alfa GmbH. Il en résulte un actif net de CHF 12'449.52.

Figure 9 GT Branding Holdings – filings extract[12]

Translation: "We incurred a debt liability of CHF 809,644,493.90 owed to related party ***Steinhoff Mobel Holding Alfa*** **[sic]** ***GmbH****. This resulted in a net of CHF 12,499.52"*

Steinhoff Mobel Holdings Alpha GmbH is a 100% owned subsidiary of Steinhoff as per its annual report for the year in question.

30.1 Significant subsidiaries

	Country of incorporation	2015 Ownership %	2014 Ownership %
Steinhoff Investment Holdings Limited	South Africa	100	100
Steinhoff Africa Holdings Proprietary Limited	South Africa	100	100
Ainsley Holdings Proprietary Limited	South Africa	100	100
JD Group Limited	South Africa	87	86
Pepkor Holdings Proprietary Limited	South Africa	100	-
Steinhoff Services Limited	South Africa	100	100
Steinhoff Finance Holdings GmbH	Austria	100	100
Steinhoff Möbel Holdings Alpha GmbH	Austria	100	100
Steinhoff Europe AG	Austria	100	100

Figure 10 Extract Steinhoff Holdings International annual report dated June 31, 2015

Steinhoff loans to GT Branding Holding amounted to 81.4% of loans outstanding in FY 2015

Viceroy understand from a number of analyst calls to Steinhoff's investor relations in April 2017 that the Company claim these loans were to "Chinese suppliers". At the time Steinhoff held EUR 2.26b in trade payables. As discussed later in this report, this is non-sensical as the outstanding payables on Steinhoff's balance sheet have grown exponentially year-on-year on a days basis. Thus, why would Steinhoff not simply pay its debts?

How can Steinhoff justify loans as being to Chinese suppliers when trade payables have built up from ~70 days (2014) to over 200 days (2016)?

Note: below amounts in EUR m – see page 31 for more details

Current trade and other payables		
Trade payables	2 411	2 262
Accruals	348	147

Figure 11 Extract Steinhoff Holdings International annual report dated June 31, 2016

GT Branding Holding used the Steinhoff loan to acquire GT Global Trademarks from Steinhoff and is recorded under "investments in subsidiaries". The remainder of the loan as "debt due from related parties" was used to settle GT Global Trademarks' debt at the time of the acquisition.

[12] Martigny company filings – GT Branding Holdings

1. Les actifs, avant l'augmentation du capital social, contiennent comme poste principal un montant de CHF 809'644'493.90 correspondant d'une part à une créance de la filiale GT Global Trademarks AG pour CHF 323'371'956.83 et d'autre part à des participations consistant en la valeur comptable des actions de la filiale précitée pour un montant de CHF 486'272'537.07 ; comme poste secondaire un montant de CHF 12'449.52 correspondant à la trésorerie.

Figure 12 Extract from GT Branding Holding SARL financials dated December 31, 2015

Translation: "Assets before the increase of share capital ***includes an amount CHF 809,466,493 corresponding to the settling of a debt incurred by related party GT Global Trademarks AG of CHF 323,371,956 and the acquisition of shares at book value in the aforementioned subsidiary for amount CHF 486,282,537****; as a secondary point an amount CHF 12,449 corresponds to the value of the treasury"*

As GT Branding Holding is not consolidated in the Steinhoff accounts, its operating losses and debts are not consolidated. This allows Steinhoff to book huge interest revenue on its loans to the business. Steinhoff's interest income and expenses are staggeringly similar despite the large difference between its debts and investments.

	2016	2015
Interest-bearing investments (EUR m)	1217	999
Interest income (EUR m)	159	90
Effective interest income rate	13.1%	9.1%
Interest bearing debt (EUR m)	7416	4583
Interest expense (EUR m)	165	97
Expense as % of debt	2.2%	2.1%

Note that at during this time, GT Branding Holding comprised EUR 673m of these investments; more than half the 2016 total. Viceroy believes the purpose of the GT Global Trademarks sale was to book increased "phantom" income from a loan to an undisclosed off-balance sheet entity.

Viceroy cannot see any economic benefit to Steinhoff or its investors from the sale of GT Global Trademarks to GT Branding Holding and ultimately, Campion Capital.

Key Takeaways

Steinhoff financed the sale of its subsidiary GT Branding Holding to Campion Capital through loans we believe will never be repaid in cash. This interest income exists only on paper and is reflected through the abnormally high interest income booked by Steinhoff, the majority of which is to off-balance sheet entities. **Further, while GT Branding Holding discloses a 100% Steinhoff-owned company as a related party, Steinhoff does not disclose loans to GT Branding Holding as a related party transaction.**

JD Consumer Finance

In 2012 Steinhoff acquired a majority stake of African furniture retailer JD Group through a series of labyrinthine transactions that led to Steinhoff acquiring a company worth ZAR 10.9b for possibly less than ZAR 250m[13]. It was less than two years later that Campion Capital first entered the picture, the goal? To move JD Group's consumer finance division JD Consumer Finance off the balance sheet to disguise its non-performing loans.

Steinhoff acquires JD Group, sells JD Consumer Finance

JD Group's subsidiary, JD Consumer Finance, is a South Africa-based business which provides unsecured consumer loans to JD Group customers at POS facilities.

In late 2014 Steinhoff announced the disposal of the loss-making JD Consumer Finance to BNP Paribas for ZAR 4.6b (EUR 323.8m):

JD Group Agrees to Sell Loss-Making Consumer-Finance Unit to BNP

Franz Wild
19 December 2014, 03:58 GMT+11

JD Group Ltd. will sell its loss-making consumer-finance business to a BNP Paribas SA unit for 4.6 billion rand ($398 million) in cash, allowing it to focus on furniture sales.

Figure 13 Extract from Steinhoff June 2015 financial accounts[14]

During the 2014 year, JD Group accepted an offer from an international consumer finance provider to dispose, subject to conditions precedent, JD Group's Financial Services division.

On 20 May 2015, the Competition Tribunal approved the transaction after imposing employee-related conditions applicable to both the acquiring entity and JD Group. The conditions are being assessed, reviewed and considered by both the shareholders and management of both parties. This process, which is ongoing, has resulted in the transaction completion date being extended beyond one year from initial recognition of the business as a disposal group.

Accordingly, JD Group's Financial Services division is shown as a discontinued operation in the results for all years presented. The assets and the liabilities of JD Group's Financial Services division are disclosed as assets and liabilities held for sale in the statement of financial position. Details of the assets and liabilities classified as a disposal group are included in note 16.

Figure 14 Extract from Steinhoff June 2015 financial accounts[15]

Despite the tone of finality in the statements announcing the sale of JD Consumer Finance, the sale never went through. **Two years later in January 2016, it was sold to Campion Capital subsidiary Fulcrum Financial Services, subsidiary of Campion Capital (note: Wands Investments (Pty) Ltd is a vehicle established by Fulcrum to acquire JD Consumer Finance.**

WANDS INVESTMENTS (PTY) LTD	Primary Acquiring Firm
and	
JD CONSUMER FINANCE (PTY) LTD **JDG INVESTMENT HOLDING COMPANY (PTY) LTD**	Primary Target Firms

[13] https://showme.co.za/lifestyle/how-steinhoff-got-jd-group-for-a-steal/
[14] Steinhoff Sep-2016 financial accounts
[15] Steinhoff Sep-2016 financial accounts

Wands Investments is a wholly owned subsidiary of Fulcrum Financial Services SA ("Fulcrum Financial Services"), a company registered in accordance with the laws of Switzerland. Fulcrum Financial Services is wholly owned by Fulcrum Investment Partners SA ("Fulcrum Investment Partners"), which in turn is wholly owned by Campion Capital SA ("Campion"). The above-mentioned firms are collectively referred to as the "Acquiring Group".

Wands Investments is a shelf company. The Acquiring Group's only activities in South Africa comprise of an unsecured lending business which is operated under the trade name "Capfin", i.e. quick and simple personal loans are provided to South African consumers under the Capfin brand name via Pepkor's Pep and Ackermans retail stores.

The primary target firms are (i) JD Consumer Finance (Pty) Ltd ("JDCF"); and (ii) JDG Investment Holding Company (Pty) Ltd ("JDGI"), both incorporated in accordance with the laws of the Republic of South Africa. JDCF and JDGI are collectively referred to as the "JD Consumer Finance and Insurance Business".

JDCF and JDGI are wholly owned by JDG Trading (Pty) Ltd ("JDGT"), which is wholly owned by JD Group Limited ("JD Group"), a company incorporated in accordance with the laws of the Republic of South Africa. JD Group is a wholly owned subsidiary of Steinhoff Africa Holdings (Pty) Ltd ("Steinhoff Africa"), which is wholly owned by Steinhoff International Holdings Limited ("Steinhoff International").

Figures 15, 16 & 17 Extract from Wands Investments, JD Consumer Finance competition tribunal approval[16]

As Steinhoff was negotiating the sale of JD Consumer Finance it listed the entity as a discontinued operation whose losses were/are not reflected in Steinhoff's "continuing operations" financials. JD Consumer Finance's accounts show that it was consistently loss-making, incurring massive losses of EUR 155m in 2015.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

5. DISCONTINUED OPERATIONS

Management completed a transaction with a European private equity firm to dispose JD Group's Financial Services division, including its insurance operations effective 1 January 2016.

	Fifteen months ended 30 September 2016 €m	Year ended 30 June 2015 €m
Revenue	67	153
Operating expenses	(73)	(308)
(Impairment)/reversal of impairment	(10)	6
Operating loss	(16)	(149)
Net investment income/(finance costs)	1	(7)
Loss before taxation	(15)	(156)
Taxation	9	21
	(6)	(135)
Gain/(loss) on disposal of discontinued operations	2	(23)
Attributable income taxation	(1)	3
Loss for the period from discontinued operations	(5)	(155)

Figure 18 Extract from Steinhoff Sep-2016 financial accounts[17]

[16] http://www.saflii.org/za/cases/ZACT/2016/40.pdf
[17] Steinhoff Sep-2016 financial accounts

Given consumer finance businesses frequently offer interest free periods this is not unusual, however retailers typically account for the losses in Cost of Goods Sold to reflect the true cost of providing financing. JD Consumer Finance was a terrible business and had to be moved off the Steinhoff balance sheet.

Off-balance sheet entity Campion Capital now owned loss-making consumer finance provider JD Consumer Finance

Viceroy does not believe it is a coincidence that Steinhoff's remaining loan book balance is roughly equal to Fulcrum's acquisition cost of JD Consumer Finance.

From	Amount (EUR m)
Steinhoff loans outstanding June 2015	994
Loans to GT Branding Holding	809
Remaining loans outstanding	185
Increase in loans outstanding to June 2016	223
JD Consumer Finance purchase price	248

If this is the case, then Steinhoff bears full economic liability for JD Consumer finance and should consolidate accounts.

Southern View Finance (Capfin)

Southern View Finance (SVF) was a Wiese-controlled company that provided consumer finance solutions to Pepkor Holding Group companies. It did this through subsidiary Southern View Finance UK (SVF UK) operating under the name Capfin until **the South African National Credit Regulator (NCR) revoked Capfin's license in February 2015 in light of reports that Capfin's loan application criteria were virtually non-existent.**

Capfin's more importantly lent to customers who were unable or unwilling to provide proof of income, significantly bumping Pepkor's top line on paper. Once Capfin's license was revoked Steinhoff had no means of providing consumer credit to its customers meaning outside entities would take the lion's share of its profits.

After a settlement between SVF UK and the NCR in October 2015, SVF UK sold the entirety of its loss-making Capfin business to Campion subsidiary Fulcrum Financial Services.

Steinhoff recently acquired the loan administration and debt collection entities from Fulcrum Financial Services allowing them to book further gains off non-performing loans held by off-balance sheet entities.

The purpose of these transactions was to remove the loss-making loan facilities from the Steinhoff entity while securing income for Steinhoff companies through purchases made with predatory consumer loans.

The inception of Southern View Finance

Southern View Finance was incorporated and listed in Bermuda (likely for tax advantages) in January 2013 with the initial purpose of providing cost-effective unsecured lending services in South Africa under the name Capfin.

SVF established three wholly owned subsidiaries:

- Southern View Finance UK (SVF UK)
- Southern View Finance Mauritius (SVF Mauritius)
- Southern View Finance SA Pty Ltd (SVF SA)

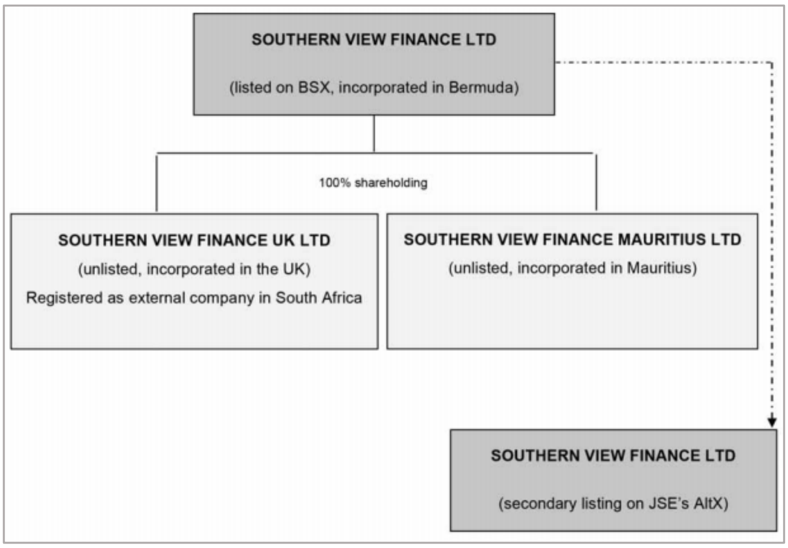

Figure 19 Extract from Southern View Finance pre-listing statement[18]

For the purposes of this report we will be focusing on SVF UK, which operated consumer loan provider Capfin.

According to their 2014 financials SVF Mauritius operated and received large payments from SVF UK for "credit risk management"[19].

In October 2013 SVF listed on the Johannesburg Stock Exchange's Alternative Listing through its subsidiary of the same name (referred to as SVF SA) [20]. SVF SA raised capital through the issuance of Class A and Class B shares in a private placement transaction, the clear majority of which were subscribed by entities **linked to Christo Wiese** including[21]:

- Cream Magenta 140 Proprietary Limited[22]
- Metcap 14 Proprietary Limited[23]
- Wikalox Investments Proprietary Limited[24]
- Fincom Proprietary Limited[25]
- Klee Investments Proprietary Limited[26]

In 2014 SVF SA purchased a call center from a large group of the above entities identified as also holding 93.93% of Class A shares and 90% of Class B shares.

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[18] https://www.jse.co.za/content/JSEAnnualReportsItems/20130923-Southern%20View%20Finance%20Ltd.pdf
[19] https://beta.companieshouse.gov.uk/company/08428498/filing-history
[20] https://www.jse.co.za/content/JSEAnnualReportsItems/20130923-Southern%20View%20Finance%20Ltd.pdf
[21] http://www.sharenet.co.za/jsepdf/SENS_20140325_S342982.pdf
[22] https://www.pressreader.com/south-africa/financial-mail/20160811/281685434233410
[23] See footnote 8
[24] https://www.sec.gov/Archives/edgar/vprr/0304/03045436.pdf
[25] http://www.steinhoffinternational.com/downloads/2017/programmes/Prospectus.pdf
[26] https://s3.amazonaws.com/colibri-client-resources/pallinghurst/pallinghurst-resources/gemfields-offer/2017-06-02+Pallinghurst+-+Circular.pdf

Most of these were Wiese-controlled entities including investment vehicles Cream Magenta 140 Proprietary Limited, Metcap 14 Proprietary Limited, Wikalox Investments Proprietary and Fincom Proprietary Ltd. In addition, Capital Partners Group Holdings Limited (now Brait Mauritius Limited) is a fully owned subsidiary of Brait SE in which Christo Wiese owns 35.03% of the capital.

Southern View Finance purchased a call center from Wiese-controlled entities and was largely owned by Wiese-controlled investment companies

Southern View Finance UK – the operating division

SVF UK had entered into an exclusive agreement with Wiese entity Pepkor Retail[27] for the exclusive provisioning of financial services products across 1600 PEP retail outlets as well as 528 Ackerman's retail outlets whose target market were low-income earners. **Steinhoff acquired Pepkor Holdings in November 2014: the agreement, as stated on SVF UK's website, continued through to at least late 2016.**

> The SVF group currently processes approximately 200'000 loan applications per month. The SVF group advances loans to consumers under the name "Capfin" in South Africa and distributes loans through an agreement with PEP and Ackermans.

Figure 20 Extract from archived Southern View Finance website dated November 5, 2016[28]

By providing unsecured lending to customers of Pepkor and Ackerman, SVF UK ensured the high-credit risk nature of sales would not be visible on the Steinhoff balance sheet.

Reviewing SVF UK's accounts, it appears Steinhoff third-party consumer finance vehicle was a predatory consumer finance business (charging massive interest / fees) with huge delinquencies, used to pump huge top-line through Point-Of-Sale (POS) loans at Steinhoff outlets.

As of 30 June 2016, prior to the sale of its loan book, SVF UK had ZAR1.46bn in loans outstanding:

8	Loans and advances	FY 2016	FY 2015
	Loans and advances	1,464,124,677	1,459,453,443
	Provision for impairment	(259,514,711)	(282,631,371)
		1,204,609,966	1,176,822,072
	Transferred to assets classified as held for sale (Refer to Note 10)	(1,204,609,966)	-
		-	1,176,822,072

Figure 21 Southern View Finance UK Limited 2016 Financial Statement – Loans & advances[29]

Note that the loan balances do not change from FY 2015 to FY 2016; financials show the company was writing off half a billion ZAR of loans a year at the time and consistently loss-making after removal of suspicious line items:

[27] https://www.forbes.com/sites/mfonobongnsehe/2011/08/15/south-african-billionaire-christo-wiese-eyes-nigeria/#31b4eddc71df
[28] https://web.archive.org/web/20161105085151/http://svfin.com/index.html
[29] https://s3-eu-west-1.amazonaws.com/document-api-images-prod/docs/yeO-3YkzaaGcc7YWbhWI8lQ-kfu004pkc40jjHlEN3s/application-pdf - Dated March 6, 2017

Statement of Comprehensive Income for the year ended 30 June 2016		GROUP		COMPANY	
		Year ended 2016	Year ended 2015	Year ended 2016	Year ended 2015
Discontinued Operations:	Notes	R	R	R	R
Interest income (trading)	16	875,489,939	1,010,990,247	875,489,939	1,010,990,247
Loan and transaction fees	16	628,062,085	731,730,491	628,062,085	731,730,491
Direct distribution expenses	17	(60,050,075)	(67,234,108)	(60,050,075)	(67,234,108)
Net portfolio income		**1,443,501,949**	**1,675,486,630**	**1,443,501,949**	**1,675,486,630**
Other income	18	286,053,578	130,769,030	287,597,886	132,880,305
Operating expenses	19	(942,338,750)	(1,053,995,654)	(942,364,480)	(1,053,992,427)
Loans and advances written off	20	(527,902,236)	(635,177,024)	(527,902,236)	(635,177,024)
Provision for impairment of loans and advances	21	23,116,656	(25,299,334)	23,116,656	(25,299,334)
Finance costs	22	(48,341,458)	(74,456,926)	(49,885,765)	(75,958,055)
Other expenses		**(1,209,412,210)**	**(1,658,159,908)**	**(1,209,437,939)**	**(1,657,546,535)**
Profit before taxation		234,089,739	17,326,722	234,064,010	17,940,095
Taxation	23	(47,221,290)	(2,859,937)	(47,216,144)	(2,854,778)
Profit for the year		**186,868,449**	**14,466,785**	**186,847,866**	**15,085,317**

Figure 22 Southern View Finance UK Limited 2016 Financial Statement – Income Statement[30]

The business appears to have been writing as many new loans as are being written off to maintain a flat loan book balance. We can see this in the breakdown of SVF UK's delinquencies. The provision of bad debts recorded by SVF UK appears to be the opening balance, less write-offs, plus an amount equal to all the new loans issued in that period:

Provision for impairment	FY 2016	FY 2015
Opening balance	282,631,371	257,332,037
Charge for the period	504,785,575	660,476,358
Amounts written off as uncollectable	(527,902,235)	(635,177,024)
	259,514,711	282,631,371

Figure 23 Southern View Finance UK Limited 2016 Financial Statement – Loans & advances

Given that revenue derived from these loans (found in Figure 22 above) - ZAR1.4bn – equals the turnover derived from interest and issuance of these loans over a year, **the terms at which SVF UK were issuing these loans appear to have been extremely predatory and largely non-performing.**

Based on Southern View Finance UK's accounts, Capfin's loans were extremely predatory and largely non-performing

Further, SVF UK's income statement shows an "other income" line item which includes ZAR 253m attributable to floating income.

		Group		Company	
		2016	2015	2016	2015
		R	R	R	R
18	**Other income**				
	Interest received from banks	21,384,622	15,894,991	7,473,111	6,294,174
	Interest received from related parties (Refer Note 33)	11,817,152	-	27,272,971	11,712,092
	Floating income	252,851,804	110,960,288	252,851,804	110,960,288
	Refund of penalties - South African Revenue Service	-	3,913,751	-	3,913,751
		286,053,578	130,769,030	287,597,886	132,880,305

Figure 24 Southern View Finance UK Limited 2016 Financial Statement – Other Income

[30]Income Statement, SVF UK's annual report for the year ended 30 June 2016, p.36

This is irregular as floating income generally refers to the interest earned on deposits between the time a payment is debited and the time it takes to credit the payment to the recipient. Considering SVF does not claim to process transactions, Viceroy does not see how this line item could exist let alone amount to 17.5% net portfolio income.

Without this "floating income" item, Southern View Finance UK and therefore Capfin is consistently loss-making.

In August 2014 the South African National Credit Regulator (NCR) launched a compliance investigation into SVF UK for egregious lending practices. The key issue was that Capfin had not documented any proof of income for its lending customers[31].

*In fact, Capfin did not require its customer to provide **any** proof of income*

Following a January 2015 inspection, the NCR cancelled Capfin's license in February 2015[32].

SVF UK opposed the calculation and following a hearing in October 2015 reached a settlement with the NCR, the terms of which are not public. The timing of that settlement coincides with the transfer of the business to Campion subsidiary Fulcrum Financial Services.

Southern View Finance sells operations to Fulcrum

In October 2015, after reaching a settlement with the NCR for egregious lending practices SVF sold all its subsidiaries (including SVF UK) and loan claims against its subsidiaries to Campion subsidiary Fulcrum Financial Services[33]. **Fulcrum's purchase was not settled in cash but by the creation of a ZAR 4.6b (EUR 321m) loan claim in favor of SVF Ltd[34]. On October 19, 2015 SVF UK announced it would distribute this loan claim to its shareholder companies: the beneficiary of which is Christo Wiese[35].**

Before the distribution of the loan claim, Christo Wiese's investment vehicles Cream Magenta 140 Proprietary Limited and Metcap 14 Proprietary Limited acquired all shares held by Brait Mauritius. Following this transaction, these entities alone held more than 61% of all class A shares[36].

Christo Wiese has as such been the recipient of the vast majority if not all of the loan claims against Fulcrum and as such has been financing the entirety of Fulcrum's acquisition of SFV Ltd.'s business activities.

The value of the sale was almost entirely SVF UK's operations and loan books. Various announcements were made in this respect.

Given that Steinhoff made considerable loans to Campion Capital, it is likely that the loan claims paid to Wiese were secured against Steinhoff funds.

Christo Wiese appears to have been the recipient of the clear majority if not all of the loan claims against Fulcrum and as such has been financing the entirety of Fulcrum's acquisition of SFV Ltd.'s business activities.

31 https://www.fin24.com/Companies/Financial-Services/Capfin-in-hot-water-over-easy-loans-20140822
32 Note 29, SVF UK's annual report for the year ended 30 June 2016, p.36
33 http://www.sharenet.co.za/free/sens/disp_news.phtml?tdate=20150818172500&seq=45&scheme=default
34 https://www.reuters.com/article/idUSFWN10T01R20150818
35 https://www.reuters.com/article/idUSFWN12101Z20151002
36 http://www.bsx.com//NewsArticle.php?ArticleID=1100795858

Steinhoff funds SVF UK's business activities

Although Steinhoff had no direct ownership interest in SVF UK or its affiliates, it has provided significant funding to the business during FY 2015 and FY 2016.

The SVF UK annual report states that:

"…current funding is from a range of sources at the Company and Group level. Sufficient equity has been introduced at Group level and **has been supplemented by third party funding arrangements from Retail Interests Limited {note: subsidiary of Steinhoff Europe AG} and Steinhoff Finance Investments (pty) Ltd."**

Southern View Finance UK (RMB m)	Balance at 30/06/2016	Interest expense	Avg. JIBAR	Implied avg. loan balance
Steinhoff Finance Investments (Pty) Ltd loan facility R500m at 3m LIBAR plus margin of 2.5% from July 31, 2015 to June 30, 2016	**-**	**25.56**	**6.72%**	**302.52**
Senior Loan Note Retail Interest Limited 1m JIBAR plus 3.25% from August 21 to June 30	**-**	**20.53**	**6.51%**	**252.32**
Grand Total				**554.85**

Figure 25 Extract from Southern View Finance accounts FY2016

Steinhoff took over SVF UK's ZAR 500m loan facility previously extended by FirstRand Bank Limited and Standard Bank Ltd on July 2015 **as well as the senior note under a securitization facility** on August 21, 2015. This was shortly before the transfer of ownership to Fulcrum and during the pending cancellation of SVF UK's license in South Africa for its lending business[37]. The securitization facility was issued to Retail Interests Limited, a fully owned subsidiary of Steinhoff Europe AG.

Steinhoff repaid these loan balances on the last business day of FY 2016: it is possible to estimate the average loan exposure during the year by grossing up the interest paid for these two facilities during the year[38].

The average total loan balance from Steinhoff to Southern View Finance UK was ZAR 554.85m (EUR 33.91m)

In effect, Steinhoff ensured Campion was acquiring a debt-free business, a transaction with no clear benefit to the Steinhoff entity or its shareholders.

This is further significant proof of the close relationship between Steinhoff and Fulcrum.

[37] Note 13, SVF UK's annual report for the year ended 30 June 2016, p.3
[38] Note 22, SVF UK's annual report for the year ended 30 June 2016, p.34

Sale of SVF UK' s entire operation to JD Consumer Finance

As detailed in the section above: Steinhoff sold subsidiary JD Group's consumer loans business, JD Consumer Finance, in January 2016 to Campion subsidiary Fulcrum Financial Services. JD Consumer Finance was consistently loss-making, incurring massive losses of EUR 155m in 2015.

Effective July 1, 2016, SVF UK sold its entire loan book to JD Consumer Finance, which changed its name to Century Capital (sometimes misspelled Century Capitol mentioned as a related party in the sale). **In reality the entire Capfin operation had been sold as the entire income statement for that year is listed as "discontinued operations".**

7 Holding Company

The Company's holding company is Fulcrum Financial Services SA ("Fulcrum") which obtained control of the Group and the Company effective 1 July 2015. However the shares were transferred by SVF Ltd to Fulcrum on 8 October 2015. Fulcrum is incorporated in Switzerland. In 2015 and prior years, the shares of the Company were 100% held by SVF Ltd which is incorporated in Bermuda.

8 Events after the reporting period

Effective 1 July 2016, the directors of the Company approved the disposal of the loan book to Century Capital (Pty) Ltd, a related entity, including:
(a) The right to recoveries of the on balance sheet loan book
(b) The right to recoveries of the off balance sheet loan book. For clarification purposes, the off balance sheet loan book recoveries would consist of recoveries pertaining to loans written off, on or before 30 June 2016.

Prior to its disposal, the Company engaged an independent party to value the loan book.

On the same date, the Company also ceded all its rights, titles and interests with regards to the FirstRand Limited bank accounts to Century Capital (Pty) Ltd.

This transaction was approved by the shareholder.

The proceeds for the disposal of the above are approximately ZAR 1,357,939,980 (one billion three hundred and fifty seven million nine hundred and thirty nine thousand nine hundred and eighty rand) which exceeds the value of the assets and liabilities classified as held for sale.

Statement of Comprehensive Income for the year ended 30 June 2016

		GROUP		COMPANY	
		Year ended 2016	Year ended 2015	Year ended 2016	Year ended 2015
Discontinued Operations:	Notes	R	R	R	R

Figure 26 & 27 Extract from Southern View Finance UK Limited's FY 2016 annual accounts[39]

Consumer Friend represent: Capfin Loans are now going to be known as Century Capitol Loans, JDG Trading have become Pepkor Trading and JD Consumer Finance is now Century Capitol. If it seems confusing all DCs have to do is check closely what the CoBs from

Figure 28 Extract from July 2016 issue of Debtfree DIGI magazine[40]

SVF's loan book – and apparently the consumer finance business – was sold to JD Consumer Finance for above book value amount of ZAR 1.36b (EUR 83.59m). Century Capital now owned Capfin's loan book and JD Consumer Finance's entire operation.

In order to book further gains from off balance sheet entities, **Steinhoff purchased Southern View Finance SA and Van As associates from Campion capital in late 2016**. Southern View Finance SA provides call center and long administration to Capfin, Van as acts as a collection agency for the same. **These agencies are essentially responsible for debt collection and would allow Steinhoff to book gains on its consumer loans without the need to hold or recognize delinquent loans.**

[39] Director's report and note 33, SVF UK's annual report for the year ended 30 June 2016, p.4 and p.38
[40] https://issuu.com/debtfree/docs/debtfree_digi_july_2016_download

COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: LM094Aug16

In the matter between:

PEPKOR PROPRIETARY LIMITED Primary Acquiring Firm

and

SOUTHERN VIEW FINANCE SA PROPRIETARY LIMITED & VAN AS ASSOCIATES PROPRIETARY LIMITED Primary Target Firms

In essence, the transaction extends the call centre, loan administration and debt collection services currently provided by the Acquiring Group to the Fulcrum Group in respect of the latter's consumer credit and insurance business, to its Capfin micro-lending business (previously provided in-house by SVF SA and Van As respectively).

Figures 29 & 30 Extract from Pepkor, Southern View Finance competition tribunal approval[41]

© 2010-2017 Southern View Finance SA (Pty) Ltd. All Rights Reserved.
Capfin is a division of Century Capital (Pty) Ltd - Registration Number 1999/020292/07 - NCRCP74
Terms and Conditions | FAQ's | PAIA Manual

Figure 31 Extract from Capfin website[42]

The purchase of Southern View Finance SA and Van as allowed Steinhoff to book further income from its non-performing, predatory loan facilities held in off-balance sheet entities

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Steinhoff purchases SVF UK

Steinhoff UK Holdings Limited (wholly owned Steinhoff subsidiary) appears to have later re-acquired SVF UK for a sum not disclosed in filings to-date.

Full details of Shareholders

The details below relate to individuals/corporate bodies that were shareholders during the review period or that had ceased to be shareholders since the date of the previous confirmation statement.

Shareholder information for a non-traded company as at the confirmation statement date is shown below

Shareholding 1:	**429 transferred on 2016-11-01** **0 ORDINARY shares held as at the date of this confirmation statement**
Name:	**FULCRUM FINANCIAL SERVICES SA**
Shareholding 2:	**429 ORDINARY shares held as at the date of this confirmation statement**
Name:	**STEINHOFF UK HOLDINGS LIMITED**

Figure 32 Extract from Southern View Finance confirmation statement – filed Mar 6, 2017[43]

This round-tripped transaction is puzzling and completely unnecessary. Given the evidence we produced, we believe SVF UK was purchased by Steinhoff in order to offset losses incurred by Campion Capital through its subsidiaries

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[41] http://www.saflii.org/za/cases/ZACT/2016/93.html
[42] https://www.capfin.co.za/about-us
[43] https://s3-eu-west-1.amazonaws.com/document-api-images-prod/docs/yeO-3YkzaaGcc7YWbhWI8lQ-kfu004pkc40jjHlEN3s/application-pdf

Key Takeaways

SVF UK / Capfin and JD Consumer Finance were both consumer loan providers operating at Steinhoff entities acquired by Wiese-related entity Southern View Finance. Capfin has previously faced regulatory action for predatory loan practices, JD consumer finance was consistently loss-making.

Steinhoff provided significant financial support to Southern View Finance which was acquired by off-balance sheet entity Fulcrum Financial Services, a Campion subsidiary. Further, Steinhoff loan balances suggest the business financed Campion's purchase of JD Consumer Finance.

The transfer of consumer finance entities off-balance sheet allowed Steinhoff to:

- Boost sales through predatory consumer loans
- Book interest income on loans used by Campion to purchase said financing facilities
- Capitalize on non-delinquent loans through the acquisition of consumer loans debt collection facility
- Obscure impairment losses visible in SVF UK and JD Consumer Finance's accounts

Given these entities, such as SVF UK, are being round tripped back to Steinhoff, Viceroy believe it is possible that Steinhoff are "repaying" Campion's outlays through acquisition premiums (i.e. losses are being capitalized through round-trip transactions with related parties).

Year	Month	Event
2012		
		Steinhoff announces intention to acquire JD Group.[44]
2013		
		Southern View Finance Ltd incorporated in Bermuda SVF lists on the JSE operating under the name "Capfin" offering consumer finance.
2014		
	March	SVF purchases call center from various Wiese entities.
	August	South African National Credit Regulator (SANCR) launches investigation.
2015		
	January	SANCR inspects Capfin for violation of regulations.
	February	SANCR cancels Capfin's license following inspection.
	April	Steinhoff acquires remainder of outstanding shares in JD Group including its consumer finance division.[45]
	August	Steinhoff takes over ZAR 500m loan facility from FirstRand Bank and Standard Bank to SVF. SVF sells all Capfin loan claims & business to Campion through Fulcrum Financial Services in exchange for loan claim to be distributed to shareholders.
	October	SVF UK hearing with SANCR, reaches settlement.
2016		
	March	Fulcrum Financial Services (through subsidiary Wands Investments) acquires JD Consumer Finance.[46]
	July	SVF sells loan book to JD Consumer Finance (now trading as Century Capital).
	November	Campion sells loan collection and administration operations to Steinhoff through Pepkor.[47]

[44] https://www.fin24.com/Companies/Retail/Steinhoff-to-take-over-JD-Group-20120126
[45] https://www.bloomberg.com/news/articles/2015-04-21/steinhoff-to-buy-remaining-shares-in-jd-group-for-99-million
[46] http://www.saflii.org/za/cases/ZACT/2016/40.pdf
[47] http://www.saflii.org/za/cases/ZACT/2016/93.pdf

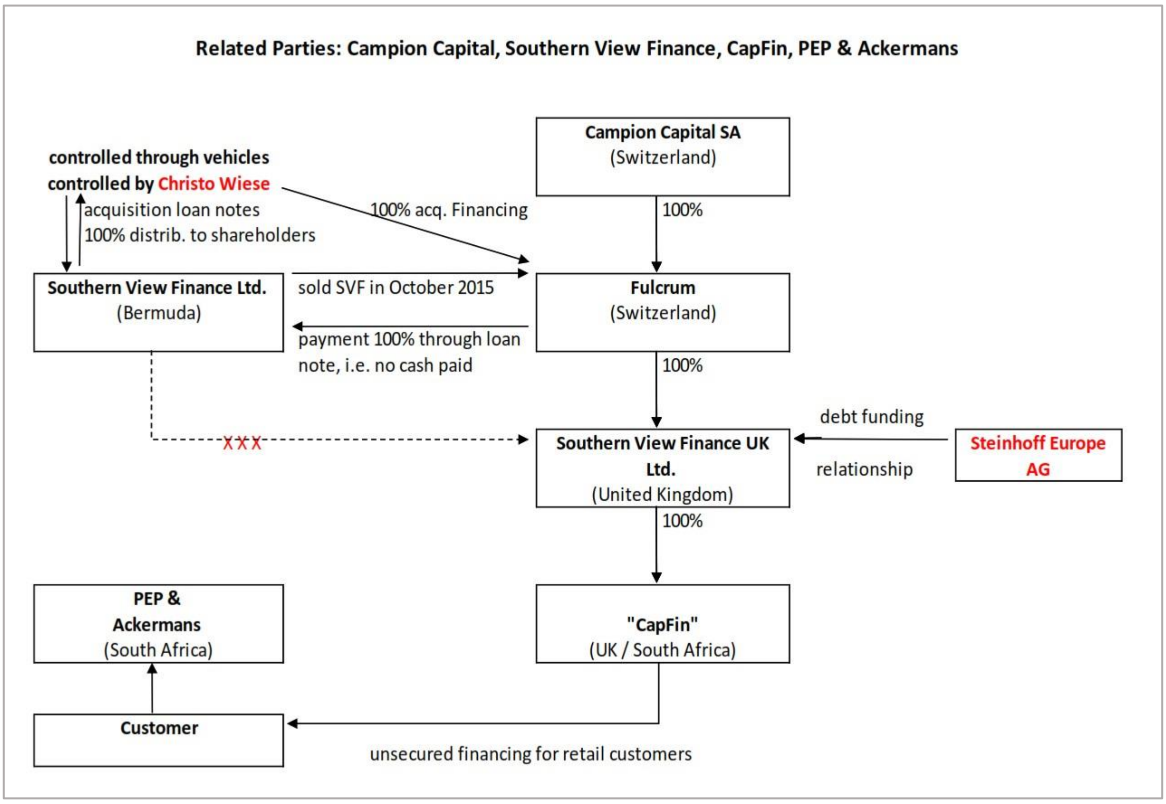


Figure 33 Structure of the JD Consumer Finance sale[48]

[48] Sample footnote text

Genesis Investment Holding and kika-Leiner

Genesis Investment Holding GmbH was formed in March 2013, **controlled by ex-Steinhoff CFO and CEO Siegmar Schmidt, the same Siegmar Schmidt tied to Campion** Capital. Courtesy of Steinhoff, Genesis Investment Holding acquired the entire kika-Leiner entity in 2013. At the time of kika-Leiner acquisition Genesis Investment Holding had no discernable revenue, operations, or cash.

Genesis Investment Holdings

In June 2013 Steinhoff announced it would acquire kika-Leiner, an Austrian discount furniture retailer[49]. This would seem to be a straightforward transaction; however, Steinhoff's accounts tell a different story:

Kika-Leiner
Steinhoff facilitated the independent acquisition by Genesis Investment Holding GmbH (Genesis) of the Kika-Leiner group of companies. The transaction became unconditional on 28 November 2013. The facilitation was done through an investment of €375 million (through the issue of 120 million Steinhoff shares as vendor consideration placement in December 2013). During the year, a decision was taken by Kika-Leiner's shareholder and management to split the operations between the property portfolio and the retail operations. On 30 June 2014, Steinhoff acquired the Austrian property portfolio for €452 million.

Figure 34 Extract of Steinhoff International Holdings annual report 2014[50]

Steinhoff did not actually acquire kika-Leiner but instead "facilitated" kika-Leiner's acquisition by Genesis Investment Holding GmbH (Genesis). Note that Steinhoff had no interest in Genesis and financed this action through the issuance of 120m shares at EUR 3.12 per share.

"**kika-Leiner**"	Genesis Investment Holding GmbH, registration number FN 392734a, a limited liability private company duly incorporated in the Republic of Austria, whose sole director is Siegmar Schmidt, and its subsidiaries;

Figure 35 Extract of Steinhoff prospectus 2015

After loaning Genesis EUR 375m to acquire the entirety of kika-Leiner, Steinhoff then acquired kika-Leiner's property portfolio from Genesis for EUR 452m just half a year later. When Genesis' financials were released in 2015 it became clear that prior to the Steinhoff-financed acquisition of kika-Leiner, Genesis had no significant operations.

2. OPERATING PROFIT

Operating profit is stated after taking account of the following items:

The revenues essentially result from the sale of merchandise (T€ 940,327).

Genesis's principal subsidiaries are:

KIKA Möbelhandelsgs. mbH
Rudolf Leiner GmbH
kika Lakberendezési Kft.
Kika Nábytek s.r.o.
Kika Nábytok Slovensko s.r.o.
kika nameštaj d.o.o. (Srbija)
kika Mobilier SRL
LeiKi Gastro Alpha GmbH
LeiKi Gastro Beta GmbH

Figures 36 & 37 Extract of Steinhoff International Holdings annual report 2014[51]

[49] https://www.reuters.com/article/steinhoff-kikaleiner/update-1-south-africas-steinhoff-to-acquire-austrian-retailer-idUSL5N0F22BM20130626
[50] http://www.steinhoffinternational.com/downloads/2009/ar_2009.pdf
[51] http://www.steinhoffinternational.com/downloads/2015/blocker/7.%20Genesis%20Consolidated%20Financial%20Statements.pdf

kika-Leiner's standalone FY 2015 accounts show that kika-Leiner's income would have been negative if not for several non-recurring income items.

- EUR 46m for "provision of knowledge services and grants for the promotion and development of brand names" under "Other operating income".
- EUR 12m gain on disposal PPE and intangibles under "Capital items".

1. CAPITAL ITEMS

(Income)/expenses of a capital nature are included in the 'capital items' line in the income statement. These (income)/expenses are:

	€ 000
Gain on disposal of property, plant and equipment and intangible assets	(12,209)
Other	(468)
	(12,677)

2. OPERATING PROFIT

Operating profit is stated after taking account of the following items:

The revenues essentially result from the sale of merchandise (T€ 940,327).

Other operating income mainly includes remuneration for provision of knowledge services and grants for the promotion and development of brand names (T€ 45,914). Furthermore, it includes rental income mainly from restaurants

2.1 Amortisation and depreciation

Amortisation	2,026
Depreciation	18,735
	20,761
Recognised in:	
Distribution expenses	2,056
Administrative and other operating expenses	18,705
	20,761

Figure 38 Extract of Genesis Investment Holding Financial Statements 2015[52]

The above two items make up 152% of kika-Leiner's total reported operating income for the period which was a meager EUR 38m after their inclusion.

Genesis subsequently became the reverse takeover vehicle through which Steinhoff listed on the FSE, where ~32m Genesis shares were added to the Steinhoff share pool. Despite both businesses being apparently run by the same management team, the implied valuation of shares were higher per Steinhoff's prospectus on the basis that Synergies could exist[53].

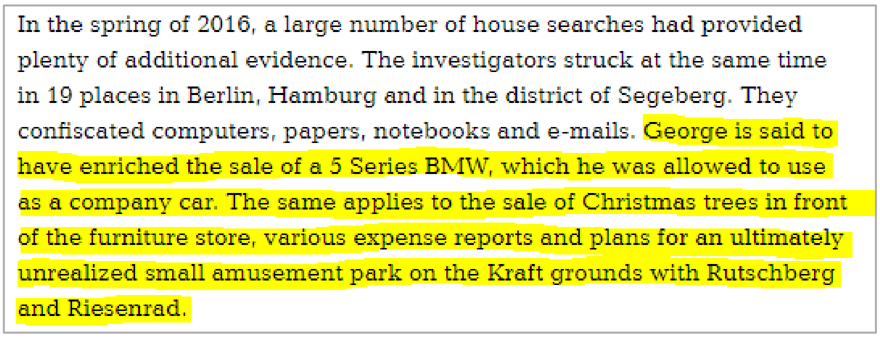
We question why Steinhoff felt the need to acquire the kika-Leiner business in such a way. Viceroy believe this scheme was enacted purely to enrich management.

[52]http://www.steinhoffinternational.com/downloads/2015/blocker/7.%20Genesis%20Consolidated%20Financial%20Statements.pdf
[53]http://webcache.googleusercontent.com/search?q=cache:S5kWIXFzWhUJ:www.steinhoffinternational.com/downloads/2015/blocker/STEINHOFF%2520CIRCULAR%25207%2520Aug%25202015.pdf+&cd=5&hl=en&ct=clnk&gl=au

kika-Leiner CEO under investigation

Gunnar George is Kika-Leiner's current CEO and the former CEO Mobel Kraft AG, a German furniture chain. **George is being investigated for potential fraud by the public prosecution office in Kiel Germany relating to his actions as former CEO of Moebel-Kraft.**

Figure 39 Extract of Gunnar George's LinkedIn profile[54]



In the spring of 2016, a large number of house searches had provided plenty of additional evidence. The investigators struck at the same time in 19 places in Berlin, Hamburg and in the district of Segeberg. They confiscated computers, papers, notebooks and e-mails. George is said to have enriched the sale of a 5 Series BMW, which he was allowed to use as a company car. The same applies to the sale of Christmas trees in front of the furniture store, various expense reports and plans for an ultimately unrealized small amusement park on the Kraft grounds with Rutschberg and Riesenrad.

Figure 40 Extract of Kieler Nachrichten article "Ermittlung gegen Gunnar George dauert an" dated September 19, 2017

George allegedly:

- Personally, profited from sale of a company car
- Received illegal benefits from Christmas tree sales on Moebel-Kraft properties
- Lodged suspicious expense claims
- Was related to a never-opened amusement park

George was fired by Moebel-Kraft in January 2015 and hired by kika-Leiner only 6 weeks later where Viceroy believes he is in good company considering the apparent self-enriching actions of its parent company's executives.

[54] https://www.linkedin.com/in/gunnar-george-726b5167/

Other Issues

Suspiciously low depreciation charges

As is visible below, Steinhoff's property, plant, and equipment ("PP&E") has an implied average life of 24 years (implied average life = Net PPE / annual depreciation charge). Peers have average lives of between 4 years and 14 years, while Steinhoff has an average life of 24 years for its PP&E.

Y/E	Steinhoff Sep-16	Kingfisher Jan-17	Dunelm Jun-17	DFS Jul-17
Net PPE	5,136	3589	195.2	74.2
Depreciation	217	253	22	19.4
Implied average life	24	14	9	4

Figure 41 Viceroy Analysis – raw data sourced from S&P[55]

Steinhoff also under-depreciates relative to its own capital expenditures. While not dispositive for an expanding business, the fact that Steinhoff's depreciation charge is only ~40% of capital expenditures should raise a flag that the business is under depreciating.

ZAR(b) EUR(m)	ZAR 2012	ZAR 2013	ZAR 2014	EUR 2015	EUR Jun-16	EUR Sep-16
Additions to PPE	(5)	(7)	(5)	(341)	(637)	(520)
Additions to intangibles	(6)	-	-	(19)	(35)	(167)
Total capex	**(11)**	**(7)**	**(5)**	**(360)**	**(672)**	**(687)**
Total D&A	2	3	3	162	248	311
Difference	**(9)**	**(4)**	**(2)**	**(198)**	**(424)**	**(376)**

Figure 42 Viceroy Analysis – raw data sourced from S&P

We have made the following adjustment to our target price analysis.

D&A adjustment	EUR (m)
Steinhoff PPE	5,136
Target average life	14
Required depreciation	362
Steinhoff depreciation	217
Required increase in depreciation	**145**
Delta between 2016 capex & depreciation	**376**
Average between both adjustments	**261**

Figure 43 Viceroy Analysis – raw data sourced from S&P

Suspiciously low tax rate

Steinhoff pays a far lower tax rate than it should when compared to its component companies. This is corroborated by the fact that companies acquired by Steinhoff paid far higher tax rates prior to acquisition than the entity does after acquiring them.

[55] Note: Steinhoff depreciation stated pro-rata for 12 months ending Sep-16

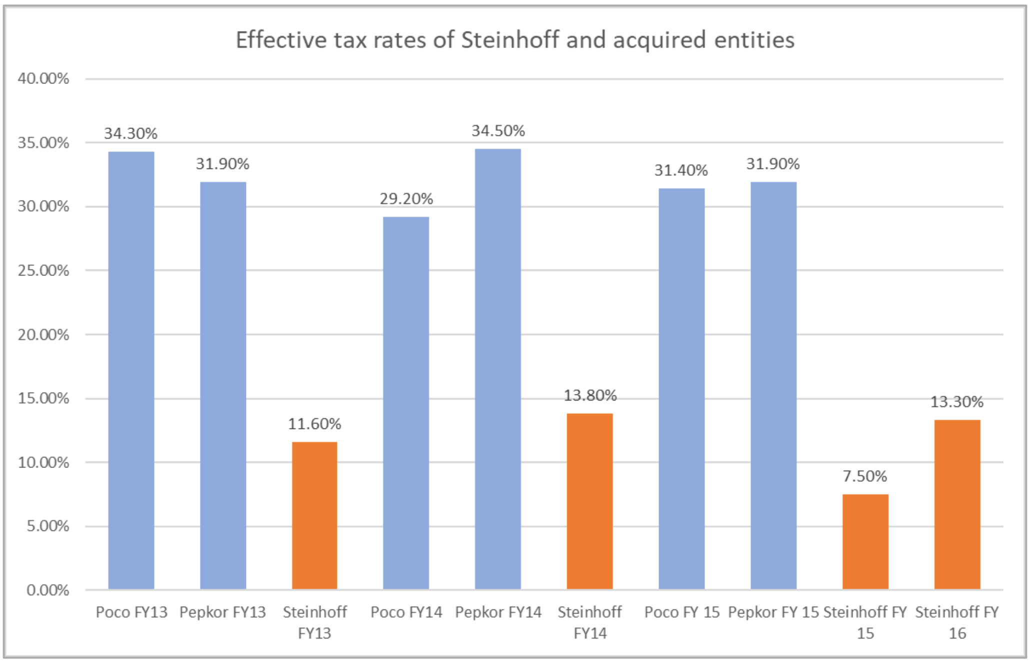


Figure 44 Effective tax rates of Steinhoff and acquired entities

Given the sizable portion of Steinhoff's revenue these companies represent, Steinhoff's effective FY 2016 tax rate should be higher. Steinhoff's effective tax rate is also consistently far below the South African rate of 28%. Note that these businesses operate the largely the same as they did prior to Steinhoff acquiring them: **there is no operational change that could make for such a drastic change in effective tax rates after acquisition by Steinhoff.**

In keeping with the "no smoke without fire" principle, Steinhoff and its managers have been under the scrutiny of several tax authorities over the years[56].

Lack of synergies

The Steinhoff brand has acquired a huge number of businesses over the past decade. Often these businesses are in the retail sector and display slowing or negative growth. More concerningly, Steinhoff appears to make no effort to integrate these businesses within their portfolio.

Entity Name	Date of Acquisition	Operations	Operating Area	Acquisition Price
Conforama	February 2011	Furniture, appliance, and electronics retailer	Continental Europe	EUR 1.2b
Pepkor	March 2015	Value clothing, footwear and textile retailer	Africa, Australia, Europe	EUR 5.5b
Mattress Firm	September 2016	Specialty bedding retailer	USA	USD 3.8b
Tekkie Town	September 2016	Footwear retailer	South Africa	EUR 230m
Poundland	September 2016	Variety retailer	United Kingdom	GBP 610m
Fantastic Holdings	October 2016	Vertically integrated furniture retailer/manufacturer	Australia	EUR 262m

The Steinhoff brand now consists of 30 completely separate brands over four continents. None of these acquisitions have been integrated, even those in similar geographies and sectors.

Note the geographical and product disparity of the acquired companies. Steinhoff is in a position where neither accretion of value nor cost cutting seems possible without significant capital expenditures.

56 http://www.independent.co.uk/Business/argos-bid-gatecrasher-steinhoff-international-under-tax-scrutiny-in-germany-a6888066.html

Working capital severely mismanaged

Below, we compare Steinhoff's working capital position versus peers such as DNLM, DFS, and KGF.

Comps working capital posision	DFS Jul-17	KGF Jan-17	DNLM Jul-17	SNH (pro-rata) Sep-16
Revenues	762	11,225	955	13,151
COGS	642	7,050	488	8,389
Trade receivables	10	65	0	1,714
Trade payables	82	1,431	79	4,894
Inventory	37	2,173	165	2,715
DRO	**5**	**2**	**0**	**48**
DPO	**47**	**74**	**59**	**213**
DIO	**21**	**113**	**124**	**118**

Figure 45 Viceroy analysis – raw data from S&P

Steinhoff is a significant outlier when it comes to Days Receivable Outstanding ("DRO's") and Days Payable Outstanding ("DPO's"). Both items are causes for concern: High DRO's may be a sign of customers not being able to pay, or false sales, while high DPOs generally signal unsustainable supplier financing.

Steinhoff is stretching suppliers to the extreme, with Days Payable three times larger than at Kingfisher (which at 75 DPO is already by far the highest in our comparable group).

We believe this level of DPOs is unsustainable in the long term. If Steinhoff were to bring its DPOs in line with Kingfisher, this would lead to a 3.2bn EUR cash outflow.

Furthermore, as Steinhoff claims its large and growing "Loans and Investments" line is lending to Chinese Suppliers, it is curious that on one hand Steinhoff lends to suppliers, but on the other hand doesn't pay them within anywhere near market standard. We believe this is further convincing indication that "loans and investments" are not being used to fund suppliers, and are in fact loans made to Campion for the acquisition of loss-making Steinhoff entities.

Steinhoff has uncommonly long DROs for a retailer at c.48 days. Most retailers are paid in cash or credit card, and thus commonly have DROs that are less than 10 days. As we can see above, this is the case for our peer retailers, whereas SNH is a significant outlier. We believe that the rising DROs are indicative of potential future losses at Steinhoff that have not yet been recognized. The evidence is clear with rising past due but not impaired financial assets.

In reviewing Steinhoff's financial asset credit quality, we can identify clear deterioration. Financial assets past due but not impaired more than tripled from 1.6% of all financial assets to 5.3% of financial assets over a mere 15-month period. If Steinhoff were a bank or credit card receivable trust, alarm bells would be ringing.

SNH Financial assets (excl. installment loans)	SNH 12 mths Jun-15	SNH 15 mths Sep-16
Not past due or impaired	4847	5,016
Past due 1-30 days not impaired	36	62
Past due 31-60 days not impaired	6	19
Past due >60 days not impaired	35	197
Past due not impaired in full	3	2
Total	**4927**	**5296**
Total past due not impaired assets	80	280
% past due but not impaired	**1.6%**	**5.3%**

Figure 46 Viceroy analysis – raw data from S&P

Furthermore, we can see that Steinhoff's instalment plan credit quality is weak, with over 20% of receivables from customer financing not up to date.

SNH Financial assets (excl. installment loans)	SNH 12 mths Jun-15	SNH 15 mths Sep-16
Up to date	113	101
Performing	18	19
Non-performing	12	10
Total	**143**	**130**
Total not up to date	30	29
% not up to date	**21.0%**	**22.3%**

Figure 47 Viceroy analysis – raw data from S&P

That said, the current continuing Steinhoff consumer finance business compares incredibly favorably to the recently "divested" JD Finance business, which had 47% of receivables not up to date, per the below:

JD Finance Credit Quality	SNH 12 mths Jun-15
Up to date	195
Performing	81
Non-performing	94
Total	**370**
Total not up to date	175
% not up to date	**47.3%**

Figure 48 Viceroy analysis – raw data from S&P

Forestry assets used to enrich management

In 2011 a tax investigation into Markus Jooste's companies revealed a forestry transaction likely to have enriched members of Steinhoff management including founder Bruno Steinhoff. In 2001 Steinhoff agreed to purchase several forestry assets including plantations and land from the Thesen Group for ZAR 45m. Due to objections from Steinhoff's holding group at the time, Fihag Finanz und Handels (Fihag), Steinhoff acquired only machinery and equipment for ZAR 15.8m.

Steinhoff and Fihag arranged for a special purpose subsidiary that would purchase the rest of the forestry assets for ZAR 29.5m: Kluh Investments (Kluh). That same year Kluh separated from Steinhoff although Fihag remained its holding company.

In 2004, Steinhoff's CEO Van der Merwe convinced the board to purchase the Kluh assets for an agreed upon purchase price of ZAR 159.7m, **more than 10 times the original Thesen selling price.**

This is concerning to us because according to court documents from a dispute between Kluh Investments and the South African Revenue Service, Steinhoff essentially operated the plant anyway. While under ownership by Kluh, Steinhoff performed all plantation duties including hiring personnel, fire protection and they claimed all expenses and revenue from its operation.

Most pertinent to this report are the individuals directing Fihag during these events: Steinhoff founder Bruno Steinhoff[57], daughter and future Steinhoff director Angela Kruger-Steinhoff[58] and future Campion director

[57] https://www.pressreader.com/south-africa/sunday-times/20111009/281792805781225
[58] https://www.shab.ch/shabforms/servlet/Search?EID=7&DOCID=1162594

George Alan Evans[59]. It seems as though the Steinhoff tradition of being on both sides of a deal goes further back than the events in this report.

Ownership disputes

Steinhoff is in ownership disputes over two of its subsidiary companies: Poco and Conforama. Viceroy believes that contrary to management's statements, the rulings will be against the company. Both disputes are with owner of competitor XXXLutz, Andres Seifert.

Poco

Steinhoff acquired discount furniture retailer Poco in September 2016. In 2007, XXXLutz sold 60 stores to Poco in exchange for an option for a 50% stake in Poco. This option is mentioned in the German trade register, but Steinhoff denies Siefert's claim on the ground that he violated his fiduciary duty.

We have made earnings adjustments in our PT which reflect an estimate 50% earnings attributable to XXXLutz.

Conforama

Steinhoff acquired Conforama for EUR 1.2b in February 2011. As part of the takeover Steinhoff received an EUR 350m converst from Andres Seifert, XXXLutz co-owner. Accordingly Seifers converted his investment to equity and now claims a 26.5% stake in Conforama, a stake Steinhoff denies. Siefert lodged a claim for his stake in 2014 but withdrew it the same year[60].

More recently, the ghost of acquisitions past has come to haunt Steinhoff with Seifert recently demanding a review of Steinhoff's 2016 financials claiming that the company did not take into account the joint-venture structure of the Conforama entity. Steinhoff remains adamant that this is not the case; nonetheless on the announcement of Seifert's demand, the company was forced to make a statement[61].

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[59] https://www.shab.ch/shabforms/servlet/Search?EID=7&DOCID=2707498
[60] https://www.bwb.gv.at/Zusammenschluesse/Zusammenschluesse_2014/Seiten/BWB_Z-2369.aspx
[61] https://www.businesslive.co.za/bd/companies/2017-09-19-steinhoff-international-denies-wrongdoing-in-audited-accounts-row/

Valuation

Due to its complexity and non-organic means of growth Steinhoff is valued by the Street based on a P/E multiple, which we believe does not represent the facts presented in this report. To determine a more appropriate share price, Viceroy have compiled last-twelve-months (LTM) P/E for comparable entities, generally in same industry, with similar growth rates and geographies.

Co.	LTM P/E
Dunelm Group	19.4
Dollar General	19.5
Foschini Group	13.1
Kingfisher Plc	14.3
DFS Furniture	12.1
Williams Sonoma	10.4
Steinhoff	13.8
Mean	**14.7**
Min	10.4
Max	19.5

Figure 49 – Viceroy analysis – raw data source: S&P. Current at November 26, 2017

In determining a target price, we have:

- Pulled consensus earnings estimates for Steinhoff[62], and provided low and high cases.
- Adjusted earnings down EUR 1,047m relating to the numerous consolidation and other financial issues we have highlighted in this report.
- From the Min, Mean, Max competitor P/E analysis above, derived baseline downside of 61% (EUR 1.29 / share)

(EURm)	Low	Mean	High
Earnings	1,234	1,428	1,603
Loans & investments income	*(184)*	*(184)*	*(184)*
Reconsolidate JD consumer finance	*(160)*	*(160)*	*(160)*
Remove non-cash provisions	*(30)*	*(30)*	*(30)*
Add more depreciation	*(261)*	*(261)*	*(261)*
Minority interest re Conforama & Poco	*(72)*	*(72)*	*(72)*
Remove 100% other operating income	*(340)*	*(340)*	*(340)*
Total adjustements	**(1,047)**	**(1,047)**	**(1,047)**
Adjusted 2017 net income	**187**	**381**	**556**
Comp. P/E	10.4	14.7	19.5
Market Cap implied	1,941.78	5,580.12	10,836.35
Current market cap	12,932.70	12,932.70	12,932.70
Upside-Downside	**-85%**	**-57%**	**-16%**

Figure 50 – Viceroy analysis – raw data source: S&P. Current at Nov 26, 2017[63]

Note that the above does not consider massive costs Steinhoff will likely incur in relation to regulatory sanctions, fines, taxes, write-offs, consolidating entities obscuring losses, costs related to prior year financial adjustments, and the major risk of class action arising from the numerous capital raisings over the last few years.

We believe a baseline downside of 57% (EUR 1.29 per share) is extremely conservative as we have made no risk adjustments.

[62] S&P, current at Nov 26, 2017

[63] Note: Steinhoff does not break down Poco earnings. We have derived our calculations from 2014 earnings per store multiplied by the no. of current stores, which we believe is conservative.

Conclusion

Steinhoff is a global retail rollup that has achieved amazing success despite the challenges of its bricks and mortar end markets. Bulls attribute that success to a management team with a private equity mentality to optimize sourcing costs, tax burden and capital structure.

We found their acquired businesses are struggling but net income has been artificially propped up by a massive web of undisclosed related party transactions. This report highlights 3 transactions that have been hidden from shareholders and must be scrutinized: GT Global Trademarks, JD Consumer Finance and Capfin.

We estimate these transactions have artificially inflated 2016 earnings by [insert amount]. There is also evidence of related parties in the forestry asset transaction and the JD Group share sale.

It is possible this is just the tip of the iceberg. Considering Steinhoff's poor cashflow conversation it is impossible to determine from the outside what real profit is being generated at this highly leveraged conglomerate.

Steinhoff's confusing roll-up structure likely holds numerous other secrets which are yet to uncover. Viceroy believes incestuous managerial transactions; lack of transparency and entirely non-independent governance make Steinhoff borderline uninvestable. Investors should demand more information from management on transaction background and demand independent proxies be appointed to the board.

As of Tuesday December 6, Markus Jooste resigned as CEO of Steinhoff. On the same day the company announced an investigation into accounting irregularities and that it was determining whether prior year financial statements would need to be restated. We believe these events are a direct result of the events and transactions in this report.

Annexures

Annexures 1: Timeline of Events

Date			Event
2012			
			Steinhoff announces intention to acquire JD Group
2013			
	January		Southern View Finance (Bermuda) incorporated.
	March		Genesis Investment Holding incorporated. Signatories: Siegmar Schmidt, Sonke Schmidt, TG Global Investments. Southern View Finance (UK) incorporated.
	May		Siegmar Schmidt resigns from directorships within the Steinhoff group.
	June		Steinhoff announces Steinhoff Europe's intended acquisition of kika-Leiner.
	October		Southern View Finance (UK) lists on the Johannesburg Stock Exchange under the name Capfin offering consumer finance.
	November		Sale of GT Global Trademarks announced. Steinhoff Europe acquires kika-Leiner.
	December		Steinhoff issues 120m shares for EUR 375m to facilitate purchase of kika-Leiner.
2014			
	March		Southern View Finance (Bermuda) purchases call center from Wiese controlled entities.
	June		Campion Capital incorporated. Signatories: George Alan Evans, Sigmar Schmidt, Jean Noel Pasquier. Ownership of kika-Leiner moved to Genesis Investment Holdings under control of Siegmar Schmidt. Steinhoff acquires kika-Leiner's Austrian property portfolio for EUR 452m. JD group receives offer to acquire JD Consumer Finance from Fulcrum Financial Services.
2015			
	January		National Credit Regulator inspects Capfin. Gunnar George fired by Moebel-Kraft.
	February		National Credit Regulator cancels Capfin's license.
	March		Gunnar George hired by kika-Leiner.
	April		Steinhoff acquires remainder of outstanding shares in JD Group including JD Consumer Finance.
	July		GT Branding Holding incorporated. Signatories, Siegmar Schmidt, Jean Noel Pasquier, TG Management Holding. Fulcrum Financial Services SA incorporated. Signatories: George Alan Evans, Jean Noel Pasquier.
	August		GT Branding Holding acquires GT Global Trademarks. Steinhoff takes over Southern View Finance (UK)'s loan facilities from FirstRand Bank and Standard Bank. Southern View Finance (UK) sells all loan claims and operations to Fulcrum Financial Services, loan claim distributed to Southern View Finance (UK) shareholders.
	October		Southern View Finance (UK) reaches settlement in hearing with South African National Credit Regulator. Southern View Finance sells all subsidiaries and associated loan claims to Fulcrum Financial Services.
	November		Fulcrum Investment Partners and Steinhoff Mobel Holding Alpha become shareholders of GT Branding Holding.
	December		GT Branding Holding announces CHF 809m loan from Steinhoff subsidiary.
2016			
	January		Steinhoff sells JD Consumer Finance to Fulcrum Financial Services.
	July		JD Consumer Finance changes name to Century Capital. Southern View Finance UK sells loan book and operations to Century Capital.
	October		Steinhoff, through Pepkor acquires Century Capital's loan administration and collection agencies (Southern View SA and Van As Associates respectively).
	November		Steinhoff acquires Southern View Finance UK, which has not had operations since July 2016.

Annexure 2: Steinhoff organizational map