



Grenke – Selective Blindness

Viceroy's quick take on Grenke's responses – and their omissions – so far.

GRENKE[®]

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September 16, 2020 - Viceroy Research is short Grenke AG (XTRA: GLJ). You can find our original report published on Sep 15, 2020 in the following link:

<https://viceroyresearch.org/2020/09/15/grenke-for-your-fraud-financing-needs/>

Grenke have made scattered responses to the press and via a press release. As fascinating and incriminating as the responses have been, it is the lack of response to key issues that are of greater concern to Grenke investors.

Viceroy's questions to reflect on while navigating Grenke's responses

- Did Grenke disclose that all franchise purchases from CTP Handel-und Beteligungs GmbH, **a company controlled by Wolfgang Grenke** and Thomas Konprecht, were **related party transactions**?
- If the prior owner of Sacoma AG was not related to Grenke AG, what were Wolfgang Grenke and Thomas Konprecht doing moonlighting as directors of their investment management company?
 - Who is the prior beneficial owner of Sacoma AG?
 - **Why are Pro Gulf FZE and Garuna AG (controlled by Konprecht) also taking stakes in franchises?**
- Did the supervisory board, who deliberated and resolved on the acquisition of associated companies, know about the control, purpose, directors and ownership of CTP and Sacoma AG?
 - If so, why did they choose not to disclose these transactions in breach of IASS 24?
- Are Grenke aware that **money launderers tend to be dishonest** about their intentions when opening bank accounts?
 - Does Grenke bank only check its customers for AML and KYC regulations at the time they register their account, and not as a live and continuous process?
 - Is Grenke aware their banking customers were on **active fraud alert with 3 different regulators**, including BaFin¹²³?
- Why does Grenke continue to load up on expensive unsecured debt, enter expensive asset backed commercial paper programs, and issue capital and hybrid notes if it's sitting well above capital adequacy requirements with 2 years of revenues on its balance sheet?

Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Grenke Group, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

¹ <https://www.fma.govt.nz/news-and-resources/warnings-and-alerts/coinbrokerz/>

² <https://www.fca.org.uk/news/warnings/coinbrokerz>

³

https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Verbrauchermitteilung/unerlaubte/2018/meldung_180822_FinTech_Service_en.html



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Undisclosed Related Party Transactions

The easiest thing for Grenke to do to disprove our research was to evidence that all franchise acquisitions were not related party transactions. They obviously cannot do this.

Wolfgang Grenke has confirmed to the press that he is indeed the shareholder of Sacoma AG as of January, which in turn owns CTP: the company run by insiders that own all of Grenke's franchises. More importantly the fact that **Sacoma is now owned by Wolfgang Grenke and Grenke AG**, does not invalidate the fact that for years prior, CTP was an undisclosed related party which sold ~€100m of subsidiaries to Grenke.

secret. Grenke explains, "the previous shareholders of CTP are not associated with Grenke AG".

CTP is currently owned by the Swiss company Sacoma AG. Directors here too: Wolfgang Grenke and Konprecht. Grenke AG and Wolfgang Grenke declare that the founder and the supervisory board "indirectly acquired CTP" at the end of January 2020. The supervisory board ensured that Wolfgang Grenke did not take part in deliberations and resolutions on the acquisition of associated companies. The allegation that the founder enriched himself with the takeovers was "nonsense", at the time of these takeovers he was not the beneficial owner of the CTP parent company Sacoma. "Due to

Figure 1 Wirecard-Jäger wirft auch MDax-Konzern Betrug vor (translated) – Der Spiegel⁴

Unfortunately, Wolfgang Grenke was a primary signatory and director CTP for many, many years before that. **It is difficult to suggest these were arms' length transactions, given the abysmal performance of these franchisees, high prices Grenke paid for them, and that the founder of Grenke was sitting at both ends of the table.**

We propose Wolfgang Grenke inform investors who the theoretical beneficiary of these undisclosed related party transactions was if this is the case.

Grenke is still in violation of IAS 24 for non-disclosure of dozens of related party transactions dating back to 2011 – a major audit risk.

Grenke faces a much more harrowing reality of having to consolidate the accounts of all its franchises, as we have clearly shown they were controlled by company insiders and have been since 2011. We anticipate auditors will retract financial statements dating back to 2011 to reflect this.

The company's assertion that the decisions to acquire "associated companies" were undertaken by the supervisory committee without Wolfgang Grenke's involvement clearly means that the supervisory committee were aware of CTP's structure, leadership and purpose. Either they were blind, or complicit.

To nip this in the bud, we don't even believe the cash paid for these transactions existed, but purely journal transactions to eliminate fake earnings Grenke had accrued, which leads us to our next point...

⁴ <https://www.spiegel.de/wirtschaft/unternehmen/betrugsvorwurfe-gegen-mdax-konzern-grenke-das-neue-ziel-des-wirecard-jaegers-a-2964ff21-d79d-45a1-bba0-df5f359ba230>



Cash at Bundesbank

We leaved the accusation that material portions of cash did not exist, not all of it. We are well aware that ~€800m of Grenke's cash is kept at Bundesbank as of H2 2020.

What Grenke have obviously omitted from their responses is that of this ~€850m about 60% is from their bank depositors over the last 6 months. We have seen this across financial institutions throughout COVID-19.

	UNIT	Q2 2020	Q2 2019	Δ (%)	Q1-Q2 2020	Q1-Q2 2019	Δ (%)
NEW BUSINESS GRENKE GROUP LEASING	EURk	402,308	734,616	-45.2	1,083,585	1,404,871	-22.9
of which international	EURk	257,105	553,327	-53.5	760,174	1,068,781	-28.9
of which franchise international	EURk	13,587	20,756	-34.5	33,554	39,552	-15.2
of which DACH*	EURk	131,616	160,533	-18.0	289,857	296,538	-2.3
Western Europe (without DACH)*	EURk	85,770	186,194	-53.9	263,180	372,918	-29.4
Southern Europe*	EURk	104,017	229,945	-54.8	300,871	442,600	-32.0
Northern/Eastern Europe*	EURk	62,086	125,127	-50.4	182,587	233,414	-21.8
Other regions*	EURk	18,820	32,817	-42.7	47,089	59,401	-20.7
NEW BUSINESS GRENKE GROUP FACTORING (INCL. COLLECTION SERVICES)							
	EURk	141,666	163,100	-13.1	313,392	305,454	2.6
of which Germany	EURk	42,336	43,718	-3.2	91,531	84,872	7.8
of which international	EURk	33,866	44,437	-23.8	71,910	81,308	-11.6
of which franchise international	EURk	65,464	74,945	-12.7	149,951	139,273	7.7
GRENKE BANK							
Deposits**	EURk	1,312,333	769,935	70.5	1,312,333	769,935	70.5

3.2.1 NET ASSETS

Total assets of the GRENKE Consolidated Group as of June 30, 2020 increased by 7.6 percent to EUR 7.7 billion compared to the end of the 2019 financial year (December 31, 2019: EUR 7.1 billion). The rise in total assets was mainly a result of higher cash and cash equivalents, which more than doubled to EUR 1.1 billion as of the reporting date (December 31, 2019: EUR 0.4 billion). The increase in cash and cash equivalents was primarily a result of higher deposit volumes at GRENKE Bank. In light of the current overall economic situation, the GRENKE Consolidated Group is placing a special focus on maintaining sufficient liquidity reserves to give it the flexibility to respond to market conditions. The Consolidated Group also has a regulatory obligation to maintain a liquidity buffer. As of the reporting date, EUR 849.4 million (December 31, 2019: EUR 212.2 million) were held in accounts at the Deutsche Bundesbank, which, due to the negative interest rate on deposits in the amount of -0.5 percent, caused corresponding interest expenses.

Figures 2 & 3 Grenke HY 2020 Report

There are many problems here:

1. Grenke cannot hide behind depositor cash, which is not theirs, to prove that their allegedly very profitable business makes money.
2. Grenke's capital adequacy is well above required thresholds: the company has hoarded over 2 years of revenues in cash. Despite this, Grenke continues take on expensive unsecured debt, enter expensive asset backed commercial paper programs, and has issued €400m in capital and hybrid notes since 2015.
3. The company pays slim dividends, much of which is to hybrid capital investors.
4. Cash flow timing is not an excuse, as Grenke refinance their entire book within 12 months of every loan, every year, since at least 2016.



Grenke - Cash Flow Analysis	2019	2018	2017	2016
Additions to lease receivables	(2,835,286)	(2,398,771)	(1,998,337)	(1,598,007)
Payments by lessees	1,973,492	1,654,782	1,401,037	1,204,226
Disposals / reclassifications of lease receivables at residual carrying amounts	352,585	308,343	245,767	206,099
Interest and similar income from leasing business	(409,846)	(357,455)	(280,809)	(253,892)
Decrease / increase in other receivables from lessees	(6,239)	(9,031)	5,437	3,511
Currency translation differences	(23,083)	1,625	17,594	29,084
Change in lease receivables	(948,377)	(800,507)	(609,311)	(408,979)
Addition to liabilities from refinancing	2,146,190	2,071,442	1,728,126	1,322,704
Payment of annuities to refinancers	(1,320,429)	(1,441,075)	(1,215,429)	(959,057)
Disposal of liabilities from refinancing	(52,925)	(43,810)	(42,119)	(31,952)
Expenses from interest on refinancing	49,934	46,797	42,807	43,168
Currency translation differences	16,356	(2,354)	(11,444)	(13,800)
Change in refinancing liabilities	839,126	631,000	501,941	361,063

Figure 4 Grenke Cash Flow Analysis – Viceroy Research

Grenke's assertion that our report is incorrect because the cash they hold for other people is at Bundesbank is a slap to the face for investors.

We also levied the belief that this problem of fake cash has been “dealt with” via undisclosed related party transactions for over 9 years, not snowballing for 9 years.

As for materiality: Steinhoff's undisclosed related party transactions, individually, would appear insignificantly small against its top line, **which is why no one bothered to investigate them until we came along**. As they mount, and on tight margins, they become devastating. For instance, JD consumer finance, Steinhoff's undisclosed related party, only accounted for roughly \$160m income on \$16b revenues and was the straw that broke the camel's back. You can read our Steinhoff report as a case study through the below link:

<https://viceroyresearch.org/2017/12/06/steinhoffs-skeletons-off-balance-sheet-entities-inflating-earnings-obscuring-losses/>

Money Laundering

Grenke's response to questions surrounding Grenke Bank's facilitation of money laundering give a great insight into the complete lack of KYC and AML understanding within the group.

With regard to the allegations in connection with FintechServices GmbH, Grenke explains that business bans by the BaFin were "observed as far as known at the time the account was opened". All other possible answers would be subject to banking secrecy. The Grenke Bank complies with all legal requirements and applies all common technical standards to prevent and avoid fraud. Violations of anti-money laundering and know-your-customer regulations are not known to Grenke, and external auditors have confirmed that Grenke's precautions are effective.

Figure XX Wirecard-Jäger wirft auch MDax-Konzern Betrug vor (translated) – Der Spiegel

Grenke somehow seem to assert that, because there were no business bans from BaFin at the time scammers opened their Grenke accounts, they have met their Know-Your-Customer (KYC) and Anti-Money Laundering (AML) obligations.

It is patently obvious that Grenke have omitted the fact their “effective, audited precautions” failed to pick up money launderers, despite them being posted to the whole world on BaFin's website, and without doubt, numerous complaints they would have received from defrauded parties.



Update Summary

Grenke's responses show that the company is one enormous audit risk.

*Viceroy Research believes Grenke AG's stock is **uninvestable** due to blatant **accounting fraud**, including **dozens of undisclosed related party transactions**, and the **complete lack of internal controls**, right down to **individual due diligence on customers**.*

*Grenke's bonds are hovering above junk territory due to capital adequacy stemming from its banking business, which we believe is **hiding fake cash**, and is actively used to **launder money for binary options scams, crypto scams, and fraudulent unregulated trading platform**.*

The best case scenario we see for Grenke AG which requires us to ignore the **pervasive fraud, money laundering and impending redundancy of Grenke's business lines**, shows a wildly overvalued quasi-unsecured small-ticket lender transitioning into a niche bank – still uninvestable in a comparison to peers and a junk status rating for its bonds. It would be a disservice to provide a price target given the above.