

March 17, 2022

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Dear Esteemed Recipients,

RE: Laeringsverkstedet & SBB

PLEASE READ IMPORTANT DISCLAIMER ON PAGE 7

We refer to our preliminary correspondence dated March 1, 2022, in relation to the above matter.

On March 4, 2022, Laeringsverkstedet (LV) published a letter to the Norwegian Ministry of Education aiming to clarify their sale-and-leaseback agreement with SBB. The letter clarifies the situation perfectly, confirming that things are far worse than we had projected in our original letter.

- According to LV it is Laeringsverkstedet's owners that receive the D-share dividend. This is a moot point: it does not matter which entity in the LV Group receives consideration for sale of assets as they are wholly owned businesses and substantially all the business is the operation of kindergartens under the LV brand.
- LV's response simply states that there will be no direct benefit from D shares at the operational level, which leaves it in an awkward position where it will either:
 - Incur losses and be floated by (for example) loans from the parent company
 - Generate profits floated by the Norwegian taxpayer in what is an undoubtedly lucrative but morally bankrupt loophole in Norway's kindergarten financing.
- It is a logical fallacy to suggest that their NOK ~250m per year lease, on top of all the triple-net lease expenses one would occur as a landlord could be somehow comparable to the costs of just being a landlord (even when considering LV's previous mortgage/debt expenses).
- The letter brings up the recent increases in construction costs for kindergartens. We are unsure why this is included as SBB is not building new kindergartens for LV.

As Viceroy have previously stated we believe that SBB's reason for this transaction is to record artificial one-time revaluations of these properties based on their inflated rent.

Please do not hesitate to contact us if you have any questions regarding the below.

Yours faithfully

Viceroy Research



Profiteering

LV notes that D-share consideration for its property disposals were paid to its immediate parent, Dibber AS¹, wholly owned by Hjr Holding², the private investment company of LV founders Hans and Randi Sundby. So what?

Læringsverkstedet first established its own real estate business by splitting Læringsverkstedet into two, one part consisting of the operation of Læringsverkstedet and the remaining properties, and one part consisting of the separated real estate business. The owner of Læringsverkstedet naturally also became the owner of the separated real estate business. On 31 August 2020, the actual transfer of the separated real estate business took place. Technically, the transfer consisted of a transfer of shares in the separated real estate business. The settlement for the transfer was a combination of a cash consideration and so-called D shares in SBB. It is our opinion that this is a fairly common form of settlement when transferring to listed companies. The shares that were transferred were owned by the owner of Læringsverkstedet and the recipient of the D shares was therefore not Læringsverkstedet, but the owner company of Læringsverkstedet.

Figure 1 LV Letter to the Ministry of Education

Both entities are wholly owned by the LV Group, as disclosed in LV's own accounts:

Note 0 Fisjon

Selskapet og konsernet har i 2020 gjennomført en fisjon. Med regnskapsmessig effekt 1.8.2020 ble ca 130 eiendommer fisjonert ut til selskapet **Barnehagebo AS**, som ved fisjonen eies 100% av **Læringsverkstedet Gruppen AS** og er et søsterselskap til Læringsverkstedet AS. Fisjonen er en ren fisjon med jevndeling og er bokført til selskapsmessig kontinuitet. I tillegg til eiendommene med tilhørende utsatt skatt ble det også fisjonert ut aksjer i datter knyttet til ett datterselskap samt husbankgjeld på ca 1,1 milliard tilhørende de utfisjonerte eiendommene. I forbindelse med fisjonen oppsto det en fissionsfordring for Læringsverkstedet AS på ca 1,1 mrd som i etterkant av fisjonen er gjort opp. Den beløpsmessig konsekvensen for varige driftsmidler fremgår av note 3, mens effekten på egenkapitalen fremgår av note 7.

Figure 2 LV Annual Report 2020

It is irrelevant what subsidiary or parent-co of the LV group receives consideration. The group's operations are substantially the operation and (former) ownership of kindergarten facilities.

LV's rebuttal substantially states that there will be no direct benefit from D shares at the operational level, which leaves it in an awkward position with the government where it will either:

1. Incur losses and be floated by, for instance, loans from the parent company
2. Generate profits floated by the Norwegian taxpayer in what is an undoubtably lucrative but morally bankrupt loophole in Norway's kindergarten financing.

We also reiterate that these leases are for a period of 25+ years and absent regulatory intervention will result in the majority of its rent effectively paid each year by Norwegian taxpayers to SBB.

To be clear: we believe the intention behind the transaction was to unduly enrich LV and SBB at the expense of the Norwegian government and artificially increase the fair value of SBB's properties

¹ <https://proff.no/roller/dibber-as/jessheim/hovedkontortjenester/IGIOEZF10NZ-1/>

² <https://proff.no/roller/hjr-holding-as/jessheim/eiendomshandel-og-utleie/IGIO0R310MV/>



Rent per child

LV clarifies their rent per child metric at NOK16,750, however conveniently omit that this figure is significantly skewed lower due to their (much lower) rents to other landlords. This figure needs to be deconstructed to show SBB's overcharging relative to other properties and peers.

Telemarksforskning prepares a report every year on the total costs in private kindergartens. The most recently published report is from 1 March 2021 and applies to 2019 figures. This report discusses rents, among other things. The report states that the average rent per **age-adjusted child** for all private kindergartens paying rent, is 11 328. This consists of both old lease agreements and new lease agreements. In recent years, there has been a significant increase in the value of real estate in general, which also applies to kindergarten properties. New lease agreements will reflect this. The set rent level for Læringsverkstedet provides an average rent per age-adjusted child of about 16 750.

Figure 3 LV Letter to the Ministry of Education

LV claim that this rent level was decided in advance of dialogue with SBB and prior to Summer 2020 so we will use 2020 figures in our analysis.

Rental cost per child comparison		
Total rental cost	NOKm	269.4
LV claimed rent per child	NOK	16,750
Places in rented properties	#	16,084
Properties rented	#	178
Children per rented property	#	90
SBB annual rental cost	NOKm	251
Children in SBB-rented properties	#	12,469
Cost per child in SBB-rented properties	NOK	20,162
Non-SBB annual rental cost	NOKm	40
Children in non- SBB rented properties	#	3,614
Cost per child in SBB-rented properties	NOK	4,980

Figure 4 Rental cost per child comparison – Viceroy Analysis ³

The cost per child in SBB rented properties is far above:

1. LV's "average rent per age-adjusted child"
2. The average rent per child in a property not rented from SBB
3. The "average rent per age-adjusted child" industry norm.

LV then cites a "common comparison" of rent averaging between "NOK 20,000- 25,000 per child" or "10-15% of turnover". We are unsure where LV has found this figure and have been unable to source a comparison; it is not from the Kostnader I Barnehage 2019 report.

The two most common comparisons are that rent is normally 10-15% of the turnover or 20 000 – 25 000 per child. The rent set for the buildings in question corresponds to approximately 11.75% of turnover and NOK 21 300 per child, i.e. in the lower part of the industry practice levels. There are several examples of municipal kindergartens being charged rent of up to 50 000 per child.

Figure 5 LV Letter to the Ministry of Education

Their attempt to anchor expectations by claiming that some municipal kindergartens are being charged up to NOK50,000/child makes no sense when the location of the portfolio and capacity are analyzed.

³ LV have declined to clarify which properties were sold so we must rely on the total number of children divided by the total number of rented properties



A Fagbladet article dated March 4, 2022, published a list of privately owned kindergartens including 137 properties owned by SBB and operated by LV⁴ shows only 8 in Oslo commune accounting for only 524 occupied places. This accounts for 6% of locations and 5% of occupied places respectively.

Below is a similar location analysis to the one in our previous letter conducted on the Fagbladet data set of SBB-owned properties rented by LV.

Fagbladet LV				
Location Analysis	Locations	Capacity	% of locations	% of capacity
Kristiansand	15	1,227	11%	11%
Bergen	9	769	7%	7%
Skien	7	697	5%	7%
Eidsvoll	5	575	4%	5%
Oslo	8	524	6%	5%
Ullensaker	5	486	4%	5%
Trondheim	5	414	4%	4%
Sarpsborg	4	343	3%	3%
Kristiansund	4	333	3%	3%
Other	75	5,323	55%	50%
Total	137	10,691	100%	100%

Figure 6 Fagbladet LV Location Analysis – Viceroy Research⁵

This confirms our previous view that SBB-owned LV properties are not concentrated in prime locations with only minor portions in Oslo, Bergen, Stavanger, and Trondheim.

LV’s claims of financial sustainability and fair pricing have already been seriously called into question. What remains is to show several fundamental issues with the rest of their letter.

Triple net stupid

LV appears to false state that the cost of its triple net lease is comparable to its previous owner-operator agreement. This is patently false.

When owning buildings, there are capital costs associated with interest and depreciation (installments). When renting buildings, there are capital costs associated with rent. The fixed rent for Læringsverkstedet corresponds approximately to the costs we previously had for interest and depreciation when we owned the buildings. In other words, the total costs for Læringsverkstedets kindergartens have not changed significantly as a result of the sale-leaseback.

Figure 7 LV Letter to the Ministry of Education

It is a logical fallacy to suggest that their NOK ~250m per year lease, on top of all the triple-net lease expenses one would occur as a landlord, (which would be substantially all of the capex, maintenance, utility, insurance and taxes) could be somehow comparable to the costs of just being a landlord.

On an annualized basis LV would have incurred interest expenses of NOK205.91m in 2020, far less than they will be paying in rent.

Our financial analysis shows that their assertion that total costs remain relatively unchanged is patently false. LV reported “Other Interest Expenses” of NOK131m in FY 2020 and NOK162m⁶, substantially less than the rental costs alone without considering maintenance, and other property costs.

⁴ <https://fagbladet.no/nyheter/fikk-offentlig-stotte-for-a-bygge-barnehager-na-har-eierne-tjent-milliarder-pa-a-selge-bygningene-til-utlandet-6.91.853848.f0c6ba6d8c>

⁵ Figures for capacity in the Fagbladet article are consistently below the figures on LV’s website so we believe these figures represent occupied capacity

⁶ We present the 2019 figures as interest expenses declined in 2020 due to the demerger.



Netting clause

A netting clause would have been a preferable and financially prudent outcome for LV. We are unsure if LV understood this.

There is also no link between the kindergarten operation in Læringsverkstedet and these D shares. Whatever may happen to the D shares, this will not have any consequence for Læringsverkstedet. In the Report, Viceroy speculates that there might be a "netting clause" in the lease agreement. That's incorrect, there is no such clause.

Figure 8 LV Letter to the Ministry of Education

Construction tangent

LV brings up the construction cost per space for no apparent reason as SBB is not building any new facilities for them to lease, nor are they purchasing new facilities with the proceeds. The buildings sold and leased back are not being constructed. We reject their assertion that these figures are somehow comparable or relevant.

Construction costs for kindergarten buildings have increased significantly in recent years and it is not uncommon to have a construction cost of around 500,000 per space. With 4% interest and 25 years of repayment, it will provide an annual cost of 40,000 per space.

Figure 9 LV Letter to the Ministry of Education

Conclusion

Far from a picture of financial responsibility and stability it appears as though LV's owners have sold the company's properties, pocketed a third of the consideration and deprived the operating company from any recurring revenue from dividends to offset the unsustainable lease costs.

We reiterate our view that the Norwegian government should explore its legal options to rectify what we believe to be massive overcharging of the government for the benefit of SBB's and LV's private shareholders at the expense of the Norwegian taxpayer.

As Viceroy have previously stated we believe that SBB's reason for this transaction is to record artificial one-time revaluations of these properties based on their inflated rent.

We believe the same has occurred at Trygge Barnehager and await the release of their 2021 annual report for a full analysis.



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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.

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