



The Brookfield Transaction – Divi_end

SBB humiliates shareholders with absurd and untrue announcements surrounding the success of its incompetent dealmakers

PLEASE READ IMPORTANT DISCLAIMER – PAGE 6

December 8, 2022 – SBB announced it had sold a stake in its newly-formed EduCo to Brookfield on November 30, 2022¹. It then proceeded to defecate on a plate and present it to Ilija's cult, who have lapped it up without question.

This report will address the many inaccuracies and objective lies in SBB's press release surrounding the transaction and its valuation. A copy of this report has also been submitted to the financial regulator. SBB's inadequate and inaccurate disclosures are not aligned with required transparency principles.

- SBB claims that this disposal is between a 2.7% discount to a 2.7% premium to book, depending on earnouts. This is creative accounting.
 - The actual transaction value of the Brookfield deal is SEK 40b and comprises SEK 44.9b of SBB's assets. This represents an 11% discount to book value.
- As part of the transaction, SBB has provided SEK 14.5b in financing to EduCo at 3%, substantially below market rates (most recent USD private placement 2.6%-2.9% + EURIBOR). This is effectively vendor finance at below market rate to Brookfield to purchase a minority stake in its portfolio for a huge discount
 - The only party who benefits from this SEK 14.5b loan is Brookfield. It is safe to say that the discount on the transaction would have been even greater (or should be considered greater), given the uncommercial terms SBB has provided this loan to Brookfield.
- The earnout conditions of this transaction hinge on EduCo's ability to refinance the loan from SBB favorably, and its ability to deploy capex.
 - We don't believe this transaction will deliver substantial earn-outs when those earn-outs are related to SBB's ability to spend money and borrow money.
- The Brookfield transaction will significantly impact SBB's yield and its ability to continue paying dividends.
 - Cash earnings capacity will fall below this year's dividend rate. We note that SBB will continue having to borrow money to maintain its dividend. We also do not believe 9%+ rent adjustments are feasible, having observed market conditions to date.
- SBB's LTV calculations are a clown show. We believe SBB's LTV is closer to 66%.
 - Cash is double counted. It is counted against Net Debt (numerator) and included the "balance sheet total" (denominator) lines. This both decreases the numerator, and increases the denominator, both to SBB's favor.
 - SBB does not appear to account for Non-Controlling Interests (**NCI**) in its LTV calculation, massively inflating its balance sheet total.
 - SBB does not appear to account for unrealized losses stemming from this transaction. The 11% semi-realized loss on the EduCo assets is not reflected in the SBB LTV.
 - SBB excludes all hybrid securities and payables from its LTV calculation. These figures are now well established industry standards for inclusion in the LTV, with some minor caveats (see EPRA reporting guidelines).

We also note that EduCo contains several properties in Norway which appear to be their largest kindergarten clients: Laeringsverkstedet and Trygge Barnehager AS. SBB will likely realize significant revaluation gains over the past 2 years despite the discount to book, as these properties appeared to have been revalued upwards >50% immediately after acquisition.

We expect scrutiny from Norwegian regulators in a time where profiteering on social services and foreign ownership of state service facilities is under the magnifying glass.

¹ https://corporate.sbbnorden.se/en/sbb-sells-a-49-stake-in-its-social-infrastructure-portfolio-for-public-education-to-brookfield-for-sek-9-2-billion-in-cash-with-an-additional-earn-out-of-up-to-sek-1-2-billion-in-cash/#_ftn8



Discount to Book

SBB claims that this disposal is between a 2.7% discount to a 2.7% premium to book, depending on earnouts. This is creative accounting.

- SBB's calculations absurdly include a DCF value of future management agreement fees. This does not even appear to account for minority interests. In simple terms SBB's calculations assume that they are paying themselves the majority of this management fee.
- SBB's premium/discount valuation calculations do not include deferred tax liabilities, which form part of the transaction.
 - We note that SBB has not conducted a DCF analysis on these, as it has on its management fees, despite payout terms expiring in 6 years and long-term nature of earnouts (refinancing & spending money).

		SEKbn
A	Transaction Price, incl. 100% Earn-Outs (SEK 2.4bn)	46.1
B	(-) Earn-Outs (assumes 50% of max. value of SEK 2.4bn is achieved)	1.2
A – B = C	Transaction Price, incl. 50% Earn-Outs (SEK 1.2bn)	44.9
D	(-) Earn-Outs (assumes 50% of max value of SEK 2.4bn is achieved)	1.2
C – D = E	Transaction Price	43.7
F	(-) Deferred Tax Liabilities ("DTL")	2.7
E – F = G	Transaction Price, excl. DTL	41.0
H	(-) Calculated present value of management fee under the asset management agreement ("CPV") payable by EduCo to SBB	1.0
G – H = I	Transaction Price excl. DTL and excl. CPV	40.0

Brookfield Super-Core Infrastructure Partners ("Brookfield") acquires a minority stake of 49% in EduCo from SBB, while SBB retains the majority stake of 51%. EduCo is formed by contributing SBB's entire **SEK 44.9 billion social infrastructure portfolio** for public education (including

Figures 1 & 2– SBB "Transaction Value Overview"²

The actual transaction value of the Brookfield deal is SEK 40b and comprises SEK 44.9b of SBB's assets. **This represents an 11% discount to book value.**

SBB Transaction Analysis	
Transaction value	40,000
SBB assets transferred	44,900
Discount	4,900
Discount Rate	10.9%

Figure 3 – Viceroy analysis

² <https://corporate.sbbnorden.se/en/wp-content/uploads/sites/2/2022/12/sbb-sbb-presents-pro-forma-earning-capacity-for-2023-after-divestment-of-educo-shares-221205-1.pdf>



Earn-Outs & Vendor Financing

SBB have effectively provided vendor finance (at below market rate) for Brookfield to purchase a minority stake in its portfolio for a huge discount. As part of the transaction, SBB has provided SEK 14.5b in financing to EduCo at 3%, substantially below market rates (most recent USD private placement 2.6%-2.9% + EURIBOR³).

Debt financing of EduCo will consist of existing external bank financing of approx. SEK 6.9 billion and SEK 14.5 billion of inter-company financing provided by SBB to EduCo with a tenor of up to six (6) years. The inter-company financing has a fixed interest rate of 3.0%^[8]. EduCo's target loan-to-value ratio is 50 to 55%. EduCo intends to refinance the inter-company loan at market terms in the medium-term.

Figures 4– SBB Brookfield Transaction press release

The only party who benefits from this SEK 14.5b loan is Brookfield. It is safe to say that the discount on the transaction would have been even greater (or should be considered greater), given the uncommercial terms SBB has provided this loan to Brookfield.

We also note that the earnout conditions of this transaction include EduCo's ability to refinance this loan favorably. As discussed, SBB's most recent USD Private Placement were on interest terms substantially higher than 3%. There is zero incentive for SBB to take on new debt, nor for Brookfield to ever want to refinance this cheap loan. We note that SBB's bonds are trading at 8-9% yields on active markets.

The last earnout condition relates to EduCo's ability to deploy capex. This is difficult at ~50% leverage at the subsidiary level and only SEK 0.3k cash.

- Transaction includes two separate Earn-Outs, expiring after 6 years from the date of the first closing of the Transaction, based on:
 - (i) achieved refinancing terms for **outperformance on cost of debt on the new financing** once the take-out has been fully completed; and
 - (ii) achieved NOI yield for **outperformance on capex** deployment on new developments and acquisitions, respectively

Figure 5 – SBB "Transaction Value Overview"

We don't believe this transaction will deliver substantial earn-outs when those earn-outs are related to SBB's ability to spend money and borrow money.

³ <https://corporate.sbbnorden.se/en/sbb-prices-100-million-of-social-unsecured-bonds-due-2027-and-2032-in-inaugural-us-private-placement-financing/>

Yield & Dividends

The Brookfield transaction will significantly impact SBB's yield and its ability to continue paying dividends.

SEKm	30 Sept 2022 earnings capacity	49% minority stake sale of EduCo to Brookfield	30 Sept 2022 adjusted (consolidated)	Of which cash
Rental income	7 178	-1 025	7 178	7 178
Community service and Other properties	4 879	-1 025	4 879	4 879
Residential properties	2 299	-	2 299	2 299
Property costs ⁴⁾	-1 850	160	-1 850	-1 850
Net operating income	5 328	-864	5 328	5 328
Central administration	-200	16	-200	-200
Profit from JV's and associated companies	979	-	979	455
Financial income	99	316	99	99
Financial income from EduCo attributable to SBB's shareholders	-	316	-	-
Operating income before financial costs, dividends and minority interests	6 206	-533	6 206	5 682
Profit attributable to minority interest	-86	-	-619	-619
Financial costs	-1 807	161	-1 646	-1 646
Impact from further potential bond buybacks	-	131	131	131
Dividend hybrid bonds	-538	45	-493	-493
Dividend Class D shares	-388	-	-388	-388
Profit from property management attributable to ordinary shareholders	3 387	-196	3 191	2 667
Per class A and B share	2.33	-	2.19	1.83

Figure 6 – SBB Reported Earnings Capacity

There are 2 ways to look at this, and neither are good for SBB.

1. Disposal of these assets at book value would have significantly deteriorated yield.
2. Because the disposal was at a large discount: yields actually increase slightly.

Yield	Q3 2022	Post Transaction	Recognize loss
Rental Income	7,178	6,153	6,153
NOI Earnings Capacity	5,328	4,464	4,464
NOI Margin	74.2%	72.5%	72.5%
Investment Properties	154,511	154,511	154,511
Less: Building rights & WIP	(15,384)	(15,384)	(15,384)
Less: NCI	-	(19,600)	(19,600)
Less: Loss on transaction	-	-	(4,900)
Income Generating Properties	139,127	119,527	114,627
Yield	3.83%	3.73%	3.89%

Figure 7 – Viceroy Analysis

We also note from Figure XX above that cash earnings call short of SBB's dividends.

SBB Transaction Analysis	
Dividend YTD Q3 2022	2,236
Annualized dividend at current rate	2,981
Cash Earnings Capacity	2,667
Shortfall	314

Figure 8 – Viceroy Analysis

We note that SBB will continue having to borrow money in order to maintain its dividend. We also do not believe 9%+ rent adjustments are feasible, having observed market conditions to date.

A market-rate refinance of EduCo's debt will bump interest expenses. This should be considered on analysis



SBB Loan-to-Value (LTV) – Errors and Omissions

SBB's LTV calculations are a clown show. The entire industry knows it. The ratings agencies know it. Ilija definitely knows it. Despite calculating NAV and other non-IFRS measures according to EPRA framework, SBB continues to provide an LTV to shareholders that is **objectively wrong**. Here is a re-creation of SBB's LTV methodology, including a bridge to SBB's post-transaction LTV to their stated 42.4%.

SBB LTV Calculation	FY 2021	HY 2022	Q3 2022	Post Transaction (SBB)
Liabilities to credit institutions	23,732	35,766	35,717	35,717
Bond Loans	53,094	55,483	57,201	57,201
Commercial papers	11,169	4,377	2,458	2,458
Cash & cash equivalents / cash investments	(9,890)	(5,397)	(4,941)	(14,141)
Net Debt	78,105	90,229	90,435	81,235
Balance sheet total	194,517	196,348	191,687	191,687
SBB reported loan-to-value	40.2%	46.0%	47.2%	42.4%

Figure 8 – SBB LTV Calculations – recreated by Viceroy Research

We outline SBB's elementary level LTV calculation failures and impact of these failures on the transaction

- Cash is double counted. It is counted against Net Debt (numerator) and included the “balance sheet total” (denominator) lines. This both decreases the numerator, and increases the denominator, both to SBB's favor.
 - SBB's post-transaction LTV calculations are not even consistent with their incorrect method. It appears that SBB have simply netted off the SEK 9.2b cash inflow from the transaction from the net debt (numerator), and not re-counted it (per their incorrect method) in “balance sheet total” (denominator).
- SBB does not appear to account for Non-Controlling Interests (NCI) in its LTV calculation, massively inflating its balance sheet total.
 - SBB counts inflows from the sale of 49% of EduCo to Brookfield, but does not appear to recognize that it has parted with ~SEK 20b assets.
 - On the flip side, SBB also does not consider that some of the bank debt offloaded to EduCo should also be reflected as NCI.
- SBB does not appear to account for unrealized losses stemming from this transaction. The 11% semi-realized loss on the EduCo assets is not reflected in the SBB LTV.
- SBB excludes all hybrid securities and payables from its LTV calculation. These figures are now well established industry standards for inclusion in the LTV, with some minor caveats (see EPRA reporting guidelines).
- SBB do not appear to appropriately account for market losses of investments (such as JM) on its balance sheet. It currently values JM's shares as a “right of use asset”, rather than its observable market value. This inflates SBB's “balance sheet total”.
- EPRA guidelines exclude D shares from calculation if they rank pari-pasu with regular shares in a liquidation scenario.
 - Viceroy acknowledge this caveat, however we note that given SBB has no intention to cut dividends until a liquidation scenario presents: we include D shares in the LTV calculations as they have the characteristics and appearance of debt and/or priority shares.
 - We note that it appears SBB cannot cease its D dividend because some shareholders rely on the B-dividend too much.



Viceroy LTV Analysis

As a non-IFRS measure, we (and other agencies) rely on SBB's transparency (which is poor) to populate a (more) correct LTV. It would be much simpler for SBB to simply restate this in line with peers and industry guidelines, but they never will, because they prefer to keep investors in the dark. Transparency is not the SBB game.

Viceroy have attempted to create a more accurate LTV, in line with EPRA guidelines. These are inherently subjective calculations, and require greater transparency than SBB provide. In particular, there are nuances in recognition of Financial Assets, various debt instruments, and the NCI structure is still somewhat unclear.

We believe SBB's LTV is ~66% post transaction, down from 66.3% pre-transaction. We note that this is still up from HY 2022 and EOFY 2021.

SBB EPRA LTV Calculation	FY 2021	HY 2022	Q3 2022	Post-Transaction
Liabilities to credit institutions	23,732	35,766	35,717	32,198
Bond Loans	53,094	55,483	57,201	57,201
Commercial papers	11,169	4,377	2,458	2,458
Hybrids Bonds	17,295	17,338	17,277	17,277
Derivatives	30	623	294	294
Net Payables	4,151	2,082	1,775	1,775
D-Class Shares**	5,964	5,964	5,964	5,964
Less: cash & equivalents	(9,890)	(5,397)	(4,941)	(4,788)
Less: sale of NCI				(9,200)
Net Debt	105,545	116,236	115,745	103,179
Investment properties (incl. held-for-sale)	150,301	158,309	154,511	134,111
Investment property impairment on sale				(4,900)
Intangibles (excl. goodwill)	-	-	-	-
Financial assets	25,542	23,440	21,800	21,800
Minority Interest Loan Receivable	-	-	-	7,105
Less: Impairment of JM	-	(2,208)	(1,708)	(1,708)
SBB reported loan-to-value	60.0%	64.7%	66.3%	66.0%

Figure 9 – Viceroy Research SBB LTV Estimates

Annexure: Background workings

SBB Financial Holding - JM AB	
Market Cap	11,350
SBB Ownership	30.60%
Share Price @ 30 June 2022	177
Share price marked to book	290
Market value	3,473
SBB bullshit value @30 Jun 2022	5,681
Impairments @ 30 Sep 2022	(500)
Unrealized impairment (excl. trading costs)	1,708

Edu-Co	At Inception
Cash & Equivalents	300
Investment Properties	40,000
Liabilities to credit institutions	6,900
Liabilities to SBB	14,500

SBB Parent Group	Pre-Transaction	Movement	Post Transaction	less: NCI	Consolidated
Cash & Equivalents	4,941	(300)	4,641	147	4,788
Investment Properties	154,511	(40,000)	114,511	19,600	134,111
Loan Receivable from Edu-Co	-	14,500	14,500	(7,395)	7,105
Liabilities to credit institutions	35,717	(6,900)	28,817	3,381	32,198

Yield	Q3 2022	Post Transaction	Recognize loss	EduCo Earnings Capacity*
Rental Income	7,178	6,153	6,153	2,092
NOI Earnings Capacity	5,328	4,464	4,464	1,804
NOI Margin	74.2%	72.5%	72.5%	86.2%
Investment Properties	154,511	154,511	154,511	44,900
Less: Building rights & WIP	(15,384)	(15,384)	(15,384)	
Less: NCI	-	(19,600)	(19,600)	
Less: Loss on transaction		-	(4,900)	
Income Generating Properties	139,127	119,527	114,627	44,900
Yield	3.83%	3.73%	3.89%	4.02%

*Yield measured against pre-transaction book values (i.e. excluding discount)

Notes:

1. EPRA guidelines exclude D shares from calculation if they rank pari-pasu with regular shares in a liquidation scenario. Viceroy acknowledge this caveat, however we note that given SBB has no intention to cut dividends until a liquidation scenario presents: we include D shares in the LTV calculations as they have the characteristics and appearance of debt and/or priority shares. We note that it appears SBB cannot cease its D dividend because some shareholders rely on the B-dividend too much.
2. SBB claim that significant portions of transaction proceeds will be/have been used to repay debt. This will not affect our calculation, as cash will net off debt in the numerator line. It will, however, impact SBB's broken LTV calculation negatively as the cash will also disappear from the denominator.



Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within SBB, 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.

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