Rating report October 17, 2023

EuroRating assigned 'BBB-' long-term credit rating to secured fixed rate bonds issue of the company LCL Opportunities Luxembourg S.C.S.

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for a bond issue
Bonds issued by	LCL Opportunities Luxembourg S.C.S.
Type of the rated bonds	senior secured fixed rate bonds
Bond series ISIN	XS2514450100
Type of the credit rating	long-term, international scale
Date of rating assignment	October 17, 2023
Rating level	BBB-
Rating outlook	stable

The presented credit rating is a rating for a bond series (ISIN: XS2514450100) and relates to the issue of up to $100 million senior secured fixed rate (9%) bonds denominated in EUR, with the maturity term in 2026. The bonds are issued (or are to be issued) by LCL Opportunities Luxembourg S.C.S. ("LCL Opportunities", "the Issuer"), a special purpose vehicle (SPV) established by LynxCap Investments AG. The proceeds from the bond issue will be used to acquire a non-performing loans portfolio and owned real estate, as well as to subscribe to shares and/or securities (in the form of loan notes or other debt instruments, whether subordinated or not) issued or to be issued, notably by such entities or partnerships.

The presented 'BBB-' credit rating does not relate to the credit risk (or probability of default) of the Issuer. The rating concerns the risk of an ultimate loss of a part or all of the senior secured bonds' principal amount and the interest by the bondholders in the event of a default of the Issuer.

Key rating drivers

Priority in case of Issuer's bankruptcy: In the event of a default of the Issuer, senior bondholders will have the first right to settle their claims using the collateral held in LCL Opportunities S.C.S. Additionally, the Security Agent will be entitled to use the parent guarantee from LynxCap Group AG to fulfil the obligations to senior bondholders.

Sound collateral quality and value: The bonds are (or will be) secured on the assets of the Issuer. The underlying assets comprise of a portfolio of non-performing loans (NPLs) secured by real estate. Price to market value of real estate in the portfolio is targeted in the range of 0.30-0.40. That indicate a high likelihood of recovering funds by the senior bondholders selling even in the event of a default of the Issuer.

LynxCap group guarantees: Two partner companies from the LynxCap group (LynxCap Investments AG and LynxCap Group AG, together "the Guarantors") have entered into professional payment guarantees under Luxembourg law with LCL Opportunities Luxembourg S.C.S. These guarantees are in favour of the senior bondholders of the Issuer and cover the entire bond issuance amount. The Guarantors are obliged to fulfil the obligations upon request by the security agent in case of a bond default.

Guarantors' satisfactory financial condition: Partner companies providing the payment guarantees generated a net profit in 2021 and 2022. As of the end of 2022 their consolidated equity value was CHF 10 million, while the economic equity (encompassing also subordinated loans) CHF 23.1 million, which constituted 38% of the balance sheet total. The guarantors are also characterised by a high stability of financing ratio and satisfactory liquidity ratios.

Support from other companies within the LynxCap group: In 2021 two companies within the LynxCap group provided CHF 13 million in subordinated loans. Per the agreements between the partner companies that collectively form LynxCap and the companies that provided these loans, repayment is only possible when the audited and approved annual balance sheets of the partner companies demonstrate no over-indebtedness, irrespective of this subordination. This implies that these obligations cannot be settled prior to the senior bond obligations unless the partner companies attain a sufficiently strong financial position, ensuring the repayment of these bond obligations is not jeopardized.

Short history of operations of the Issuer: LCL Opportunities Luxembourg S.C.S. was established on May 19, 2022 and its first fiscal year was from that day until December 31, 2022, therefore the Issuer has a very short operating history so far. However, other companies within the LynxCap group have been operating for several years.

Negative capital and reserves: The Issuer has been equipped by the shareholders with a very little subscribed capital and as of the end of 2022 (due to the consolidated reserves created) its capital and reserves value was slightly negative. The company relies heavily on debt financing.

Low or negative margins: The net margin on sales of LCL Opportunities in 2022 was at a low level of 4% and it should be noted that the positive result was solely due to the value adjustments to financial assets (EBITDA margin was negative). However, with the expected increase in the scale of the business, a rapid improvement in financial results and cash flows is forecasted.

Satisfactory coverage of non-current assets: The Issuer finances its assets to a large extent with long-term liabilities, which translates to a satisfactory level of the ratio of coverage of non-current assets by the long term capital.

Good liquidity position: At the end of 2022 the current and quick liquidity ratios were at a high level of 3.5. A significant portion of company's assets consisted of cash, and the cash liquidity ratio amounted to 1, meaning the company's cash reserves could cover all current liabilities due in the next 12 months.

High share of financial assets in total assets: Financial assets that generate income accounted for over 60% of total LCL Opportunities' assets as of the end of 2022, which should be viewed positively.

Good diversification of the assets: LCL Opportunities acquires (or plans to acquire) various NPL portfolios in several different countries, which reduces the overall sensitivity of the quality and value of the company's assets to changes in economic and market conditions.

Experienced management team: The management team at LynxCap group has got an extensive expertise in the financial sector, especially in non-performing loan (NPL) portfolios pricing models, acquisitions, valuation and management.

Asset quality uncertainty: The success of NPL securitization hinges on the quality and recoverability of the underlying NPLs. Even with the best efforts and due diligence it may happen, that the underlying assets cannot be effectively recovered or resolved, which could lead to lower-than-expected returns or even losses on individual acquired portfolios.

Market volatility: The value of NPL-backed securities can be sensitive to changes in market conditions, interest rates, and many other economic factors. Market volatility can impact the market value of these securities.

Long debt recovery period: The process of recovering debt from a residential property can be lengthy and complicated. One of the significant challenges faced during this process is related to eviction, which can be a complex and time-consuming legal procedure.

Stable rating outlook

The stable outlook assigned to the credit rating means, that according to current estimates of the EuroRating credit rating agency the rating should most probably remain unchanged in the horizon of the next 12 months.

Major factors that could lead to a rating change

To the most important potential factors that (individually or collectively) could have a positive impact on the assigned credit rating, EuroRating includes: successful issuance of bonds and ensuring long-term financing for the acquired assets; generating by the Issuer high net profits and positive cash flows from operating activities; substantial increase of the equity value and its share in the balance sheet total; strengthening cash reserves and keeping good liquidity position; significant improvement of the financial situation of the Limited Partner (LynxCap Investments AG).

To the potential factors that could negatively influence the current level of the credit rating, EuroRating includes, among others: generating by the Issuer negative results and negative cash flows from operating activities; further decrease of equity value and its remaining at a negative levels; deterioration of the liquidity position and/or difficulties in access to external financing; worsening of the financial condition of the Limited Partner or other companies from the group.

BEST/WORST RATING SCENARIO

The full range of best and worst-case scenarios for all rating categories covers the range from 'AAA' to 'D'. Historical long-term statistics on migrations (changes between different rating classes) for entities rated by EuroRating are published in the rating statistics report, available at: https://www.eurorating.com/en/ratings/statistics (annexes No. 6-9).

Companies involved

Registration data

LCL Opportunities Luxembourg S.C.S. ("LCL Opportunities", "the Issuer"): Registered office: 34 rue du Curé, L-1368 Luxembourg, Grand Duchy of Luxembourg. Company registration number (Luxembourg): B267834. Legal Entity Identifier: 529900RRR7OAMK7TTT38.

LynxCap Investments AG ("Limited Partner", "LynxCap Investments"): a limited liability company (*société anonyme*) established and existing under the laws of the Canton of Zug, Switzerland. Registered office: Lüssihofweg 4, 6300 Zug, Switzerland. Company registration number: CHE-244.186.164.

LCL Opportunities GP S.à r.l., ("General Partner", "LCL GP"): a private limited liability company (*société à responsabilité limitée*). Registered office: 34, rue du Curé, L-1368 Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Trade and Companies Register under number B260591.

LCL Opportunities Luxembourg S.C.S. has been established for the purpose of directly or indirectly, through subsidiaries, affiliated companies, or companies that are members of the same group as the Issuer, acquiring and retaining shares and/or securities (including loan notes or other debt instruments, whether subordinated or not) that are issued or intended to be issued, particularly by the SPVs.

The Issuer may additionally incorporate any other entities or partnerships in order to facilitate securitization transactions or investments in such transactions, or for acquiring non-performing loan portfolios and owned real estate, as well as subscribing to shares and/or securities (including loan notes or other debt instruments, whether subordinated or not) that are issued or are planned to be issued, notably by said entities or partnerships.

The funds obtained from the bond issuance under the program may be utilized for financing the acquisition of non-performing loan portfolios and owned real estate. This could involve the Issuer subscribing to debt instruments or equity issued by a fully owned subsidiary or affiliated companies, either directly or indirectly.

The financing for these investments might involve third-party participation. This third-party financing, which holds a senior ranking compared to the debt instruments subscribed by the Issuer, must never exceed one hundred and fifty percent (150%) of the total proceeds from the bonds issued under the program that are allocated for subscribing to the subordinated debt instruments. In this scenario, the Issuer would hold a secondary ranking after the third-party creditor (referred to as "second lien"), except for legally privileged creditors and other creditors sharing the same ranking by virtue of the law. It should be noted that there will be no additional creditors with a lower ranking (except as defined by the law).

Shareholder structure

LCL Opportunities Luxembourg S.C.S. is 99% owned by LynxCap Investments AG (the "Limited Partner") and 1% owned by LCL Opportunities GP S.à r.l - (the "General Partner"), which is also wholly owned by LynxCap Investments AG.

The partnership is formed by the General Partner and the Limited Partner as a common limited partnership (*société en commandite simple*). The General Partner was established on October 25, 2021 as a private limited liability company (*société à responsabilité limitée*) under the laws of the

Grand Duchy of Luxembourg. This partnership operates as a common limited partnership (*société en commandite simple*), subject to and governed by the laws applicable in the Grand Duchy of Luxembourg.

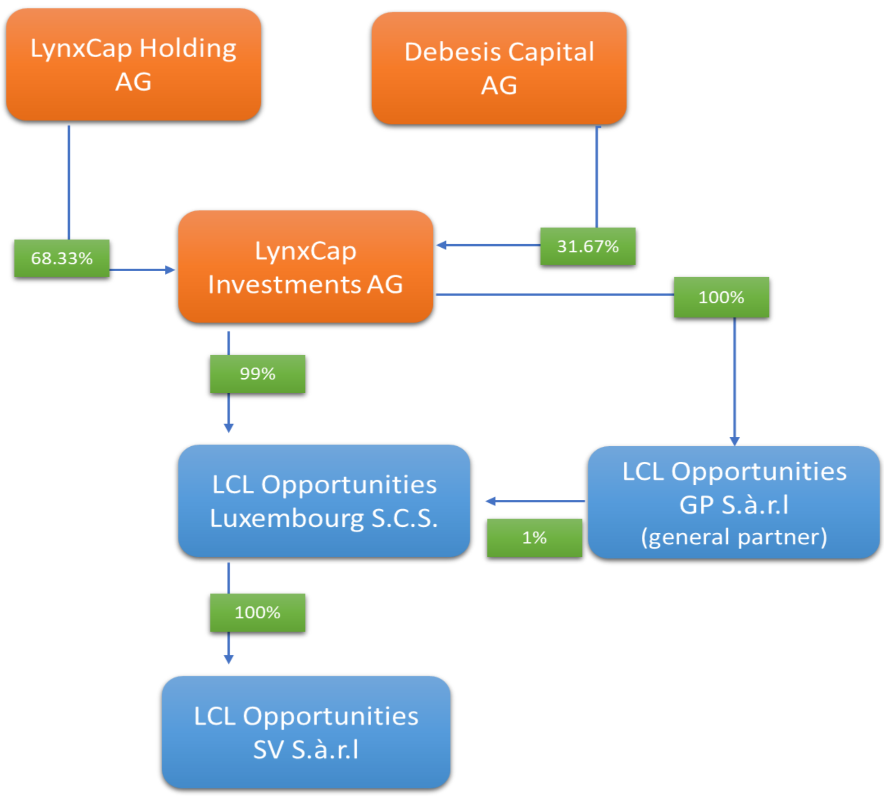
The partnership is governed by the General Partner (*associé commandité*). The partnership agreement outlines the terms and conditions for its establishment and operation. Throughout its existence, there will be only one Limited Partner, and the General Partner will have management authority in accordance with Luxembourg law and the partnership agreement.

Upon signing the partnership agreement, the Limited Partner fully acknowledges and commits to the terms outlined in the agreement, including the subscription to partnership shares.

LCL Opportunities SV S.à r.l. is planned to be established as a securitization company under the legal framework of the Grand Duchy of Luxembourg, operating as a private limited liability company (*société à responsabilité limitée*) and functioning in accordance with Luxembourg law, specifically the law of March 22, 2004 relating to securitization (as amended).

The General Partner will not hold any assets until an event of default occurs. It will maintain full control over the Issuer until such an event takes place. In the event of a default, The General Partner will be required to follow the directives of the Security Agent, relinquishing its autonomous and independent control over the Issuer.

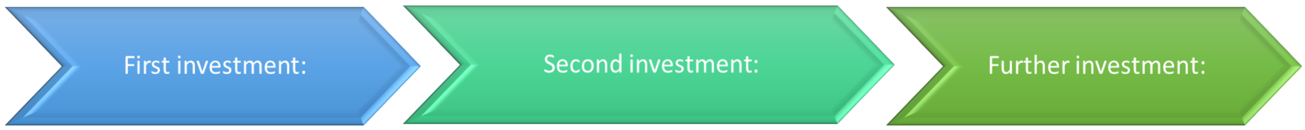
Chart 1. LCL Opportunities Luxembourg S.C.S. – shareholder structure



Source: LCL Opportunities Luxembourg S.C.S.

LynxCap Investments AG operates as a vehicle that does not directly retain a significant volume of assets on its balance sheet. Functioning as a master servicer, LynxCap Investments AG oversees and manages assets while engaging with on-site collection partners. In contrast, LCL Opportunities Luxembourg S.C.S. functions as the primary investment vehicle within the group. The group's strategy involves acquiring all assets through LCL Opportunities Luxembourg S.C.S., which holds these assets.

Chart 2. LCL Opportunities Luxembourg S.C.S. – business model



The portfolio consists of Spanish real estate-secured non-performing loans and real estate-owned properties. The price-to-market value ratio falls within the range of 0.35-0.45

53 Serbian real estate-secured claims and 38 real estate-owned properties.

14 Croatian real estate-owned properties, including a hotel and residential properties.

Part of the issue proceeds will be invested in a portfolio comprising real estate-owned properties in Croatia and Serbia, as well as real estate-secured claims in Serbia. The targeted price-to-market value ratio falls within the range of 0.33-0.38.

Real estate secured claims and real estate-owned properties from commercial banks in Slovenia and Spain.

Source: LCL Opportunities Luxembourg S.C.S.

Role of the Security Agent in case of default:

Upon the occurrence of a default (i.e. non-payment of the coupon/principal), the Security Agent (Apex company, overseeing 2 trillion EUR worldwide) shall promptly:

1. Take control through an equity pledge over the Issuer's bank account and the receivables held by the Issuer against LCL Opportunities SV S.à r.l.
2. Simultaneously, the Security Agent will gain control over all assets of the Issuer.
3. The Security Agent shall ensure that all recoveries are promptly credited for the benefit of the bondholders.
4. Simultaneously, the Security Agent will promptly enforce the parent guarantee against LynxCap Investments AG.
5. Upon completing the aforementioned steps, the Security Agent will have the capacity to facilitate the change of management at LCL Opportunities SV S.à r.l. This will consequently grant control over the securitization vehicle's bank accounts and assets through the newly appointed management.

The sequence of events numbered 1 to 5 could potentially occur within a week or even less. Control over the bank account is nearly immediate upon the dispatch of notice to the account's bank.

Company management

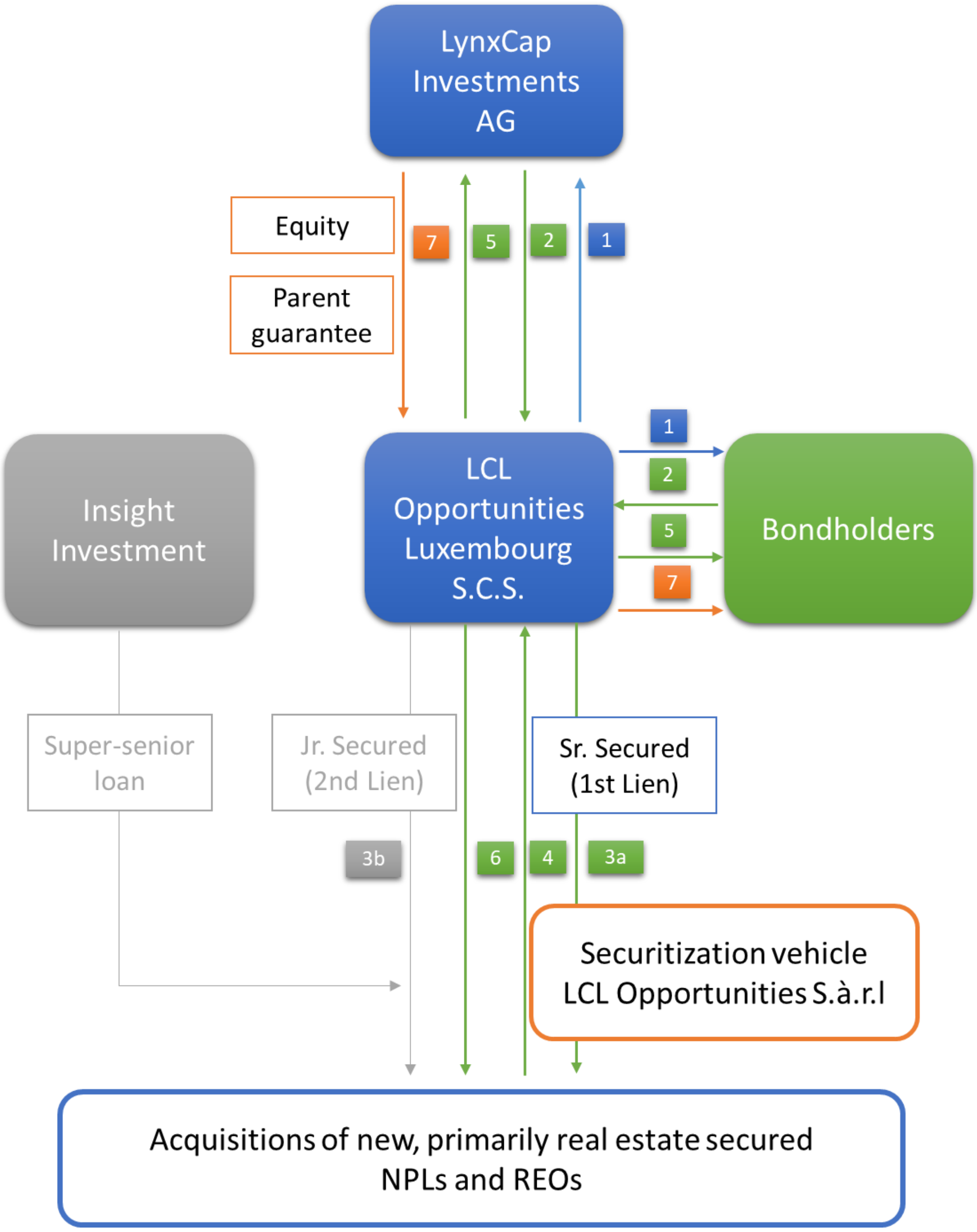
The Board of Directors of LCL Opportunities Luxembourg S.C.S consist of the following persons:

- **Mr. Konstantins Kraiss** – manager of class A, appointed on October 25, 2021, for an indefinite period. Mr. Kraiss was responsible for all aspects of NPL portfolio acquisitions for DDM Group AG in the CSEE region, with a special focus on the Romanian, Hungarian, and Greek markets. Prior to joining DDM Group, Mr. Kraiss was employed by Deloitte, Ernst & Young, and leading regional private equity funds, focusing on mergers and acquisitions as well as providing financial and strategic advice to industry-leading companies and financial institutions in Central and Eastern Europe. With 15 years of experience in corporate finance, Mr. Kraiss has a proven track record of successful cross-border transactions with a total investment value exceeding EUR 1 billion. He holds a BSc in business and economics with a specialization in finance from the Stockholm School of Economics in Riga, Latvia.
- **Mr. Peter Kadish** – manager of class A, appointed on May 12, 2022, for an indefinite period. Prior to joining the LynxCap Group, Mr. Kadiss was responsible for NPL portfolio acquisitions at DDM Group AG, overseeing key transactions in the CEE region. Mr. Kadiss has a background in private equity and investment banking. He served as an investment director at a EUR 5 billion private equity and credit fund, as well as the head of syndicate at an investment bank, where he managed significant oil and gas eurobond placements. Mr. Kadiss holds a BA in economics from the University of Latvia, was an Erasmus student at Ghent University in Belgium, holds a Master's degree in banking and finance from the University of Sheffield, UK, and completed an Executive MBA from London Business School. He is also a CFA charter holder.
- **Ms. Tea Puh** – manager of class B, appointed on October 25, 2021, for an indefinite period. Ms. Puh is a seasoned investment manager overseeing the LynxCap Luxembourg office. Before joining LynxCap, she held the position of group Head of Portfolio Management at B2Holding Group, a publicly listed pan-European NPL purchaser and servicer with operations in over 20 European countries. At B2Holding, Ms. Puh was responsible for executing B2's investment strategy, optimizing portfolio performance, managing the new acquisition approval process, and reforecasting the existing portfolio. Ms. Puh brings a wealth of experience in acquiring and managing NPL portfolios across most European NPL markets, with a specific focus on the Central and Eastern European markets. She holds a Master's degree in finance from the University of Zagreb.
- **Ms. Dora Vrkic Oriskovic** – manager of class B, appointed on March 29, 2022, for an indefinite period. Dora Vrkic Oriskovic serves as an internal legal advisor responsible for transactions. Before joining LynxCap, she was a member of the group transaction team at B2Holding Group, where she oversaw significant transactions and co-investments within the Group. Additionally,

she supervised and provided support to local acquisition and deal teams. In the earlier phase of her tenure at B2, Ms. Oriskovic was part of the acquisition department at B2 Kapital d.o.o., a Croatian subsidiary of B2Holding Group. In that role, she was responsible for NPL portfolio acquisitions, due diligence, and transactional support across the CEE and SEE regions, with a focus on the Central European markets. Ms. Oriskovic holds a Master's degree in law from the University of Zagreb.

Lending and cashflow process

Chart 3. Lending and cashflow process



Source: LCL Opportunities Luxembourg S.C.S.

Step 1: LCL Opportunities S.C.S. issues bonds to independent investors and LynxCap Investments AG. Of the bonds issued, about 90% will be senior bonds and the remaining will be junior bonds. As of August 2023, the company has issued senior bonds worth €28.8 million and junior bonds worth €3.2 million. LynxCap Investments purchased all the junior bonds and €10.2 million worth of senior bonds.

Step 2: LynxCap Investments and investors transfer funds to the Issuer.

Step 3a: The Issuer directly invests a minimum of 30% in senior secured (1st lien) real estate-secured non-performing loans (NPLs) and real estate-owned properties (REOs).

Step 3b (optionally): The Issuer can use external financing, but it cannot allocate more than 70% of its investments indirectly in junior secured (2nd lien) real estate-backed NPLs and REOs. The maximum proportion of super senior debt (e.g. bank loans) can be up to 150% of the junior debt. Currently, the company does not utilize the services of Insight Investment, nor does it have plans to utilize funds from this entity in the foreseeable future. As a result, all senior bondholders maintain a 1st lien position with regard to all real estate security.

Step 4: Recovered funds from creditors are transferred to the Issuer.

Step 5: The Issuer prioritizes the repayment of obligations to bondholders.

Step 6: Remaining funds after repayment of obligations to bondholders are reinvested as extensively as possible to optimize returns and ensure sufficient liquidity for bond repayment upon maturity.

Step 7: (in case of default – optional): Senior secured creditors will first satisfy their claim from the collateral in the Issuer and subsequently from their claim towards LynxCap Investments AG and LynxCap Group AG.

Market / industry

The mortgage loans and non-performing loans (NPL) industry in the European Union is a complex and significant sector within the broader financial landscape. Mortgage loans are a fundamental component of the EU's financial markets, serving as a primary means for individuals and families to access housing. These loans allow borrowers to purchase or invest in property while spreading the cost over an extended period, often decades. Mortgage lending is closely tied to the health of the real estate market and plays a crucial role in the overall economic well-being of the EU member states.

In the EU, mortgage lending practices and regulations can vary considerably among countries due to the diverse legal, economic, and cultural factors. The EU's single market framework provides a common framework for mortgage credit, ensuring that lenders offer transparent and responsible mortgage products. The EU also emphasizes consumer protection and transparency, requiring clear disclosure of terms and risks associated with mortgage loans.

Non-performing loans (NPLs) are loans that borrowers have fallen behind on or have stopped repaying, resulting in financial distress for the lender. NPLs can arise from various types of loans, including mortgages, consumer loans and corporate loans. The handling of NPLs has been a significant challenge for the EU, particularly after the global financial crisis of 2008, which exposed vulnerabilities in the banking sector. The EU has taken various measures to address the issue of NPLs. The European Central Bank has set guidelines for banks to deal with NPLs, including improving loan origination practices and enhancing risk management. Additionally, the establishment of the Single Supervisory Mechanism has led to stricter scrutiny of banks' balance sheets, focusing on their ability to manage NPLs effectively.

NPLs can impact the mortgage market by reducing the availability of credit and increasing borrowing costs. Banks with high levels of NPLs may become more risk-averse, leading to tighter lending standards and potentially making it harder for borrowers to access mortgage loans. Additionally, the presence of NPLs on banks' balance sheets can divert resources away from lending and economic growth.

To address the challenges posed by NPLs, various financial institutions and investors have turned to securitization as a solution. Securitization is a financial process that involves the packaging and sale of assets, including non-performing loans (NPLs), into tradable securities. In the context of the European Union, securitization has gained significance as a mechanism to address the challenges posed by NPLs and enhance the efficiency of the banking and financial sectors.

NPL securitization involves the conversion of NPLs, which are distressed loans with a high risk of default, into securities that can be sold to investors. These securities are backed by the underlying NPLs and the cash flows generated from the repayment of the NPLs serve as the source of payments to the investors.

Securitization packaging NPLs offers various opportunities for buyers, particularly investors seeking to capitalize on distressed assets with the potential for value appreciation. NPL-backed securities often offer higher yields compared to traditional fixed-income securities due to the distressed nature of the underlying assets. Investors who are willing to take on higher levels of risk may find the potential for attractive returns in NPL securitization. Buyers of NPL-backed securities can acquire distressed assets at a discount, providing the potential for capital appreciation when the assets are successfully recovered or resolved. If the underlying NPLs are backed by valuable collateral, such as real estate or other tangible assets, there is potential for recovery through the sale or monetization of the collateral. NPL securitization also allows investors to participate in distressed markets and contribute to the resolution of NPL issues within the financial system, which is crucial for the stability of the banking sector and the broader economy. By participating in NPL securitization, investors contribute to market efficiency and liquidity.

It is crucial to acknowledge that while NPL securitization presents enticing opportunities, it also carries inherent risks. The efficacy of NPL securitization relies heavily on the quality and recoverability of the underlying NPLs. Failure to effectively recover or resolve these underlying assets could result in returns falling below investor expectations.

The value of NPL-backed securities is highly responsive to shifts in market conditions, interest rates, and broader economic factors. Market volatility can greatly impact the market valuation of these securities, subsequently affecting investor returns. Additionally, NPL securitization involves intricate legal and regulatory considerations, varying across different jurisdictions. Alterations in laws or regulations can profoundly influence the rights and responsibilities of both issuers and investors.

Effectively managing NPL portfolios requires a mastery of operational expertise. Buyers are tasked with navigating challenges related to tasks such as loan servicing, borrower communication, legal proceedings and property management. Rigorous due diligence is essential for assessing NPL quality, encompassing evaluation of borrower creditworthiness, property valuations and potential legal disputes. An incomplete or inaccurate due diligence process can lead to unforeseen losses.

The efficacy of NPL recovery strategies, such as loan workouts or property sales, is far from guaranteed. The lack of successful resolution could result in lower recovery rates than initially anticipated. Additionally, NPL portfolios might include legal disputes with borrowers, which could significantly impact the recovery process and potentially escalate to litigation costs.

Moreover, there's an inherent counterparty risk associated with NPL securitization. Buyers might find themselves exposed to this risk if the originator or servicer of the NPLs fails to fulfil its obligations or faces financial challenges.

Financial analysis

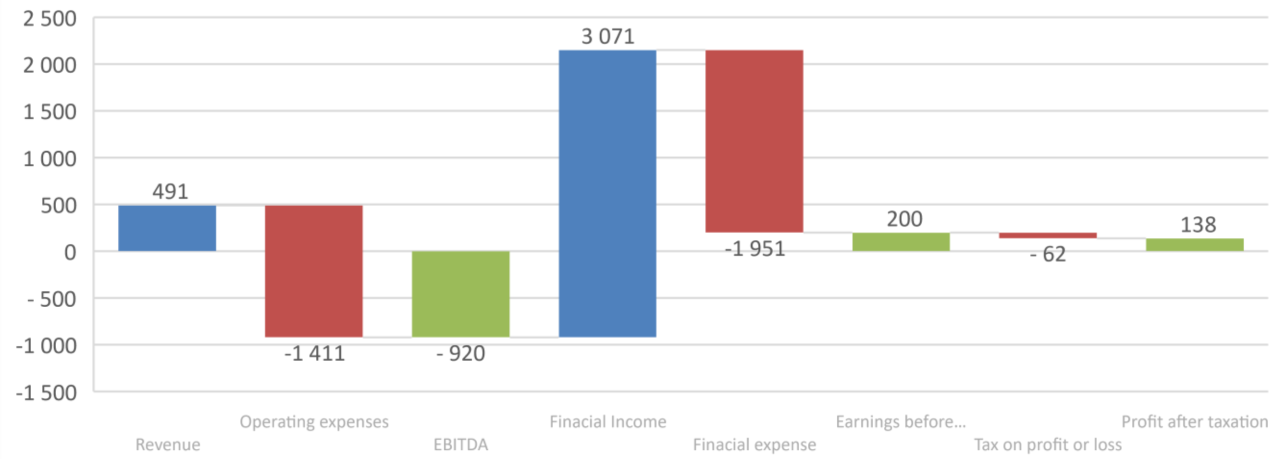
The financial analysis includes the analysis of three companies within LynxCap Holding AG: financial statements of LCL Opportunities Luxembourg S.C.S (the Issuer) and consolidated financial statements of LynxCap Investments AG along with LynxCap Group AG. LynxCap Investments AG wholly owns the Issuer and oversees its operations. All three companies share liability and in the event of a default. The Security Agent will assume control over all of LCL Opportunities' assets, as well as use the parent guarantee against LynxCap Investments AG and LynxCap Group AG.

LCL Opportunities is the primary source of revenue and future profits since it possesses all the assets. LynxCap Investments AG will start generating profits once LCL Opportunities repays its Senior Secured bonds, at which point money will be distributed to LynxCap Investments AG in the form of dividends.

LCL Opportunities Luxembourg S.C.S. – financial analysis

LCL Opportunities Luxembourg S.C.S. was established on May 19, 2022 and its first fiscal year extends from that day until December 31, 2022.

Chart 4. LCL Opportunities Luxembourg S.C.S.– profit and loss account in 2022 (EUR thousand)



Source: financial statements of LCL Opportunities Luxembourg S.C.S.

In May-December 2022 LCL Opportunities generated EUR 491 thousand in total revenue, entirely from other operating income. Debt collections are classified as other operating income and represent nearly 100% of total revenue.

During this period, the company incurred total operating expenses of EUR 1.4 million, with EUR 1.2 million attributed to servicing fees, commissions and professional fees attributable to portfolios' due diligence, acquisition and servicing. The significantly higher operating expenses, in comparison to revenue, resulted in a negative EBITDA of EUR -920 thousand. Due to the nature of LynxCap business, operating income captures very marginal part of the overall revenue stream whereas financial income represents majority of the revenue. As a result, EBITDA is not considered to be representative metric for companies operating in NPL business.

In this period, financial income amounted to EUR 3.1 million, with EUR 1.7 million coming from interest earned on portfolios. LCL Opportunities invests these funds not as equity but as loans, which allows the company to generate income in the form of interest. This is the method by which the company extract collections and records them.

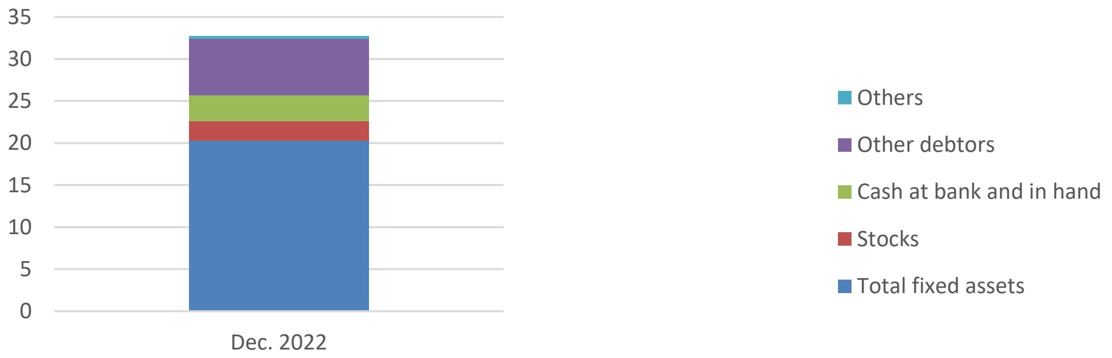
The remaining EUR 1.4 million represents fair value adjustments to portfolios based on the Net Present Value (NPV) reforecast as of the end of 2022. These portfolios primarily consist of non-performing loans, primarily mortgage loans, which were purchased at prices significantly below the nominal value of the debt. The gains resulting from these acquisitions occur during the debt collection process, often involving legal procedures such as auctions, enforcement actions, or bankruptcy proceedings. In these processes, the company exchange the debt exposure for ownership of a real estate asset that was originally used as collateral for the debt.

During the examined period, the company incurred financial costs of EUR 0.93 million, which were attributed to interest expenses on senior and junior bonds.

Earnings before taxes in the analysed period amounted to EUR 200 thousand and after paying taxes the company reported a consolidated profit of EUR 138 thousand.

Generating a profit right from the start of the company's operations should be assessed as a positive factor. While a negative EBITDA might raise concerns, EuroRating highlights that the company has two income sources, with the more substantial one in 2022 being investment income. Additionally, the company significantly benefited from gains made through acquiring properties from non-paying creditors, which had a notable positive impact on its financial performance.

Chart 5. LCL Opportunities Luxembourg S.C.S. – balance sheet – assets (EUR million)



Source: financial statements of LCL Opportunities Luxembourg S.C.S.

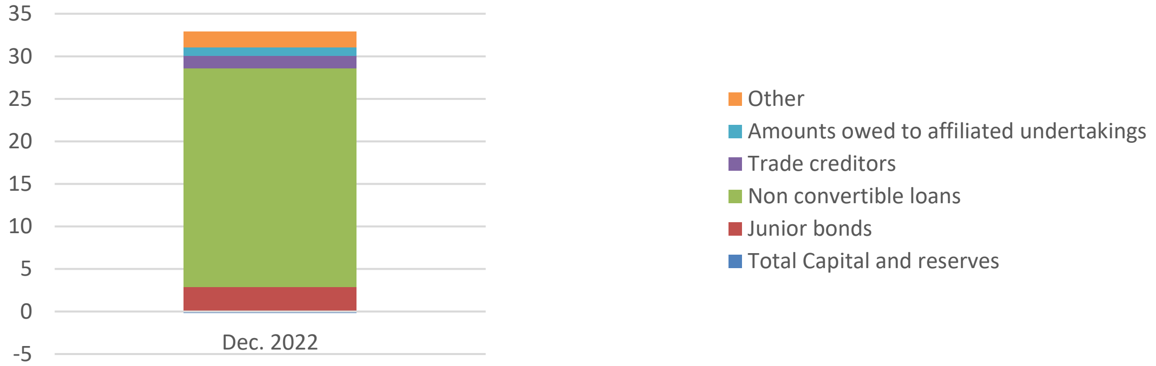
LCL Opportunities' total fixed assets as of the end of December 2022 amounted to EUR 20.4 million, with a significant share of 99.7% of these assets represented by investments held as fixed assets. The remaining portion consists of intangible assets and tangible assets, primarily in the form of land and building.

Of the EUR 20.3 million in investments classified as fixed assets, the majority, specifically EUR 13.3 million, is allocated to investments in LCL Opportunities SV SARL. Additionally, EUR 5 million is invested in Lynxcap Invest I AG (owned by LCL Opportunities SV SARL) and nearly EUR 2 million in LCL Opportunities SV2 SARL.

The total value of current assets amounted to EUR 12.4 million, with a significant portion of EUR 6.7 million attributed to 'other debtors'. This category primarily consisted of miscellaneous receivables, with EUR 5.7 million expected to be realized within one year and EUR 0.7 million expected to be realized between one and five years. Cash at bank and in hand was also a significant part of the current assets, totalling over EUR 3.1 million.

EuroRating views the company's asset structure in general positively, with over 60% comprised of income-generating financial assets. The company held also substantial cash reserves, which accounted for almost 10% of the total assets.

Chart 6. LCL Opportunities Luxembourg S.C.S. – balance sheet – equity and liabilities (EUR million)



Source: financial statements of LCL Opportunities Luxembourg S.C.S.

At the end of 2022, total capital and reserves amounted to a negative value of EUR -0.2 million. The majority of liabilities (79%) consisted of non-convertible loans, including senior secured bonds and loans with maturity exceeding one year. Junior bonds accounted for almost 9% of the liabilities, also with maturity beyond one year (due after senior secured bonds have been repaid). Trade creditors made up 4.5% of total liabilities, with the obligation to be settled within a year.

EuroRating negatively assesses the negative capital and reserves value, as it indicates that as of the end of the last year the company's liabilities exceeded slightly its assets. However, at the same time to the positive factors the agency includes the fact, that more than 90% of the company's liabilities are long-term, which is particularly positive considering the fact that the acquired assets (NPL portfolios) will be recovered over a longer period of time.

Ratio analysis

Margins and profitability

Table 1. LCL Opportunities Luxembourg S.C.S. – margin & profitability ratios

Margin & profitability ratios	May 2022 – Dec 2022
EBITDA margin	-188%
EBT margin	6%
EBT margin adjusted	-56%
Net margin	4%
Net margin adjusted	-39%
Return on assets (ROA)	1%
Return on equity (ROE)	N/A

Source: EuroRating

In the initial months of the company's operation, the EBITDA margin showed a significantly negative value, which should be viewed unfavourably. However, when evaluating this margin, it is essential to consider the specific nature of the company's business, which derives a substantial portion of its revenue from financial income. This aspect reduces the significance of the EBITDA margin.

The EBT (Earnings Before Tax) margin and net margin provide a much clearer picture of the company's situation during the analysed period, because they encompass all of the company's revenues, both operational and financial. EuroRating assesses these margins as low.

However, it's crucial to emphasize that making value adjustments to financial assets and current asset investments has a substantial impact on EBT and net income. The risk associated with recognizing a bargain purchase gain on the fair value of assets acquired, that exceeds the purchase price, is that it can lead to an overvaluation of the company's assets and profitability. This can create a distorted financial image of the company's performance, potentially resulting in incorrect investment decisions. If we exclude income from asset valuation gains, both of these margins will exhibit significantly negative values, as reflected in EBT margin adjusted and net margin adjusted.

The Return on Assets (ROA) ratio was at a low level of 1%. Low return was influenced by the fact that majority of portfolios have been acquired only in Q4 2022 and the remainder in Q3 2022 as well as return for this period has been negatively affected by one off transaction costs related to portfolio closings.

Financing

Table 2. LCL Opportunities Luxembourg S.C.S. – financing ratios

Financing	Dec 2022
Equity / Balance sheet total	-0.01
Liabilities / Balance sheet total	1.01
Coverage of non-current assets	1.36

Source: EuroRating

Both the equity / balance sheet total ratio and the liabilities / balance sheet total ratio indicate that the company's assets are funded primarily by debt.

LCL Opportunities Luxembourg S.C.S. was equipped by its shareholders with a minimal subscribed capital of EUR 20 thousand. The consolidated reserves created in the financial year 2022 (a negative value of EUR 321.5 thousand) surpassed the generated net profit (EUR 137.1 thousand), resulting in a slightly negative value of the total capital and reserves in the amount of EUR 164.2 thousand.

There are significant financial risks associated with the company's heavy reliance on debt, which negatively influences its creditworthiness assessment. To reduce that risk, it is important that the company's equity (and its share in total liabilities) increases significantly quickly – e.g. by generating positive net results and retaining them in the company.

An alternative support can come from LynxCap Investments AG, the entity holding 100% of the junior debt in LCL Opportunities S.C.S., as well as the manager and master servicer for all portfolios on the books of LCL Opportunities SV SARL and LCL Opportunities S.C.S. Due to the fact, that LynxCap Investments AG and LynxCap Group AG have provided subordinated shareholder loans amounting to nearly CHF 13 million, which will be used to pay obligations to senior secured bondholders in the event of a default, LynxCap Investments AG has a vested economic interest in ensuring the ongoing operation of LCL Opportunities.

The ratio of coverage of non-current assets to long term capital at 1.36 indicates that the company has a favourable time structure of liabilities in relation to the structure of assets (long term capital is much higher than the non-current assets), which should be assessed positively.

Liquidity

Table 3. LCL Opportunities Luxembourg S.C.S. – liquidity ratios

Liquidity	Dec 2022
Current liquidity	3.50
Quick ratio	3.50
Cash liquidity	1.00

Source: EuroRating

The current liquidity ratio and quick ratio are equal because the company holds no inventory. They indicate that the company possesses 3.5 times more current assets than current liabilities. In EuroRating opinion, the company has a substantial cushion of liquid assets (such as cash, marketable securities, accounts receivable) that can cover its short-term liabilities (such as trade creditors, accounts payable, short-term debt) multiple times over. High ratios like these indicate a strong liquidity position, suggesting that the company is well-prepared to handle fluctuations in cash flow without risking a liquidity stress.

The company's good liquidity position is confirmed by the cash liquidity ratio, which at the end of 2022 stood at a level of 1. This ratio indicates that the company's cash reserves at the end of December were sufficient to cover all its current liabilities that were due within the next 12 months. This fact should be viewed positively as it demonstrated the company's capability to fulfil short-term financial obligations without depending on external financing.

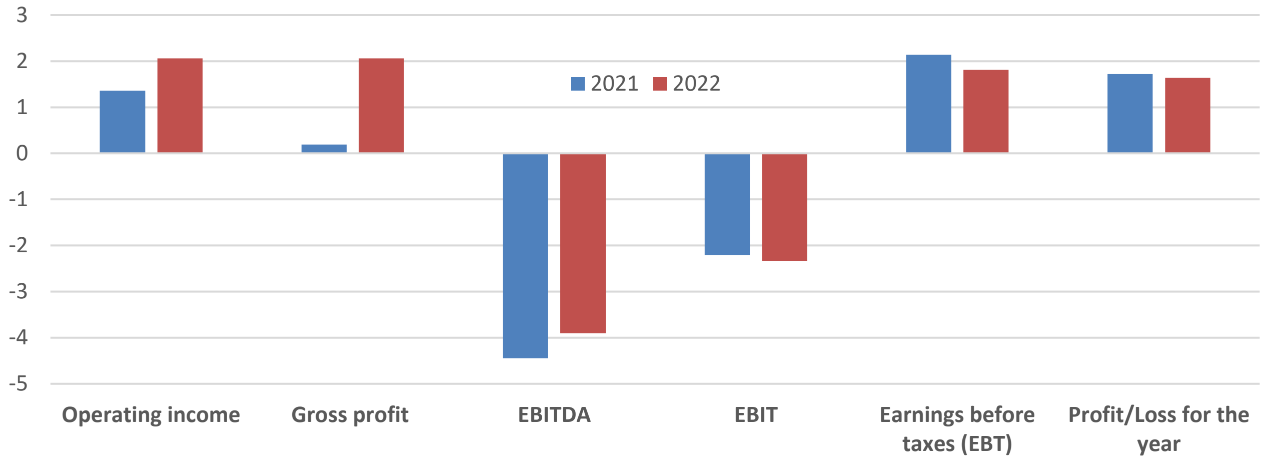
Financial analysis of Guarantors (consolidated financial statements)

The consolidated financial data is derived from reports submitted by two companies within LynxCap Holding AG, namely LynxCap Investments AG and LynxCap Group AG (together: "the Guarantors"). Both of these companies have entered into professional payment guarantees under Luxembourg law with LCL Opportunities Luxembourg S.C.S. These guarantees cover all secured obligations and are in favour of the senior bondholders of the Issuer.

Furthermore, it should be noted that the Guarantors will remain liable to the senior bondholders for all of their obligations under this guarantee, even in situations where the LCL Opportunities becomes subject to bankruptcy, insolvency, liquidation, payment deferment, controlled management, creditor composition, reorganization, or similar legal proceedings under Luxembourg or foreign law that may affect the rights of creditors or result in the appointment of an insolvency officer, administrator, administrative receiver, conservator, custodian, trustee, or a similar entity for the company or its assets or revenues.

LynxCap commenced its operations in 2020, however, no consolidated financial statements are available for that year due to the limited number of assets and subsidiaries at that time.

Chart 7. Guarantors – consolidated profit and loss account (CHF million)



Source: consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

In 2021, the Guarantors recorded an operating income of CHF 1.4 million. In 2022, there was a noticeable increase of over 50% in revenue to CHF 2.1 million. The increase can be primarily attributed to other operating income in LynxCap Investments, with the main sources being master asset management fees and servicing fees.

In 2021, the Guarantors had significant expenses related to goods, materials and services, which led to a gross profit of only CHF 188.4 thousand. However, in 2022 there was a change of accounting methods and all expenses previously categorized under this heading were reclassified as financial expenses, fees, charges and consultant fees.

Between 2021 and 2022, there was a significant increase in general and administrative expenses, rising from CHF 4.6 million to nearly CHF 6 million. The largest increase in G&A expenses was related to personnel expenses, which grew from CHF 1.6 million to CHF 2.7 million. Other notable items in the expenses category included "legal, accounting & consulting" expenses, which increased from CHF 2.4 million to CHF 2.9 million and were associated with activities such as collections, legal expenses and bond issuance fees.

G&A expenses in both analysed years significantly exceeded the gross profit, resulting in a deep negative EBITDA value of CHF -4.4 million in 2021 and CHF -3.9 million in 2022.

In both years, a gain on value adjustment on financial assets was realized. This gain occurs when the Guarantors acquire rights to mortgages securing loans and their value exceeds the obligations to the related companies. Thanks to these gains, the EBIT value was significantly higher than the EBITDA.

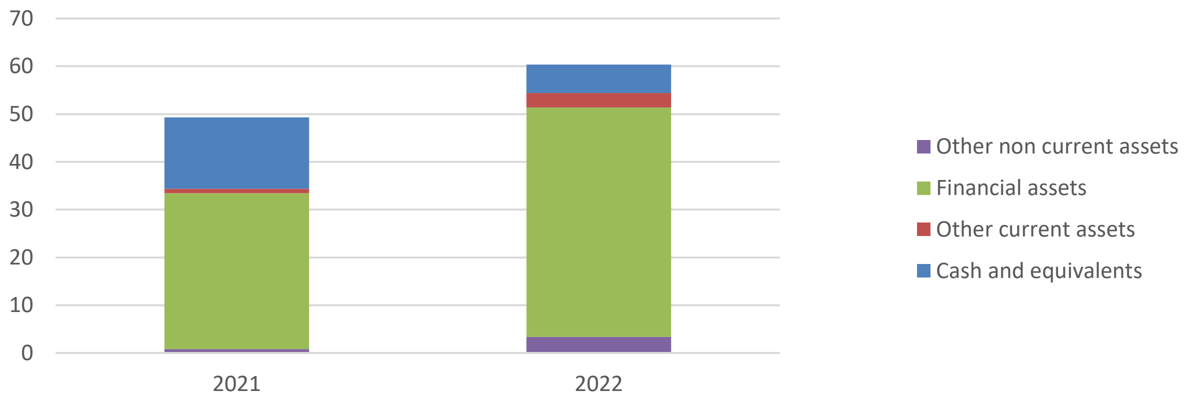
The main source of the Guarantors' income is the financial income, which amounted to CHF 7.5 million in 2021 and CHF 7 million in 2022. During these years, the companies also incurred significant financial expenses, reaching CHF 3.2 million in 2021 and CHF 3.3 million in 2022.

Thanks to the net financial income contribution, the Guarantors managed to generate EBT (Earnings Before Tax) of CHF 2.1 million in 2021 and CHF 1.8 million in 2022. In 2021, the effective tax rate was more than twice as high as in 2022, resulting in after-tax deductions, with net profit close to each other amounting to CHF 1.7 million and CHF 1.6 million, respectively. The higher tax rate in 2021 was due to an increase of taxes for Slovenian companies compared to 2022.

EuroRating positively evaluates the Guarantors' profit-generating capability from the early years. The agency does not view EBITDA and EBIT values negatively for the both companies, taking into account the specific nature of their business. In this industry, operating income contributes only a small portion to the total revenue, with the majority of revenue coming from financial income. Therefore, EBITDA and EBIT are not regarded as suitable metrics for companies operating in the NPL collection sector.

To date, the companies consolidated as the Guarantors have been being funding thier operating expenses also from shareholder loans and intragroup loans. With an increase in the asset base, they expect to generate sufficient amount of income from master servicing fees to offset the operating expenses.

Chart 8. Guarantors – consolidated balance sheet – assets (CHF million)



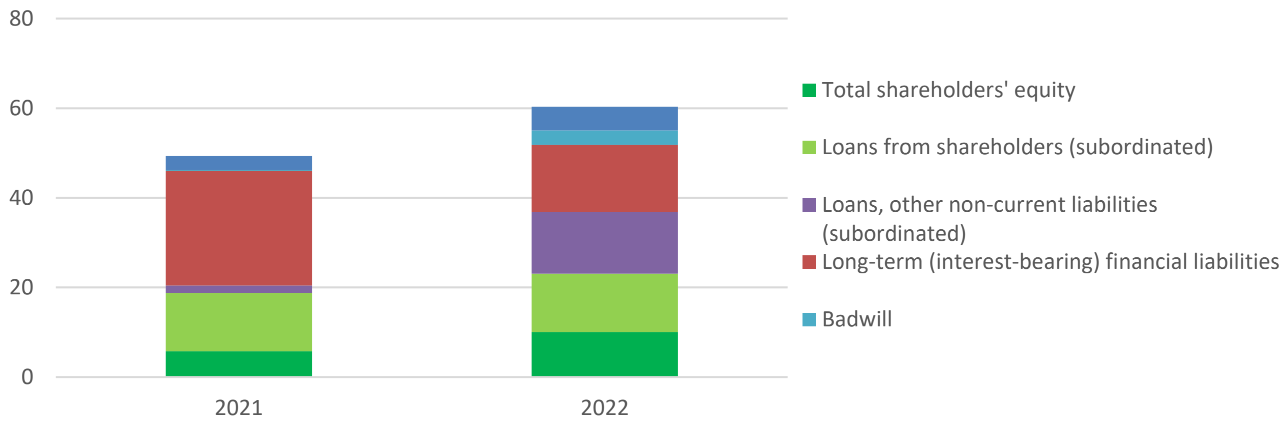
Source: consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

In 2021, the consolidated balance sheet's total value amounted to CHF 49.3 million. A substantial portion (more than 94% of current assets) was represented by cash, equivalents and securities, totalling CHF 15 million. In the case of non-current assets, approximately 98% of their composition consisted of financial assets, which were the book values of various portfolios, amounting to CHF 32.6 million.

In the following year, the total balance sheet value increased to CHF 60.3 million, accompanied by some notable changes in its composition. Total current assets decreased by almost half to CHF 9 million, primarily driven by a reduction in cash levels to CHF 5.9 million. In 2022, accrued income and prepaid expenses increased substantially, from CHF 0.2 million in 2021 to CHF 1.9 million.

Total non-current assets increased by over 50%, primarily influenced by the increase in financial assets to CHF 48 million, which constituted 93% of non-current assets. Additionally, the value of goodwill rose substantially from CHF 0.7 million to CHF 3.2 million. The increase in value results from the takeover of a company and the differences between the price paid in the acquisition and the tangible value of the acquired company.

Chart 9. Guarantors – consolidated balance sheet – equity and liabilities (CHF million)



Source: consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

Between 2021 and 2022, the share of total current liabilities in the total liabilities and equity increased slightly from 6.4% to 8.8%. The majority of these current liabilities in 2022, accounting for over half, fell under the category of other current liabilities. This category primarily comprises notes related to the portfolio in the books of LCL Opportunities, along with loans, interest payments to third parties and receivables from government entities, including withholding tax and VAT. However the increase of CHF 2.1 million was mainly due to the rise in the "accounts payable" and "deferred revenue and accrued expenses" items. Within the "deferred revenue" category LynxCap included accrued interest on subordinated loans from shareholders. These are expenses not yet paid for the year to be closed or income already received for the following year. This interest expenses will not be paid out, similar to the subordinated loans from shareholders, until the LynxCap attains the appropriate financial liquidity, as explained below.

Total non-current liabilities over the past two years accounted for 75-82% of the total liabilities and equity. The non-current liabilities mainly consisted of "long-term interest-bearing financial liabilities", "loans and other non-current liabilities" and "subordinated loans from shareholders".

The subordinated loans from shareholders amounting to CHF 13 million deserve special attention as they share many characteristics with equity. In 2021, two companies from the LynxCap capital group provided subordinated loans as an alternative to equity. Per the agreements between the partner companies that collectively form the Guarantors and the companies that provided these loans, repayment is only possible when the audited and approved annual balance sheets of the partner companies demonstrate no over-indebtedness, and no concern of over-indebtedness after repayment of the claims, or if another subordination of the same or another creditor or other creditors of sufficient amount and structure replaces this agreement.

The purpose of this agreement was to align the treatment of these loans with equity in specific circumstances, recognizing that they share certain risk-sharing characteristics with equity holders, especially when it comes to absorbing losses or being repaid after higher-ranking creditors in times of financial difficulty. Essentially, it allows for the subordinated loans to be considered as part of the equity-like cushion when assessing the debtor's financial stability.

In 2022, there was a significant increase in the "loans and other non-current liabilities" category, rising from CHF 1.7 million in 2021 to CHF 13.8 million. This category includes loans from outside parties, which also consist of subordinated loans.

The value of total shareholders' equity increased from CHF 5.8 million in 2021 to CHF 10 million in 2022 and its share in financing assets rose from 11.7% to 16.6%.

EuroRating positively assesses the increase in the value and share of equity in the balance sheet total. The agency also points out that a significant portion of the liabilities is subordinated to the bond obligations, which is favourable from the point of view of assessing the credit risk of senior bonds.

Ratio analysis

Margins and profitability

Table 4. Guarantors – margin & profitability ratios (consolidated level)

Margin & profitability ratios	2021	2022
Gross margin on sales	14%	100%
EBITDA margin	-328%	-189%
EBIT margin	-61%	-63%
EBT margin	19%	16%
Net margin	15%	15%
Return on assets (ROA)	3%	3%
Return on equity (ROE)	30%	21%

Source: EuroRating based on consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

In 2021 the gross margin on sales was at 14%. This was primarily because there were significant expenses related to goods, materials and services during that year. However, in 2022, the accounting principles have been changed. Everything that was previously categorized under this expense category was reported as financial expenses, fees, charges and consulting fees in 2022.

As a result, the expenses decreased significantly, almost to zero, leading to a gross margin on sales of nearly 100%.

The EBITDA margin and EBIT margin were negative in the past two years. EuroRating takes into consideration that in case of the Guarantors' business, the operating income represents only a fraction of the total revenue, with the majority coming from financial income. As a result, EBITDA and EBIT are not deemed appropriate metrics for evaluating companies in the NPL sector.

EBT margin and net margin, on the other hand, take into account interest income and expenses, providing a more precise measure of the Guarantors' profitability. In 2021-2022, these margins were positive and their levels can be considered satisfactory.

The return on assets (ROA) ratio value of 3% implies that the Guarantors' profitability in relation to their asset holdings is relatively low. However, the return on equity (ROE) remained relatively high, even though it experienced a decrease in 2022.

Financing

Table 5. Guarantors – financing ratios (consolidated level)

Financing	2021	2022
Shareholders' equity / Balance sheet total	0.12	0.17
Economic equity / Balance sheet total	0.38	0.38
Liabilities / Balance sheet total	0.88	0.83
Coverage of non-current assets	1.38	1.07
Stability of financing	0.94	0.91
Net financial debt (with subordinated debt) / Equity	4.38	3.57
Net financial debt (without subordinated debt) / Equity	1.84	0.90

Source: EuroRating based on consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

The shareholders' equity to total balance sheet ratio increased from 0.12 in 2021 to 0.17 in 2022. Despite this increase, EuroRating still assesses its level as relatively low.

However, the agency takes into account the subordinated loans from shareholders totalling CHF 13 million (see a calculation of the economic equity in Table 13) when evaluating the financing structure. These loans have some similarities with equity. In 2021, two companies within the LynxCap capital group provided the subordinated loans as an alternative to equity. Per the agreements between the partner companies and the companies that provided these loans, repayment is only possible when the audited and approved annual balance sheets of the partner companies demonstrate no over-indebtedness, irrespective of this subordination.

After including subordinated loans in the broadly understood equity (economic equity), its share in the Guarantors' consolidated balance sheet total was at much higher level of 0.38, which EuroRating assesses as satisfactory, taking account the type of the Guarantors' business.

The level of coverage of non-current assets by the long term capital ratio should be assessed as satisfactory. Also the stability of financing ratio (long-term capital to the balance sheet total) value being over 90% illustrates the use of a stable, long-term financing. This is a positive factor, because a large part of the assets is long-term (NPL portfolios that will be recovered over a period of several years).

The total net financial debt to equity ratio should be assessed as high, indicating a high degree of reliance on foreign capital. However, it should be taken into account, that the majority of the debt are the subordinated loans provided by the companies from the capital group. This type of financing involves much lower risk because it can be assumed that these loans could be extended (refinanced) if necessary. Such financing is also beneficial from the point of view of external financial creditors (from outside the capital group), because their receivables are satisfied first.

If excluding the subordinated debt from the total net debt, the ratio of other debt to equity was at 1.84 in 2021 and decreased to 0.90 in 2022. The decrease was due to a reduction in long-term financial liabilities and an increase in equity. The ratio of 0.9 indicates that at the end of 2022 the Guarantors held more equity than long-term external (out-of-group) financial liabilities.

Liquidity

Table 6. Guarantors – liquidity ratios (consolidated level)

Liquidity	2021	2022
Current liquidity	5.00	1.68
Quick ratio	5.00	1.68
Cash liquidity	4.72	1.12

Source: EuroRating based on consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

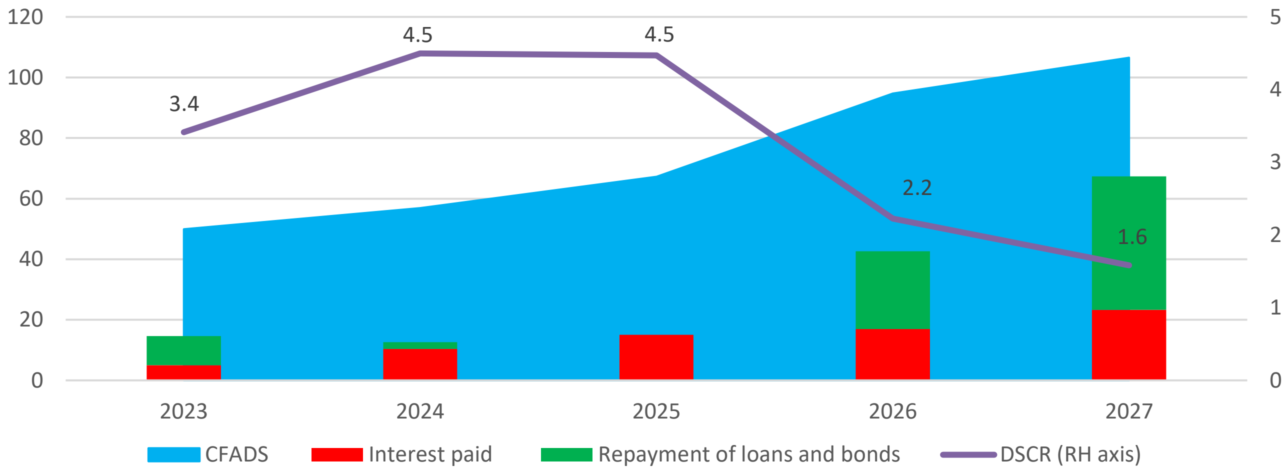
Due to the minimum value of short-term liabilities in 2021 all liquidity ratios have been very high. The ratios decreased significantly at the end of 2022, due to a simultaneous significant decrease in current assets and an increase in short-term liabilities. Nevertheless, despite the decline, the value of the liquidity ratios remained at a satisfactory level, especially when considering the high level of cash liquidity, where a value above 1 indicates that the company had more cash than short-term liabilities.

Analysis of the LynxCap capital group financial forecasts for 2023-2027

The LynxCap's business model is structured on a consolidated basis, encompassing financial data from several entities. The term "LynxCap capital group" used later in the report regards consolidated financial data for three companies: LCL Opportunities Luxembourg S.C.S. (the Issuer, which directly backs its obligations to bondholders with its assets) and the two Guarantors (i.e. LynxCap Investments AG and LynxCap Group AG), which provide guarantee for interest and bond payments through the Parent Guarantee.

The LynxCap capital group's business model primarily represents 80-90% of the financial situation of LCL Opportunities. It's important to note that in case of the Issuer's default all assets outlined in the financial forecast ultimately belong to the bondholders. Presently, there is only a small portion of obligations remaining to be settled with Slovenian bondholders and these payments are scheduled for April 2024. As a result, in the upcoming years, all profits are to be allocated to meet commitments to senior bondholders and the entire projected asset base will be used as a security for the bonds.

Chart 10. LynxCap capital group – forecasted cash flow available for debt service



Source: LynxCap capital group financial forecasts

To assess a capital group's ability to generate sufficient cash flow to meet its debt obligations the financial metric Cash Flow Available for Debt Service (CFADS) is used. CFADS helps determine whether a LynxCap capital group has enough cash flow to make interest payments and repay its debt obligations in individual periods.

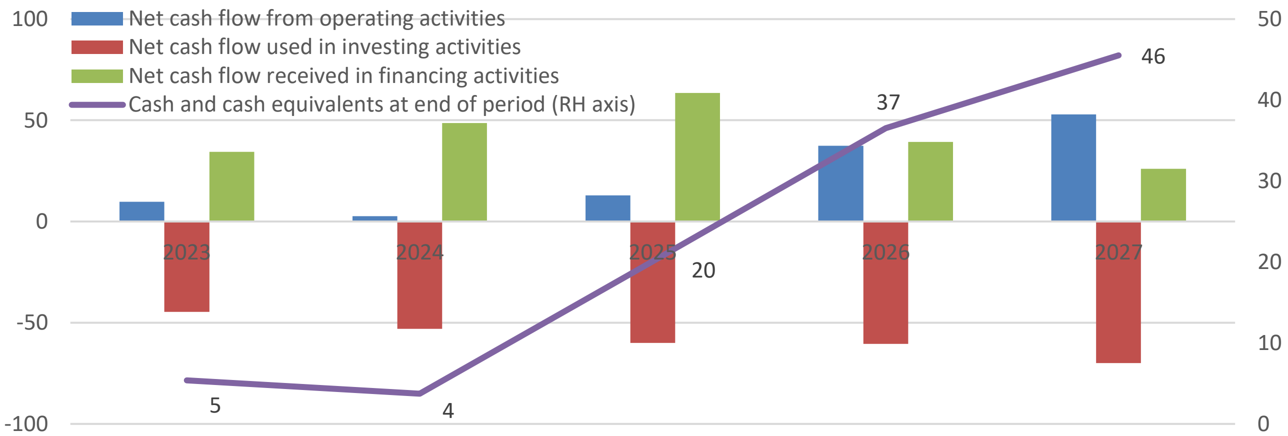
Debt Service Coverage Ratio (DSCR) is a financial metric used to assess the ability of a company to cover its debt obligations with available cash flow. The DSCR ratio is calculated by dividing the cash flow available for debt service (CFADS) by the total debt service payments in the individual periods. The DSCR ratio provides an indication of the company's capacity to generate enough cash flow to meet its debt obligations and it should remain well above level 1.0.

According to the LynxCap capital group business plan, in 2023 the companies included in the model will have to repay interest on bonds and loans amounting to EUR 5 million and they will also need to redeem bonds and loans totalling EUR 9.6 million. At the end of the year, the companies plan to have nearly EUR 5.4 million in cash and to raise EUR 44 million from the issuance of bonds and bank loans. This means that the LynxCap capital group aim to have 3.4 times more available cash flow than needed to fulfil its financial obligations, as shown on the chart as the DSCR ratio.

In the years 2024 and 2025, according to the forecasts, the companies will be required to make payments for interest and loan/bond repayments, totalling EUR 12.6 million and EUR 15 million, respectively. Anticipated CFADS at the end of these years amounts to EUR 56.9 million and EUR 67.2 million, respectively, resulting in an increase in the DSCR ratio to 4.5 for both years.

In 2026 and 2027, the projected CFADS is to increase from EUR 94.7 million to EUR 106.5 million. However, there will be a need to repay financial obligations totalling EUR 42.6 million and EUR 67.3 million, respectively. Consequently, this will lead to a decrease in the DSCR ratio from 2.2 to 1.6 during those years. That level should still be assessed as satisfactory.

Chart 11. LynxCap capital group – forecasted cash flow



Source: LynxCap capital group financial forecasts

When evaluating the financial forecast of the LynxCap capital group, it's essential to highlight that companies within this group to a very large extent rely on the funds they get from selling bonds and loans received from banks to finance the expenses for the investments. This introduces a significant level of risk because LynxCap capital group's ability to get funds through bond sales and bank loans can depend on the situation in the market.

However, it is also worth noting that the forecast assumes an increase in the amount of cash coming in from operating activities starting from 2024. Moreover, the LynxCap capital group has an ability to adjust the capital expenditures on investments in new NPL portfolios to the current cash availability. Therefore, if the companies included in the LynxCap capital group are unable to obtain financing in the amounts assumed in the forecast, their CAPEX can be reduced accordingly.

LCL Opportunities Luxembourg S.C.S. – financial statements

Table 7. LCL Opportunities Luxembourg S.C.S. – profit and loss account

Profit and loss (EUR '000)	**19/05/2022- 31/12/2022**
Net turnover	**0.0**
Other operating income	**490.6**
Raw materials and consumables and other external expenses	-1,203.3
Staff costs	-16.8
Value adjustments	-3.2
Other operating expenses	-187.9
EBITDA	**-920.5**
Other interest receivable and similar income	1,658.6
Value adjustments to current financial asset investments	1,412.5
Interest payable and similar expenses	-1,950.6
Earnings before taxes (EBT)	**200.0**
Tax on profit or loss	-61.5
Profit or loss after taxation	**138.5**
Other taxes not shown under items above	-0.5
Consolidated profit and loss for the financial year	**137.9**

Source: LCL Opportunities Luxemburg S.C.S. financial statements

Table 8. LCL Opportunities Luxembourg S.C.S. – balance sheet – assets

Assets (EUR '000)	**Dec 2022**
Intangible assets	8.9
Concessions, patents, licences, trademarks and similar rights	8.9
Tangible assets	51.3
Land and buildings	35.7
Plant and machinery	0.0
Other fixtures and fittings, tools and equipment	8.3
Payments on account and tangible assets in the course of construction	7.3
Financial assets	20,309.9
Investments held as fixed assets	20,307.6
Other loans	2.3
Total fixed assets	**20,370.1**
Stocks	2,248.6
Trade debtors	99.9
Amounts owed by affiliated undertakings	159.9
Other debtors	6,725.1
Becoming due and payable within one year	5,274.1
Becoming due and payable after more than one year	1,451.0
Cash at bank and in hand	3,130.5
Total current assets	**12,363.9**
Total assets	**32,734.0**

Source: LCL Opportunities Luxemburg S.C.S. financial statements

Table 9. LCL Opportunities Luxembourg S.C.S. – balance sheet – liabilities

Liabilities (EUR '000)	**Dec 2022**
Subscribed capital	20.0
Reserves	-321.5
Profit or loss brought forward	0.0
Profit or loss for the financial year	137.1
Translation reserve	0.2
Total capital and reserves	**-164.2**
Minority interest	1.0
Junior bonds	2,873.2
Non convertible loans	25,715.7
Amounts owed to credit institution	5.8
Trade creditors	1,463.5
Amounts owed to affiliated undertakings	982.3
Other creditors	1,851.8
Total debts	**32,892.3**
Deferred income	5.0
Total liabilities and equity	**32,734.0**

Source: LCL Opportunities Luxemburg S.C.S. financial statements

The Guarantors – consolidated financial statements

Table 10. The Guarantors – consolidated profit and loss account

Profit and loss (CHF '000)	**01.01.2021-31.12.2021**	**01.01.2022-31.12.2022**
Operating income	**1,357.0**	**2,063.4**
Cost of good, materials and services	-1,168.5	-1.6
Gross profit	**188.4**	**2,061.8**
Personnel expenses	-1,581.2	-2,684.0
Rental expenses	-42.1	-76.7
Maintenance & repair	-43.2	-29.6
Fees and charges	-98.4	-59.2
Legal, Accounting & consultants	-2,354.8	-2,864.7
Audit	-22.0	-63.8
Administrative expenses	-494.4	-187.8
EBITDA	**-4,447.8**	**-3,904.0**
Depreciation & amortization	-32.5	-42.7
Value adjustment on financial assets	2,274.4	1,617.5
EBIT	**-2,205.9**	**-2,329.2**
Financial income	7,512.6	7,009.7
Financial expenses	-3,178.6	-3,345.9
Conversion difference	6.5	473.6
Earnings before taxes (EBT)	**2,134.6**	**1,808.3**
Direct taxes	-415.6	-168.9
Profit/Loss for the year	**1,719.1**	**1,639.4**

Source: consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

Table 11. The Guarantors – consolidated balance sheet – assets

Assets (CHF '000)	**Dec 2021**	**Dec 2022**
Cash and equivalents and securities	14,983.4	5,942.3
Accounts receivable from goods & services	665.9	972.8
Other receivables		
due from third parties	80.3	123.1
Accrued income and prepaid expenses	157.0	1,911.5
Total current assets	**15,886.6**	**8,949.7**
Financial assets	32,615.8	47,990.6
Participations	-	0.0
Intangible fixed assets	13.1	15.8
Tangible fixed assets	13.1	128.4
Goodwill	742.7	3,245.3
Other non-current assets	51.9	0.9
Total non-current assets	**33,436.6**	**51,380.9**
Total assets	**49,323.2**	**60,330.6**

Source: consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

Table 12. The Guarantors – consolidated balance sheet – liabilities

Liabilities (CHF '000)	**Dec 2021**	**Dec 2022**
Accounts payable	452.4	1,556.2
Other current liabilities	2,288.7	2,687.5
Deferred revenue and accrued expenses		
due to third parties	435.4	1,075.8
Total current liabilities	**3,176.6**	**5,319.5**
Long-term (interest-bearing) financial liabilities	25,574.3	14,977.9
Loans, other non-current liabilities (subordinated)	1,670.5	13,769.3
Loans from shareholders (subordinated)	12,990.2	13,034.5
Badwill	146.1	3,184.8
Total non-current liabilities	**40,381.0**	**44,966.5**
Registered share capital at nominal value	100.0	100.0
Conversion difference	3,051.6	6,879.5
Minority shares	815.5	1,148.7
Profit/Loss brought forward	79.4	277.1
Annual Profit/Loss	1,719.1	1,639.4
due to Group	1,309.3	1,523.9
due to Minority Shares	409.7	115.4
Total shareholders' equity	**5,765.6**	**10,044.6**
Total liabilities + equity	**49,323.2**	**60,330.6**

Source: consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

Table 13. The Guarantors – consolidated economic equity

Economic equity (CHF '000)	**Dec 2021**	**Dec 2022**
Registered share capital at nominal value	100.0	100.0
Conversion difference	3,051.6	6,879.5
Minority shares	815.5	1,148.7
Profit/Loss brought forward	79.4	277.1
Annual Profit/Loss	1,719.1	1,639.4
due to Group	1,309.3	1,523.9
due to Minority Shares	409.7	115.4
Total shareholders' equity	**5,765.6**	**10,044.6**
Subordinated Loans	12,990.2	12,990.2
Total economic equity	**18,755.8**	**23,134.8**

Source: consolidated financial statements covering LynxCap Investments AG and LynxCap Group AG

Table 14. LynxCap capital group – consolidated financial forecasts for 2023-2027

Cash Flow Statement (EUR '000)	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
CASH FLOW FROM OPERATING ACTIVITIES					
Operating profit / (loss)	6,472.1	13,288.4	21,314.5	26,659.5	30,951.6
Adjustments for non-cash items:					
Amortization of invested assets	7,418.5	-926.3	6,382.7	28,043.3	46,386.3
Tax paid	-364.0	-558.1	-1,010.8	-1,474.5	-1,030.6
Interest paid	-4,981.9	-10,360.0	-15,033.0	-16,943.6	-23,317.5
Interest received	1,206.0	1,206.0	1,206.0	1,206.0	0.0
Cash flow from operating activities before WC changes	9,750.8	2,650.0	12,859.4	37,490.7	52,989.8
Working capital adjustments	0.0	0.0	0.0	0.0	0.0
Net cash flow from operating activities	**9,750.8**	**2,650.0**	**12,859.4**	**37,490.7**	**52,989.8**
CASH FLOW FROM INVESTING ACTIVITIES					
Purchases of distressed asset portfolios	-44,683.2	-53,500.0	-60,000.0	-70,000.0	-70,000.0
Return from bond investments	-	500.0	-	9,600.0	-
Net cash flow used in investing activities	**-44,683.2**	**-53,000.0**	**-60,000.0**	**-60,400.0**	**-70,000.0**
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from bonds and bank loans	44,000.0	51,000.0	63,500.0	65,000.0	70,000.0
Repayment of loans	-9,640.6	-2,286.1	-	-25,650.0	-44,000.0
Net cash flow received/used in financing	**34,359.4**	**48,713.9**	**63,500.0**	**39,350.0**	**26,000.0**
Cash flow for the period	-573.0	-1,636.1	16,359.4	16,440.7	8,989.8
Cash and at beginning of period	5,942.3	5,369.3	3,733.2	20,092.6	36,533.3
Cash and at end of period	**5,369.3**	**3,733.2**	**20,092.6**	**36,533.3**	**45,523.1**

Source: consolidated financial forecasts for 2023-2027 encompassing: LCL Opportunities Luxembourg S.C.S., LynxCap Investments AG and LynxCap Group AG (together the "LynxCap capital group")

Rating scale applied by the EuroRating credit rating agency

Rating	Risk description
AAA	Negligible credit risk. Highest level of financial credibility. Rating assigned exclusively where an entity has extremely strong capacity to meet financial commitments.
AA+ AA AA-	Very low credit risk. Very high level of financial credibility. Very strong capacity to meet financial commitments. Low susceptibility to adverse economic conditions.
A+ A A-	Low credit risk. High financial credibility and capacity to meet financial commitments. Average resistance to long-term unfavourable economic financial conditions.
BBB+ BBB BBB-	Moderate credit risk. Good financial credibility and adequate capacity to meet financial commitments in the long term. Increased susceptibility to long-term adverse economic conditions.
BB+ BB BB-	Increased credit risk. Relatively lower financial credibility. Adequate capacity to meet financial commitments under average or favourable economic conditions. High or medium level of debt recovery in the event of default.
B+ B B-	High credit risk. Capability of meeting financial commitments largely conditioned on favourable external conditions. Medium or low level of debt recovery in case of a default.
CCC CC C	Very high credit risk. Very low capability to meet financial commitments even under favourable economic conditions. Low or very low level of debt recovery in case of a default.
D	Extremely high credit risk. Complete lack of capability to meet financial commitments. Without additional external suport the level of debt recovery is very low or close to zero.

Full details on the rating scale and rating definitions applied by the EuroRating credit rating agency are published on the agency's website at: https://www.eurorating.com/en/ratings/rating-scale

Regulatory affairs

EuroRating is a fully independent international rating agency operating since 2007, specializing in assessing the credit risk of enterprises and financial institutions.

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Methodology

The presented credit rating is a rating for a bond issue, i.e. it takes into account both: a general credit risk of the bond Issuer (LCL Opportunities Luxembourg S.C.S.), as well as any bond collateral and/or guarantees, as an additional protection for the bondholders. The rating does not relate to the credit risk (or probability of default) of the bond Issuer. The rating concerns the risk of an ultimate loss of a part or all of the secured bonds' principal amount and the interest by the bondholders in the event of a default of the bond Issuer.

This credit rating has been issued in accordance with the Regulation (EC) No. 1060/2009 on credit rating agencies.

The methodology used in this rating was "Rating methodology for corporations" published in June 2023 and is available at: https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology

The rating definitions and the rating scale used by EuroRating are published on the agency's website at: https://www.eurorating.com/en/ratings/rating-scale

Historical default rates of the EuroRating credit rating agency can be viewed in the rating performance report at: https://www.eurorating.com/en/ratings/statistics

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: https://www.eurorating.com/en/ratings/methodology/definition-of-default

Solicitation and key sources of information

The presented credit rating was solicited by the Issuer or a related third party. The Issuer and/or its agents has participated in the rating process by providing the agency documents, information and explanations concerning its economic and financial situation, as well as concerning the collateral, guarantees and other sources of protection for bondholders.

The main sources of information used in the rating process were: financial statements and forecasts of the rated company and of other companies from the LynxCap capital group; the bond memorandum; and other data, information and explanations provided by the Issuer and/or its agents. It should be noted, that the Issuer is still a new company and the assigned credit rating was based on a very limited historical data and to a large extent was based on the forecasts for the future, which by their nature are uncertain.

With this rating report EuroRating has assigned a credit rating to the secured bonds of LCL Opportunities Luxembourg S.C.S. for the first time. The rating has been disclosed to the Issuer or its designated agent(s) and was issued with no amendment resulting from that disclosure.

Public status of the credit rating assigned to the bond issue

The presented credit rating for the bond issue of LCL Opportunities Luxembourg S.C.S. is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published free of charge on the European Rating Platform provided by ESMA (https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_radar), as well as on the EuroRating credit rating agency's website in the section "Credit ratings", in the appropriate tab on the rated security/entity.

Disclaimer

EuroRating considers the scope and quality of available information on the rated bonds and on the Issuer as sufficient to assign a reliable credit rating. EuroRating takes all necessary measures to ensure that obtained information used in the rating process is of proper quality and is derived from sources deemed by the agency as reliable. Nevertheless, EuroRating does not have a possibility to verify or to confirm in each case the correctness and authenticity of obtained information used in the rating process and/or presented in this report. The forecasts presented in the rating report have been prepared by the rated entity or its agents (not by EuroRating).

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