CdR Advance Capital

Sector: Diversified Financials

VALUETRACK

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Investing at one, divesting at two… in three years

CdR Advance Capital Group is a leading direct investor in "single names" non-performing special situations also offering sophisticated advisory and wealth management services.

Fair Value (€)(*)	**1.59**
Market Price (€)(*)	**0.94**
Market Cap. (€m)(*)	**12.0**

A skilled investor in non-performing assets

CdR Advance Capital Group invests in **non-performing credits** where the underlying asset is either real estate assets under interrupted construction or tax credits or receivables, all acquired from insolvency procedures, either in-court or out-of-court (such as, for instance, debt restructuring procedures). This investment strategy is characterized by a single-name approach, which implies that only unique troubled assets are acquired after a thorough due diligence process has been fulfilled. Alongside, the company is also rolling out a solid **fee driven business** (advisory, capital markets, fiduciary, facility management and other services) that is instrumental to the "core" one and that also generates increasing revenues fro third parties.

Solid skills driving evolution towards illiquid asset management company

Key success factors of CdR Advance Capital are: 1) **top management experience** in insolvency proceedings that brings deal flow and execution skills; 2) **fund raising capability**; 3) a **light corporate financial structure** designed to maintain full flexibility while at the same time aligning the interests of all stakeholders. All these skills should progressively allow the company to evolve towards a **fully integrated illiquid asset management group** structuring products in which to co-invest with other investors.

Growing via both non-performing and fee driven activities

We expect the non-performing assets core business to keep recording outstanding results, out of which 2017E are characterized in our view by a high visibility, driven by its simple but valuable rule of thumb to "invest at one and divest at two in three years". At the same time we expect the fee driven business to keep growing in size with the bulk of the growth coming from the newly merged Advance SIM held at 51%.

Fair value at €1.59 for A shares

CdR Advance Capital Group share capital is made of A shares (listed on AIM Stock market) and B shares (privately held by some of CdR's top managers) with different rights in terms of dividends / earnings attribution. As far as **A shares**, we get to a **€1.59 fair value** which implies a ca. 70% upside potential vs. current market price. As far as the non-listed B shares, we calculate a €0.47 per share fair valuation.

KEY FINANCIALS (€m)	2016A	2017E	2018E
REVENUES	3.83	9.15	10.50
EBITDA	3.21	4.42	5.48
EBIT	2.84	4.40	5.45
NET PROFIT	1.22	2.72	3.23
EQUITY	20.0	22.3	25.1
NET FIN. POS.	-4.88	-12.5	-1.00
EPS (€) (*)	0.086	0.174	0.206
DPS (€) (*)	0.028	0.030	0.032

Source: CdR Advance Capital Group (historical figures), Value Track (2017E-18E estimates)

RATIOS & MULTIPLES	2016A	2017E	2018E
EBITDA MARGIN (%)	83.8	48.3	52.1
EBIT MARGIN (%)	74.1	48.1	51.9
NET DEBT / EBITDA (x)	1.70	2.83	0.18
NET DEBT / EQUITY (x)	0.25	0.57	0.04
EV/EBITDA (x)	n.m.	n.m.	n.m.
P/NAV ADJ. (x) (*)	0.42	0.63	0.56
P/E ADJ. (x) (*)	7.2	5.4	4.6
DIV YIELD (%) (*)	4.5	3.2	3.4

Source: CdR Advance Capital Group (historical figures), Value Track (2017E-18E estimates)

STOCK DATA (*)	
FAIR VALUE (€)	1.59
MARKET PRICE (€)	0.94
SHS. OUT. (m)	12.8
MARKET CAP. (€m)	12.0
FREE FLOAT (%)	69.2
AVG. -20D VOL. ('000)	62.0
RIC / BBG	CDR.MI / CDR IM
52 WK RANGE	0.62-1.05

Source: Stock Market Data

(*) Values for A shares only

Executive Summary

CdR Advance Capital is an Italian leading investor in "special situations" i.e. basically non-performing credits where the underlying asset is either real estate assets under interrupted construction or troubled assets such as tax credits and receivables borne by companies that are either active or have already shut.

CdR Advance Capital has a "single-name" approach, i.e. it doesn't buy Npl portfolios, and is likely poised to evolve from direct and sole investor in special situations to a fully integrated illiquid asset management group structuring products in which to co-invest with other investors.

A specialist distressed-assets investor in continuous evolution

CdR Advance Capital is an Italian leading **investor in special situations**, with a far-reaching expertise in both real estate investments and non-performing loans recovery.

Ever since its IPO in 2012, CdR Advance Capital has delivered investors with a continuum of strategic acquisitions, aimed at both feeding its operating business on the one side, and expanding its scale on the other. Indeed, with its current group structure, CdR Advance Capital deploys its activities through **three main functional areas:**

- **Non-performing "movable" assets**;
- **Non-performing "non-movable" assets**;
- **Ancillary companies** (corporate finance, investment, and other advisory services).

These three areas work together creating a highly synergic functional interchange within the group aimed at maintaining deals' IRR in the 30% region to be exploited in three-four years on average.

Clearly-defined targets originated from both ongoing and ceased activities

Investment targets are basically real estate assets under interrupted construction, and troubled assets such as tax credits and receivables borne by companies that are either active or have already shut down their operations acquired from insolvency procedures, either in-court or out-of-court (such as, for instance, debt restructuring procedures)

This investment strategy is characterized by a "**single-name" approach**, which implies that only unique troubled assets are acquired after a thorough due diligence process has been fulfilled, hence leaving investors sheltered from any unthoughtful investment activity regarding portfolios of bundled troubled assets.

While financial acquisitions regard assets retrieved from companies that have already ceased their operating activities, operating acquisitions concern assets purchased from companies that are still functioning and that are completing a balance sheet clean-up or restructuring process.

Solid execution capability: deal flow management from purchase to completion / sale

One of the key success factors of CdR Advance Capital is undoubtedly its **top management extensive experience in insolvency proceedings** that ensures the company a continuum of investment opportunities to be potentially taken on, especially when the economic cycle is experiencing a downturn, thus boosting chances for additional value creation.

Amongst its most recent investments we emphasise the Greenopificio real estate investment in central Milan, Bovisa: an uncompleted building to be finished acquired from an insolvency procedure, transformed to residential use, and about to be finished. As of the end of June 2017, ca. 70% of apartments were already sold despite a mere 10% percentage-of-completion.

Exploiting full financing capacity with aligned interests of investors and management

We deem **fund raising capability** another high-ranked feature on the strength-point scale for CdR Advance Capital. As a matter of fact, CdR Advance Capital has been able to set up a mix of financing sources that allows its financial structure to maintain full flexibility while at the same time aligning stakeholders' interests. Several financial instruments are currently outstanding, including two classes of shares, warrants, callable, and convertible bonds.

Bonds issues are specifically designed to raise funds for planned acquisitions. For instance, in late May 2017 a newly issued convertible bonds has been entirely subscribed and its proceeds have been dedicated to acquisition of assets to be subsequently securitised through the vehicle CdR Funding 2 Srl, which in turn has been previously collateralised to grant bondholders greater credit quality.

Issuing appealing financial instruments in terms of risk-reward is not dedicated to bond investors only. Indeed, CdR Advance Capital has also set up a **sophisticated shareholders' remuneration policy to align interest of management and common shareholders**.

Strong dependence on macroeconomics cycle and Italy's bankruptcy legislation

CdR Advance Capital invests exclusively in Italy and two primary drivers affect its performance: the **macroeconomic cycle** and the **relevant bankruptcy legislation**. Italian macro fundamentals have been weak over the last decade, thus allowing for a plenty of restructuring opportunities, involving both in-court and out-of-court insolvency proceedings. Differently from what happens to other businesses, this represents tailwind for CdR Advance Capital.

Growth strategy: evolving the business model towards illiquid asset management

The next chapter in the company's history is probably the evolution from direct and sole investor in special situations to a **fully integrated illiquid asset management group** structuring products in which to co-invest with other investors.

From this point of view we believe it's very important the recent acquisition of a **stake in Borgosesia**, a real estate company with a past in the textile industry that is currently listed on Italian MTA Stock Exchange and that could allow CdR Advance to address institutional investors thus improving its fund raising capabilities.

Recent Financials driven by both non-performing and "fee driven" activities

As far as recent financial results are concerned, three are the main points to be underlined:

1) The Revenues contribution of the non-performing assets investment activity that embeds the positive evolution of Fine Arts deal;

2) The "Fee driven" business (advisory, capital markets, fiduciary, facility management and other services) that, despite being ancillary to core business, is progressively increasing its size also thanks to the acquisitions of Advance Corporate Finance and 3P SIM now merged under a single entity;

3) The evolution of Net Equity that has nearly tripled in four years. And we underline that due to accounting principles, **Total Shareholders' Equity and Net Asset Value are equivalent**.

Financial forecasts hinting at sounder dividend distribution

We expect the "fee driven" business to keep growing in size with the bulk of the growth coming from the newly merged Advance SIM held at 51%. At the same time we expect the non-performing assets Business Unit to keep recording outstanding results, out of which 2017E are characterized in our view by a high visibility.

In particular, the positive finalization of Via Cosenz residential units' disposal should turn a higher than €10mn Net Debt position as of 2017YE into a ca. **breakeven Net Debt position as of 2018E year end**. This should support a **dividend distribution further increased** if compared to historical levels.

CdR Advance Capital Group at a glance

CdR Advance Capital is a relatively young investment company born with the initial mission to unlock value from distressed financial asset such as claims, litigations and fiscal credits.

Later on, the width of the reference market encouraged the group to expand its business also to operating distressed assets, especially real estate ones. In order to do so, ancillary companies with highly qualified competences (corporate finance, fiduciary business, asset management) have been acquired.

As a result, CdR Advance Capital is now an all-round special situation player able to address the wide variety of non-performing situations that characterize the Italian market.

CdR Advance Capital - A special situations player

CdR Advance Capital Group: A mission in special situations

CdR Advance Capital Group is an investment company whose mission is to create value from so-called "special situations", that is complex and problematic situations of various kinds mainly originating from insolvency proceedings or, at least, situations of companies affected by financial distressed.

While most of market players are substantially non-performing assets traders, i.e. they just buy and sell portfolio of troubled values / goods / properties / investments / receivables and assets, the peculiarity of CdR Advance business model is the "hands-on" approach.

Indeed CdR Advance invests in illiquid and problematic situations with the aim to fully exploit the hidden value and realize it "in full", even if in a bit longer time.

We also underline that CdR Advance is fully integrated, i.e. it directly runs activities instrumental to those mentioned above, for example, the static administration or management of assets, property management and outsourcing, corporate finance, financial intermediary services.

Two types of investments: financial distress and operative one

CdR Advance investments are usually allocated in **two macro areas**: 1) financial distress and, 2) operative distress, with the difference concerning the type of asset acquired and the technicality of unlocking of the above mentioned hidden value.

- **Investments in financial distress situations**. It takes place when the industrial or commercial component of the distressed firm is already ceased. In these cases CdR Advance almost always purchases troubled tax credits and / or litigated claims where the nominal value of liabilities overwhelms the perceived value of the asset.
- **Investments in operative distress situations**. It takes place when the troubled firm is still in activity, but is affected by economic or financial problems heavy enough to require a recovery plan or a debt restructuring agreement with creditors.

  In these cases CdR Advance almost always invest in real-estate backed troubled situations where financial distress prevents the finalization of the asset. CdR Advance works on both asset and liability sides in order to exploit the asset value (e.g. by completing the real estate construction) while reducing the nominal value of liabilities with agreements with previous creditors or with the Court.

  Less frequently CdR Advance also invests in industrial backed troubled situations but in this case it mainly acts as an advisor in the debt restructuring process or in the look for an industrial bidder willing to take care (rental or purchase) of the underlying industrial activities.

Main milestones in CdR Advance Group history

Born in 2010 to invest in credits and claims from distressed companies

CdR Advance Capital Group can be defined a "grey-haired" start up. Indeed it is a relatively young company as it was founded back in the late 2010 with the goal to acquire and valorize financial asset, mainly credits and litigated claims, from Italian based distressed companies.

At the same time we note that, despite its young age, the accrued experience is wide and sophisticated as the whole management team is composed of professionals with a proven experience in special situation business.

On July 30th, 2012 CdR Advance has been listed on AIM Italia, the stock market for small, high growing companies managed by Borsa Italiana, acquiring visibility at international level. The company raised ca. €3.5mn with the IPO and had an initial market capitalization of ca. €6.8mn.

Entry in the non-performing real estate market

2013 was a fundamental year for CdR Advance. The growth of the reference "distressed assets" market encouraged by reforms of Italian Bankruptcy law acted as springboard for the company that decided to seek growth beyond its initial core business, in particular towards investments in real estate assets embedded in distressed / insolvency situations.

In order to properly face this extension of the reference business perimeter, the company launched an acquisition campaign of competences / technical instruments propaedeutic to the core business. Among the more important ones we flag the following:

- **Establishment of CdR Recovery RE (2014),** a company with more than thirty years of investment experience in non-performing real estate market and, more specifically, in residential buildings still under construction.

  Cdr Recovery now leads the real estate investments activity of the group.
- **Acquisition of Dimore Evolute (2015)**, occurred on June 19th 2015, a company specialized in: 1) the recovery of distressed real estate projects by their conversion towards social housing, 2) the finalization of green field real estate initiatives acquired in special situations / insolvency procedures.
- **Launch of Abitare Smart (2015).** Finally, the group has fostered its connections with the real estate market participating to the start-up phase of Abitare Smart, a real estate mutual company set to become the group's reference point for the social housing sector. We note that CdR Advance initially signed a contract of facility management with Abitare Smart coop. generating ca. €0.35mn revenues per annum now increased up to €0.7mn.

Growth in the area of core business ancillary companies

As stated before, the acquisitions realized in the non-performing real estate market were just the beginning of the company's growth strategy. Indeed, the management of CdR Advance decided to enhance the synergies with different areas instrumental to the core business, integrating companies that were prominent in the sector of advisory and financial services.

The acquisition of Advance Corporate Finance (ACF) announced as of June 2015 and finalized back in December 2016 represents the main deal of such a kind.

The idea behind the acquisition was to take advantage of synergies in the composition with creditors on a going concern basis ("concordati in continuità") sector, fostering the functional interchange inside the group. Indeed, ACF is Partner Equity Market of Borsa Italiana and provides different types of advisory services, mainly:

- Mergers & Acquisition Advisory;
- Equity and Debt Capital Markets;
- Corporate Finance Advisory.

We underline two further deals that had the goal to enhance CdR Advance Capital Group's competitive positioning:

- **Acquisition of CdR Securities Srl** (November 2015), a company specialized in securitization business, regulated under Law 130/1999;
- **Acquisition of a 30.0% stake in 3P SIM** (January 2016) with a €0.3mn cash out. This company was instrumental in fund raising and has been recently merged with Advance Corporate Finance now being named Advance SIM, held at 51% by CdR Advance Capital Group.

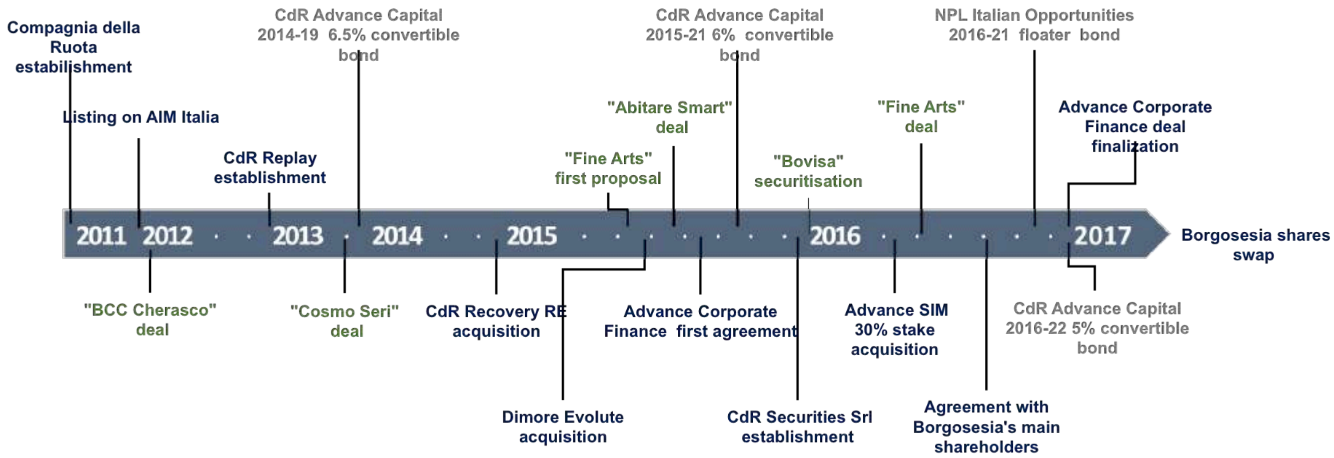
Borgosesia SpA investment

Borgosesia SPA is an Italian based holding company listed on the Italian Stock Exchange (MTA) primarily involved in the Real Estate business and, as minor non-core activities, in the textile one.

CdR Advance Capital Group is a longstanding minority shareholder of Borgosesia via its Real Estate sub-holding CdR Replay. Indeed, back in December 2011 CdR Advance acquired an initial 3.9% stake and, with several minor shares purchases, it increased its overall stake up to ca. 16.7%. We cannot rule out that in the future the two groups could think at a merger.

Please see the paragraph on Borgosesia for more details on future evolution of this deal.

CdR Advance Capital Group: Historical Milestones



Source: CdR Advance Group, Value Track analysis

A complex Shareholders and Capital structure, but with a rationale

CdR Advance Capital Group enjoys a quite complex Capital Structure as it encompasses the following instruments, each one with its own peculiarities explained below:

- "A" shares;
- "B" shares;
- Warrants;
- Convertible Bonds (three issues, expiring in 2019-21-22 respectively);
- One "Exotic" Bond linked to some securitization issues, expiring in 2021;
- One "Plain Vanilla" bond recently issued and expiring in 2022.

Share Capital: Top management controls two thirds of voting rights

As far as the outstanding Share capital structure of CdR Advance Capital Group is concerned, it can be broken down in two different share classes:

- **"A" shares**. Ordinary shares listed on Italian AIM market. They are entitled voting rights and a privileged dividend distribution (please, see next paragraph for details on the dividend policy);
- **"B" shares.** Ordinary shares not listed. They have equal voting rights as for A shares but enjoy different dividend rights (again, please see next paragraph for details on the dividend policy). The number of B shares must be equal to half the number of outstanding A shares, and in case CdR Advance is subject to a public tender offer (PTO), they can be converted in common A shares with a proportion of 1 A share each 6 B shares converted.

We note that neither A or B shares have a Par Value but their implicit Nominal Value is equal to total share capital divided by the number of outstanding shares.

As highlighted by the following table, three main shareholders control ca. two thirds of total share capital, as they own almost all B shares. All three major shareholders are related to a certain member of the company's Board of Directors. Dama Srl is connected to Mr. Girardi (Chairman and CEO), S&B Invest to Mr. Sala (Director) and Az Partecipazioni to Mr. Zanelli (Deputy Chairman).

The free float is ca. 70% of the listed A shares, i.e. ca. 42% of total capital to which ca. 34% of the voting rights are associated.

CdR Advance Capital - Shareholders' structure

	A shares	B shares	Total	%
Dama Srl	12,945	6,007,159	6,020,104	31.43%
S&B Invest Srl	2,296,955		2,296,955	11.99%
Az Partecipazioni Srl	1,615,505	349,665	1,965,170	10.26%
Other minor shareholders		26,987	26,987	0.14%
Free float	8,842,219		8,842,219	46.17%
Total	**12,767,624**	**6,383,811**	**19,151,435**	**100.00%**

Source: Company data

Convertible Bonds and Warrants are also outstanding

When the IPO of A shares took place, the company distributed warrants with a 1:1 proportion to the owners of a special category of shares, called "A-risc", now converted into "normal" A shares. In addition, owners of B shares were entitled warrants in the same 1:1 ratio thus resulting with half of the amount of warrants issued to A shares.

All warrants are convertible into A shares and expire as of June 30th, 2022.

As of now ca. 20mn warrants are still outstanding with the following conversion mechanism:

- Conversion ratio = (VWAP- StrikePrice)/(VWAP – Subscr.Price);
- VWAP = volume-weighted average price registered in the latest month;
- Strike Price = € 1.20 per share;
- Subscription Price = € 0.01 per share.

E.g. if VWAP in the latest month is €1.50 per share, the conversion ratio of the warrants for the current month would be 0.2x.

If the VWAP happens to be higher than €2 per share (so-called "ceiling price"), the conversion ratio is capped to the same formula with the ceiling price replacing the VWAP in it, and thus a maximum of 0.4 shares per each warrant would be converted.

The company has issued three Convertible Bonds back in 2014-15-16 respectively, a December 2016 issue of a new non-convertible debt instrument with particular features linked to the performance of some NPL-securitization promoted by CdR, and recently a €7mn "Plain Vanilla Bond".

CdR Advance Capital -Outstanding Public Debt Instruments

	Compagnia della Ruota 2014-19 6.5% Convert. Bonds	CdR Advance Capital 2015-21 6.0% Convert. Bonds	CdR Advance Capital 2016-22 5.0% Convert. Bonds	NPL Italian Opportunities 2016-21 Floater	NPL Global 2017-22 5% Fixed Rate
Type	Convertible	Convertible	Convertible	Exotic	Plain Vanilla
Expiration	15/07/2019	26/10/2021	21/12/2022	21/12/2021	07/08/2022
Callable	Yes	Yes	Yes	--	Yes
Number of bonds	49,500	49,500	49,500	49,500	70,000
Nominal Value per bond (€)	€100	€100	€100	€100	€100
Total value (€)	€4,950,000	€4,950,000	€4,950,000	€4,950,000	€7,000,000
Coupon (%)	6.5%	6.0%	5.0%	4.0%	5.0%
Start of conversion period	30/06/2017	01/12/2019	01/12/2020	--	--
Conversion price (€ per share)	€1.10	€1.10	€1.10	--	--
Number of A-shares per bond	90.91	90.91	90.091	--	--
Total number of A-shares (max)	4,500,000	4,500,000	4,500,000	--	--

Source: Company Data, Value-Track Analysis

All convertible bonds are callable starting as of January 1st of the fourth year after the issue date, third year for 2014-19 bond. This means that, for instance, "Compagnia della Ruota 2014-19 6.5% Convertible Bond" can be reimbursed in advance starting as of Jan 1st, 2017, while "CdR Advance Capital 2015-21 6% Convertible Bond" can be reimbursed in advance starting starting as of Jan 1st, 2019.

As far as the "NPL Italian Opportunities 2016-21 Floater" is concerned, the company has promised a minimum redemption of €105/bond and a maximum of €120/bond, based on the outcome of some securitisations that CdR Securities is undertaking.

Last but not least, the recently issued NPL Global 2017-22 plain vanilla bond (€7mn @ 5% fixed rate coupon) is always callable (both partially and totally) starting January 1st 2020.

A Dividend policy that aligns the interests of Top managers and of remaining shareholders

CdR Advance Capital Spa's net profit is distributed to shareholders according to the following scheme:

1. First priority. The legal reserve has to be fed by the minimum between the amount necessary to make it equal to one-fifth of the shareholders' capital, and the 5% of the net profit;
2. Second priority. The implicit nominal value of A shares is computed, dividing the shareholders' capital by the number of shares entitled to profit distribution, and summed with the share

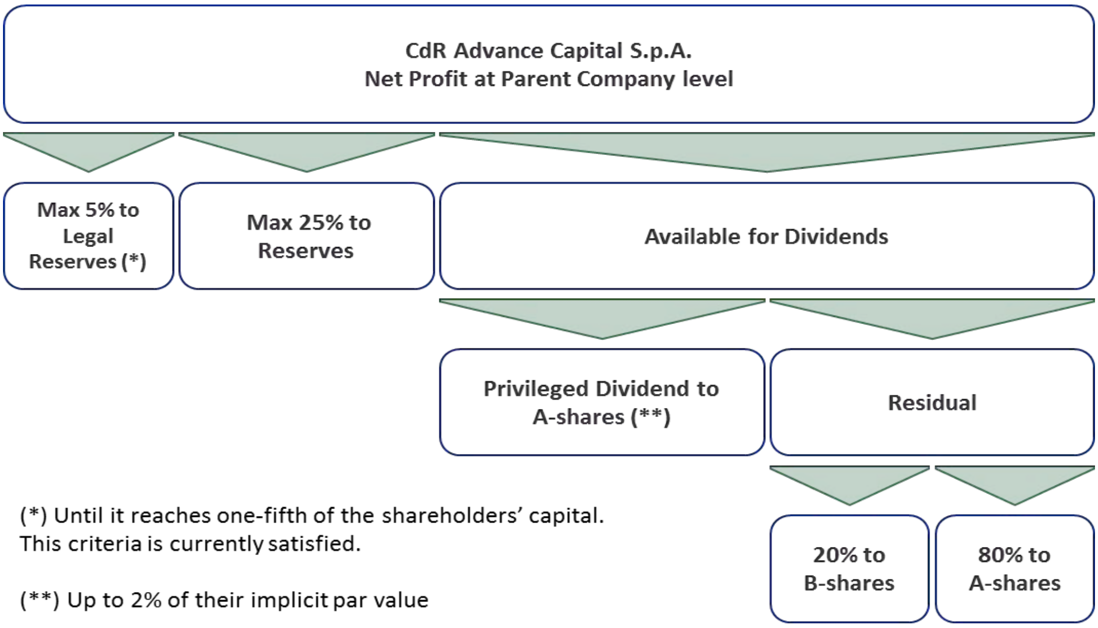
premium reserve belonging to category A shares. The 2% of this value is the privileged dividend to be delivered to A shareholders;

3. If any profit is left, the 20% of it belongs to B-shares;
4. The entire remaining surplus (80%) is then allocated again to A shares.

There are two additional points to be mentioned:

- In case of insufficient profits or losses the privileged dividend belonging to A shares (see the second priority above) can be cumulated through years, without time constraints;
- Board of Directors has the right to set aside a maximum 25% of the Net Profit, net of legal reserve requirements only, into a so-called "extraordinary reserve". In the following years, and in case this reserve isn't used to cover any losses, it can be split to fulfil the privileged dividends that may not have been satisfied when the reserve was created.

CdR Advance Capital SpA: Dividend Policy as stated in the By-Laws



(*) Until it reaches one-fifth of the shareholders' capital. This criteria is currently satisfied.

(**) Up to 2% of their implicit par value

Source: Company By-Laws

Reference Market

CdR Advance Capital Group business activity is, by nature, highly dependent on the Italian legislative and regulatory framework, i.e. mainly from Bankruptcy legislation which has been affected by deep reforms in the last decade. Indeed, it has shifted from a liquidation approach focused on debt repayment to a more proactive stance oriented towards the preservation of business continuity.

Due to macroeconomic and financial crises that have been repetitively hitting Italy since 2009, the amount of opportunities to scout around for are still a relevant number, even if we note that in the latest two years there was a mild inversion of the trend in overall numbers evolution.

A complex and never settled legislative framework

CdR Advance Capital Group reference market is made of all the troubled / non-performing situations / insolvency proceedings arising in Italy. It is thus obvious that there is a strong connection with the Italian legislative framework i.e. with the Italian Bankruptcy Law and its annexes.

The evolution of the bankruptcy legislative approach: from liquidation to preservation

The Italian Bankruptcy Law (originally Legge Fallimentare, R.D. 16 Marzo 1942, no.267) has undergone significant changes in the last years (see the various reforms that took place back in 2006 and more recently in 2010-12 and 2015-16).

In the past insolvency proceedings were seen as a sanctioning procedure aimed at removing the insolvent entrepreneur from the market and performed mainly with a liquidation approach, with focus on debt repayment and creditors protection. On the contrary as of now the approach is more oriented toward the preservation of business continuity, for example through the transfer or lease of the company, in favour of all stakeholders i.e. creditors but also employees, suppliers and clients.

With this new approach in mind, the legislation has been modified in order to encompass more flexible and business-oriented solutions aimed at restructuring rather than liquidating, mainly by:

- Allowing and facilitating the intervention of new external players bringing restructuring competencies and / or new finance privileged from a creditor hierarchy point of view;
- Simplifying the attainment of an agreement between the actors involved.

A clear outcome of this evolution is the "**Composition with creditors with reserve**" ("Concordato con Riserva" or "Concordato in bianco"), introduced in 2012, and designed on the model of foreign Bankruptcy Codes experiences, especially the US Automatic Stay institute. See the next paragraph on Concordato con Riserva main features.

The legislative framework nowadays: In-court vs. Out-of-court procedures

In order to introduce the main typologies of legal instruments and proceedings that can be performed when a firm is in distress, as a starting point we shall distinguish between:

- **Insolvency Proceedings** (Procedure Concorsuali") which are "in-court", i.e. there is a judge/court directly intervening in the supervision of the legal procedures with various pronunciations and mandates;
- **Minor Insolvency Proceedings** (Procedure Concorsuali Minori) which are "out-of-court", i.e. the arrangements between the debtor and its creditors are negotiated without juridical intervention, which may be required only in some cases and just for an approval of the proposed plans.

As far as the **Insolvency Proceedings** are concerned, we underline that they usually imply more severe consequences and, more often but not always, end up with the liquidation of the failed company instead of a restructuring.

The Italian Bankruptcy Law comprises five types of insolvency proceedings all similarly protecting the debtor from individual enforcement actions by its creditors:

- **Bankruptcy** ("Fallimento"). This is a judicial procedure aimed at liquidating the insolvent debtor's assets and distributing the proceeds according to the so-called "*Par condicio creditorum*" criterion. This criterion means that all creditors are treated equally and receive proceeds which are proportional to the amount of their claim and has few exceptions, which protect preferential creditors with statutory priority. Please, refer to the next paragraph for creditors hierarchy in a liquidation procedure.

  Worthy of notice, within the bankruptcy procedure the debtor is deprived of the power to manage its assets and a trustee is appointed to administrate them, under the supervision of an insolvency judge and the creditors' committee.

  Eventually, the bankruptcy procedure ends up with the assets liquidation and consequent distribution of the sale profits, or with a **bankruptcy agreement** ("Concordato fallimentare"). The agreement can be an offer made by a creditor, a third party or the debtor itself, and offers the debts repayment up to a certain level, in exchange of the possession of remaining assets.

- **Compulsory Administrative Liquidation** ("Liquidazione Coatta Amministrativa"). It is very similar to bankruptcy, but it is applied only to some precise categories of firms, specified by the law, such as banks, insurance companies, co-operatives and public entities. For these companies, the procedure can be initiated through a legislative measure even against the willingness of the creditors or the entrepreneur, with the aim to liquidate the company and remove it from the market.

- **Extraordinary Administration for Large Insolvent Enterprises** ("Amministrazione straordinaria delle grandi imprese in stato d'insolvenza"). It is also known as "Legge Prodi" and is specifically aimed at insolvent medium-large enterprises exceeding a certain size (more than 200 employees), with the main goal being to minimise insolvency's social consequences.

  Indeed, contrary to other insolvency procedures, the perspective here is the preservation of the firm. The rescue plan drafted by the extraordinary commissioner, appointed by the Ministry of the Economic Development, may be headed to a settlement with creditors, the restructuring of the company or the transfer of its assets as a going concern to a buyer.

- **Special Extraordinary Administration** ("Amministrazione straordinaria speciale"). It s specifically aimed at very large insolvent enterprises (more than 500 employees, no less than €300mn of debts) and differs from the above-mentioned extraordinary administration because of the special juridical the rules that characterise it, aimed to start a restructuring plan more quickly. It is also known as "Legge Marzano", and is triggered by a formal request of the debtor to the Ministry.

- **In-Court Settlement with Creditors** ("Concordato Preventivo"). The goal of this insolvency procedure, which is both an in-court (an appointed commissioner supervises the process) and debtor-in-possession one (the firm remains in possession of property upon which creditors have security interests), is to reach an agreement with the majority of creditors legally binding towards the minor ones. Doing that, the debtor prevents formal bankruptcy, and creditors may avoid facing longer times to carry on the more complex bankruptcy procedure.

  A debtor can apply to this procedure when attempting to restore the solvency of the company, either continuing the activity, selling the company to a third party or liquidating its assets in order to satisfy the debts, thus avoiding bankruptcy.

Typically, the proposed settlement differentiates creditors into various groups according to their claims and comparable economic interests, and advances specific treatments if the offer is accepted.

- **Composition with creditors with reserve** ("Concordato con Riserva" or "Concordato in bianco"). This procedure is actually very similar to the above-mentioned In-Court Settlement with Creditors, of which it is a specific case. Indeed, it consists in an anticipated request for a judicial procedure, in which to propose a recovery plan or a liquidating deal, before having all the required documents.

  In this way, the debtor has protection from individual enforcement actions from its creditors, and buys some time to work on a restructuring plan that should be submitted, along with remaining documents, by the time set by the court.

As far as the **Out-of-Court Minor Insolvency Proceedings** are concerned, the main instruments for companies in distress are the following:

- **Debt Restructuring Agreement** ("Accordo di Ristrutturazione del Debito"). With this procedure the debtor has the possibility to negotiate a deal with its creditors with a very flexible approach i.e. it is not obliged to respect the *Par condition creditorum* principle.

  Indeed, as long as: 1) the debtor reaches an agreement with creditors representing at least 60% of total debts, and 2) an independent expert certifies feasibility of the plan (in particular about what concerns the entire payment of the creditors who are not part of the agreement), then the debtor is able to force the acceptance of the deal also to non-participating minority creditors.

  We underline that even if all negotiations and planning are done privately, the court has still to validate the agreement through an ad-hoc decree.

- **Certified Recovery Plan** ("Piano di Risanamento"). Financially distressed companies can unilaterally propose a restructuring plan to secure the continuity of business on a going concern basis.

  The recovery plan can be run completely out of court and therefore can remain confidential. If creditors approve the proposed haircuts, refinancing or rescheduling of the debt which are provided in the plan, and an independent expert certifies the feasibility of the plan, the debtor can implement it and can carry on business as usual.

  Payments, security interests granted and transactions that will occur during the plan won't be subject to revocatory actions (i.e. won't be invalidated in case of bankruptcy, thus gaining priority rank).

  Some examples of actions that a company can perform under this kind of Plan are: recapitalization, debt-to-equity swaps, refinancing, liquidation of non-core assets etc.

Other legislative framework evolutions

Last but not least we highlight that legislation is currently progressing on the same path of latest years. As an example, we flag that the legislative decree no.59/2016 has the declared goal to speed up times of the procedures while setting up a digital registry for foreclosure and insolvency proceedings (the access will be partially public, but the Court may order, for confidentiality reasons, to hidden specified information).

Further reforms of insolvency procedures are currently under discussion. For example, there are proposals for the introduction of special procedures to help debtors to promptly resolve a crisis out-of-court (with advice from external insolvency practitioners) and for the reduction of the 60% threshold required to reach a debt restructuring agreement.

Legal advancements are coming also from the NPL field. Worth of mention is the recent Law no.49/2016, which introduced the new Guarantee Scheme for Securitisation of NPLs ("Garanzia Cartolarizzazione Sofferenze" or "GACS"). This measure is a Government guarantee on senior notes issued by an Italian SPV, backed by NPLs assets, and is aimed at increasing liquidity in the NPL market.

Main terms and conditions of In-court and Out-of-court procedures

Insolvency proceedings (out-of-court)	Certified recovery plan	Once it has been certified, the debtor must implement it and can carry on business as normal. The plan can be kept confidential, unless the debtor wants register it to gain certain tax benefits.
	Debt restructuring agreement	Once the application has been made, the process generally takes from 30 to 60 days. While the debtor and its creditors can negotiate the deal out of court, it still need to be validated by court decree.
Insolvency proceedings (in-court)	Bankruptcy Compulsory administrative liquidation	Since proceedings generally take a very long time, a provision has been enacted declaring that liquidation of the debtor's assets must be finalised within two years from the bankruptcy declaration. Bankruptcy proceedings are closed either on liquidation of the assets and distribution of the sale proceeds, or as a result of a bankruptcy agreement, which can be an offer made by a creditor, a third party actor or the debtor itself.
	In-court settlement with creditors Composition with creditors with reserve	The validation decree must be issued within nine months from when the proposal is filed. This term can be extended by the court only once for a maximum of 60 days. In case of composition with creditors with reserve ("Concordato in Bianco"), the remaining documentation shall be deposited to the court by a deadline fixed by the judge between 60 and 120 days, extensible in case of justified reasons for other 60 days.
	Extraordinary administration procedure Special extraordinary administration	A rescue plan providing for the transfer of the business as a going concern (or of a bundle of assets and contracts) can last no longer than one year, while a stand-alone reorganisation plan can last no longer than two years. Such terms can be extended by the Ministry. For debtors in essential public utility services, or running a plant of strategic national interest, the duration of the rescue plan can be no longer than four years.

Source: Various, Value-Track analysis

Sizing the market of "Special Situations": An extremely high amount of opportunities

As we said so far, CdR Advance investment strategy is focused on "special situations" i.e. both troubled / insolvent companies undergoing in-court or out-of-court procedures and non-performing loans owned by banks or other financial intermediaries.

Due to macroeconomic and financial crises that have been repetitively hitting Italy since 2009, the amount of opportunities to scout around for are still a relevant number, even if we note that in the latest two years there was a mild inversion of the trend in overall numbers evolution.

2009-16 evolution of Insolvency procedures and Voluntary liquidations

The mentioned mild inversion is true for both Bankruptcies and Other Insolvency procedures but not for Voluntarily liquidations that are increasing due to changes in the fiscal framework.

As far as the Other Procedures is concerned, the reduction in 2016 has been dragged down by the sharp reduction of voluntary arrangements, which is just another name for the In-court settlement with Creditors procedure.

Indeed, the use of this instrument rose steeply from 2011 to 2013, thanks to the abovementioned legislative reforms that encouraged firms to seek voluntary arrangements (especially through the Composition with Creditors with Reserve instrument).

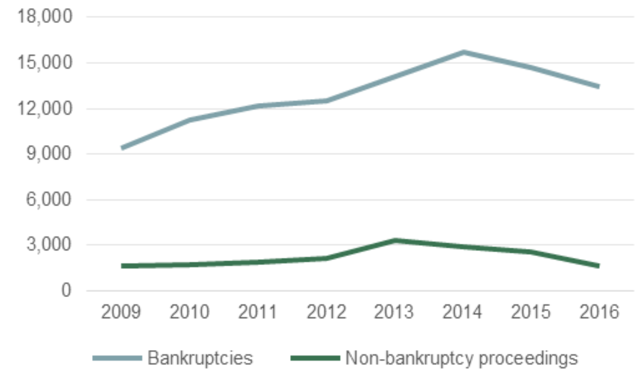
Hence, we could guess that part of this one-off effect is now slowing down as many firms with those necessities have already applied to the procedure.

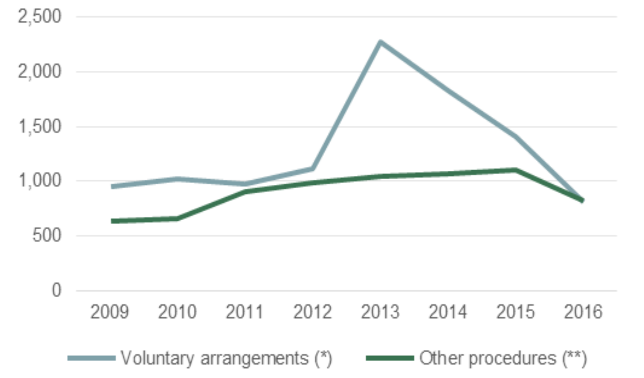
Business closures by type of procedure

	2009	2010	2011	2012	2013	2014	2015	2016
Bankruptcies	9,381	11,232	12,153	12,543	14,128	15,685	14,729	13,472
YoY % change	*na*	*19.7%*	*8.2%*	*3.2%*	*12.6%*	*11.0%*	*-6.1%*	*-8.5%*
Other procedures	1,599	1,682	1,885	2,106	3,325	2,900	2,526	1,640
YoY % change	*na*	*5.2%*	*12.1%*	*11.7%*	*57.9%*	*-12.8%*	*-12.9%*	*-35.1%*
Voluntary liquidations	83,537	83,473	88,580	89,219	91,157	83,837	78,253	85,465
YoY % change	*na*	*-0.1%*	*6.1%*	*0.7%*	*2.2%*	*-8.0%*	*-6.7%*	*9.2%*

Source: Source: Cerved - Monitor of Bankruptcies, Insolvency Proceedings and Business Closures

Bankruptcies and non-bankruptcy proceedings, by type





Source: Cerved - Monitor of Bankruptcies, Insolvency Proceedings and Business Closures

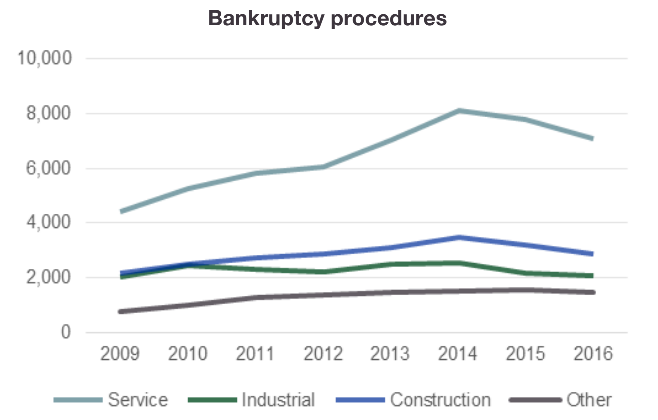
(*) Voluntary arrangements that include restructuring plans

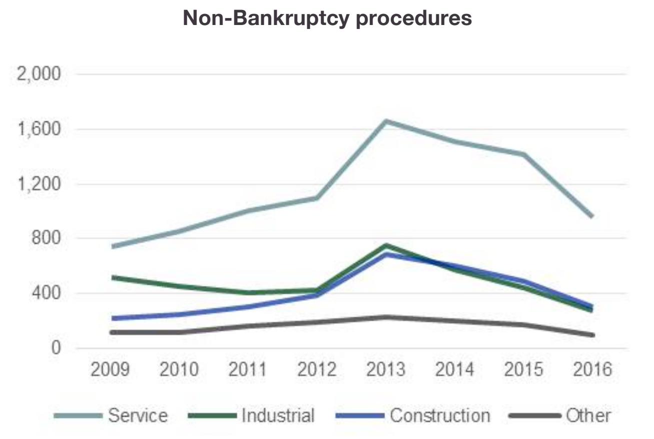
(**) Does not include proceedings for business registry cancellations, dissolutions by regulatory authorities, or court-ordered proceedings

The recent reduction trend is common to most sectors of the economy, but with different magnitudes. The two most relevant segments, i.e. service and construction companies, representing respectively 53% and 21% of total bankruptcies, are the ones that experienced the greatest reductions YoY, -8.70% and -11.09% respectively in 2016.

The situation is analogous for what concerns non-bankruptcy proceedings, even though the average decline rate is much stronger (ca. -37% YoY), unsurprisingly as we have underlined above.

Bankruptcies and non-bankruptcy proceedings, by macro sector





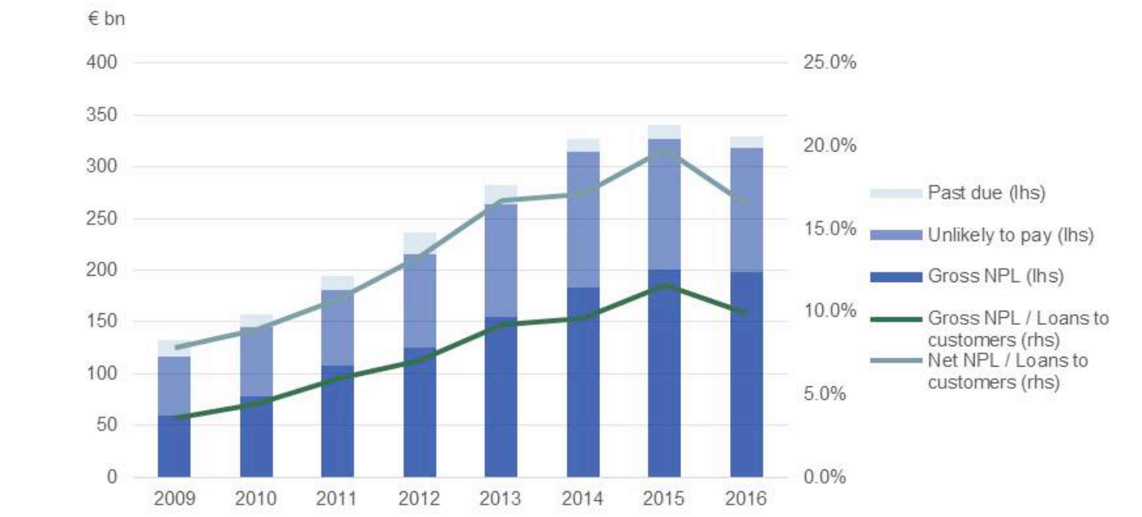
Source: Cerved - Monitor of Bankruptcies, Insolvency Proceedings and Business Closures

Note: Does not include 'blank' voluntary arrangements, proceedings for business registry cancellations, dissolutions by regulatory authorities, or court-ordered proceedings

2009-16 evolution of Non-Performing Loans (NPL)

As far as the NPL evolution is concerned, we note that here as well there is some kind of stabilization. Indeed, Gross NPL and gross Non Performing Exposures, which include also past-due and unlikely to pay debts, are have increased progressively up to 2015, with Gross NPL peaking at ca. €200bn.

NPL and NPE trends

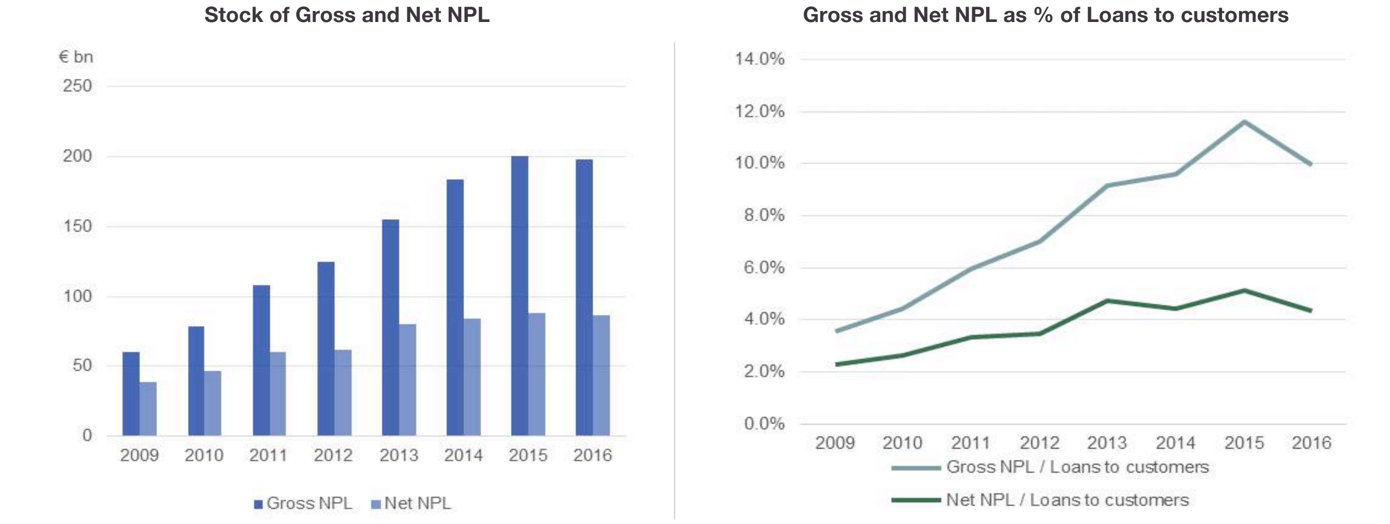


Source: Banca d'Italia, ABI Monthly Outlook, PwC, Value Track Analysis

Note: 2016 data refer to End of September figures

The sizable level of NPL in the system is widely recognized, and indeed banks have allocated significant provisions to cover potential expected losses from bad debt. As shown below, Net NPL are at ca. €90bn, which is still relevant but is also less than half their gross value. Despite all these efforts though, we observe a persistent increase in the percentage of Net NPL on total Loans to customers. By the way, as far as loan by customer structure is concerned, we underline that the main part of NPL stock i.e. ca. 79% is represented by corporate loans, while retail ones account for ca. 19% (according to the same PwC analysis, the remaining 2% is "Other").

Gross NPL and Net NPL, total values and percentage of total loans



Source: Banca d'Italia, ABI Monthly Outlook, PwC, Value Track Analysis

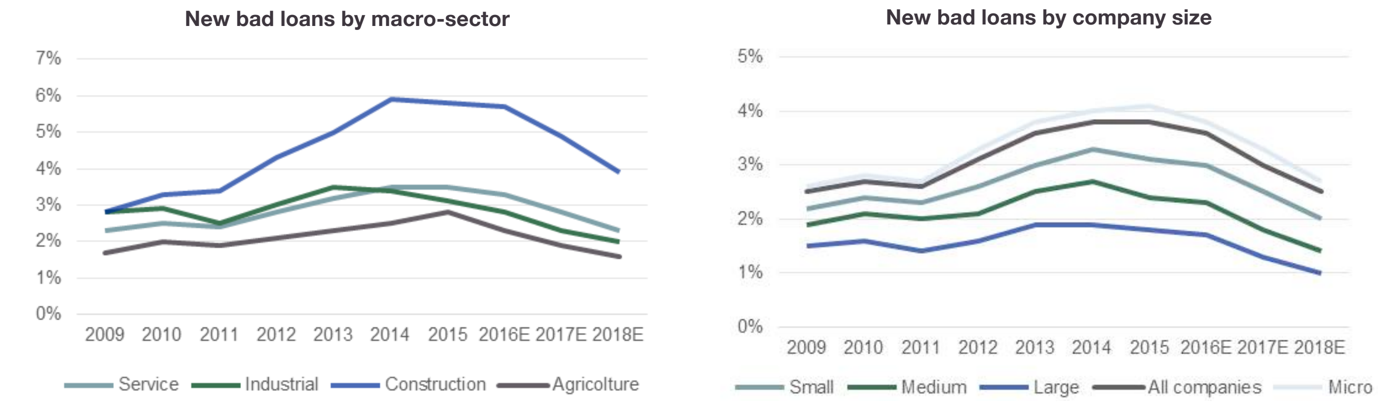
Note: 2016 data refer to End of September figures

2017E-18E expectations on new bad loans

Bad loans will continue to be a problem that Italy shall deal with for a long time. However the dynamic of new bad loans generation is expected to partially loose traction in 2017E-18E with small size construction companies still remaining the most problematic one.

From this point of view, we do not expect CdR Advance to remain short of investment opportunities in the next foreseeable future.

Breakdown and forecasts for new bad loans (*), by macro-sector and company size



Source: ABI-Cerved Outlook on bad loans to businesses, Bank of Italy data

(*) Annual influx of bad loans, adjusted and expressed as a percentage of total loans to non-financial companies in each sector

Enabling Factors / Key Success Factors

Management team, deal flow, fund raising, execution capability and light cost structure are the winning factors in the special-situation investments business. In our view, CdR Advance Capital is already on top on most of them while it has to improve its fund raising capability.

In our view, to perform successfully in the special-situations investment business, the most important key success factors / enabling factors that a company must own are the following:

- Skilled, highly regarded and motivated management team;
- Continuous access to deal flow;
- Fund raising capability;
- Execution capability;
- Light cost structure.

We believe that CdR Advance is already on top of most of these points (management, deal flow, execution, and cost structure) while further margin for improvement still lies on the funding side.

Skilled, highly regarded and motivated management team

Special situations investing is a business where proven know how and personal credibility are massively important as they help building reciprocal trust with all sector's stakeholders (Courts, Insolvency Administrators, Liquidators, Receivers, distressed firms).

As far as this point is concerned, we believe CdR Advance to be among the best in class for two reasons: 1) Experience of the top managers, 2) Incentives.

- **Experience.** The founder and CEO, Mr Mauro Girardi, has gained significant experience in the bankruptcy proceedings field and has worked for over 25 years with various roles such as debtor-companies advisor, turnaround manager, official receiver and judicial commissioner. In addition, CdR Advance enjoys more top managers with complementary skills operating in each of the subsidiaries (please, refer to the appendix for more details on the Top Management structure).
- **Incentives.** All top managers are also shareholders in the company, (they own B-class shares which ensure voting rights and are not easily transferrable), and there are specific corporate governance / dividend policy mechanisms that align their interests with those of the remaining shareholders. Please see the paragraph on shareholders' structure for more details on this point.

Continuous access to deal flow

Special situations opportunities are to be carefully evaluated as "devil is in details" and it would take nothing to jeopardize investment returns. Indeed, out of dozens of possible opportunities only a very few are eligible for a profitable investment. That's why having a substantial flow of opportunities coming your way increases the likelihood to "cherry pick" the most promising ones and reduces the chance of being forced to make a deal just because of the absence of alternatives.

To obtain this kind of flow, three things are required:

- **Extensive network of relationships**. As far as this point is concerned, we underline that on top of the connections brought by Mr Girardi and team, built all over their long-standing career, a further step forward has been made with the merger between CdR and Advance Corporate Finance that has added more "antennas" on the field;
- **Continuous presence in the market**. Marketplace status is crucial in niche deals, as all players (distressed firms, banks and so on) are encouraged to knock first on CdR's door. On this point we believe time will surely play its role in making CdR Advance more recognised in the market;

Funds raising capability

Having access to deal flow without having money at reasonable price to invest would be a non-sense. As far as this point is concerned we believe that there is much to improve yet but also that CdR has its skills to show:

- **Track record.** CdR Advance boasts an average IRR of 35% per annum, within a 3 years period, and over €58mn invested;
- **Fund raising arm.** See the recent incorporation of Advance SIM within CdR Advance Group.

The three convertible bonds issued in consecutive years are a clear example of how the company raises capital, and the same goes for the more recent "NPL Italian Opportunities" and "NPL Global 2017/22", which highlight also why the capital has been raised and in what it will be invested. Looking in particular at those convertibles, we infer that fundraising has not been simple for the company in the past, as a ca.6% interest rate on senior debt plus the conversion option cannot be considered cheap. Nonetheless, the cost of funding has decreased in recent years – 5% plus the conversion option for the last convertible, 4% plus an enhanced principal for the Italian opportunities bond and 5% fixed rate for the Global 2017/22 – signalling that the company has increased its reputation and is now perceived as less risky than before.

Execution capability

Special situation deals are very complex, with a vast variety of legal, fiscal and financial aspects to be carefully managed in order to exploit the full intrinsic value of the underlying problematic asset. IRR maximisation implies being capable to address in-house the highest number of these aspects without outsourcing them to third parties. As far as this point is concerned, CdR Advance group has equipped itself with a series of **ancillary companies** with specific and diversified competences ranging from fiduciary services, to real estate development ones and from corporate finance to asset management or securitization. These subsidiaries frequently work with each other in order to extract the most value from any opportunity internalizing margins and ensuring a smooth handling of all required tasks. In particular, we note that CdR Advance has a deep knowledge of the Real Estate development business and this is a plus given the high number of real estate companies becoming insolvent in these years in Italy.

Light cost structure

Unfortunately, special situations business is unsystematic and not all variables are in the hands of the management (legal times for instance). In order not to overly weigh on the economic results of the investment company, during the investment scouting/evaluation periods, as well as the long ones between the stipulation of a contract and the realization of its proceeds, the cost structure should be as variable as possible. Indeed, unnecessary fixed costs lead to an excessive accumulation of negative cash flows, with obvious hampering consequences on IRR. CdR Advance does well in this field too. Analysing the operating components of total cash costs (i.e. excluding depreciations, write-downs and similar items), we find that the fixed portion is quite limited, both in absolute terms and relatively to sales. This is also due to a widespread network of professionals who collaborate at various levels to perform the transactions.

Fixed vs Variable Operating Cash Costs

(€, Data as of 2016FY)	Fixed	Variable
Cost of services	641,614	-988,580
Labour costs	-53,603	0
Other operating costs	-89,000	-7,627
Total	**499,011**	**-996,207**
As % on sales	**10.9%**	**-21.8%**

Source: Value Track Analysis

CdR – Business Model

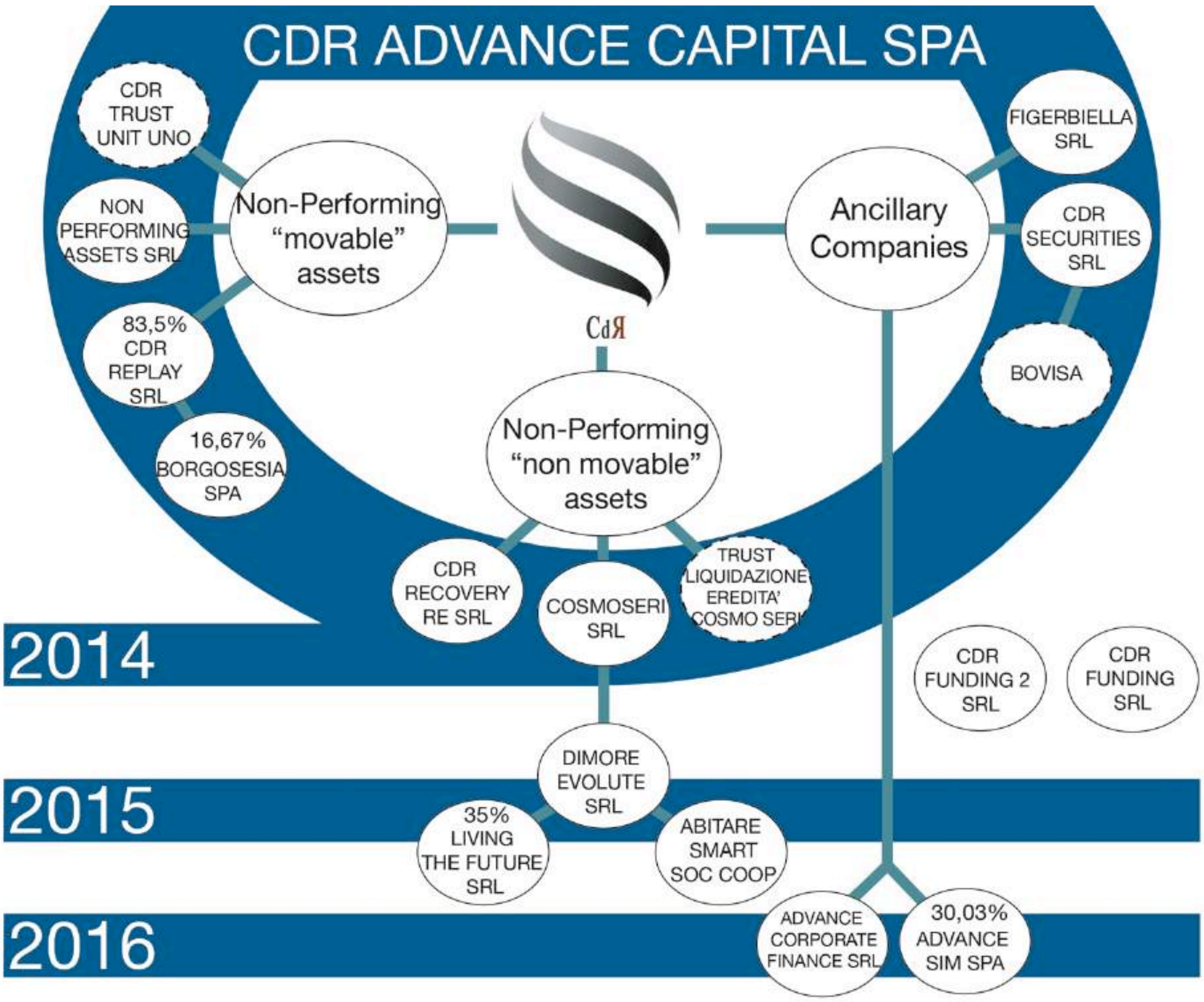
In order to address both financial distressed situations and operative distressed ones, CdR Advance Capital group is structured along three functional areas: 1) Non-performing "movable" assets, 2) Non-performing "non-movable" assets, 3) ancillary (or instrumental) companies.

These three areas work together creating a highly synergic functional interchange within the group aimed at maintaining deals' IRR in the 30% region to be exploited in three-four years on average.

CdR Advance: Two Business Units plus One

As an effect of the integration within the Group of all ancillary activities necessary to transform troubled and illiquid assets into fully operating ones, the structure of CdR Advance is quite complex at first sight.

CdR Advance Capital: Group Structure by business areas



Source: CdR Advance Group, Value Track analysis

Note: "CdR Trust Unit Uno" and "Trust Liquidazione Eredità Cosmo Seri" have separated assets managed as trustee by Fingerbella Srl; furthermore "Bovisa" securitization vehicle L. 130/99 is managed by CdR Securities Srl

In order to have a proper understanding of the Group structure we can highlight three different functional areas:

- **Business Area # 1 - Non-performing "movable" assets.** It groups all companies active in the acquisition (at a very low price, in exchange of the responsibility paying a certain percentage to its creditors) and restructuring of non-performing movable assets such as loans, securities, commercial / other credits and so on. It is the historic core business of the Group. An example of subsidiary company with this focus is Non Performing Assets Srl.
- **Business Area # 2 - Non-performing "non movable" assets**. It groups all companies active in the acquisition and restructuring of non-performing assets mainly backed by real estate properties such as land, buildings and so on. The acquisition of CdR Recovery Re (2014) and of Dimore Evolute Srl (2015) rolled out the first two pillars of this area where specialised competences are required to value the real estate asset and to then restructure or complete the construction in order to sell the finished property for a profit.
- **Area # 3 – Ancillary companies**. It groups all companies which are "instrumental" to the first two areas i.e. which run for both group and third party clients the following businesses:
  - Corporate finance advisory services / Capital markets activities;
  - Wealth / Asset management services;
  - Fiduciary services / Trusteeship.

The whole group works as a gear mechanism, in which each sub-holding brings its own competences and plays a precise role in any deal origination / execution thus resulting in a synergic approach that has many positive angles:

- Higher number of business opportunities as CdR Advance is in the position to potentially look at the whole spectrum of distressed situations opportunities;
- Lower execution costs;
- Higher potential return from the investment as CdR Advance can exploit the whole hidden value by requalifying the whole asset rather than just simply trading it;
- Higher number of potential exit opportunities, which on one side increases the likelihood to close the deal with high margins and on the other side reduces the probability of excessive delays.

Group Synergies with the traditional investments in "movable" assets

	Investment opportunities	Cost reduction	Exit opportunities
Real Estate b.u.	Investments in distressed companies with significant real estate assets in their balance sheet.	Internalization of marginality, overseeing the entire process of intervention, requalification and facility management.	Sale of the requalified real estate, with focus on the social housing market-
Fiduciary	Facilitates interventions in situations that require shareholders' agreements or similar pacts.	Savings in administrative expenses, centralizing the bureaucracy and consequently simplifying its treatment.	Not relevant
Corporate Finance	Investments in minor procedures where there is an industrial asset still in activity, as advisory services can find a buyer more easily	Internal advisory on restructuring plans and diversification effect that allows to spread fixed costs on more activities.	New potential buyers from the business network of industrial players advised, even for future securitization products
Dynamic Individual Asset Management (Advance SIM)	Not relevant	Funding capabilities and network of investors should decrease the cost of funding of the company	Deals with the distribution of CdR Advance's products to investors.
Securitization	Investments in more types of credits, given the possibility to structure and sell them in diversified bundles.	Not relevant	New exit opportunity through the sale of diversified instruments, instead of the ownership of the entire credit.

Source: Value Track Analysis

Main steps of CdR Advance investment process

If we consider the typical investment process for an investment in "movable" assets, we can distinguish the following steps:

- **Step 1** – Scouting of potential investments done by lawyers or other professionals, which signal the opportunity to CdR Advance;
- **Step 2.a** – In case the opportunity is represented by a severe financial distress situation, i.e. the debtor has gone bankrupt and a judicial procedure is currently undergoing, CdR Advance group may submit itself as a third-party actor with a bankruptcy agreement offer. If the offer is accepted, CdR Advance pays a certain percentage of nominal credit to creditors in exchange for receiving debtor's assets;
- **Step 2.b** – In case instead the opportunity is represented by operational distress, CdR Advance group may buy the NPL from creditors (usually banks) in order to get the right to vote in a settlement with creditors (or a debt restructuring plan);
- **Step 3** – Possibly, the NPL is added into a diversified security issued on the market (securitization) and look for co-investors. CdR Advance group does it through the controlled subsidiary CdR Securities, and not many competitors are able to do the same.

While this process may seem quite standard, the real differentiation of CdR Advance business model from its competitors is clearly visible in investments in which there is presence of "non-movable" assets.

Indeed in these cases CdR Advance group subsidiaries do not only interact with each other in order to inform about the opportunity, but they also work on different steps of the same project.

The clearest example of this functional interchange between affiliates is represented by a typical investment in a bankrupt company with relevant unfinished real estate assets. In this case, the main business model steps are:

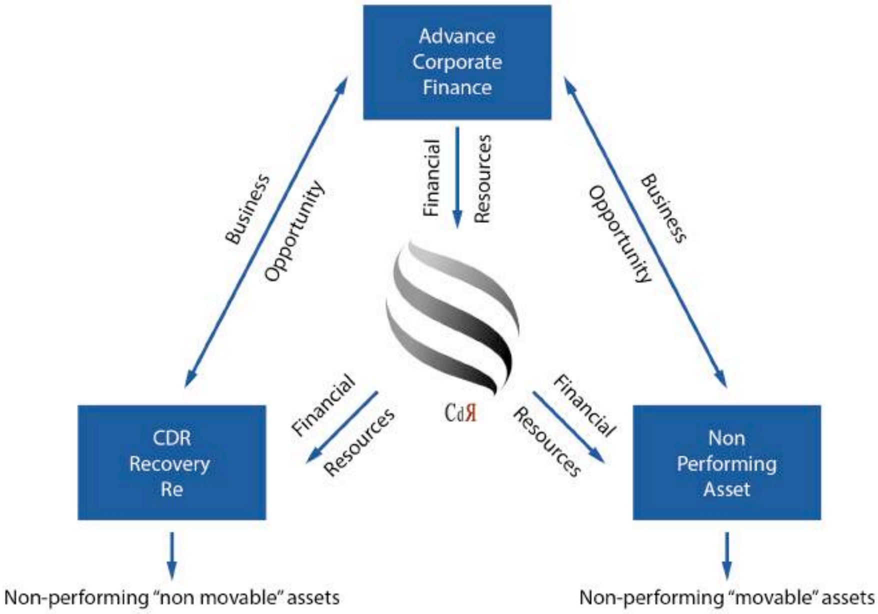
- **Step 1** – A potentially interesting "troubled" and unfinished real estate asset is targeted;
- **Step 2** – First analysis of current asset situation, to evaluate the opportunity and discover who the debtor is and which are the creditor banks;
- **Step 3** – Once the opportunity has been scouted and deemed worthy of investing, CdR Recovery RE submits an offer of bankruptcy agreement (in case the debtor is already gone bankrupt) or offers to buy the credit from banks. If the proposal is accepted, CdR Advance pays down creditors and acquires the target asset;
- **Step 4** - Abitare Smart is assigned the goal to ultimate the construction of the unfinished real estate asset, leveraging the specific competence of the firm;
- **Step 5** - "Dimore Evolute" intervenes too, stipulating a contract with "Abitare Smart" for the servicing and facility management of the deal.

As an effect, all the hidden value potential of the deal is gained and each step of the project is handled by the subsidiary with the best know-how, thus minimizing execution risks.

Summing up, we believe that the key differentiation point between CdR Advance and its competitors is the fact that while traditional players are just "asset-traders", on the contrary CdR Advance aims to bring back to a "in-bonis" status the asset underlying the NPL thus willing to accept longer investment periods in exchange for higher margins.

Here follows a graphical representation of how group companies work together in the origination, funding and execution of the various investment deals.

CdR Advance – Business Model Overview



Source: Value Track Analysis

IRR Analysis and potential of a typical deal

As seen above, the business model of CdR Advance Capital is project-centric (or deal-centric), as for all the business opportunities screened, just a fraction is deemed profitable and worth of an offer, and just a small portion of the offers presented actually win the deal.

This business model makes the short and medium-term economic results of the company extremely dependent on:

- Number of deals closed;
- Return (IRR) on each deal closed, which in turns is a function of:
  - Cash Multiple i.e. the multiple of cash invested by the group relative to both the proceeds derived during the investment period and at exit;
  - Time needed to exit each deal;
- Abort costs i.e. those scouting costs incurred in connection with the activities of evaluation and negotiation of any investment opportunity that do not lead to a deal because in-depth analysis returns a not interesting return potential.

For a company such as CdR Advance, that has a limited funding capacity, this business model has both pros and cons.

On the pros side we have the possibility to look at "minor" deals, those too small for the big market players. This means lower competition but potential proceeds that are not negligible to CdR Advance.

On the cons side, the impossibility to process a sizeable number of deals prevents CdR Advance to benefit from any diversification effect, meaning that its short-term results will be less predictable vis-à-vis a bigger firm, as its sensitivity on every single deal is enhanced.

Modelling CdR Advance Capital Group's value creation capability

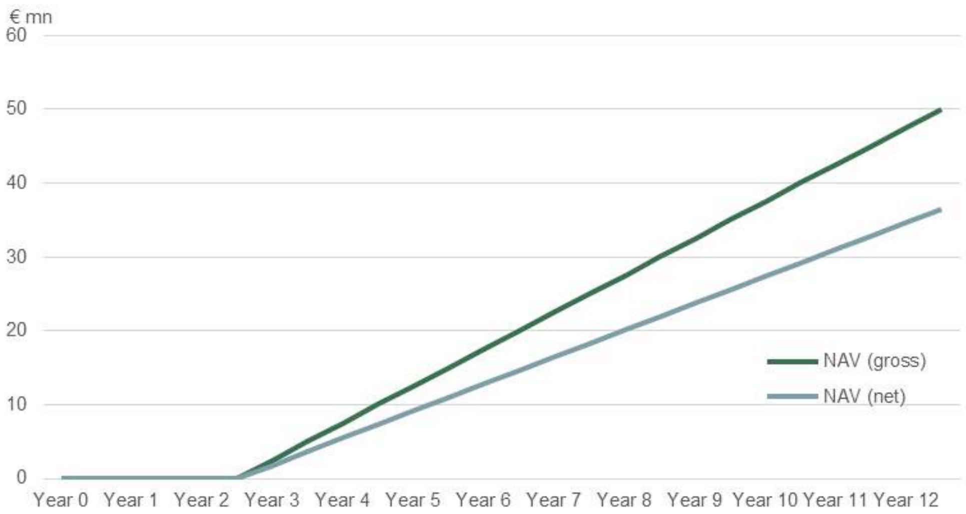
Based on what we said so far it's possible to rollout a base case model of CdR Advance's value creation capability. Our main assumptions are:

- One €2.5mn deals per semester i.e. €5mn average annual investment flow;
- Cash multiple of 2x i.e. €1mn invested in a deal generates €2mn proceeds, gross of a 27% tax rate;
- Three years time to exit a single deal;
- Abort costs equal 3% of the invested amount in each deal.

Overall, within this cost-free funding scenario we would expect CdR Advance to generate a ca. **26% gross of tax IRR** (ca. **18% net of tax IRR)** and its NAV to grow steadily and constantly after each transaction is finalized thus reaching a €10mn level within the fifth year of the investment activity.

From that point on, basically every three years €10mn of additional Net Asset Value is generated.

NAV progression: base case scenario



Source: Value Track Analysis

Sensitivity analysis

The previous base-case model provides an insightful message on the company operating potential in stable conditions, but it should be seen just as an analytical exercise designed just for that scope, since the level of unpredictability in the business makes it not mathematically applicable for accurate estimates.

What can be even more insightful in presence of high uncertainty is actually a hint on how our base-case model is impacted by changes in underlying hypothesis. For this purpose, we run a sensitivity analysis of the variables that are involved: 1) IRR (both gross and net of taxes and costs), 2) Time needed to generate €10mn NAV (net), 3) NAV (net) created in five years after the first investment.

The scenarios used for this analysis consider changes in:

- **Money multiplier**. This proxies the ability of CdR Advance to find undervalued assets and to sell them for attractive profits, as well as possible deviations in the market conditions (e.g. an increase in competition that could harm the profitability of the business);
- **Time to exit an investment**. This one is instead a proxy of the availability of exit opportunities, as well as unpredictable delays in legal procedures etc.

In this way, a combination of a money multiplier lower than the current base-case one, along with lengthier time to exit an investment, represent worst case scenarios, while vice versa higher money multiplier plus quicker time to exit represent best scenarios for CdR Advance. Please notice that all the scenario combinations considered still rely on the remaining hypothesis of the base case, i.e. the company "starting from zero" at year zero, 27% tax rate, 3% abort costs and one €2.5mn deal per semester.

Briefly summarising, the worst-case scenario we assume for the company would lead to poor IRRs, 11% gross and 6% net, €2.7mn net NAV created after five years and nine years necessary to reach a €10mn net NAV.

On the contrary, in a best-case scenario the company would reach: 58% and 42% gross and net IRRs, €19.2mn net NAV created in five years and about three and a half year to reach €10mn net NAV.

Again, we stress that these simulations are just a theoretical exercise.

IRR (gross of tax, %) - Sensitivity to Time to exit and to Money multiplier

		Time to exit (years)		
		2 yy	3 yy	4 yy
Money Multiplier (x)	1.5. x	22%	14%	11%
	2.0 x	41%	26%	19%
	2.5 x	58%	36%	32%

Source: Value Track Analysis

IRR (net of tax, %) - Sensitivity to Time to exit and to Money multiplier

		Time to exit (years)		
		2 yy	3 yy	4 yy
Money Multiplier (x)	1.5. x	14%	9%	6%
	2.0 x	29%	18%	16%
	2.5 x	42%	26%	23%

Source: Consensus estimates, Value Track Analysis

NAV created in 5 years (net of tax, €mn) - Sensitivity to Time to exit and to Money multiplier

		Time to exit (years)		
		2 yy	3 yy	4 yy
Money Multiplier (x)	1.5. x	6.4	4.6	2.7
	2.0 x	12.8	9.1	5.5
	2.5 x	19.2	13.7	11.0

Source: Value Track Analysis

Time to reach €10mn NAV (net of tax) - Sensitivity to Time to exit and to Money multiplier

		Time to exit (years)		
		2 yy	3 yy	4 yy
Money Multiplier (x)	1.5. x	7.0	8.0	9.0
	2.0 x	4.5	5.5	6.5
	2.5 x	3.5	4.5	5.0

Source: Value Track Analysis

Some examples of deal originated and executed by CdR Adavance Capital group

Here we list some operative transactions that CdR Advance undertook in the past, with the purpose to clarify with examples which kind of opportunity the company looks at:

- "**BCC Cherasco**" – back in 2012, the company (at that time called Compagnia della Ruota) bought from a local bank (BCC Cherasco) a package of NPL with a nominal value of € 3 mn, paying immediately ca. € 90,000. Analysing the company documents of the following years, we calculated that CdR Advance has collected by now at least € 116,000 from the debtors;
- "**Teknoenergy**" – in 2013, the company advanced an offer to buy the troubled Teknoenergy Srl, with a € 1.65 mn investment, within a procedur of in-court settlement with creditors. In the balance sheet of the company, there were patents, goodwill, brand, movable assets and real estates. For this last item in particular the company already identified a third player interested in renting the asset, with an option to buy it after three years. Despite all this, the operation is an example of missed opportunity, as the company had not been able to win the approval of the creditors;
- "**Bovisa" securitisation** – is the first securitisation made by the subsidiary CdR Securities, which in 2015 bought NPL from Banca Monte dei Paschi di Siena for € 3.7 mn, corresponding to a nominal value of € 17.4 mn. The credits have underlying warranties, either real assets or personal guarantees. The structured ABS corresponding to the operation were issued in late 2016. This operation is complementary with the following one (i.e. "Fine Arts"), as the debtor of the credit bought from MPS was actually Fine Arts Srl;
- **"Fine Arts"** – This is the typical example of CdR's "modus operandi" in the filed of troubled real estate assets. As such, this deal is worth a dedicated chapter (see next page);
- **New Single Name** - Back on June 5th CdR Advance Capital has announced a €2.0mn investment for the acquisition of a single name loan worth €4.2mn nominal value whose underlying asset is a residential building under construction located in Milan (Viale Certosa).

Fine Arts deal

Back in June 2015, CdR Advance submitted an offer of bankruptcy agreement within the insolvency procedure regarding Fine Arts Srl.

Such a proposal has been eventually accepted as of March 2016 and led to the transfer of company's liabilities, worth ca. €3.8mn, to CdR Advance Group, alongside the assignment of the respective assets, composed by a building under-construction in the periphery of Milan (Via Cosenz) and a tax credit worth €2.9mn.

The tax credit has been recently cashed in while the building is under finalisation (due date is April 2018) and commercialisation is proceeding well with more than 70% of available flats being already sold as of March 2017.

Overall the deal should generate an operating margin of roughly €8mn out of the €5.1mn initially invested. Taking into consideration the timeline of cash in / cash out amounts, **we estimate an IRR before tax close to 70% in less than three years**.

Fine Arts deal: Timeline of cash in / out events and Operating Margin

Action	€mn
Initial cash out	-5.1
Tax credit cash in	3.3
Building finalisation	-7.8
Expected cash in from apartments disposal	17.5
Operating Margin (gross of taxes)	**7.9**

Source: CdR Advance, Value Track Analysis

Fine Arts deal: Bookings and rendering of Via Cosenz building

Bookings of Via Cosenz building

Rendering of Via Cosenz building

Source: CdR Advance, Value Track analysis

Growth Strategies

We believe CdR Advance Capital group has the possibility to start a virtuous cycle where outstanding track record lead to improved funding capability and this drives more and more business opportunities among which to choose the most profitable ones.

On this regard, we would view as extremely helpful the positive finalization of the deal with Borgosesia SpA.

If so the next chapter in the company's history is probably the evolution from direct and sole investor in special situations to a fully integrated illiquid asset management group structuring products in which to co-invest with other investors.

We have already underlined in details about the unpredictable feature of the distressed situations investment business for a small company. That's why we believe the first priority for CdR Advance from now on is to increase its size.

Increasing its size, the firm could be able to talk with more and more of players on the primary market, e.g. banks willing to sell their NPL, which are not interested now in dealing with CdR Advance as it wouldn't move the needle for them. Opportunities will consequently allow further expansion, thus triggering a virtuous cycle of growth.

We believe that as far as this point is concerned, a special attention is deserved to Borgosesia deal.

CdR Advance Capital Grup – Borgosesia SpA deal

A step back. Recap on CdR Advance Capital – Borgosesia SpA "affair"

We already hinted in a previous paragraph that CdR Advance Capital group acquired its current stake in Borgosesia SpA, a holding company listed on the Italian Stock Exchange, with the possible idea to merge the two groups, an idea that has underwent some stop-and-go's.

Indeed, back on November 30th, 2015 Borgosesia SpA announced a voluntary liquidation procedure but CdR Advance filed an official claim to Florence Court as it judged the liquidation not in the company's interest. It was only on June 14th, 2016 that CdR Advance Capital and Borgosesia SpA's main shareholder (Bini Group) signed a complex agreement whose main features were:

- Set up of a binding Shareholder's pact representing 87.8% of voting rights;
- Conferral to CdR Advance Capital of the Borgosesia SpA's debt restructuring task;
- Promise to finalize the merger between CdR Advance Capital group and the MTA listed vehicle.

Technicalities of the promised deal

The main steps of such deal that should be finalized within 2017 year end are:

- **Step 0 - Approval of Borgosesia SpA's debt-restructuring plan.** Back on March 16th, 2017 Borgosesia SpA's financial creditors approved the proposed debt-restructuring plan. This was a necessary step in order to go on with any type of deal.
- **Step 1 - Establishment of NewCo**. Conferral of all Borgosesia SpA's assets and liabilities, with the exception of Borgosesia SGR and Giada Srl, to a NewCo (called Kronos) aimed at:
  - Disposing existing assets;
  - Settling pending liabilities;
  - Distributing any residual cash to shareholders.
- **Step 2 - Public Exchange Offer.** Borgosesia SpA should promote a voluntarily Public Exchange Offer between its shares and Newco's ones. According to the binding shareholder's pact signed by

CdR Advance and Borgosesia's majority shareholders (Bini Group), the latter is obliged to contribute its shares to the Offer on the contrary of CdR Advance Capital Group that, as a result, should acquire Borgosesia SpA's control with ca. 85% of shares.

- **Step 3 - Withdrawal of Borgosesia SpA's voluntarily liquidation procedure.** The "new" Borgosesia SpA is expected to withdraw its voluntarily liquidation procedure and to reshape its business model on non-performing assets investment.
- **Possible merger of CdR Advance with Borgosesia.**

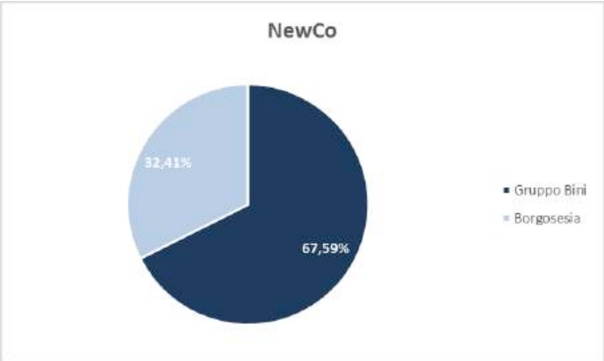
Our view on the deal

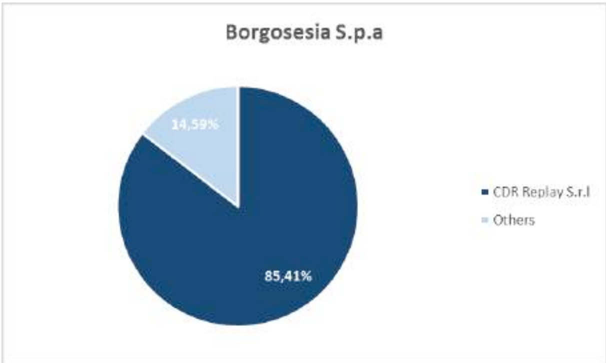
In our view the deal could be a cornerstone in the history of CdR Advance and, at the same time, it could also be considered a typical example of investment in the Operating Distress area.

We see many positive points for CdR Advance Capital group:

- If merged with Borgosesia SpA the company would automatically become listed on the official Borsa Italiana's MTA Stock Market thus getting access to a wider number of institutional investors and increasing its business model flexibility as MTA listed companies are granted by Bank of Italy special exemptions in order to run investment activities with lower compliancy needs;
- After the finalization of NewCo assets disposal / liabilities settlement, there's the possibility to get some extra cash;
- The deal would require only minor expenses.

NewCo and Borgosesia shareholders' base after the proposed share swap deal





Source: Value Track analysis

Other growth strategies

Except for the natural finalization of the deals currently undergoing it is very difficult to forecast with precision which type of deals the company will come across in the foreseeable future. Nonetheless, we recognize that CdR Advance undertook choices that can now be leveraged to address a more opportunities than in the past:

- Thanks to CdR Securities, the company can share the outflows with other investors, selling structured securities to fund, at least partially, a transaction;
- The mechanism of functional interchange, combined with the incorporated capabilities of direct real estate management, is a key differentiator that constitutes a competitive advantage in a large number of deals;
- After the closing of Borgosesia agreement, the company would add dynamic" aggregated asset management services, (i.e. a SGR involved in the investing and administration on investor name

and on his behalf of securities, stocks, bonds and other movables) to its portfolio, through which it can improve the structuring of financial products addressed to third-party investors.

Medium-Term vision: A fully integrated illiquid asset management company

All the previous points lead to the same conclusion: the next chapter in the company's history is probably the evolution from direct and sole investor in special situations towards a fully integrated illiquid asset management group that scouts the investment opportunities, finds the proper way to transform the assets from non performing to performing and organizes the funding of the deal where third parties (institutional investors, family offices and so on) should put the most of the money needed. CdR Advance would remain as a minor co-investor and as Management and Advisor Company.

Long-Term shot: Adding a banking license

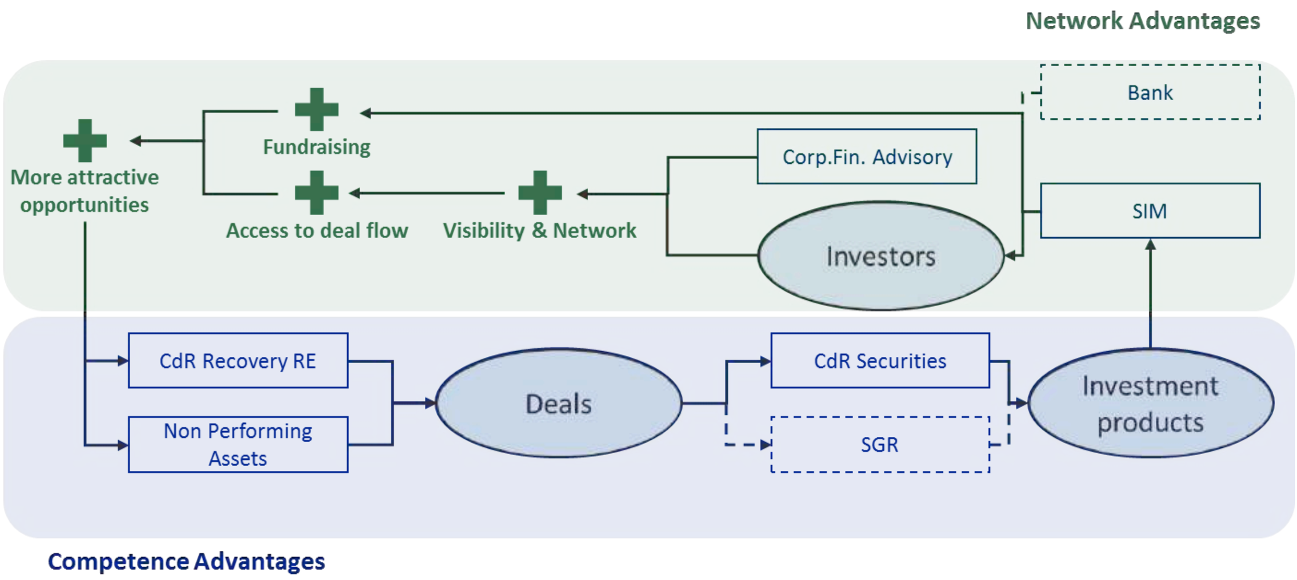
Always with the goals to access more opportunities, attract investors and diversify the sources of funding, a final step with a longer time horizon would be the acquisition of a banking licence (or a small bank), with which to reduce the cost of funding by accessing both private deposits and wholesale interbank lending market.

This should complete the portfolio of internalized competences, which we remind currently are:

- "Static" asset management services (Figerbiella) i.e. fiduciary services such as registration and administration, on fiduciary name on behalf of the settlors, of securities, stocks, bonds and other movables;
- "Dynamic" individual asset management services (Advance SIM), i.e. investing and administration on investor name and on his behalf of securities, stocks, bonds and other movables;
- Securitisation services (CdR Securities).

The prospective deal flow of the company, once completed, might look like the following:

CdR Advance future deal flow



Source: Value Track Analysis

Historical Financials

As far as recent financial results are concerned, in our view, three are the main points to be underlined: 1) the Revenues contribution of the Distressed assets investment activity that embeds the positive evolution of Fine Arts deal; 2) the fact that "Fee driven" businesses (mainly advisory, capital markets, fiduciary, facility management and other services) are progressively acquiring a material size also thanks to the acquisitions of Advance Corporate Finance and 3P SIM now merged under a single entity; 3) the evolution of Net Equity that has nearly tripled in four years. And we remind that due to accounting principles, Total Shareholders' Equity and Net Asset Value are equivalent.

Disclaimer

Unfortunately, CdR Advance Capital Group's financials are not very straightforward to be interpreted. This is not the result of a lack of transparency but rather the combined effect of:

- The intrinsic nature of investment activity that would probably better fit with holding / financial reporting schemes rather than with industrial ones based on EBITDA or OpFCF;
- IFRS – IAS accounting principles. Indeed, accounting distressed assets at market value (and moving from a liquidation perspective to a on going concern one) implies the almost automatic creation of P&L capital gains even if real cash flow generation lags two or three years;
- The accounting treatment of Real Estate assets that have to be booked among Net Fixed Assets if their disposal is due to come only in the medium long term and have to be moved in Inventories if their disposal is due to come in the short term. This adds volatility to the Value of Production line.

Revenues evolution and structure

As we said before, we can distinguish two types of businesses in CdR Advance Capital perimeter:

- The **distressed assets investment activity** which is so far characterised by non-recurring deals (single names assets) that imply material capital employed and high volatility in contribution to Group results;
- A **"fee driven" activity** (mainly advisory, capital markets, fiduciary, facility management and other services), which are by definition characterised by very low capital employed and medium volatility in contribution to Group results.

CdR Advance Capital Group: 2012A-16A Revenues structure and evolution

(€)	2012	2013	2014	2015	2016
Fair Value adjustment of distressed assets investments	377,323	3,500	0	3,415,617	1,471,859
Real Estate Revenues (incl. Cosmo Seri deal)	0	0	186,282	133,827	714,991
Fiduciary services	127,963	134,104	128,399	110,790	103,918
Advisory Services	0	243,500	8,033	544,600	755,771
Facility Management services	0	0	0	350,000	700,000
Other Services	0	0	47,839	20,929	547,665
Operating Revenues	**505,286**	**381,104**	**370,553**	**4,575,763**	**4,294,204**
Change in inventory, raw materials, etc.	0	0	-51,049	20,765	-464,039
Value of Production	**505,286**	**381,104**	**319,504**	**4,596,528**	**3,830,165**

Source: CdR Advance Capital, Value Track Analysis

While the Revenues contribution of the distressed assets investment activity has remained much higher in the recent past (in 2016FY some €1.6mn came from Fine Arts deal), we note that the "fee driven" business is progressively acquiring a visible size (ca. €2mn Revenues in 2016FY). This is also due to the acquisitions of Advance Corporate Finance and 3P SIM (see previous paragraphs for more details on this point) now merged under a single entity.

CdR Advance Capital Group's P&L at a glance

Even if we remind that EBITDA is more the result of Real Estate assets mark to market rather than of the difference between Sales and Operating Expenses, however we believe that it is useful to track the growth of this figure as it demonstrates that business is gaining momentum. And in the long run EBITDA becomes real cash (before tax), sooner or later.

CdR Advance Capital Group: 2012A-16A P&L key items

€	2012	2013	2014	2015	2016
Value of Production	505,286	381,104	319,504	4,596,528	3,830,165
EBITDA	139,569	61,061	-1,339,151	1,917,129	2,863,043
EBIT Adj. i.e. Operating Result	167,019	35,823	-1,586,655	1,967,044	2,836,832
Pre-tax profit	228,284	73,266	-1,249,141	2,114,236	2,176,894
Taxes	-12,090	79,730	699,234	57,444	-1,167,278
Group Net profit before minorities	216,194	152,996	-549,907	2,171,680	1,009,616
Minorities	0	36,422	902,972	401,191	213,861
Net Profit (Loss)	**216,194**	**189,418**	**353,065**	**2,572,871**	**1,223,477**

Source: CdR Advance Capital, Value Track Analysis

A different view at company's P&L is based upon the contribution of "Core activities" (Distressed investments) and "Non Core activities" (Corporate Finance services, Capital Markets, Fiduciary Services) to Group's Operating Profit.

Such a view highlights how in 2016FY the most of the contribution to Group's Operating Result has been generated by Core activities. This is intrinsic to the nature of the fee driven business where the agreements with the management foresees that most of Gross Profit generated is distributed as variable component of the remuneration policy.

CdR Advance Capital Group: Contribution of "Core" and "Non Core" activities to 2016A P&L

(€ '000)	Core	Non Core	Group
Gross Value of Production	12,794	868	--
Op. Expenses	-8,573	-736	--
Operating Result	**4,221**	**132**	**4,353**
G&A Costs	--	--	-1,049
Group Operating Profit	--	--	**3,304**
Net Fin. Charges	--	--	-914
Pre Tax Profit	--	--	**2,390**
Taxes	--	--	-1,167
Net Profit	--	--	**1,223**

Source: CdR Advance Capital, Value Track Analysis

Group Balance Sheet and Capital Structure

Analysing CdR Advance Capital's Balance Sheet we note that Net Fixed Assets steadily grew in the latest fiscal periods as long as Fine Arts deal has been positively brought trough.

More important is the evolution of Group Net Equity that, despite dividend distribution, has nearly tripled in four years. This is a proof of the quality of the business model, indeed we remind that due to accounting principles the Net Equity is marked to market every year in its Distressed Assets component. As such, **Total Shareholders' Equity and Net Asset Value are equivalent**.

CdR Advance Capital Group: 2012A-16A Balance Sheet key items

€	2012	2013	2014	2015	2016
Net Fixed assets	4,101,579	8,553,073	13,217,331	14,914,638	23,489,599
Net Working Capital	36,369	-31,573	2,582,869	2,637,372	3,315,389
Severance pay and other funds	19,675	26,788	444,293	1,319,571	1,972,049
Total Capital Employed	**4,118,273**	**8,494,712**	**15,355,907**	**16,232,439**	**24,832,939**
Total Shareholders' Equity (i.e. Net Asset Value)	**7,874,622**	**8,382,564**	**13,430,369**	**17,174,136**	**18,306,798**
Minorities' Equity	0	3,164,241	2,261,270	1,860,079	1,646,219
Group Net Equity	**7,874,622**	**11,546,805**	**15,691,639**	**19,034,215**	**19,953,017**
Net Fin. Position [Net debt (-) / Cash (+)]	**3,756,349**	**3,052,093**	**335,732**	**2,801,776**	**-4,879,922**

Source: CdR Advance Capital, Value Track Analysis

From an accounting point of view, the above mentioned positive evolution has substantially implied a worsening of the Reported Net Financial Position. Indeed, the Court approval of the bankruptcy agreement proposed by the Group for Fine Arts implied that €7.1mn fair value of financial credit due from the bankruptcy procedure (and accounted as a cash equivalent) were reclassified within Net Fixed Assets as representative of the fair value of the underlying real estate asset, i.e. Via Cosenz building.

CdR Advance Capital Group: Structure of Net Financial Position 2012A-16A

€	2012	2013	2014	2015	2016
Cash and deposits (+)	3,757,336	3,052,093	6,475,563	3,465,552	4,448,352
Short term financial credits (+)	0	0	150,000	381,285	2,189,224
HFT Securities (+)	0	0	0	3,434,705	1,482,659
Debt to Banks within 12 months (-)	-987	0	-250,931	-270,454	-253,163
Other current financial debt (-)	0	0	-151,780	-2,897,860	-312,827
Current Net Financial Position	**3,756,349**	**3,052,093**	**6,222,852**	**4,113,228**	**7,554,245**
Long term financial credits (+)	0	0	55,182	7,573,252	59,520
Debt to Banks over 12 months (-)	0	0	-1,503,475	-1,416,054	-1,298,315
Bonds (-)	0	0	-4,438,827	-7,468,650	-11,195,372
o/w Conv. 2014/19 (N.V. €4.95mn)			-4,438,827	-7,468,650	-11,195,372
Conv. 2015/21 (N.V. €4.95mn)				*-4,543,545*	*-4,652,169*
Conv. 2016/22 (N.V. €4.95mn)				*-2,925,105*	*-4,331,299*
NPL IT Opp. 2016/21					*-1,776,548*
Non-Current Financial Position	**0**	**0**	**-5,887,120**	**-1,311,452**	**-12,434,167**
Net Fin. Position [Net debt (-) / Cash (+)]	**3,756,349**	**3,052,093**	**335,732**	**2,801,776**	**-4,879,922**

Source: CdR Advance Capital, Value Track Analysis

Cash Flow Statement

Again, we note that the intrinsic nature of distressed investment activity would probably better fit with holding / financial reporting schemes rather than with industrial ones based on EBITDA or Cash Flows. Indeed, investing (thus fostering the Capital Employed figure) is the mission of the Group, provided that returns are positive and increase Net Equity.

CdR Advance Capital Group: 2012A-16A Cash Flow Statement

€	2012	2013	2014	2015	2016
Initial Cash	**56,773**	**3,757,336**	**3,052,093**	**6,475,563**	**3,465,552**
Cash Earnings i.e. Net Profit adj. for non monetary items	**-61,903**	**-479,836**	**361,260**	**4,470,705**	**561,325**
Op. WC needs	-89,820	67,942	-2,614,442	-54,503	-678,017
Net Investments (Tang.+Intang.+Financial)	-704,980	-292,362	-148,098	-1,711,676	-7,235,628
Dividends paid	0	0	-315,081	-300,226	-329,378
Capital Injections	4,556,279	0	0	61,744	0
Change in Net Fin Position	**3,699,576**	**-704,256**	**-2,716,361**	**2,466,044**	**-7,681,698**
Debt repayments	0	-987	0	-87,421	-2,720,063
Net New Debt commitment	987	0	6,345,013	5,795,426	3,726,722
Net Change in financial credits and securities	0	0	0	-11,184,060	7,657,839
Change in Cash available	**3,700,563**	**-705,243**	**3,628,652**	**-3,010,011**	**982,800**
Ending Cash	**3,757,336**	**3,052,093**	**6,475,563**	**3,465,552**	**4,448,352**

Source: CdR Advance Capital, Value Track Analysis

Forecasted Financials

We expect the "fee driven" business to keep growing in size with the bulk of the growth coming from the newly merged Advance SIM held at 51%. At the same time we expect the Distressed assets Business Unit to keep recording outstanding results, out of which 2017E are characterized in our view by a high visibility. In particular, the positive finalization of Via Cosenz residential units' disposal should turn a higher than €10mn Net Debt position as of 2017YE into a ca. breakeven Net Debt position as of 2018E year end. This should support a dividend distribution further increased if compared to historical levels.

Introduction

Taking into account the difficulties we highlighted before in building and interpreting CdR Advance Capital Group's financials, i.e. the necessity to apply IFRS-IAS based industrial reporting schemes to distressed real estate assets investments, we believe that the best way to approach forecasts is to separately consider the two group of businesses we distinguished before:

- The **distressed assets investment activity** focused on "non-recurring" single names deals;
- The **"fee driven" activity** i.e. mainly advisory, capital markets and fiduciary services.

Fee driven Business

We expect the "fee driven" business to keep growing in size vs. the ca. €2mn Revenues recorded in 2016FY achieving ca. €2.65mn turnover in 2017E and ca. €3.0mn in 2018E.

The bulk of the growth should come the newly merged SIM (the previous Advance Corporate Finance and 3P SIM now merged under a single entity) whose main activities are: Corporate Finance, Capital Markets, Wealth Management, and Risk Management.

We note that based on the agreement with the various top managers running this business, the most of revenues are paid back to them as variable component of their remuneration package. As an effect, we estimate that the Operating Profit margin that CdR Advance Capital Group can consolidate stands at ca. 15% of the top line.

Fee driven business: 2017E-18E evolution at a glance

(€' 000)	2017E	2018E
Corporate Finance	1,200	1,000
Capital Markets	1,000	1,500
Wealth Management	150	200
Risk Management	300	300
Total Revenues	**2,650**	**3,000**
Top management fees	-1,855	-2,100
G&A	-398	-450
EBIT to CdR	**398**	**450**
As % of Revenues	15%	15%

Source: Value Track Analysis

Distressed Assets investment activity

Dynamics of P&L vs. Cash Flows for investments subject to IFRS-IAS40 accounting

The investment process that we described in previous chapters shows some peculiarities in terms of Profit & Loss vs. Cash Flow accounting, depending on the typology of deal / underlying asset.

In particular we note that on Tax Credits and Real Estate assets under construction (deriving from a non performing loan), IFRS-IAS40 accounting principle has to be applied and this means immediately booking at the P&L level the operating margin estimated to be gained on the deal even if it has to be cashed in only in future periods.

Let's assume, for instance, a €2mn investment in a non-performing credit with an underlying Real Estate Asset under construction bough at ca. 70% discount vs. the estimated €7mn potential revenue stream once the underlying real estate asset is properly finalized and commercialized. And let's assume that some €3mn opex are needed to finalize the real estate asset.

Based on IFRS-IAS principles, the immediate effect on the P&L would be as follows:

- According to Fair Value treatment the asset value must be written up to €4mn (i.e. potential Revenues net of estimated opex) as it has to be modified the accounting perspective, from a "liquidation" one to an "on going concern" one;
- After subtracting the €2mn NPL acquisition price, the company can immediately post about €2.0mn "non cash" EBITDA. Once booked taxes (e.g. 30% tax rate) we can calculate a €1.4mn positive Net Profit from the deal;
- In years two and three, i.e. as long as the real estate asset finalization goes on, the Value of Production generated is offset by opex so no additional impact on EBITDA arises.

P&L treatment of a "single name" investment subject to IFRS-IAS40 principle

(€mn)	Year 1	Year 2	Year 3	Total
Value of Production	**4.0**	**3.0**	**0.0**	**7.0**
Opex	-2.0	-3.0	0.0	-5.0
EBITDA	**2.0**	**0.0**	**0.0**	**2.0**
EBITDA margin (%)	50.0%	0.0%	nm	28.6%
Depreciation & Amortization	0.0	0.0	0.0	0.0
EBIT	**2.0**	**0.0**	**0.0**	**2.0**
Net Fin. Income (charges)	0.0	0.0	0.0	0.0
Pre-tax Profit	**2.0**	**0.0**	**0.0**	**2.0**
Tax	-0.6	0.0	0.0	-0.6
Tax rate (%)	-30.0%	nm	nm	-30.0%
Net Profit	**1.4**	**0.0**	**0.0**	**1.4**

Source: Value Track Analysis

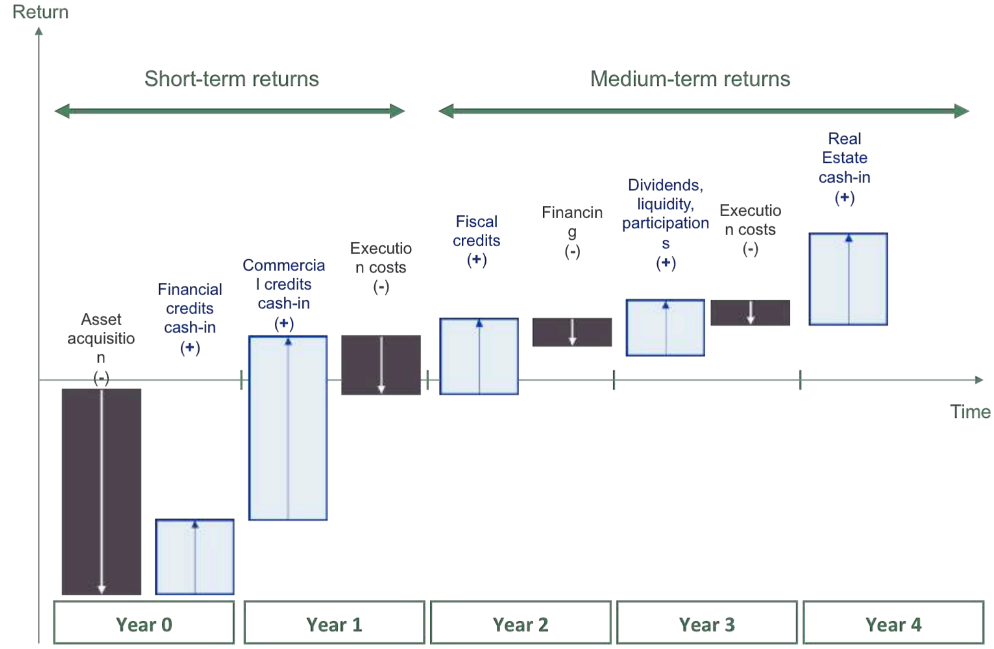
Looking at the same deal from a Cash Flow Statement point of view returns a different picture. Indeed, what is recorded is the cash out for the non-performing asset acquisition at time zero to be followed later by some further cash out for the above-mentioned operating expenses and by the cash in when the underlying assets are disposed.

Cash Flow treatment of a "single name" investment subject to IFRS-IAS40 principle

(€mn)	Year 1	Year 2	Year 3	Total
Earnings bef. Minorities and D&A	1.4	0.0	0.0	1.4
Working Capital Needs	-1.4	0.8	0.6	0.0
Capex (-)	-2.0	0.0	2.0	0.0
Net Cash generated	**-2.0**	**0.8**	**2.6**	**1.4**
Net Financial Position	**-2.0**	**-1.2**	**1.4**	**1.4**

Source: Value Track Analysis

Distresses investment deal timeline from a Cash Flow perspective



Source: Value Track Analysis

Dynamics of P&L vs. Cash Flows for investments not subject to IFRS-IAS40 accounting

Very different is the accounting treatment of other types of investments such as those in Real Estate assets held for trading and Revocatory actions. In these cases IAS40 doesn't apply and at P&L level only the difference between purchase price (among costs) and selling one (among revenues) is booked.

Forecasts for Distressed Assets investment activity

We remind that back on June 5th CdR Advance Capital has announced a €2.0mn investment for the acquisition of a single name loan worth €4.2mn nominal value whose underlying asset is a residential building under construction located in Milan. This deal should impact CdR Advance Capital Group figures starting as of 2017FY (we estimate slightly more than €2.0mn impact on Revenues and slightly less at the EBITDA one) and should add to additional €1.5mn of Revenues already secured and to be booked in FY17.

We believe that further negotiations for the acquisition of single names distressed loans are undergoing with the same features (underlying real estate assets under construction based in primary locations), and we estimate that in FY17 overall they should contribute to this Business Unit achieving a ca. €6.5mn top line figure. Taking into account some €1.5mn Opex we get to a contribution to CdR Advance Group Operating Result before G&A costs of roughly €5mn. As far as 2018FY is concerned, we are basing our forecasts on a conservative case of €7.5mn new investments to be financed via the placement of new bonds. We cannot rule out bigger deals if the risk / return profile is judged as interesting.

Distressed Assets business: 2017E-18E evolution at a glance

(€' 000)	2017E	2018E
Total Revenues	**6,500**	**7,500**
Opex	-1,500	-1,500
EBIT to CdR	**5,000**	**6,000**

Source: Value Track Analysis

CdR Advance Capital Group 2017E-18E estimates

2017E-18E P&L forecasts

Based on the above mentioned Business Units estimates and taking into account some more €1mn "Corporate" G&A costs, ca. €1mn Net Financial Charges (to increase in 2018E as an effect of the new bonds placed) and a ca. 30% tax rate we get to the following Group forecasts for 2017E and 2018E.

We underline that based on CdR Advance Capital Group dividend attribution policy and assuming a 100% payout ratio we can calculate forecasted Earnings and EPS for both A shares and B shares.

CdR Advance Capital Group: 2017E P&L forecasts at a glance

(€ '000)	Distressed BU	Fee Driven BU	Group
Revenues	6,500	2,650	9,150
Op. Expenses	-1,500	-2,253	-3,753
Operating Result	**5,000**	**398**	**5,398**
G&A Costs			-1,000
Group Operating Profit			**4,398**
Net Fin. Charges			-950
Pre Tax Profit			**3,448**
Taxes			-931
Net Profit before minorities			**2,517**
Add back Minorities			200
Reported Net Profit			**2,716**

Source: Value Track Analysis

CdR Advance Capital Group: 2018E P&L forecasts at a glance

2018FY (€ '000)	Distressed BU	Fee Driven BU	Group
Revenues	7,500	3,000	10,500
Op. Expenses	-1,500	-2,550	-4,050
Operating Result	**6,000**	**450**	**6,450**
G&A Costs			-1,000
Group Operating Profit			**5,450**
Net Fin. Charges			-1,300
Pre Tax Profit			**4,150**
Taxes			-1,121
Net Profit before minorities			**3,030**
Add back Minorities			200
Reported Net Profit			**3,230**

Source: Value Track Analysis

CdR Advance Capital Group: Net Profit to A and B shares in 2017E-18E

(€ '000)	2014FY	2015FY	2016FY	2017E	2018E
Group Net Profit	**353**	**2,573**	**1,223**	**2,717**	**3,229**
Net Profit to Legal Reserve	12	0.1	0	0.2	0
Net Profit to shareholders	341	2,572	1,223	2,714	3,229
o/w Net Profit pertaining to A Shares	**321**	**2,107**	**1,028**	**2,221**	**2,663**
and Net Profit pertaining to B Shares	**20**	**465**	**195**	**493**	**596**
EPS A shares	**0.0278**	**0.1759**	**0.0858**	**0.1740**	**0.2062**
EPS B shares	**0.0035**	**0.0776**	**0.0326**	**0.0773**	**0.0934**

Source: CdR Advance Capital, Value Track Analysis

2017E-18E Balance Sheet forecasts

Our 2017E-18E Balance Sheet forecasts are based on:

- The above mentioned P&L estimates;
- The implied cash needs to finalize the existing investment deals and to acquire new investment opportunities;
- Estimated €10mn cash in for the commercialization of Via Cosenz residential building;
- Some more €4mn cash in for divestitures;
- A dividend policy in line with company's By-Laws (see later on).

Overall we estimate a €12.5mn Net Financial Debt as of 2017E year end that should turn into a ca. breakeven Net Debt position as of 2018E year end thanks to Via Cosenz disposal.

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CdR Advance Capital Group: 2017E-18E Balance Sheet forecasts

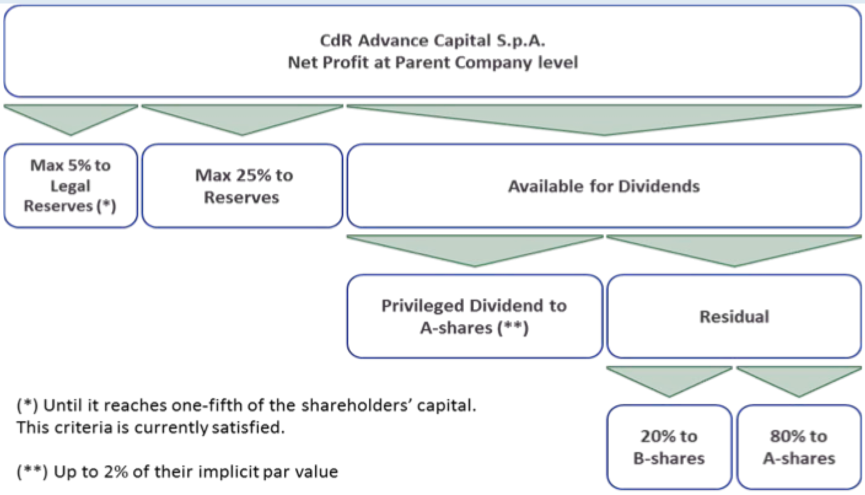
(€ '000)	2016A	2017E	2018E
Working Capital	3,315	8,301	13,638
As a % of Sales	86.6%	90.7%	129.9%
Net Fixed Assets	23,490	28,465	14,440
Provisions	1,972	1,972	1,972
Total Capital Employed	**24,833**	**34,794**	**26,105**
As a % of Sales	648%	380%	249%
Shareholders' Equity	18,307	20,847	23,859
Minorities' Equity	1,646	1,446	1,246
Group Net Equity	**19,953**	**22,294**	**25,105**
NFP [i.e. Net Debt (-) Cash (+)]	**-4,880**	**-12,500**	**-1,000**

Source: Value Track Analysis

2017E-18E Dividend estimates

CdR Advance Capital Spa has put in place a Dividend policy aimed at aligning the interests of investors and of top managers based on two share classes (A shares and B shares) entitled to receive dividends according to a sophisticated scheme. See the previous chapter of the report on this point.

CdR Advance Capital SpA: Dividend Policy



Source: Company By-Laws

Parent company's bottom line is quite unpredictable as it is driven by dividends from subsidiaries. However, we note that so far the company has been able to maintain a steady increase in DPS for both A and B shares. We forecast that also in 2017E-18E there will be a slight improvement in absolute dividend distribution.

CdR Advance Capital Group: DPS calculation for A and B shares

€, except shares data		2014FY	2015FY	2016FY	2017E	2018E
Parent Company Net Profit	**(a)**	**842,678**	**446,757**	**604,642**	**550,000**	**650,000**
To Legal Reserve	(b)	12,166	1,149	0	2,292	0
As % of (a)		1.4%	0.3%	0.0%	0.4%	0.0%
To non distributable reserve	(c)	701,864	45,608	173,893	110,000	162,500
As % of (a)		83.3%	10.2%	28.8%	20.0%	25.0%
Net Profit available for distribution	(d)=(a)-(b)-(c)	128,648	400,000	430,749	437,708	487,500
To Extraordinary reserve	(e)		70,622	45,625	20,000	40,000
As % of (d)			17.7%	10.6%	4.6%	8.2%
Net Profit to be distributed	**(f)=(d)-(e)**	**128,648**	**329,378**	**385,124**	**417,708**	**447,500**
Distribution to A shares of 2% of Par Value plus Premium Reserve						
Par Value	(g)	102,624	106,453	106,453	114,092	114,092
Premium Reserve	(h)	11,898,008	12,242,149	12,242,149	12,242,149	12,242,149
Total	(i)=(g)+(h)	12,000,632	12,348,602	12,348,602	12,356,241	12,356,241
To A shares @ 2.0%	(j)=(i)*2.0%	128,648	246,972	246,972	247,125	247,125
Distribution to A and B shares of remaining Net Profit						
Remaining Net Profit	(k)=(f)-(j)	0	82,406	138,152	170,583	200,375
To A shares @ 80.0%	(l)	0	65,925	110,522	136,467	160,300
To B shares @ 20.0% (if A shares are satisfied)	(m)	0	0	27,630	34,117	40,075
Distribution to A and B shares of accrued available reserves						
Now available reserves to be distributed		171,667	16,481			
To A shares @ 80.0%		171,667	16,481			
To B shares @ 20.0%		0	0			
A Shares Total Dividends	**(n)=(j)+(l)**	**300,315**	**329,378**	**357,494**	**383,592**	**407,425**
B Shares Total Dividends	**(m)**	**0**	**0**	**27,630**	**34,117**	**40,075**
Number of A shares outstanding at distribution	(o)	11,547,149	11,977,388	12,767,624	12,767,624	12,767,624
Number of B shares outstanding at distribution	(p)	5,773,574	5,882,018	6,383,811	6,383,811	6,383,811
DPS A shares	**(q)=(n)/(o)**	**0.0260**	**0.0275**	**0.0280**	**0.0300**	**0.0319**
DPS B shares	**(r=(m)/(p)**	**0.0000**	**0.0000**	**0.0043**	**0.0053**	**0.0063**
Pay-out (% on Parent Company Net Profit)		**36%**	**74%**	**64%**	**76%**	**69%**

Source: CdR Advance Capital, Value Track Analysis

Valuation

Valuation summary

We remind that CdR Advance Capital Group share capital is made of two class of shares, A shares and B shares with different rights in terms of dividend / earnings attribution. Only A shares are listed, while B shares are privately held by CdR's top management.

That said, we assess the value of both A and B share classes applying three different valuation methodologies, out of which one mixed earnings-equity based and two purely equity based:

- **Residual Income Model (R.I.M.)**, i.e. adding to Net Asset Value the present value of future profits exceeding the estimated charge/cost of equity capital;
- **Net Asset Value** methodology cross checked with ROE and based on a panel of companies sharing some business model features with CdR Advance Capital Group;
- **Sum-Of-the-Parts** methodology separately assessing the value of fee driven business, Borgosesia SpA stake and non-performing assets activity.

Averaging the three above mentioned methods we get to a **€1.59 fair value per A shares that compares with the current €0.94 market price**. This imply a ca. 70% upside potential before taking into account possible small size / liquidity discount.

As far as the non listed B shares, we calculate an average €0.47 per share fair valuation, but we note that while pure backward looking equity based methods return a much lower value, on the opposite forward looking methods such as R.I.M. return a much higher valuation. This effect can be explained with the expected future ramp up of business (and profits) that progressively overshadows the historical disproportion between the Equity (i.e. NAV) reserved to A shareholders and the one reserved to B shareholders. For the sake of clarity we underline that Fair Values of A and B shares are not to be added each other on a 1:1 basis as they are calculated on a different number of outstanding shares (ca. 12.8mn A shares and 6.4mn B shares).

CdR Advance Capital Group: Fair Market value summary

Business Units	A shares	B shares	ToT A class		ToT B class	
	(€ p.s.)	(€ p.s.)	(€ '000)	% of A+B	(€ '000)	% of A+B
Residual Income Model	1.70	0.91	21,645	79%	5,822	21%
NAV 2017E vs. ROE	1.63	0.29	20,811	92%	1,851	8%
S-O-P	1.43	0.21	18,258	93%	1,341	7%
Average Fair Value	**1.59**	**0.47**	**20,238**	**87%**	**3,005**	**13%**

Source: Value Track Analysis

CdR Advance Capital Group: Implied Div. Yield, P/E, P/BV at Fair Values for A and B shares

	A shares @ €1.59 F.V.		B shares @ €0.47 F.V.	
	2017E	2018E	2017E	2018E
DPS	0.030	0.032	0.005	0.006
EPS	0.17	0.21	0.08	0.09
BVPS i.e. NAV p.s.	1.50	1.69	0.27	0.37
ROE %	11.6%	12.2%	28.4%	25.5%
Div. yield %	**1.9%**	**2.0%**	**1.1%**	**1.3%**
P/E	**9.1**	**7.7**	**6.1**	**5.0**
P/BV	**1.1**	**0.9**	**1.7**	**1.3**

Source: Value Track Analysis

Residual Income Model (R.I.M.) methodology

Residual Income Model aims to assess the economic profitability of a firm, rather than just its accounting profitability, by calculating the income generated by a firm after accounting for the true cost of its capital i.e. considering its cost of equity (to be determined based on the level of business and financial risk of the company) on top of cost of debt already included in the P&L. Indeed, cost of equity can be viewed as the shareholders' opportunity cost, or the required rate of return.

As far as the adoption of R.I.M. to CdR Advance valuation is concerned, we need to follow some steps for both A shares and B ones:

1st – Calculation of the equity charge that can be determined as share class total equity capital multiplied by the required rate of return of that equity. We are assuming a base case centred on a **12% K_e**;

2nd - We subtract the calculated equity charge from the share class attributable net income to come up with the residual income;

3rd – We discount back as of today (by applying the same 12% K_e) future residual income flows similarly to a Dividend Discount Model;

4th - The Present Value (PV) of future residual income flows (including a terminal value that we base on a 2.0% perpetuity growth rate "g") has to be added to current book value (i.e. NAV) of the two share classes.

We note that while A shares account or more than 90% of 2016A Book Value (i.e. NAV), they only account for ca. 50% of R.I.M. discounted flows. This is the effect of the much higher ROE for B shares (higher than 25% on average in 2017E-18E) that more than offset the required 12% equity charge. A shares, on the contrary, boast a lower positive value spread between ROE and K_e .

CdR Advance Capital Group: Summary of Residual Income Model Fair Values breakdown

	Book Value 2016A	PV RIM 2017E-20E flows	PV RIM Terminal Value	Total Fair Value
A shares	17,077	1,155	3,413	**21,645**
Per each A share	1.34	0.09	0.27	**1.70**
As % of A+B	93.3%	46.4%	51.2%	**78.8%**
B shares	1,230	1,334	3,259	**5,822**
Per each B share	0.19	0.21	0.51	**0.91**
As % of A+B	6.7%	53.6%	48.8%	**21.2%**
Total A+B shares	**18,307**	**2,489**	**6,672**	**27,468**

Source: Value Track Analysis

Obviously the above-mentioned values are function of K_e and perpetuity growth rate "g", so a sensitivity analysis is deserved.

CdR Advance Capital Group: A shares R.I.M. based Fair Value sensitivity

(€ per A share)		Cost of Equity							
		9%	10%	11%	12%	13%	14%	15%	16%
Perpetuity Growth Rate	1.0%	1.79	1.74	1.70	1.67	1.64	1.62	1.60	1.58
	1.5%	1.82	1.76	1.72	1.68	1.65	1.63	1.61	1.59
	2.0%	1.85	1.78	1.73	**1.70**	1.66	1.64	1.61	1.59
	2.5%	1.88	1.81	1.75	1.71	1.68	1.65	1.62	1.60
	3.0%	1.92	1.84	1.78	1.73	1.69	1.66	1.63	1.61

Source: Value Track Analysis

CdR Advance Capital Group: B shares R.I.M. based Fair Value sensitivity

(€ per B share)		Cost of Equity							
		9%	10%	11%	12%	13%	14%	15%	16%
Perpetuity Growth Rate	1.0%	1.22	1.07	0.96	0.86	0.78	0.72	0.67	0.62
	1.5%	1.28	1.11	0.99	0.89	0.80	0.73	0.68	0.63
	2.0%	1.35	1.16	1.02	**0.91**	0.82	0.75	0.69	0.64
	2.5%	1.42	1.22	1.06	0.94	0.85	0.77	0.70	0.65
	3.0%	1.51	1.28	1.11	0.97	0.87	0.79	0.72	0.66

Source: Value Track Analysis

Net Asset Value methodology based on Peers' analysis

There are no close comparable to CdR Advance Capital currently listed on the Italian market, and also abroad is quite difficult to find very similar business models. In our view, the following companies do share with CdR Advance many features ranging from the exposure to illiquid asset management business or to advisory services.

- DeA Capital SpA
- Mittel SpA
- Tamburi Investment Partners
- Tetragon Financial Group
- IDI SCA
- Volvere PLC
- EPE Special Opportunities PLC

Peers description

DeA Capital SpA: Italy based investment vehicle controlled by De Agostini Group. The Company operates through two business areas: Private Equity Investment and Alternative Asset Management.

Mittel SpA: Italy based merchant bank involved in advisory and investment activity focused on Italian small medium enterprises (SMES). Committed with medium/long term investments with an industrial approach and **a whole range of corporate service offered.**

Tamburi Investment Partners: Italy based investment-merchant bank focused on medium-sized Italian companies. The Company is active in the investment activity, including acquisition of minority equity interests in listed and unlisted companies. The Company also provides services of investment banking and advisory in corporate finance transactions.

Tetragon Financial Group: Holland based closed-end investment company. The Company invests in a range of assets, including bank loans, real estate, equities, credit, convertible bonds and infrastructure, and TFG asset management, a diversified alternative asset management business. The Company, through TFG Asset Management seeks to own all, or a portion, of asset management companies with which it invests in order to enhance the returns on its capital.

IDI SCA: France based investment operator that is active in the French private equity market. The Company specializes in capital investments in France, such as leveraged acquisitions and private investments in public equity (PIPE), as well as mezzanine financing. It is also active in the purchase of secondary market portfolios and in the management of hedge funds.

Volvere PLC: UK based holding company that identifies and invests in undervalued and distressed businesses and securities, as well as businesses that are complementary to existing group companies. Its segments include Automotive Consulting, Security Solutions, Investing and Management Services, and Food Manufacturing.

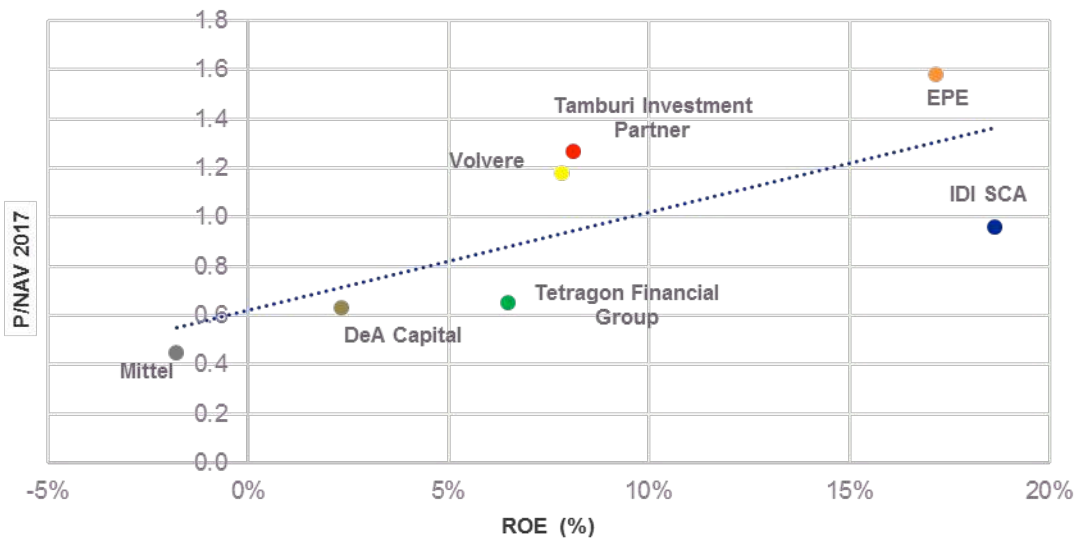
EPE Special Opportunities PLC: UK based investment company engaged in arranging income yielding financing for growth, buyout and special situations. The Company's goal is to provide long-term return on equity for its shareholders by way of investment in a portfolio of private equity assets.

Peers stock trading multiples

These kind of stocks are usually valued based on P/BV or P/NAV. In our view such valuation criteria are best applied if crosschecked with ROE, i.e. higher ROEs demand higher P/BV and P/NAV.

Indeed, we find a quite strong correlation supporting our hint.

CdR Advance Capital's Peers: Value Map P/NAV vs. ROE



Source: Companies data, Market data, Value Track Analysis

CdR Advance Capital: Peers' main fundamental metrics

Companies	Curr.	Book Value (mn, 2016YE)	Net Profit (mn, 2016FY)	NAV (Per Share)
DeA CAPITAL	EUR	529	12	1.95
MITTEL	EUR	253	-5	3.4
TAMBURI INVESTMENT	EUR	420	34	4.2
TETRAGON FINANCIAL	EUR	1,935	126	20.0
IDI SCA	EUR	326	61	34.5
VOLVERE PLC	GBP	25	2	6.2
EPE SPECIAL OPPORTUNITIES	GBP	43	7.46	1.87

Source: Companies data, Market data, Value Track Analysis

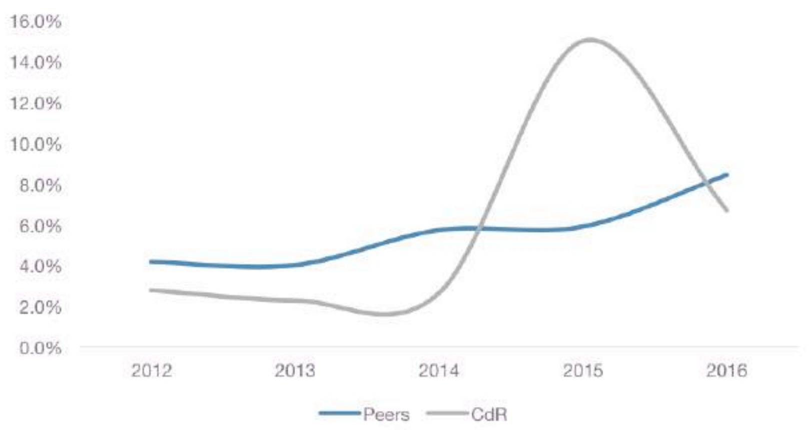
CdR Advance Capital: Peers' P/NAV, P/BV, ROE figures

Companies	ROE	P/NAV	P/BV
DeA CAPITAL	2.0%	0.63	0.70
MITTEL	-2.0%	0.44	0.53
TAMBURI INVESTMENT	8.0%	1.27	2.04
TETRAGON FINANCIAL	7.0%	0.65	0.93
IDI SCA	19%	0.96	0.74
VOLVERE PLC	8%	1.18	1.18
EPE SPECIAL OPPORTUNITIES	17.2%	1.58	1.95

Source: Companies data, Market data, Value Track Analysis

Comparing historical ROEs for CdR Advance and for Peers crosschecked with historical P/NAVs underlines how CdR Advance Capital Group has on average traded at discount vs. Peers (10% average, 4% median discount).

CdR Advance Capital vs. Peers: ROE evolution 2012-16YE



Source: Companies data, Value Track Analysis

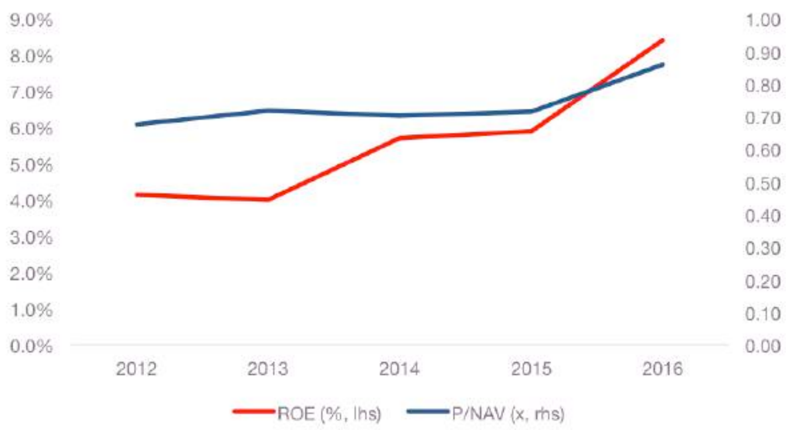
CdR Advance Capital vs. Peers: P/NAV, ROE 2012-17 evolution

	PEERS		CdR ADV.		Premium (+)/Discount (-) CdR vs. Peers
	ROE	P/NAV	ROE	P/NAV	
2012	4.1%	0.68	2.7%	1.03	52.4%
2013	4.0%	0.72	2.3%	0.70	-1.6%
2014	5.7%	0.70	2.6%	0.69	-2.2%
2015	5.9%	0.72	15.0%	0.49	-31.7%
2016	8.4%	0.86	6.7%	0.39	-54.6%
Current (*)	8.4%	0.96	6.7%	0.61	-36.4%
Mean 2012-16	**5.6%**	**0.73**	**5.9%**	**0.66**	**-10.0%**
Median 2012-16	**5.7%**	**0.72**	**2.7%**	**0.69**	**-4.0%**

Source: Company data, Market data, Value Track Analysis

(*) P stands for Current Market Price, ROE and NAV are those at 2016YE

CdR Advance Capital's Peers: ROE and P/NAV evolution 2012-16YE



Source: Companies data, Value Track Analysis

Based on our estimates for NAV 2017E-18E evolution and for ROE 2017E-18E (we get an average 11%) we point at a fair 1.1x P/NAV to be applied on 2017E NAVps. We get a €1.63 theoretical fair value for A shares and €0.29 for B shares.

CdR Advance Capital: Net Asset Value evolution in 2017E-18E

€	2012FY	2013FY	2014FY	2015FY	2016FY	2017E	2018E
Net Asset Value – A shares							
NAV p.s. A shares (€ p.s.)	0.9463	1.1218	1.1389	1.3515	1.4258	1.4839	1.5851
Total NAV pertaining to A shares (€)	7,874,622	8,133,900	13,151,375	16,187,440	17,077,173	18,945,620	20,237,414
Net Asset Value – B shares							
NAV p.s. B shares (€ p.s.)	0.0000	0.0598	0.0483	0.1648	0.2053	0.2652	0.3146
Total NAV pertaining to B shares (€)	0.0000	248,664	278,994	986,697	1,229,625	1,692,729	2,008,229
Total CdR Advance Capital NAV (€)	**7,874,622**	**8,382,564**	**13,430,369**	**17,174,137**	**18,306,798**	**20,638,350**	**22,245,644**

Source: CdR Advance Capital, Value Track Analysis

Sum-of-the-Parts approach

CdR Advance Capital Group can be viewed as the sum of:

- The Fee driven business, i.e. mainly Advance SIM;
- The non-performing business;
- The ca. 17% stake in Borgosesia SpA.

If so, one of the possible ways to value the whole Group is to adopt a Sum-Of-the-Parts approach adding up the value of the single business units. The results is a total fair value of CdR Group at ca. €18.7mn broken down as follows.

Advance Capital Finance (ACF): Market value of equity at purchase

Business Units	Fair Value (€ '000)	CdR's stake (%)	Stake value (€ '000)	As % of Total	Driver
Advance SIM	4,653	51.3%	2,385	12.7%	Merger ACF-SIM
Borgosesia SpA	6,209	16.7%	1,034	5.5%	B.V. +optionality
Non-performing business	15,315	100.0%	15,315	81.7%	P/NAV vs. ROE
CdR Advance Group			**18,734**	**100.0%**	

Source: CdR Advance Capital, Value Track Analysis

Based on the attribution split between A and B shares this €18.7mn corresponds to €1.43 for A shares and €0.21 for B shares.

Here follow more details on the valuation of the various units.

Fee driven businesses

The bulk of the fee driven business is currently represented by the "new" Advance SIM, held at 51% by Cdr Advance Capital Group, which is the result of the merger between the "old" Advance SIM (previously 3P SIM, held at ca. 30%) and Advance Corporate Finance (ACF), a corporate finance / capital markets boutique whose acquisition was finalised back in 2016 at a deal valuation of roughly €1.4mn based on DCF and Peers Multiples analysis.

Advance Capital Finance (ACF): Market value of equity at purchase

(€ '000)	Equity Value 100%
DCF	*1,502*
Peers' Analysis	1,271
Average	**1,386**

Source: CdR Advance Capital, Value Track Analysis

Early in 2017, as a part of reorganization of equity investment in instrumental companies, a merger of ACF in Advance SIM has been brought trough.

Within the merger, ACF (held at 100%) has been valued again €1.4mn while the "old" Advance SIM has been valued ca. €3.2mn.

As an effect of the merger, CdR Advance Capital Group now controls ca. 51% of the new Advance SIM and the stake value is assessed in ca. €2.37mn.

CdR Advance Capital Group: Advance SIM "fair" Equity value at deal value

(€ '000)		(€)
Advance SIM before merger (Equity Value, €)	(a)	**3,240**
Of which CdR Advance Capital stake (€)		*972*
CdR stake as % of Total		30%
Advance Corporate Finance before merger (Equity Value, €)	(b)	**1,413**
Of which CdR Advance Capital stake (€)		*1,413*
CdR stake as % of Total		100%
Advance SIM post merger (Equity Value, €)	(c)=(a)+(b)	**4,563**
Of which CdR Advance Capital stake (€)		**2,385**
CdR stake as % of Total		**51%**

Source: CdR Advance Capital, Value Track Analysis

Borgosesia SpA

CdR Advance includes in its Balance Sheet the ca. 16.7% stake in Borgosesia SpA at pro-quota Net Equity i.e. ca. €5.18mn (€0.81862 per each of the ca. 6.3mn shares held).

We have valued the stake at book value but adding a 20% optionality premium. Indeed, this is not a financial investment but rather a strategic one that could generate a lot of opportunities (see previous chapters on this point).

Non-performing assets business

We have stripped from CdR Advance Capital Group's 2016A Book Value and Net Profit the impact of the two units considered above i.e. Advance SIM and Borgosesia SpA, deriving the implied Net Profit and Book Value of the Non-performing unit alone. The results are:

- Ca. €1.54mn Net Profit, higher than the officially reported €1.2mn as we need to withdraw Borgosesia's write down that has impacted negatively Group figures;
- Ca. €13.9mn Book Value.

Based on the above mentioned figures we calculate a ca. 11.1% ROE that corresponds in our Value map at ca. 1.1x P/NAV.

Appendix: Top Management structure

Manager	Description
Mauro Girardi *Chief Executive Officer*	Accountant active for over 25 years in the field of bankruptcy proceedings with various roles such as debtor companies advisor, turnaround manager, official receiver and judicial commissioner. Since 1984 he holds the position of Managing Director at trust company Figerbiella and, since 2008, of Borgosesia Gestioni SGR, a company controlled by Borgosesia SpA chaired until 13 April 2012.
Andrea Zanelli *Board Member*	A graduate in economics, since 1992 active in the financial area, first as a stock prosecutor and negotiator and, later, as a shareholder and director of a securities firm. Since 2002 also active in the field of temporary work as major shareholder of a group which operates throughout the country through 20 branches.
Gabriella Tua *Board Member*	Chartered Accountant for over 15 years dealing with internal controls, compliance activities and with bankruptcy proceedings.
Franco Sala *Board Member*	For over thirty years, entrepreneur in the real estate business with a focus on residential sector and social housing.
Luca Pierazzi *Board Member* *Head of ECM-DCM Advisory and of Corporate Finance*	Over twenty five years of experience in corporate finance and capital markets. Currently Chairman of Advance SIM, he held senior positions at CCF, Nat West, Dresdner Bank, Euromobiliare.
Massimo Grosso *Head of ECM-DCM Advisory*	Over fifteen years of experience in corporate finance and capital markets. Currently Board Member of Advance SIM, he held various senior positions at UBS Wealth Management, Societe Generale Capital Markets, Borsa Italiana (Italian Stock Exchange, part of LSE Group).

Source: CdR Advance

Appendix: 2012-2016 Group financial figures

CdR Advance Capital Group: P&L evolution

€	2012	2013	2014	2015	2016
Value of Production	**505,286**	**381,104**	**319,504**	**4,596,528**	**3,830,165**
Opex	-356,517	-1,276,551	-727,286	-1,630,192	-2,072,038
Gross Profit	**148,769**	**-895,447**	**-407,782**	**2,966,336**	**1,758,127**
As a % of Operating Revenues	29.4%	-235.0%	-110.0%	64.8%	46.2%
Labour Cost	0	0	-6,430	-53,603	-196,839
As a % of Operating Revenues	0.0%	0.0%	-1.7%	-1.2%	-5.2%
Change in value in financial investments and securities held	0	988,677	-2,277,240	-399,252	-840,951
Change in value in real estate assets	0	0	1,426,424	-352,876	2,489,377
EBITDA	**148,769**	**93,230**	**-1,265,028**	**2,160,605**	**3,209,714**
Chge %	nm	-37.3%	-1456.9%	-270.8%	48.6%
EBITDA margin	**29.4%**	**24.5%**	**-341.4%**	**47.2%**	**84.3%**
Depreciation and Amortisation	-1,906	-41,286	-5,568	-48,464	-26,211
Other Operating Revenues	29,356	16,048	77,584	98,379	0
Other Operating Expenses	-9,200	-32,169	-74,123	-243,476	-346,671
Other provisions	0	0	-319,520	0	0
EBIT Adj. i.e. Operating Result	**167,019**	**35,823**	**-1,586,655**	**1,967,044**	**2,836,832**
Chge %	nm	-34.1%	nm	nm	44.2%
Net Interest income / expense	61,052	37,443	337,514	147,193	-659,938
Interest Inc / Total Revenues	12.1%	9.8%	91.1%	3.2%	-17.3%
Pre-tax profit	**228,284**	**73,266**	**-1,249,141**	**2,114,236**	**2,176,894**
Pre-tax margin	**45.2%**	**19.2%**	**-337.1%**	**46.2%**	**57.2%**
Taxes	-12,090	79,730	699,234	57,444	-1,167,278
Tax rate	-5.3%	108.8%	-56.0%	2.7%	-53.6%
Group Net profit before minorities	**216,194**	**152,996**	**-549,907**	**2,171,680**	**1,009,616**
Minorities	0	36,422	902,972	401,191	213,861
Net Profit (Loss)	**216,194**	**189,418**	**353,065**	**2,572,871**	**1,223,477**
Chge %	nm	-12.4%	86.4%	nm	-52%

Source: CdR Advance Capital, Value Track Analysis

CdR Advance Capital Group: Balance Sheet evolution

€	2012	2013	2014	2015	2016
Net Fixed assets	4,101,579	8,553,073	13,217,331	14,914,638	23,489,599
Net Working Capital	36,369	-31,573	2,582,869	2,637,372	3,315,389
Severance pay and other funds	19,675	26,788	444,293	1,319,571	1,972,049
Total Capital Employed	**4,118,273**	**8,494,712**	**15,355,907**	**16,232,439**	**24,832,939**
ToT Shareholders' Equity	7,874,622	8,382,564	13,430,369	17,174,136	18,306,798
Minorities' Equity	0	3,164,241	2,261,270	1,860,079	1,646,219
Group Net Equity	**7,874,622**	**11,546,805**	**15,691,639**	**19,034,215**	**19,953,017**
Net Fin. Position [Net debt (-) / Cash (+)]	**3,756,349**	**3,052,093**	**335,732**	**2,801,776**	**-4,879,922**

Source: CdR Advance Capital, Value Track Analysis

CdR Advance Capital Group: Net Fixed Assets evolution

€	2012	2013	2014	2015	2016
Tangibles assets	1,017	1,240	40,361	74,955	93,657
Intangibles assets	54,317	60,457	59,597	643,293	641,385
Financial assets (inc. AFS Securities / LT Credits / Associates)	3,721,339	4,178	74,287	13,591	1,273
Holdings valued at Book Value	0	9,102,383	6,826,787	7,127,059	6,682,780
Real Estate Investments	0	0	5,710,000	5,864,550	15,486,500
Financial Credits	0	54,280	0	0	0
Deferred Tax Assets	324,906	400,549	1,090,407	1,666,023	999,338
Subordinated Financial Instruments	0	-1,070,014	-584,108	-474,833	-415,334
Net Fixed assets	**4,101,579**	**8,553,073**	**13,217,331**	**14,914,638**	**23,489,599**

Source: CdR Advance Capital, Value Track Analysis

CdR Advance Capital Group: Net Working Capital evolution

€	2012	2013	2014	2015	2016
Inventories	0	0	4,131,555	4,122,652	3,460,000
Trade Receivables	190,200	252,842	308,683	899,771	1,594,295
Other	281,055	338,273	468,307	886,883	2,050,921
ToT Current assets	**471,255**	**591,115**	**4,908,545**	**5,909,306**	**7,105,216**
Trade Payables	282,796	480,192	493,773	1,178,809	2,089,291
Other Payables	60,629	51,035	554,624	883,591	916,761
Other Current Op. Liabilities	91,461	91,461	1,277,279	1,209,534	783,775
ToT Current liabilities	**434,886**	**622,688**	**2,325,676**	**3,271,934**	**3,789,827**
Net Working Capital	**36,369**	**-31,573**	**2,582,869**	**2,637,372**	**3,315,389**

Source: CdR Advance Capital, Value Track Analysis

CdR Advance Capital Group: Structure of Net Financial Position

€	2012	2013	2014	2015	2016
Cash and deposits (+)	3,757,336	3,052,093	6,475,563	3,465,552	4,448,352
Short term financial credits (+)	0	0	150,000	381,285	2,189,224
HFT Securities (+)	0	0	0	3,434,705	1,482,659
Debt to Banks within 12 months (-)	-987	0	-250,931	-270,454	-253,163
Other current financial debt (-)	0	0	-151,780	-2,897,860	-312,827
Current Net Financial Position	**3,756,349**	**3,052,093**	**6,222,852**	**4,113,228**	**7,554,245**
Long term financial credits (+)	0	0	55,182	7,573,252	59,520
Debt to Banks over 12 months (-)	0	0	-1,503,475	-1,416,054	-1,298,315
Bonds (-)	0	0	-4,438,827	-7,468,650	-11,195,372
o/w Conv. 2014/19 (N.V. €4.95mn)			-4,438,827	-7,468,650	-11,195,372
Conv. 2015/21 (N.V. €4.95mn)				*-4,543,545*	*-4,652,169*
Conv. 2016/22 (N.V. €4.95mn)				*-2,925,105*	*-4,331,299*
NPL IT Opp. 2016/21					*-1,776,548*
Non-Current Financial Position	**0**	**0**	**-5,887,120**	**-1,311,452**	**-12,434,167**
Net Fin. Position [Net debt (-) / Cash (+)]	**3,756,349**	**3,052,093**	**335,732**	**2,801,776**	**-4,879,922**

Source: CdR Advance Capital, Value Track Analysis

CdR Advance Capital Group: Cash Flow Statement

€	2012	2013	2014	2015	2016
Initial Cash	**56,773**	**3,757,336**	**3,052,093**	**6,475,563**	**3,465,552**
EBITDA	**148,769**	**93,230**	**-1,265,028**	**2,160,605**	**3,209,714**
Op. WC requirements	-89,820	67,942	-2,614,442	-54,503	-678,017
Capex (not incl. Fin. Inv.)	-160,336	-63,672	-148,094	-645,181	-7,223,628
Change in provisions	0	7,113	417,505	875,278	652,478
OpFCF b.t.	**-101,387**	**104,613**	**-3,610,059**	**2,336,199**	**-4,039,453**
As a % of EBITDA	-68.2%	112.2%	285.4%	108.1%	-125.9%
Cash Taxes	-12,090	79,730	699,234	57,444	-1,167,278
OpFCF a.t.	**-113,477**	**184,343**	**-2,910,825**	**2,393,643**	**-5,206,731**
As a % of EBITDA	-76.3%	197.7%	230.1%	110.8%	-162.2%
Capital Injections	4,556,279	-1,055	5,370	61,744	0
Other (incl. Fin. Inv.)	-804,278	-924,987	166,661	163,690	-1,485,651
CF available to serve debt / equity investors	**3,638,524**	**-741,699**	**-2,738,794**	**2,619,077**	**-6,692,382**
Net Financial Charges	61,052	37,443	337,514	147,193	-659,938
Dividend paid	0	0	-315,081	-300,226	-329,378
Change in Net Fin Position	**3,699,576**	**-704,256**	**-2,716,361**	**2,466,044**	**-7,681,698**
Debt repayments	0	-987	0	-87,421	-2,720,063
Net New Debt commitment	987	0	6,345,013	5,795,426	3,726,722
Net Change in financial credits and securities	0	0	0	-11,184,060	7,657,839
Change in Cash available	**3,700,563**	**-705,243**	**3,628,652**	**-3,010,011**	**982,800**
Ending Cash	**3,757,336**	**3,052,093**	**6,475,563**	**3,465,552**	**4,448,352**

Source: CdR Advance Capital, Value Track Analysis

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