

Kyma Capital Limited

Codere SA (Reuters: CDRE.MC | Bloomberg: CDR SM)

Concerns with Codere Refinancing Proposal

26 August 2020

As indicated in yesterday's release, we have expressed concerns to Codere about the proposed financing transaction, including the company's proposal that the members of the Ad Hoc Committee should be included in the same voting class as all other Scheme Creditors (or "other Noteholders"). We want to expand on some of those concerns, ahead of the call tomorrow (Thursday 27 Aug).

The fees and other benefits afforded under the proposed transaction to the Ad Hoc Committee (the "AHC", whose identity has not been disclosed), but not available to other Noteholders, create a significant potential divergence of interests between the AHC and other Noteholders. This has two implications: (i) the members of the AHC and other Noteholders cannot sensibly consult together with a view to their common interest, and (ii) they raise fundamental issues of fairness in the treatment of different Scheme Creditors.

What Are The Extra Benefits Exclusive To AHC

On the Company's current public disclosures, the AHC is receiving fees and other benefits worth €22M (see Exhibit 1). As part of our correspondence with the Company, we have received nearly 1,000 pages of disclosure, which raises additional issues which we expect to cover at the Convening Hearing next week. This is clear value that is being provided to the AHC, to the detriment of other Noteholders.

Why Is There Information Asymmetry Making The Facts Not Transparent?

There is, at present, a significant information asymmetry. The Company's scheme documentation ("PSL") excludes the €85m Interim Note, and certain of the related fees and benefits from the definition of the "Transaction", as an attempt to suggest that the value diversion to the AHC is not a part of the Scheme. Kyma does not agree with this characterisation.

As a result of the Company's inadequate information disclosure, it is Kyma's view that Scheme Creditors may not have adequate information. Counsel for Kyma will be inviting the Court to direct issuance of a new PSL which addresses these limitations. Following issuance of such information, we believe Noteholders will be better informed about their options.

Class Composition

Kyma expects that these matters impact on the composition of voting classes, and expect these will be discussed in detail at the Convening Hearing at the High Court on 3 September 2020

We expressed these concerns to the Company in a 17 page letter on Monday 24 August.

Codere's Recent Consent Solicitation: An Attempt to Avoid Court Scrutiny

Following receipt of our letter, on Tuesday 25 August, the Company has re-started its consent solicitation process. This is a transparent attempt to achieve 90% noteholder consent and avoid the scrutiny of an English court.

Codere is offering 0.50% Consent Fee, and other Noteholders can sign up to the Lock Up Agreement ("LUA") until the day before Sanction Hearing (expected 29th September). However, we believe that once Noteholders have signed up, they cannot unilaterally withdraw from LUA, and in fact are capable of being dragged by the AHC without further say on the implementation of the transaction. Other Noteholders will be bound to the plan that provides exclusive and significant benefits to the AHC.

We encourage other Noteholders to inform themselves on the facts and fairness of the transaction, which should allow for a fair and equitable restructuring plan.

In the event the Court determines there has been a fracturing of the class, we expect this will be a substantially different transaction. Kyma expects the deal will have to be re-constituted on the basis of two different classes. One possible scenario is Kyma, and non-consenting note holders will be paid out on stated contractual maturity, in November 2021. Another scenario involves the AHC fairly sharing their economics with other Noteholders.

Akshay Shah, Chief Investment Officer at Kyma Capital says:

"In my experience of investing across Europe since 2001, I have always found English courts to be scrupulously fair and just. Regardless of outcome, I would anticipate a fair process and hearing next week. We have very significant concerns, which we will be bringing to the Court's attention."

Call details

Kyma is hosting a call based on public information, to share and discuss these views. The call will be held at 2pm UK (9am ET, 3pm CET) on Thursday 27 August. Noteholders wishing to join the call can contact Renata Machado at the contact details below. Dial-in details for the call will be sent to Noteholders who have been in contact.

About Kyma Capital

Kyma Capital Limited ("Kyma") is a London-based investment manager and is authorized by the Financial Conduct Authority. Kyma manages Kyma Capital Opportunities Fund, which is an all-weather, event-driven fund that invests in both public and private securities.

For any enquiries, please contact

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Exhibit 1: Value for AHC, based on public information

			Total Value
3% Discount on €85m Interim Notes	3.00%	€	2,550,000
2.5% Backstop Fee on €85m Interim Notes	2.50%	€	2,125,000
2.5% Backstop Fee on €165m New Notes	2.50%	€	4,125,000
1% Work Fee on Existing Notes	1.00%	€	7,647,950
AHC Advisers' Fees ¹			??
Total		€	16,447,950
in addition,			
Early Bird Consent Fee ² (pro rata share of 0.5% of the principal amount)	0.62%	€	2,734,808
Consent Fee (pro rata share of 0.5% of the principal amount)	0.62%	€	2,734,808
Consent Fee		€	5,469,616
Other Fees and Benefits			??
TOTAL		€	21,917,566

Notes:

(1) PSL [c.f.128], amount undisclosed

(2) Assumes, for illustrative analysis, all consents were received in time for the early bird