

# PDI 2024: Private Debt Case Study

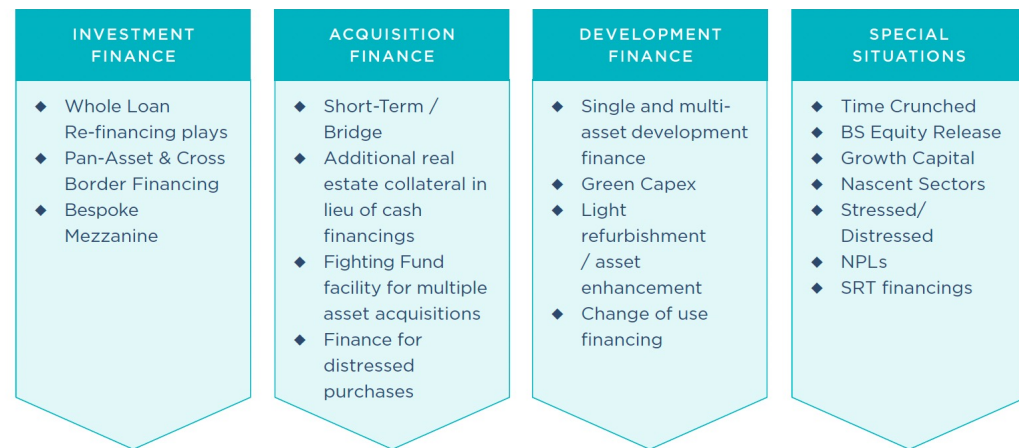
APRIL 2024

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**ZENZIC**  
CAPITAL 

# Company Overview

- ✓ Real estate private credit investment manager
- ✓ Current AUM ~£300mn
- ✓ Investment focus is on unduly neglected / esoteric credits that deliver enhanced risk adjusted returns
- ✓ Pan-European capability but with focus on UK and key Western European geographies
- ✓ We cover all major real sectors, but focus on those which exhibit both strong fundamentals and suffer from illiquid or inefficient capital markets



Case Study

# Lotus

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Case Study: Lotus

# Investment Opportunity

## BORROWER PROFILE

- ✓ Wholly-owned, 3<sup>rd</sup> generation hotel group located in Taormina, Sicily
- ✓ Portfolio consists of 3 wholly owned hotels with 228 keys, plus minority interests in other hospitality assets, all in Taormina, generating ~€2.6mn NOI and estimated bricks and mortar valuation >€40mn (the “Portfolio”)
- ✓ Assets are tired and would require significant capex to realise maximum value
- ✓ Historic over-gearing had led to enforcement by Italian banks
- ✓ Desire by borrower to retain ownership of portfolio rather than initiate forced sale

## STRUCTURE

- ✓ EUR 22m to repay creditors at 68% of par value (all accrued and default interest to be waived)
- ✓ Preferred Equity funding structure whereby Zenzic would acquire the entire Portfolio on day 1, with equity economics such that it would receive 100% of all proceeds from any liquidity event until it has received a return equal to the higher of 20.0% IRR and a Multiple-On-Invested-Capital (MOIC) of 1.30x
- ✓ Power – via shareholders agreement - to unilaterally trigger a sales process after 15 months

> 3 Taormina Hotels of 228 keys

Primary Collateral

€22mn Preferred Equity

Structure

> 55% / 71.5% LTV (Principal / + Return)

Margin of Safety

Greater of: 20% IRR and 1.3x

Economics

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# Transaction SWOT Analysis

## STRENGTHS

- ✓ Difficult-to-replicate portfolio of yielding assets strategically located in a world-class sea-side destination
- ✓ Very attractive entry value basis and high returns
- ✓ Returns not reliant on value creation during the term
- ✓ Structure not reliant on Italian enforcement to realise value

## WEAKNESSES

- ✓ Absence of valuation comparables due to infrequency of stock trading
- ✓ Buyer pool – and therefore liquidity - may be limited
- ✓ Lower MOIC due to short-term nature of credit

## OPPORTUNITIES

- ✓ Ability to mitigate exit risk via put option to known family office historic bidder

## THREATS

- ✓ Asset deterioration during term
- ✓ Re-characterisation risk

Margin of Safety

Key Strength

Absence of valuation comparables

Key Weakness

Mitigate exit risk via put option

Key Opportunity

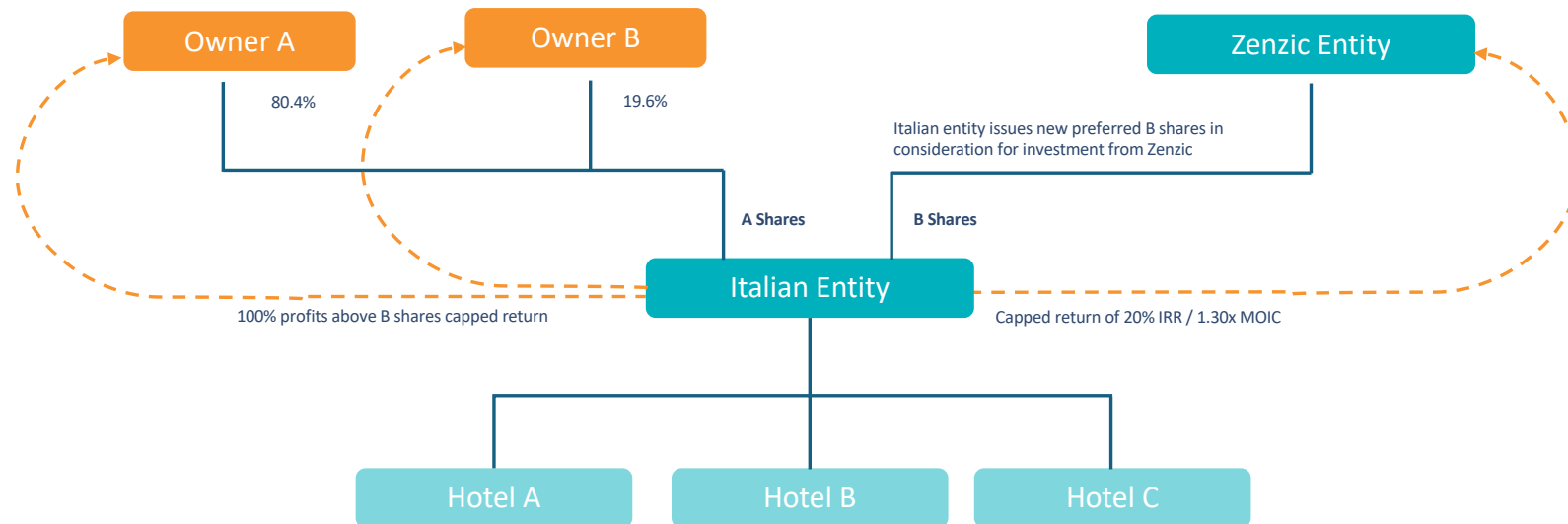
Re-characterisation risk

Key Threat

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# Transaction Structure



For more information contact a member of our team



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