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Jessheim, 4 March 2022

Incorrect allegations by Viceroy regarding Læringsverkstedet

Referring to the March 1 report from Viceroy Research Group regarding the Læringsverkstedets lease contract with SBB ("the Report"). The Report highlights several grossly incorrect allegations about Læringsverkstedet and to which we therefore wish to link some comments.

About Viceroy and the background for the Report

Viceroy is an investment fund that primarily invests in financial instruments that make gains from falling share prices, often referred to as short selling of shares. Viceroy identifies listed companies where they consider the share price to be overvalued and which they therefore expect to fall. Viceroy then makes a number of negative allegations and reports on matters at the listed company, as justification for its expectation of future falling stock prices.

Viceroy has now selected the Swedish listed company Samhällsbygnadsbolaget i Norden AB ("SBB") as an investment. Through a sale-leaseback in 2020, Læringsverkstedet has a long-term lease on kindergarten buildings with SBB. Several factors related to this contractual relationship are incorrectly mentioned in the Report.

The Report alleges that the rent intentionally has been set too high and that dividends from SBB reimburse part of this rent. Furthermore, it is claimed that Læringsverkstedet is not able to pay the rent without dividends from SBB. None of this is correct.

It is also important to understand that for Viceroy, the purpose of these types of allegations and reports is to create doubts about SBB and thereby negatively affect the stock price. As Viceroy itself writes in the Disclaimer section of the report, the allegations are their opinions, not facts ("are the authors opinions, and are not statements of fact"). Furthermore, it is stated that as a reader, it should be assumed that Viceroy has invested in positions where they will be able to realize significant monetary gains if the price of SBB shares loses its value. Viceroy therefore has a strong economic self-interest in creating general uncertainty and doubts about SBB.

Vi får verdens viktigste verdier til å vokse

Læringsverkstedet and the background for the agreement with SBB

Læringsverkstedet was started in 2003 and is owned by 2 pedagogues (educators) with a long term perspective on their ownership. Our vision is to grow the world's most important values by making children experience and feel that they are valuable. Today Læringsverkstedet is Norway's largest private kindergarten operator with 250 kindergartens in 80 municipalities in all counties.

Originally, Læringsverkstedet chose to own the kindergarten buildings themselves. A kindergarten building is a large and capital-intensive investment and when running many kindergartens this requires access to considerable capital. For kindergarten companies, the assessment of whether to own the building itself or lease is primarily a funding issue, not a matter of realizing value. In 2019 Læringsverkstedet carried out a thorough assessment of future funding of our kindergarten buildings. In order to ensure long-term and sustainable financing of the buildingstock adapted to the owners' long term perspective, and the expected changes in framework conditions for private kindergartens, it was decided to carry out a sale-leaseback.

In the autumn of 2019, Læringsverkstedet started its own preparations for such a transfer. Relevant buildings were identified and placed into a separate real estate business. At the same time, the correct rent was determined through a comprehensive process comparing with market standards, information about municipal internally charged rent and other available information. The rent was set in the lower part of a normal interval. In November 2019, we then started a dialogue with **several** real estate players regarding possible transfer. Through this dialogue, it was clarified that SBB was the most relevant buyer and prior to the summer of 2020 we agreed with SBB on the conditions related to such a transfer. The rent level was not negotiated with SBB, the rent was set in advance of the specific dialogue with relevant buyers.

Læringsverkstedet first established its own real estate business by splitting Læringsverkstedet into two, one part consisting of the operation of Læringsverkstedet and the remaining properties, and one part consisting of the separated real estate business. The owner of Læringsverkstedet naturally also became the owner of the separated real estate business. On 31 August 2020, the actual transfer of the separated real estate business took place. Technically, the transfer consisted of a transfer of shares in the separated real estate business. The settlement for the transfer was a combination of a cash consideration and so-called D shares in SBB. It is our opinion that this is a fairly common form of settlement when transferring to listed companies. The shares that were transferred were owned by the owner of Læringsverkstedet and the recipient of the D shares was therefore not Læringsverkstedet, but the owner company of Læringsverkstedet.

After the transfer Læringsverkstedet has an ordinary lease agreement with SBB, while the relationship between the owner company of Læringsverkstedet and SBB is that they became the owner of the received D shares. The transfer was also structured so that Læringsverkstedet received cash funds so that most of the debt in Læringsverkstedet could be redeemed. The remaining debt in Læringsverkstedet after the transfer is house bank debt related to the remaining properties.

It was important for Læringsverkstedet to ensure full control over right of use and building quality, even though we would no longer be a formal owner. To achieve this, Læringsverkstedet is responsible for maintenance and rehabilitation and can through this control the scope, frequency and level within this area. Just as if we had been the formal owner of the buildings. This type of lease is referred to as triple net. Viceroy has misunderstood Læringsverkstedets intent in this field and has in its report referred to the triple net structure as something negative.

Comments on the individual incorrect allegations

False allegation 1; The rent level has intentionally been set too high

This is not correct. As stated above, the rent level is set at an early stage of the process and it has been important for Læringsverkstedet to set a long-term sustainable and economically correct rent level, from the point of view of the kindergarten. Both to ensure that the earned property values were not transferred to the new owner and that the kindergarten operation was not negatively affected by the rent-level.

In its Report, Viceroy uses some average figures for rent in Norwegian kindergartens that they claim are taken from a report on costs in kindergartens. However, they do not indicate where in the report the figures originate from, we have not been able to identify this and these comparisons can be disregarded.

In recent years, a market practice has been established among real estate agents and other experts in real estate valuation, and there is also basis for comparison in several municipalities such as Oslo and Bergen which have established their own real estate units for their municipal buildings, including kindergarten buildings.

The two most common comparisons are that rent is normally 10-15% of the turnover or 20 000 – 25 000 per child. The rent set for the buildings in question corresponds to approximately 11.75% of turnover and NOK 21 300 per child, i.e. in the lower part of the industry practice levels. There are several examples of municipal kindergartens being charged rent of up to 50 000 per child.

We are also aware that a number of municipalities consider rent levels of NOK 2,000-2,500 per sqm to be normal and acceptable levels. Læringsverkstedets lease contract with SBB corresponds to approx. NOK 2 200 per sqm.

Telemarksforskning prepares a report every year on the total costs in private kindergartens. The most recently published report is from 1 March 2021 and applies to 2019 figures. This report discusses rents, among other things. The report states that the average rent per **age-adjusted** child for all private kindergartens paying rent, is 11 328. This consists of both old lease agreements and new lease agreements. In recent years, there has been a significant increase in the value of real estate in general, which also applies to kindergarten properties. New lease agreements will reflect this. The set rent level for Læringsverkstedet provides an average rent per age-adjusted child of about 16 750.

Construction costs for kindergarten buildings have increased significantly in recent years and it is not uncommon to have a construction cost of around 500,000 per space. With 4% interest and 25 years of repayment, it will provide an annual cost of 40,000 per space.

False allegation 2; Received dividends on SBB shares are used to cover rent

The operation of the kindergartens is located in Læringsverkstedet and they pay the rent in a usual way.

As mentioned above, it is the owner of Læringsverkstedet who has received the SBB shares and therefore receives dividends on the shares in a usual way. The shares are listed on the Stockholm Stock Exchange and are traded there.

One can freely buy and sell their shares there and everyone who owns D shares in SBB receives the same dividend per share and at the same time. There is nothing special about our D shares, there is no link to rent payments or rent level and we can sell the shares whenever we want.

There is also no link between the kindergarten operation in Læringsverkstedet and these D shares. Whatever may happen to the D shares, this will not have any consequence for Læringsverkstedet. In the Report, Viceroy speculates that there might be a "netting clause" in the lease agreement. That's incorrect, there is no such clause.

False allegation 3; Læringsverkstedet does not have results sufficient to cover the rent

As for the other claims, this is also completely wrong. In the Report Viceroy writes that they have carried out an analysis of our 2020 results and that this shows that Læringsverkstedet cannot service the rent. The analysis is academically very weak. They have compared the total rental cost of the Læringsverkstedet **Group**, with the result for Læringsverkstedet **company**. In addition, they have not taken into account that a number of financing and depreciation costs will lapse after we have completed our sale.

When owning buildings, there are capital costs associated with interest and depreciation (installments). When renting buildings, there are capital costs associated with rent. The fixed rent for Læringsverkstedet corresponds approximately to the costs we previously had for interest and depreciation when we owned the buildings. In other words, the total costs for Læringsverkstedets kindergartens have not changed significantly as a result of the sale-leaseback.

Our preliminary accounts for 2021 show a surplus of approximately NOK 50 million for Læringsverkstedet. This includes an ordinary year of rent and no dividend income from SBB shares. This shows that Læringsverkstedet is fully capable of paying the set rent level.

Conclusion

The Report is part of a process that Viceroy has initiated against SBB, and where the purpose is for Viceroy to be able to make money from the decline in the share price of SBB. The Report abuses an ordinary lease SBB has regarding Norwegian kindergarten buildings and is in reality not about Norwegian kindergartens.

We regret that the Ministry of Education has become involved in this process, and that they are disturbed from the ongoing important work in the kindergarten field. Normally, we would not have commented on a report so obviously incorrect, but we unfortunately find it necessary to ensure that the correct facts come to light.

Sincerely,

Atle Hørlyk
CFO

