



# Bond Investor Update

Hertha BSC GmbH & Co. KGaA | 22 May 2023

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# Disclaimer (3/4)

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- a) have sufficient knowledge and experience to make a meaningful evaluation of the Proposal, the Bonds, the merits and risks of the Bonds and the Terms and Conditions (as amended by the Proposal) and the information contained or incorporated by reference in this document or any applicable supplement;
- b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, the Proposal, the Bonds, the Terms and Conditions (as amended by the Proposal) and the impact other bonds will have on its overall investment portfolio;
- c) have sufficient financial resources and liquidity to bear all of the risks of a continuation of its investment in the Bonds (as amended by the Proposal);
- d) understand thoroughly the Proposal and the Terms and Conditions (as amended by the Proposal); and

- e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the relevant risks.

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## **Responsibility for complying with the procedures of the Proposal**

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## **Consent solicitation fee**

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# Disclaimer (4/4)

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## Risk Factors relating to the amendment specifically

### Risks relating to the Issuer's economic situation and envisaged turnaround

The Issuer currently faces a challenging economic situation, resulting from a combination of factors, including Covid-19, high squad personnel costs and a very difficult sporting situation. The Issuer's envisaged economic turnaround as described in this Presentation depends on various conditions, in particular the timely payment of the liquidity injections by its majority shareholder 777 Partners pursuant to an investment agreement, the Issuer's ability to receive the license to be entitled to participate in the Bundesliga system ("**DFL-License**") in the upcoming season as well as its ability to actually reduce costs, in particular squad personnel costs. Furthermore, it is part of the Issuer's liquidity planning that the maturity of the Bond to which this Presentation relates will be extended as requested. Currently, the Issuer is applying for the DFL-License for the upcoming season. The DFL Licensing Committee requires every club in the Bundesliga system to prove its ability to fulfil all its

financial obligations in the next season. As regards the Bonds, DFL Licensing Committee requires the Issuer to succeed in extending the maturity of the Bonds as proposed until 21 June 2023. In case the maturity of the Bonds is not extended by then as proposed, Hertha would have to prove to the DFL Licensing Committee alternative financing or guarantees/sureties in the amount of the outstanding obligations under the Bonds until 21 June 2023, which the club is working on, but which is currently not in place. In addition, the Issuer will require further financing commitments or proceeds (e.g., from player transfers) to prove its ability to fulfil its financial obligations in the next season. If the Issuer does not succeed in fulfilling these requirements, it is likely that DFL will not grant the DFL-License to the Issuer. In this case the Issuer's professional football team would not be entitled to participate in the Bundesliga system in the upcoming season. In addition, and irrespective of these license requirements, the Issuer will be relegated to the 2. Bundesliga due to its sporting performance in the current season. Therefore, the Issuer will have to cope with further challenges regarding its financial situation. If one or several of the underlying conditions described before for the economic turnaround cannot be or are not timely achieved, the Issuer may become insolvent. In this case, Bondholders could lose all or parts of their investment.

### Risks relating to the extended maturity of the Bonds

The Issuer is dependent on certain material agreements relating to its business and its financing. By extending the maturity of the Bonds, there is a risk that payment obligations under such agreements fall due prior to the extended maturity date of the Bonds, whereas they would otherwise have become due after the original maturity date. Should any payment obligations under such material agreement fall due, without the Issuer being able to either replace the agreement on similar terms, or refinance debt which falls due, there is a risk that this would adversely impact the Issuer's business, earnings and financial position. If such risk should materialise this could in turn impact the Issuer's ability to make interest payments and payments of principal on the maturity of the Bonds, resulting in the Bondholder losing parts or all of their investment.

# Executive summary

- Hertha has faced and continues to face challenging economic times due to a combination of factors, including Covid-19, high squad personnel costs and a very difficult sporting situation
- With support of its new majority shareholder and strategic partner, 777 Football Group, the global football platform of private investment firm 777 Partners, Hertha has initiated an economic turnaround program targeting breakeven EBITDA in the 2024/25 season
- The program includes a new management structure to ensure alignment of commercial and sporting strategic objectives and initiatives to drive substantial cost reductions, focused on personnel costs initially. 777 has committed to support the program with EUR 100m in equity, parts of which have already been provided to Hertha and the remainder to be invested over the upcoming two seasons
- Currently, Hertha is applying for the DFL (German Football League) licence to be entitled to participate in the Bundesliga system in the upcoming season. The DFL Licencing Committee requires every club in the Bundesliga system to prove its ability to fulfil all its commercial obligations in the next season
- The major outstanding financial lever for Hertha to action in order to receive its DFL licence is the proposed extension of the Nordic Bond maturity to November 2025. The Nordic Bond has not been refinanced earlier on due to ongoing negotiations regarding a change of the investor in the club
- **Therefore, Hertha is seeking an amendment of the Terms & Conditions of the outstanding 2018/2023 Nordic Bond ("Bond"), specifically seeking an extension of the Bond maturity until November 2025, to satisfy the major remaining condition to receive the DFL licence**





## 1. Business update

## 2. Amendments to Bond Terms & Conditions



# 777 Partners: a new, football-experienced shareholder and strategic partner

## A leading US private investment firm



“ We use our investments to make an indelible improvement in our companies, communities and employees and we are proud of the significant positive impact our investments are making against intractable world problems



~**USD 10bn AuM**<sup>1</sup> from alternative assets complemented by a stable insurance platform



**80%+ revenue CAGR** achieved across its portfolio



Miami-based with activities in **24 countries** across 50+ operating companies



~**2,000 employees** across its global portfolio representing more than 50 established brands



**7 verticals** – Insurance; Fintech; Aviation; Sports, Media & Entertainment; Litigation Finance; Private Credit and Sustainability

## Strong commitment to Hertha and long-term orientation



...a strong and committed long-term, strategic partner for...



### **PARTNER** 777 acquired 78.8% of shares in Hertha

- 777 Partners acquired 78.8% of shares in Hertha BSC GmbH & Co. KGaA<sup>2</sup>
- Hertha BSC e.V. maintains blocking minority rights in line with "50+1 rule" of DFL
- No distributions permitted as long as Bond is outstanding

### **COMMITTED** Committed to investing EUR 100m

- 777 Partners committed to investing EUR 100m into Hertha over the next two seasons
- Commitment enables Hertha to manage economic and sporting turnaround

### **LONG-TERM** Focus on Hertha's long-term success

- 777 Football Group focuses on the long-term success and economic sustainability of its football clubs
- 777 Football Group has shown its successful strategic approach with its football clubs and is committed to the successful development of a partnership with Hertha

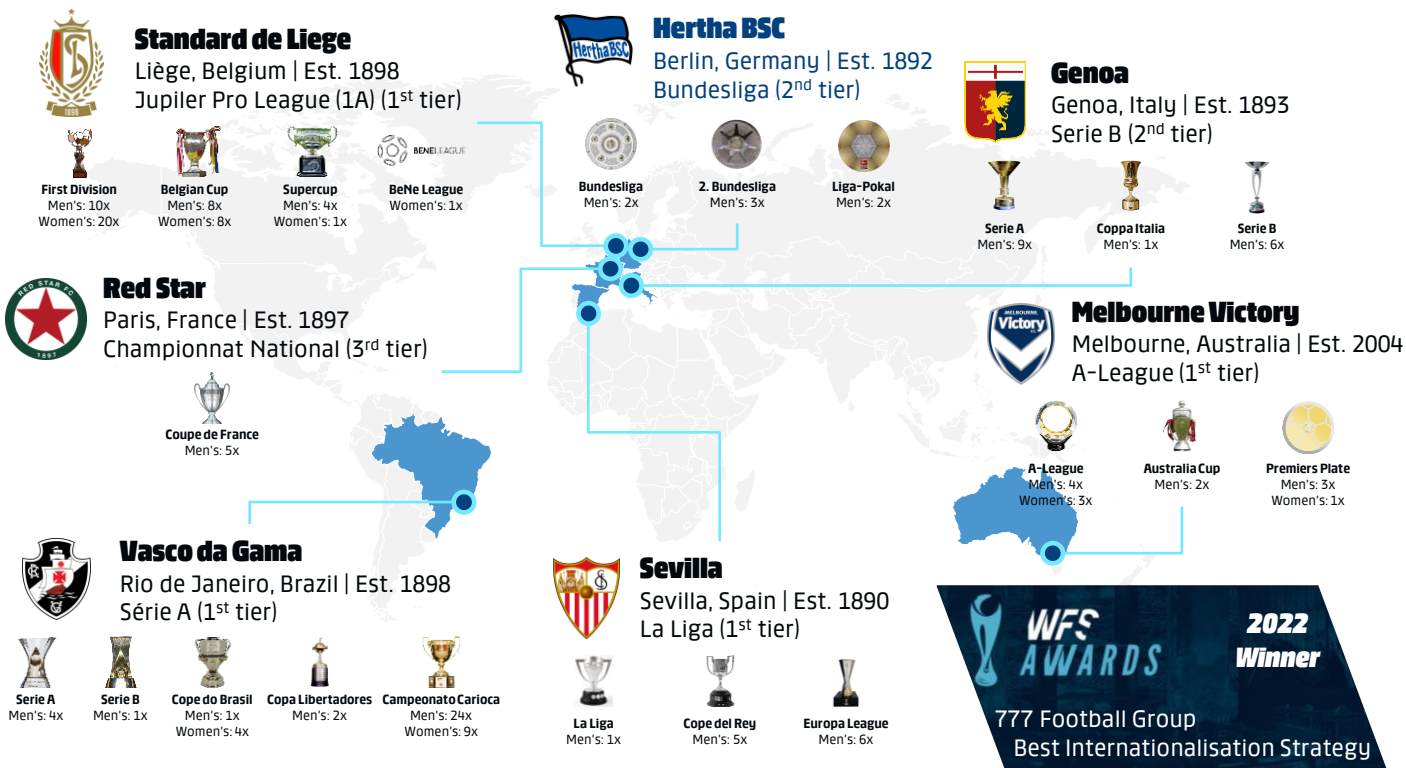
Notes: 1) Assets under Management, 2) Shares acquired via purchase of shares from Tendor and a capital increase. The shares entitle 777 to 95% profit participation and a 74.9% voting interest in Hertha BSC GmbH & Co. KGaA



# Sporting and commercial benefits for Hertha from joining 777 Football Group

## 777 Football Group: iconic, successful football brands

**GLOBAL DESTINATION FOR FOOTBALL**  
**777 Football Group is a football content and commerce platform with global reach but local focus combining innovative data driven fan engagement, talent development and cross platform synergies**



## Significant synergies and club level value creation



### Maximising value creation from talent development

- More scouts watching more games in more markets leading to better decisions
- Optimised player pathways to better attract and retain talent
- Longer talent retention to maximise value creation



### Club network enhancing management expertise

- Exposure across various league contexts worldwide enhances insights
- Specialist expertise spread across portfolio
- Group knowledge and best practice sharing



### Leveraging network for operational efficiencies

- Sharing insights on operational optimisation
- Ability to incubate services and technologies
- Fixed investment across digital / content activities



### Enables commercial synergies

- Iconic, heritage clubs' assets across three continents
- Combined fanbases elevates commercial deals ceiling
- More sales people in more markets increases total addressable market

# Economic turnaround initiated with strong support from 777 Partners

New management structure, optimization measures and 777 equity commitment to bring Hertha back on track

## MANAGEMENT

### New structure with single responsible Managing Director

- At the Club's initiative, a new management structure with Thomas Herrich as sole responsible Managing Director was put in place, combining sporting and commercial management roles in one person to ensure Hertha's return to sustainable economic results, which is a prerequisite for sporting success

## EUR 100M

### 777 as Hertha's new partner has committed EUR 100m in equity

- To support the economic and subsequent sporting turnaround, 777 Partners has committed EUR 100m in equity to the Club, with the majority targeted for the 2023/24 season and the remainder for the 2024/25 season
- EUR 100m equity contribution should form the basis for a turnaround of Hertha to economic success and breakeven EBITDA targeted for the 2024/25 season
- Full alignment of interest with Hertha's bondholders

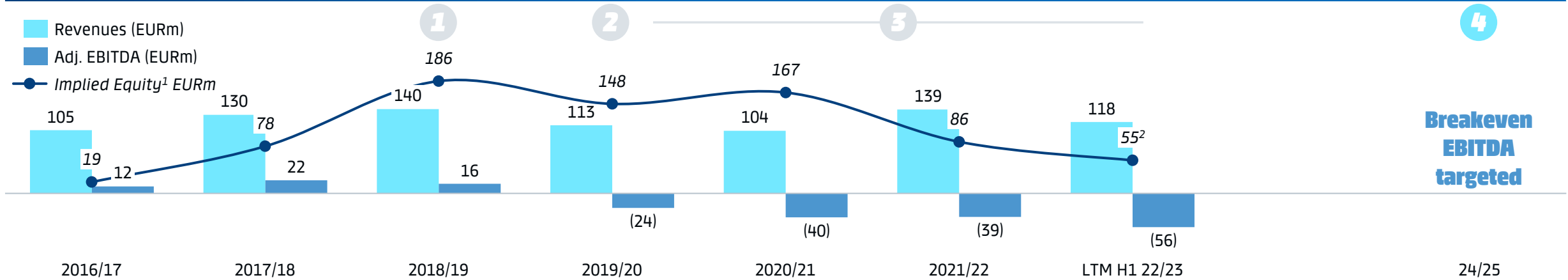
## REDUCING COSTS

### Cost reduction measures planned to return Hertha to profitability with personnel costs from players and staff as a key lever

- Hertha's currently negative EBITDA is the result of lower revenues during the Covid-19 pandemic and an expensive playing squad that did not perform according to expectations
- To return to profitability by the 2024/25 season, Hertha started implementing measures to significantly reduce costs, focusing on personnel costs initially
- From slightly above EUR 80m in the current season, personnel costs from the professional first team and staff are targeted to be reduced by around 60% in 2023/24 given the relegation to the 2. Bundesliga
- Other operating costs are also targeted to be reduced, driven by cost savings and efficiency measures
- It is planned for breakeven EBITDA to be achieved by managing the cost side and, as such, would not be dependent on revenue increases
- Hertha's management and 777's key focus is to reach EBITDA breakeven by 2024/25, based on conservative financial planning and assuming promotion to the 1. Bundesliga after one season in the 2. Bundesliga

# Clear, achievable initiatives targeting breakeven EBITDA by 2024/25 season

Turnaround with new management setup, reduced squad costs and 777 as strategic partner providing equity and guidance



## 1 Tennor agreement

- Tennor Holding acquired 64.7% of shares in the Hertha BSC GmbH & Co. KGaA
- Tennor subsequently invested ~EUR 375m into Hertha over a two-year period from June 2019 to August 2021

## 2 Squad investments

- With Tennor funds, significant player investments were made
- In addition to capital expenditures for players, personnel costs related to the first team increased, however, sporting success did not follow expectations

## 3 Covid-19, high squad costs and sporting decline

- The Covid-19 pandemic materially impacted Hertha as matchday revenues slumped and sponsorship income declined
- On the football side, values of players it recently acquired expensively declined, mainly due to challenging transfer markets and Hertha's lack of sporting success, reducing the ability to sell players
- Moreover, personnel costs remained high, impacting profitability

## 4 Full focus on EBITDA turnaround

- 777 investment made on the premise of returning Hertha to profitability and subsequent success on the pitch
- Clear measures to generate breakeven EBITDA, focussing initially on right-sizing excessive football personnel costs
- 777 providing expertise and knowledge to management and EUR 100m commitment to Hertha in order to support turnaround

Notes: 1) Reported Equity plus hidden reserves from squad (market value of squad as per Transfermarkt.de as stated in the Company's financial reports less book value of the squad), 2) Based on Transfermarkt.de squad value on 1 May 2023 of EUR 107.60m

# Amendments to Bond Terms & Conditions required to receive DFL licence

## Hertha needs the DFL licence in order to compete in the next season which is the prerequisite for a majority of revenues

- Prior to each season, the DFL needs to grant a licence to each club that wants to compete in the Bundesliga system, which includes both the 1. Bundesliga and the 2. Bundesliga
- The licencing process focuses on clubs' economic viability and shall ensure that no club has to cease operations during a season for financial reasons. The DFL's licencing process is generally recognized as the strictest in Europe
- Each club applying for a DFL licence by a certain deadline must prove through a business and liquidity plan, that all operating and financial commitments due in the following season can be met. Although the DFL already requires very conservative assumptions, it is up to them to make adjustments to the plan
- The licencing process can take several weeks and after the initial submission and a verification by the DFL licencing committee, the committee can either (i) grant a licence, (ii) grant a licence with conditions to be fulfilled during the season or (iii) may impose certain conditions under which a licence could be granted. If a club cannot fulfil the conditions by the final deadline, no licence will be granted for the 2023/24 season
- During the process, clubs can appeal against decisions of the licencing committee (including changed planning assumptions)
- So far, **Hertha has received the licence with a condition mainly relating to the upcoming maturity of the bond.** According to Hertha's original application, the Licensing Committee did not accept relevant planning assumptions, especially regarding the squad cost reduction, to which Hertha appealed with some success
- Nevertheless, the upcoming maturity of the Bond in November 2023 falls in the middle of the 2023/24 season. DFL requires Hertha to succeed in extending the maturity of the Bond as proposed until 21 June 2023. In case the Bond is not extended by then as proposed, Hertha would have to prove to the DFL Licensing Committee alternative financing or guarantees/sureties in the amount of the outstanding obligations under the Bond until 21 June 2023, which the club is working on, but which is currently not in place
- **Therefore, the major outstanding financial lever for Hertha to action in order to receive its DFL licence is the proposed extension of the Nordic Bond maturity to November 2025. Consequently, Hertha is seeking an amendment of its Bond Terms & Conditions mainly to extend the maturity beyond the upcoming season**

### Conservative DFL assumptions for licencing (examples)

#### 1 All and only contractually agreed obligations as of the licencing date are considered.

Hertha's personnel cost reductions in the squad are mainly based on post-season player transfers, but since these players are still contracted, the DFL does not accept most of Hertha's planned personnel cost reductions

#### 2 No transfer results considered. As of 1 May 2023, Transfermarkt.de assesses the Hertha squad to have a value in excess of EUR 107m. DFL does not accept any liquidity assumptions of selling any player unless a contract has been signed. With the planned cost reductions Hertha is expected to sell players generating liquidity but such assumptions made by Hertha are not accepted by the DFL



**1. Business update**

**2. Amendments to  
Bond Terms & Conditions**



# Proposed amendments<sup>1</sup> to the Terms & Conditions of the Bonds

## Proposed amendments<sup>1</sup>

	<i>Proposed</i>	<i>At present</i>	<i>Reasoning</i>	<i>Reference</i>
<b>Extending the Final Maturity Date</b>	<ul style="list-style-type: none"><li>8 November 2025</li></ul>	<ul style="list-style-type: none"><li>8 November 2023</li></ul>	<ul style="list-style-type: none"><li>DFL<sup>2</sup> requires Hertha to provide proof by 7 June 2023 of being funded throughout the upcoming football season 2023/2024</li><li>The extension of the term of the bond thus secures the needs of the DFL</li></ul>	<ul style="list-style-type: none"><li>Terms and Conditions of the Bonds<sup>3</sup> page 3 "Final Maturity Date"</li></ul>
<b>Re-instating a basket in Permitted Debt</b>	<ul style="list-style-type: none"><li>Remove the definition of "Other Instruments" allowing debt of EUR 25.85m and instead include a new basket for unsecured debt as replacement, the "Unsecured Finance Instruments" basket in an amount of EUR 25.85m</li></ul>	<ul style="list-style-type: none"><li>The "Other Instruments" basket consists of various, mostly unsecured debt financing amounting to EUR 25.85m, all of which has already been repaid by Hertha</li></ul>	<ul style="list-style-type: none"><li>Hertha repaid all "Other Instruments" in 2019 and 2020</li><li>Hertha seeks to reinstate the possibility of incurring unsecured debt of up to EUR 25.85m provided by reputable credit institutions. Therefore, the "Unsecured Finance Instruments" basket shall be included</li></ul>	<ul style="list-style-type: none"><li>Terms and Conditions of the Bond<sup>3</sup> pages 7 and 8 "Permitted Debt"</li></ul>

Notes: 1) Proposed amendments in the NOTICE TO A WRITTEN PROCEDURE dated 22 May 2023; 2) DFL Deutsche Fußball Liga GmbH, 3) Refers to Bond Terms & Conditions prior to any amendments

# Proposed amendments<sup>1</sup> to the Terms & Conditions of the Bonds

## Compensation to bondholders<sup>1</sup>

### *Compensation*

### *Per EUR 1,000 of bonds*

#### **Consent Fee**

- 1.0 % of bonds volume held

- One-time payment of EUR 10
- Payable on or around Consent Fee Record Date + 5 Business Days

#### **Increase in interest rate**

- Increase to 8.5 % p.a.
- This is a 2 percentage points increase
- Starting from the next interest period on 8 August 2023

- EUR 85 per year
- Payable on every Interest Payment Date (8 February, 8 May, 8 August, 8 November)

#### **Call structure incentivising early refinancing of bonds**

- New call option structure ("Voluntary total redemption")
- 100.5 % until 8 May 2024
- Thereafter 101.0 % until 8 November 2024
- Thereafter 101.5 % until 8 May 2025
- Thereafter 102.0 % until 8 November 2025

- EUR 5 (for call of Bonds before 8 May 24)
- EUR 10 (for call of Bonds from 8 May 24 to before 8 Nov. 24)
- EUR 15 (for call of Bonds from 8 Nov. 24 to before 8 May 25)
- EUR 20 (for call of Bonds from 8 May 25 until maturity on 8 Nov 25)

Notes: 1) Compensation to bondholders as proposed in the NOTICE TO A WRITTEN PROCEDURE dated 22 May 2023 conditional upon the quorum and majority requirements being satisfied that the Request is approved in the Written Procedure

# Voting Process

## What am I required to do in order to vote?

### 1 Where can I find the Notice of Written Procedure?

- The notice of written procedure including the voting form can be found on Hertha BSC's investor relations page ([click here](#)) or under the link below [www.herthabsc.com/en/club/nordic-bonds-investor-relations](http://www.herthabsc.com/en/club/nordic-bonds-investor-relations)

### 2 How do I vote?

- Please see next page for further information

### 3 Until when can I vote?

- Deadline for the Agent (Nordic Trustee) to receive votes is 19 June 2023 15:00 (CEST)

### 4 Am I eligible to vote?

- Record Date for the eligibility to vote is 26 May 2023 you must be a bondholder by that date in order to be able to vote

### 5 When will I receive the Consent Fee? <sup>1</sup>

- The Consent Fee Record Date is expected to be 26 June 2023, five Business Days after the deadline for voting. The Consent Fee payment date is 5 Business Days after the Consent Fee Record Date

### 6 What is the quorum requirement?

- At least fifty (50) per cent of the Nominal Amount

### 7 What is the majority requirement for the approval of Hertha's request?

- At least sixty-six and two thirds (66 2/3) per cent of the Nominal Amount for which Bondholders reply under the Written Procedure must consent to the request

### 8 When will I know the outcome of the overall vote?

- The result will be published on 19 June 2023 in a press release

Notes: 1) Compensation to bondholders as proposed in the NOTICE TO A WRITTEN PROCEDURE dated 22 May 2023 conditional upon the quorum and majority requirements being satisfied that the Request is approved in the Written Procedure



# How do I vote?

## OPTION 1

**I hold my Hertha Bonds via a custodian bank, an authorised nominee or other intermediary**

(reference to Clause 3.5 of the Notice of Written Procedure)

Relevant voting option for most investors

**Option 1.A - Instruct your custodian bank or authorised nominee or intermediary, through which you are holding the Bonds, to vote in its own name as instructed by you<sup>1</sup>**

1. Please check with your *custodian bank*, how it needs to be instructed to vote in the Written Procedure based on your instructions
2. **In addition, in order to give Hertha knowledge about the likely outcome as soon as possible, each Bondholder that wishes to participate in the Written Procedure is also highly encouraged to complete and send in the *Participation Form* (Notice of Written Procedure, Schedule 3) as soon as possible to ensure that the intention to formally participate is registered. By sending in the Participation Form, you undertake to, among other things, promptly submit the Voting Form to the Nordic Trustee following the Record Date occurring on 26 May 2023, and not to dispose of your Bonds until the Written Procedure (or any subsequent written procedure regarding the Request) has been completed**

Instruct your *custodian bank* directly for voting.  
Send the *Participation Form* to the Nordic Trustee (Agent)

### By regular mail

Nordic Trustee & Agency AB (publ)  
Attn: Written Procedure Hertha BSC GmbH & Co. KGaA  
P.O. Box 7329  
S-103 90 Stockholm

### By courier

Nordic Trustee & Agency AB  
Attn: Written Procedure Hertha BSC GmbH & Co. KGaA  
Norrandsgatan 23  
111 43 Stockholm

### By email

voting.sweden@nordictrustee.com

Note: 1) The vote is done based on your instruction

## OPTION 2

**I am registered as a Bondholder for the Hertha Bonds directly with Euroclear Sweden (the "CSD")**

**Fill out the Voting Form included as Schedule 1 in the Notice of Written Procedure and send the completed Voting Form via mail, by courier or email to the Nordic Trustee**

Most investors are not directly registered bondholders but hold their Hertha Bonds via a nominee (e.g. a custodian bank). If this is the case please refer to Option 1

Send the Voting Form to the Nordic Trustee



#HA·HO·HE