A Cure for GZO

Creditor Presentation - September 2024

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Why we are here

Current Situation

- After negotiations with a potential equity investor failed, and the Canton of Zurich refused financial support, GZO AG could not repay the bond maturing on June 12th, 2024
- The company filed for a provisional debt moratorium on April 30th, 2024, which has been extended until December 30th, 2024, and will seek to enter a definitive moratorium thereafter
- During this time, the hospital can examine and implement restructuring measures while operations continue
- GZO AG intends to present a restructuring plan by the end of October with the intention of having it approved by creditors by the end of 2026
- According to the hospital management, a debt cut, a capital increase, and a financing proposal for the completion of the new building are to be part of the restructuring plan
- The company needs to convince at least two thirds of its creditors by value and one half by number to a haircut or face bankruptcy

There Is a Better Way Forward

- GZO has various options to ensure that creditors receive full repayment of principal through the monetization of hospital assets
- We have proposed the following:
  - Three-year extension of the defaulted bonds to provide the board with sufficient time to monetize such assets and successfully refinance
  - Gradual increase in interest rate to incentivize the Company to act swiftly
  - That the current debt be secured by the Company's extensive real estate holdings to prevent the company from raising senior debt or selling assets
  - The election of a highly engaged bondholder representative to protect creditors
- Should the board be unable to find a permanent solution during that time, bankruptcy is still a better outcome for creditors than GZO's proposed plan

Part 1 GZO’s proposed restructuring plan is flawed

GZO's plan is too complicated

GZO will present creditors with a restructuring plan based on three pillars: a debt haircut, a cash injection from shareholders and a financing proposal to complete the new hospital building. This plan has numerous probable points of failure and, if successful, the outcome for creditors is significantly worse than what could be achieved by extending the bonds' maturity or through bankruptcy proceedings

Shareholder Cash Injection

The company is seeking a cash injection from shareholders

- For this to occur, the twelve shareholder municipalities must agree and hold a public referendum on the matter

This will take more than 24 months and outcome is not certain

Financing Proposal

GZO's plan will require it to secure financing for the completion of the new hospital building

- This implies that the company must identify an investor/financing partner

The feasibility of this is uncertain and out of GZO's control

Creditor Haircut

The plan will require creditors to take a haircut

- At least two-thirds of creditors by value and one half of creditors by number must support a haircut

Creditors <u>will not</u> support a haircut given the substantial recoverable value in liquidation

Simultaneously the company intends to seek a merger of its operations with another hospital

The recovery of any value by creditors is contingent on too many uncertainties that are beyond the control of GZO. The proposed plan is risky for creditors and could jeopardize the future of the hospital

Coordinating twelve municipalities will take time

Shareholder	%	Population (2023)	Party
Wetzikon	25.5%	26,462	SP
Rüti	13.4%	12,862	Die Mitte
Hinwil	11.3%	11,832	SP
Wald	10.3%	10,562	SVP
Gossau	9.7%	10,569	FDP
Dürnten	6.8%	7,877	FDV
Bubikon	6.3%	7,614	FDP
Bauma	5.0%	5,060	Independent
Bäretswil	4.5%	5,142	Independent
Grüningen	2.4%	3,843	SVP
Fischenthal	2.4%	2,625	Independent
Seegräben	2.4%	1,469	FDP

Months

3-6 Development of Proposal

2-3 Community Consultation and Approval Preparation

1-2 Vote Preparation

Vote

1-2 Post-Referendum Process

2-6 Capital Injection and Implementation

The process will require twelve municipalities to agree to terms and hold in most of the cases ballot votes and in some cases municipal assembly votes. *If* the terms are approved and the votes are successful, it will likely take ~18 months before creditors receive any proceeds

Source: CWC, Company data, BFS

The new building is a money pit

Subpar return prospects

Since 2018 the Company has spent ~ CHF 127 million on the project and now claims that an additional ~CHF 100 million are required to complete the project

- We estimate the IRR of the project to be 2.5%
- The Net Present Value of the project is a fraction of its cost

We estimate that over CHF 77 million of value has been destroyed thus far

Execution Risk

GZO's creditworthiness will be a problem in negotiating with any contractor

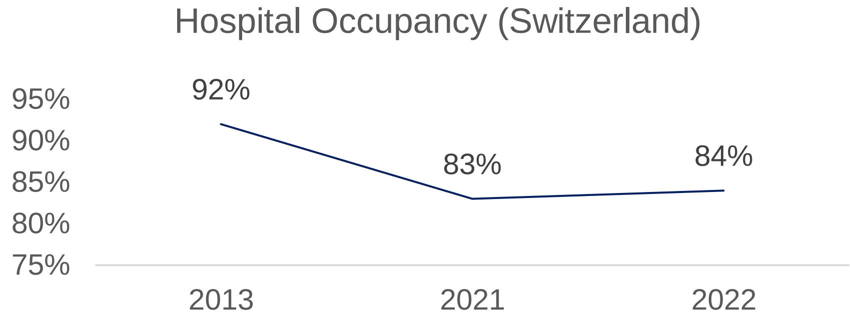
- The Company must identify a new contractor willing to complete the project on acceptable terms
- The working capital requirements (upfront payments) that will be required by any contractor will be prohibitive for GZO

There is significant execution risk in attempting to complete the building

Questionable Strategic Rationale

GZO issued the bonds under the premise that the hospital did not have sufficient capacity to meet the region's growing need for care

- Since the issuance, hospital occupancy across Switzerland has fallen by 8 percentage points. GZO's occupancy is in line with the sector



Source: BFS

- In its decision not to guarantee the debt, the Canton of Zurich has stated that GZO is *"not indispensable for the medical care of the population in the canton of Zurich"*
- The hospital laments a difficult market causing margins to plummet in 2023

We question the strategic rationale of expanding the hospital in the current environment

THE PLAN WILL TAKE YEARS TO IMPLEMENT AND <u>WILL</u> RESULT IN BANKRUPTCY

Current Status

Provisional Debt Moratorium

8 months

(Dec 2024)

- GZO will present a restructuring plan to creditors on or before October 25th, 2024
- The Company will then enter a definitive moratorium for up to 24 months to enact the plan
- During this period, the 12 shareholder municipalities must agree to inject cash and subsequently hold a public referendum (likely 18-24 months process)
- Only upon receipt of funds from shareholders (expected H2 2026) will GZO be in the position to pay out proceeds from debt haircut to creditors

Definitive Moratorium

24 Months

(Dec 2026)

The haircut proposal will be contingent on twelve successful public referendums and will take 18-24 months for proceeds to be distributed

Creditor Vote

Plan must be approved by at least 50% of creditors holding 2/3 of outstanding debt

Bankruptcy

12-24 Months

(Dec 2028)

- If GZO does not achieve support from *at least* half of its creditors holding two-thirds of the debt, it will automatically enter bankruptcy.
- In bankruptcy, creditors are likely to recover the entirety of their principal over a multi-year period
- The value of GZO's assets exceeds the outstanding liabilities by a substantial margin

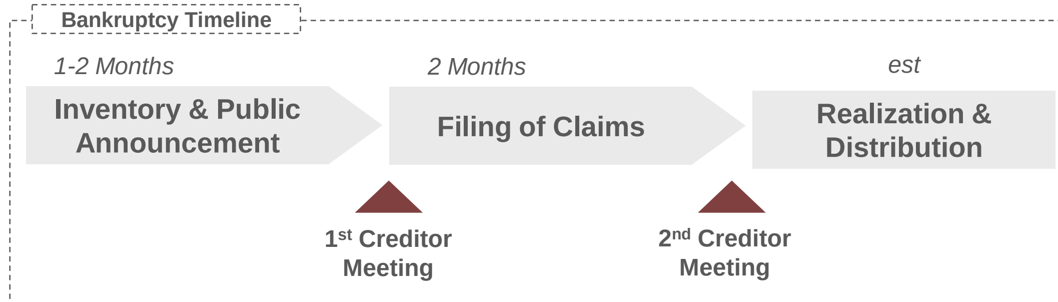
The Company's actions will add an additional 24 months to the recovery timeline resulting in 5+ year process

The alternatives are better for creditors

GZO has two alternative options: 1) to initiate bankruptcy proceedings immediately or 2) adopt our proposals. Both options are preferable to the Company's proposed plan

Reduced Timeline

- An extension of the maturities will allow creditors to continue to be compensated as the company enacts a recovery plan. We expect refinancing to be possible within 18 months
- The same recovery plan can be achieved in bankruptcy in less than 24 months



Control of Process

- The election of a highly engaged bondholder representative will allow better oversight of the recovery process. Moreover, by securing the debt against the Company's real estate creditors can mitigate the risk of the Company raising secured financing to complete the new building
- In bankruptcy, at the 1st creditor meeting creditors have the option to elect a creditors' committee to oversee the trustee

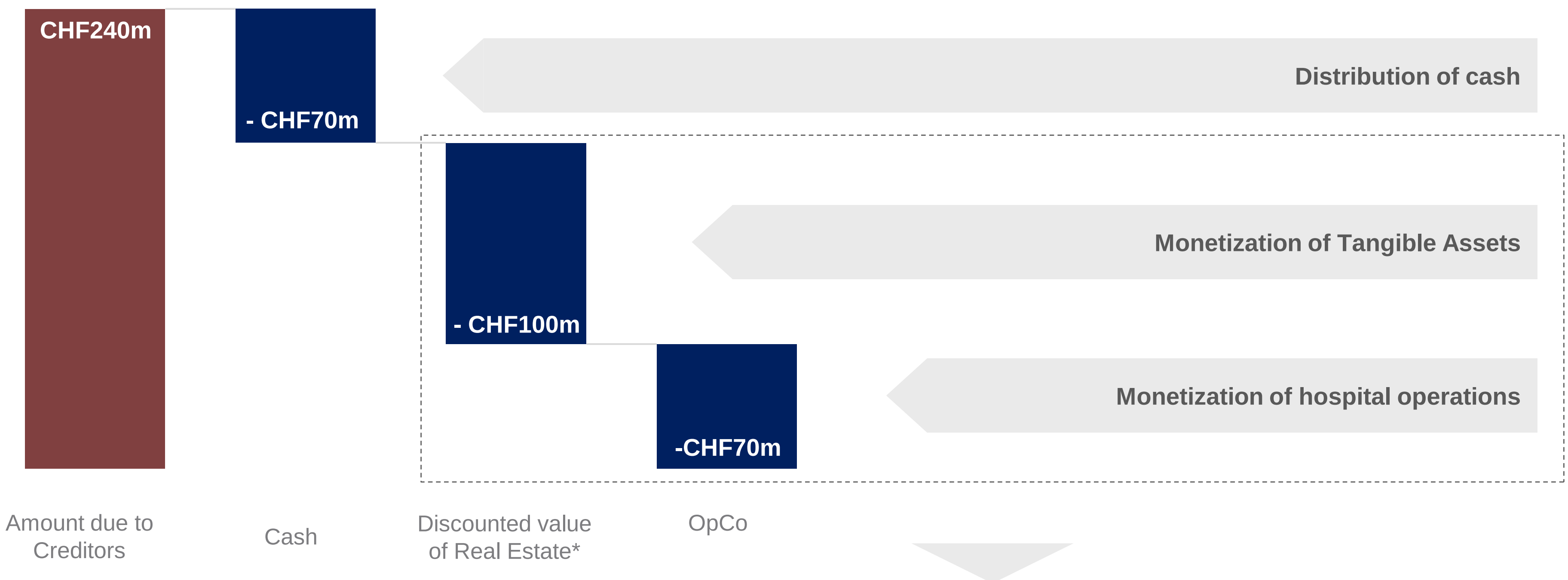
Recovery Amount

- Both in the case of Bankruptcy and in the case of an extension, various options exist to ensure **full repayment to creditors**. Under the Company's plan, creditors will not receive full repayment

Part 2 A pathway to repay creditors

Full repayment of principal is feasible

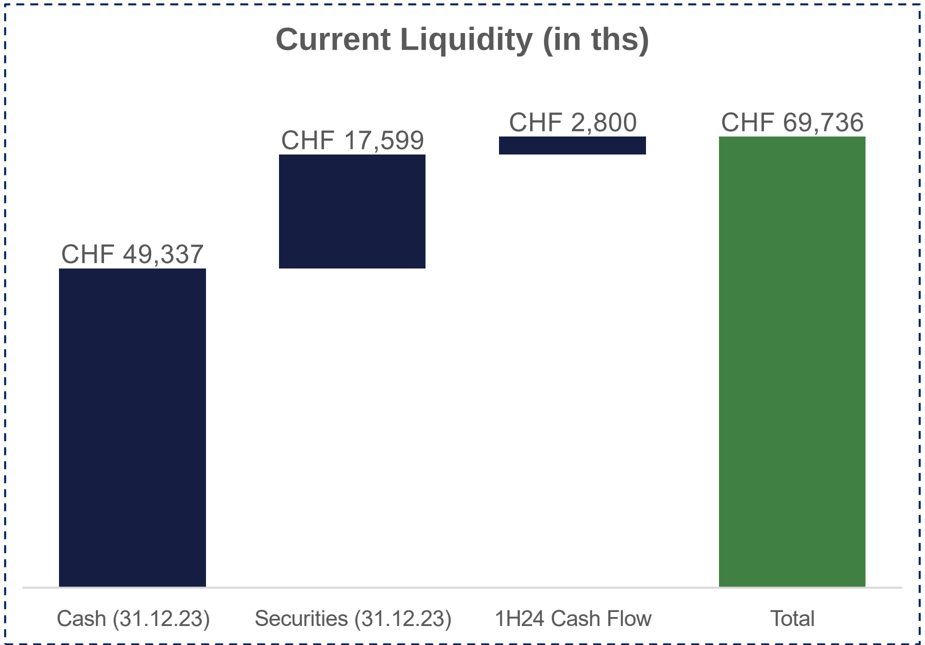
The market value of GZO's assets exceeds the amount due to creditors by a comfortable margin. In the short term, the company has various options that it can pursue to ensure full repayment of principal to creditors. These include utilization of existing cash balances, a monetization of tangible assets and a monetization of the OpCo or its refinancing



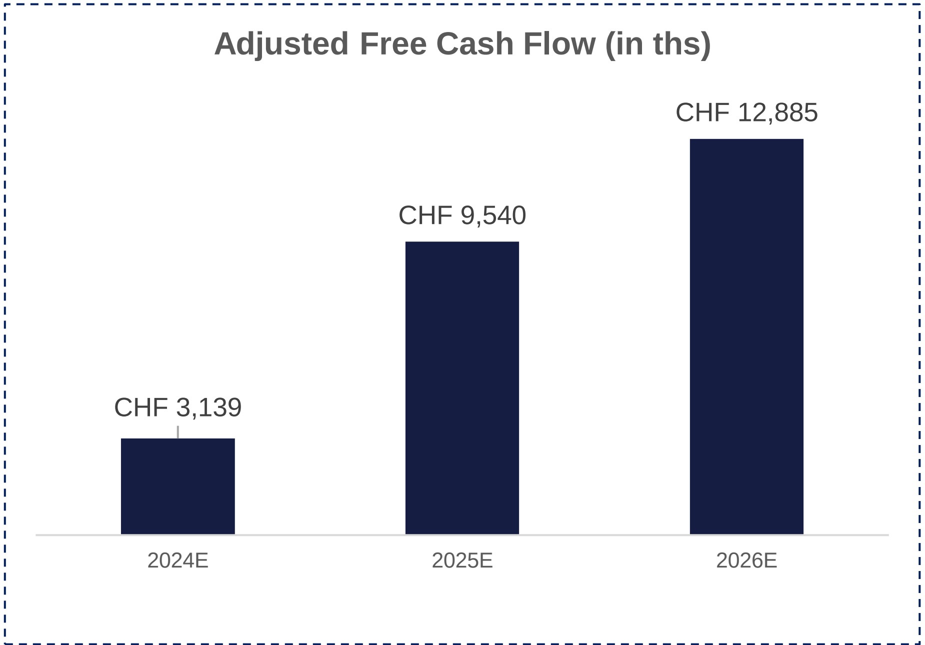
- Various solutions exist for the monetization of the real estate and the operating company
- Some solutions would require a split of the property from the Operating Company, others would keep (most of) the property and operations combined

*Assumes sale of new building at scrap value and includes refurbishment costs of old hospital building

GZO's LIQUIDITY HAS IMPROVED



Source: Clearway Capital, Company data



Source: Clearway Capital, Company data

GZO's cash balance which approaches CHF 70 million must be utilized to repay debt

The Company has sufficient cash flows to continue interest payments over the following three years

THE COMPANY'S SUBSTANTIAL REAL ESTATE VALUE CAN BE MONETIZED

Options to monetize the company's real estate include sale and leaseback, OpCo/PropCo split and refinancing, and others

Building	Realizable Value
A. Existing Hospital	CHF 93 million
C. Personnel houses	CHF 10.6 million
D. Other	CHF 3.6 million
E. Provisional Bldgs.	No value
F. Parking	CHF 2.4 million
- Refurbishment costs	-CHF 35 million
Value of Existing Real Estate	**CHF 75 million**
B. Recoverable value of New Development	CHF 25 - 50 million
Total (low end)	**CHF 100 million**

Existing hospital buildings and real estate are **worth CHF 75 million**

New building with carrying value of CHF 95 million likely worth CHF 25-50 Million if liquidated in current state

Monetizing the OpCo

The value of the hospital's operations is likely to be between CHF 128 million and CHF 160 million based on comparable transactions and trading prices. The value that can be realized from the hospital operations will depend on whether the real estate (excluding the new building) is included in the sale

- The market value of GZO's real estate (excluding the new building) is ~CHF 75 million
- The recovery amount will likely be higher in the event of a separation of the real estate from the operating company, however **even if sold together, the recoverable amount would be sufficient (together with the remaining assets of GZO) to repay bondholders**
- Monetization options include a sale of the OpCo (with or without real estate), a merger with nearby hospitals and ReFi of combined entity, etc.

Sale of hospital operations with real estate

Pro-Forma Estimates (m CHF)	2024E	2025E	2026E
Revenue	157.0	159.0	161.1
Annual Growth	1.3%	1.3%	1.3%
EBITDAR	6.3	12.7	16.1
As % of revenue	4.0%	8.0%	10.0%
Rental expenses	-	-	-
EBITDA	6.3	12.7	16.1
As % of revenue	4.0%	8.0%	10.0%

Source: Clearway Capital

- Cash flows de-risked by real estate ownership command higher valuation
- Pro-forma EBITDA margins of 10% achievable

Recoverable amount of up to CHF 160 Million*

Sale of hospital operations without real estate

Pro-Forma Estimates (m CHF)	2024E	2025E	2026E
Revenue	157.0	159.0	161.1
Annual Growth	1.3%	1.3%	1.3%
EBITDAR	6.3	12.7	16.1
As % of revenue	4.0%	8.0%	10.0%
Rental expenses	-3.4	-3.4	-3.4
EBITDA	2.9	9.3	12.7
As % of revenue	1.8%	5.8%	7.9%

Source: Clearway Capital

- Asset-light OpCo commands discount due to lack of real estate ownership
- Pro-forma EBITDA margins of 8% achievable

Recoverable amount of up to CHF 128 million

* Lower cost of capital of real-estate assets not reflected in combined valuation. The sale of the OpCo with real estate would yield less than a sale of the assets separately. Both options result in sufficient funds to repay creditors.

THE EASY SOLUTION: EXPLICIT SHAREHOLDER GUARANTEE

A simple solution

GZO's default was caused by its inability to refinance the June 2024 bonds following the Canton of Zurich's refusal to guarantee the debt. Should the debt have been guaranteed, it would have been possible for GZO to refinance

- An explicit guarantee from the shareholder municipalities would have the same effect as a cantonal guarantee, allowing GZO to refinance
- The amount to be refinanced would likely range between CHF 120 million (assuming sale of new building for CHF 50 million and distribution of CHF 70 million liquidity) and CHF 170 million (assuming only distribution of CHF 70 million of current liquidity)
- Refinancing terms would be attractive for GZO
- The solution requires no cash outlay for the municipalities
- Does not preclude completion of a capital increase and completion of the new building

An explicit guarantee from the shareholder municipalities would allow the company to refinance in the market on attractive terms

Shareholder	% GZO AG equity	Tax revenue	Budget suplus/deficit	Year
Wetzikon	25.5%	92.2	16.0	2023
Rüti	13.4%	40.4	8.2	2023
Hinwil	11.3%	22.6	5.4	2023
Wald	10.3%	30.1	3.5	2023
Gossau	9.7%	38.9	1.4	2023
Dürnten	6.8%	28.1	0.5	2023
Bubikon	6.3%	31.0	3.1	2022
Bauma	5.0%	14.2	2.7	2021
Bäretswil	4.5%	16.3	3.6	2023
Grüningen	2.4%	10.6	0.5	2023
Fischenthal	2.4%	7.3	3.0	2023
Seegräben	2.4%	5.2	0.3	2024*
Total	100%	336.9	48.2	

Source: Company data, public records

GZO's shareholders are creditworthy

Three optimal recovery options

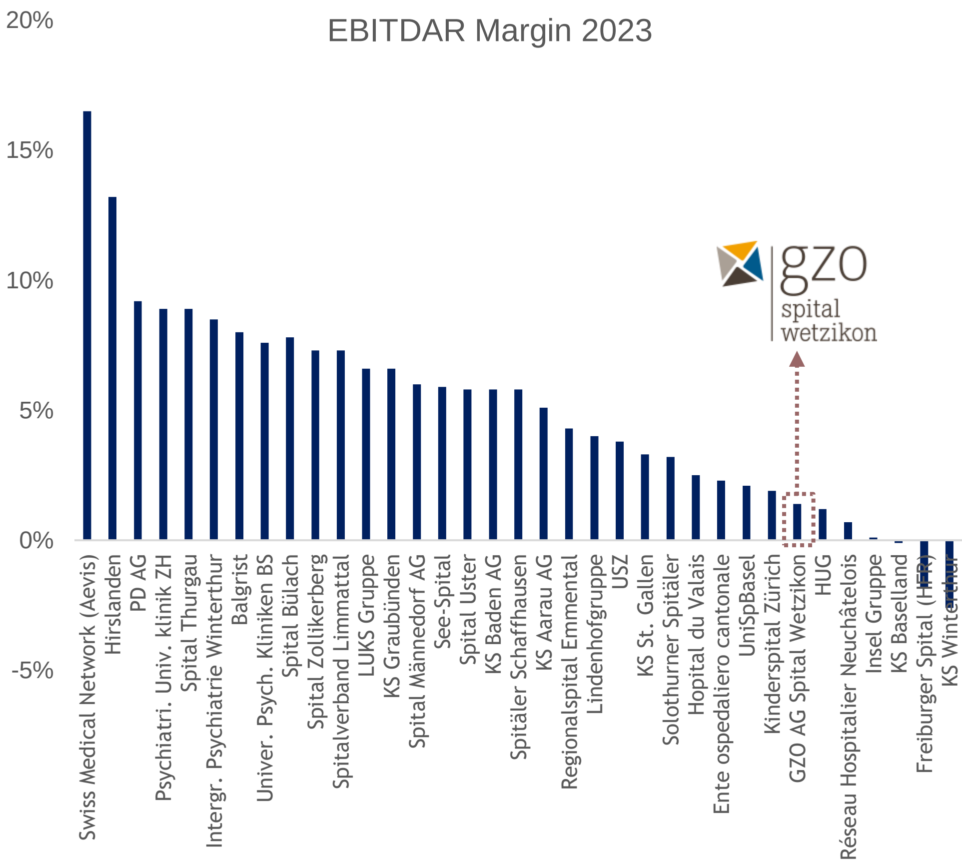
1 Full OpCo split	2 Partial Property Sale	3 Shareholder Guarantee
▪ Liquidity distributed to creditors ▪ Hospital operations separated from property ▪ New building sold at scrap value ▪ OpCo sold at discounted valuation	▪ Liquidity distributed to creditors ▪ New building sold at scrap value ▪ Non-core real-estate assets sold at market value ▪ Remaining Operations sold at fair value (including real estate)	▪ All debt refinanced under explicit shareholder guarantee
100% recovery in 18-24 months	**100% recovery in 12-18 months**	**100% recovery in < 6 months**

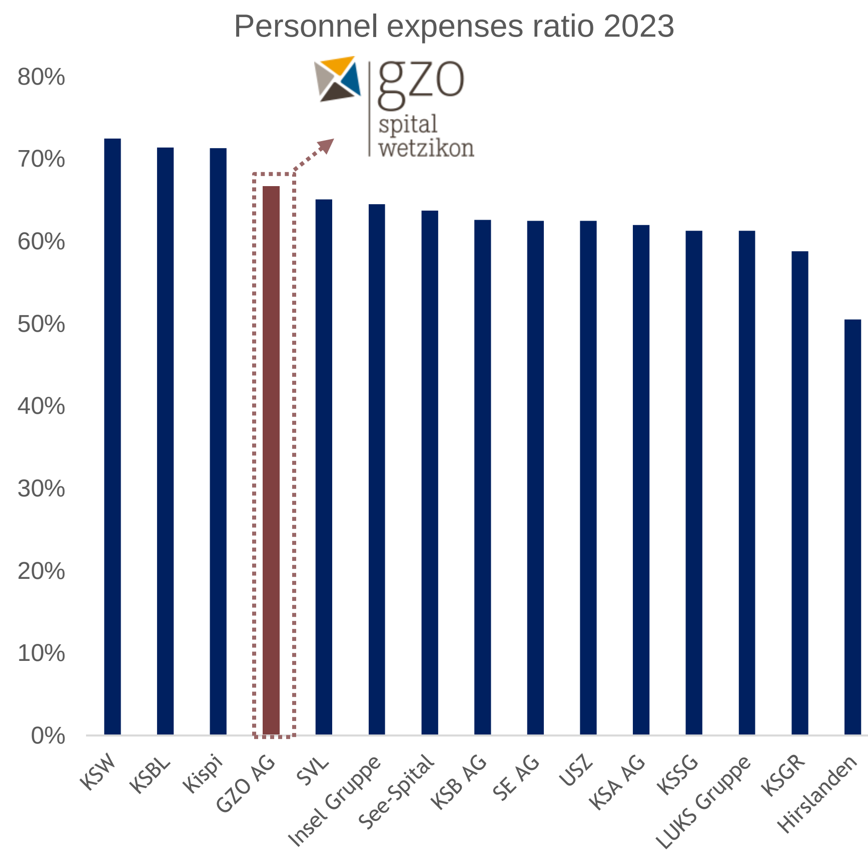
- All above recovery options allow hospital operations to continue
- No lengthy process for cash injection from shareholders required
- Third option does not exclude completion of new hospital building following subsequent cash-injection
- A shareholder guarantee under option 1 or 2 would allow for OpCo debt to be raised permitting the current shareholders to maintain control
- Other less attractive options available

Part 3 Curing GZO

GZO's financial performance has been miserable

GZO has blamed much of its poor financial performance on the difficult market. But when benchmarking the company against peers, another picture emerges: the company underperforms the majority of its peers (who are also navigating a challenging market)





GZO's margins are among the lowest in Switzerland…

…while its costs are among the highest

Source: Company data

THE COMPANY IS NOT ACTING IN THE BEST INTEREST OF CREDITORS

Debt Reduction

We estimate that the company missed the opportunity to repurchase and retire up to 15-20% of its outstanding debt at just over one-third the nominal value

- Between the 4th and 30th of April 2024, ~25% of nominal value exchanged hands at an average price below 40. During this period it would have been possible for the Company to repurchase its own debt
- At its lowest point, the market value of all the outstanding bonds was less than GZO's cash balance. Why did the board not take advantage of this?
- The bond prospectus *explicitly provides for this option*
- Under the moratorium this option is no longer available

Lack of transparency

GZO has been intentionally misleading towards creditors over the past year

- No indication was given of the imminent default in 2023 or in Q1 2024
- The company held two calls with creditors **without providing any written material** and **prohibiting recording or minute-taking**
  - It is customary to allow creditors to re-play conference calls
- The Company refused our proposal for a creditor roundtable
- Despite multiple requests, **no interim financials have been made public**

> *"GZO AG Spital Wetzikon is neither over-indebted nor illiquid". The shareholder communities are fully behind the hospital and will do everything they can to find a solution for the refinancing of the bond.*
> Joerg Kuendig (GZO Chairman) – **4 April 2024**

Source: medinside.ch

GZO AG Spital Wetzikon: Provisorische Nachlassstundung

30 April 2024

05/2024: Auf Gesuch der GZO AG Spital Wetzikon hat das Bezirksgericht Hinwil am Abend des 30. April 2024 die provisorische Nachlassstundung für eine Dauer von einstweilen vier Monaten bewilligt. Als Sachwalter wurden Brigitte Umbach-Spahn und Stephan Kesselbach eingesetzt. Das GZO Spital Wetzikon gewinnt damit Zeit für die Refinanzierung der Obligationenanleihe, die für den Neubau emittiert worden ist. Das GZO Spital Wetzikon verfügt gegenwärtig über genügend Liquidität und ist nicht überschuldet. Der Betrieb des Spitals ist vollumfänglich gewährleistet.

← zurück

Source: GZO

Maturity extension is the best solution

	Maturity Extension and implementation of Our Proposals	Bankruptcy	GZO Proposed Plan (if successful)
Recovery of principal for creditors	Yes	Yes	No
Preservation of equity value for shareholders	Yes	No	Unlikely
Current shareholders retain control	Yes	No	Only with cash injection.
Time for full recovery of principal	18-24 months (expected)	18-24 months (expected)	Haircut proceeds paid out after 24 months
Continued operations of hospital	Yes	Likely	Yes

- An extension of the bonds' maturity is the only solution that would preserve value both for creditors and for shareholders
- If the company is unable to implement a permanent financing solution during the three years, creditors are still better off in bankruptcy than with GZO's proposed plan
- If GZO's plan were to be successful and supported by half of the creditors representing two-thirds of the outstanding debt, it would likely take 24 months before any proceeds from the haircut are paid out

Our proposals

The board's actions have made it clear that the Company has no intention of working to ensure the best outcome for creditors. We are making a set of proposals to fellow bondholders that are aimed to preserve our investment while allowing the hospital to continue operating. These proposals will be voted on at the bondholder meeting on October 25th, 2024

1. **Maturity Extension:** we are proposing an extension of the maturity of the bonds by three years, from June 2024 to June 2027. This will give the company the necessary time to enact one of the multiple options at its disposal to ensure full repayment of debt

2. **Increasing Interest Rate:** the Board has demonstrated its intention to buy itself time. We believe that a gradually increasing interest rate that is affordable for the company will provide an incentive for the board to seek quick refinancing solutions. We are proposing a bi-annual increase of 50bps starting at the previous rate of 1.875% and all unpaid coupons to be paid immediately

3. **Asset Pledge:** as a condition for the extension, we are asking that the Company's real estate be pledged as collateral. This will prevent the Company from raising secured financing during the three-year extension period for the completion of the new building. This would otherwise be a material risk

4. **Election of a Bondholder Representative:** we believe that it is in the best interest of stakeholders that bondholders elect a representative to observe board proceedings to ensure that, during the three-year extension, progress is made towards a definitive solution

All of our proposals have been made in a way that will allow other creditors to receive the same treatment (same maturity extension, same increasing interest rate and same asset pledge), and **we insist that the same conditions are offered to all creditors**

We encourage fellow creditors to reach out to us with any questions at contact@gzo-bondholder.ch

GZO's proposed plan is bad for creditors, bad for shareholders, bad for the hospital and threatens the entire sector's ability to access the capital markets

Vote for our proposals at the upcoming bondholder meeting on October 25th

For more information visit www.gzo-bondholder.ch

For further information please contact contact@gzo-bondholder.ch