Title: Shitadel are in an even worse financial situation than commonly thought
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0. Preface

TLDR: This DD is a closer look at Shitadel's overall financial situation, based on several factors: their credit rating, most recent financial statement, and debt/borrowing status. My conjecture is that the publicly available information is intended to hoodwink the general population, regulatory bodies, potential lenders and those on the 'long' side of their bad bets, into believing that they are still in a strong position. However, I believe it does not take a huge amount of basic investigating to uncover evidence that their situation is actually (somehow) *even worse* than we typically believe it to be on this sub.

1. Does $4.2 billion in revenue really mean anything?

The other day I made a shitpost regarding Shitadel's credit rating, which included this graphic illustration of where they fall in Moody's ratings scale:

https://preview.redd.it/zjlq3sjwp9j91.png?width=500&format;=png&auto;=webp&s;=ff7c6a8b246e4f018e14ccbb1accfbbebf229264

The inspiration for posting that was this Bloomberg news article that came out last Tuesday 16th:

https://www.bloomberg.com/news/articles/2022-08-15/citadel-securities-first-half-trading-revenue-hits-4-2-billion

https://preview.redd.it/q6caen4vaaj91.png?width=1768&format;=png&auto;=webp&s;=a3dbd258cb71d5daf821ca9e62428d2fb993cb75

As this article defaults to being behind a paywall, here are the first three paragraphs:

Ken Griffin’s Citadel Securities raked in a record $4.2 billion in first-half net trading revenue, capitalizing on this year’s surge in market volatility and stepping up its competition with the biggest banks. Revenue soared about 23% from last year’s first half, according to people with knowledge of the situation. Citadel Securities has posted 10 consecutive quarters of net trading revenue in excess of $1 billion, with eight of those surpassing $1.5 billion, the people said, asking not to be identified disclosing private information.

Volatility spurred by interest-rate hikes, surging inflation, recession fears and Russia’s invasion of Ukraine has benefited trading operations across Wall Street. The biggest US banks pulled in $29 billion in trading revenue during the second quarter, a 21% increase over the prior year. Leading the pack was JPMorgan Chase & Co., which reported a $7.8 billion haul from the business.

Citadel’s figures are being disclosed to investors as part of a $400 million incremental loan the closely held firm is seeking, which will be used to build trading capital and for general corporate purposes.

The interesting things to note are the following:

• The news is exclusively about Citadel Securities LLC, the Market Making entity of Shitadel

• There is no mention of the financial situation of Shitadel's Hedge Fund entity Citadel Advisors LLC, which is holding the bags of GME shorts

• Although Citadel Securities' revenues increased, it was in keeping with increases for Wall Street brokerage firms across the board during the first half of 2022

• Importantly, note that the financial performance reported is purely regarding revenue, and there are no mentions whatsoever of profitability

• Hence although it may sound impressive that Citadel Securities' revenues increased by 23%, that may well have been a loss making performance nonetheless

• Finally, note the last sentence - this information is being shared on the back of Citadel Securities seeking a $400 million loan, hence needing to publicise some information on their financial performances

• As Citadel Securities is a private entity, they do not usually otherwise publicise a huge amount of information, thus it gives some clues as to how they are performing, which can otherwise be difficult to obtain

So you may be asking yourself: would a company that is performing exceptionally well need to be borrowing any money at all? Well, the answer is usually "yes", because most companies utilise lines of credit to make short term payments needed for their normal operations. However this loan that Citadel Securities was an **incremental loan**, the definition of which is as follows:

https://law.en-academic.com/8600/incremental_loan

Incremental Loans, also known as an accordion feature.

A feature of some loan agreements that allows the borrower to add a new term loan tranche or increase the revolving credit loan commitments under an existing loan facility up to a specified amount under certain terms and conditions. The advantage of this feature is that the increase in the loan amount is pre-approved by the lenders so that the borrower does not have to get the lenders' consent if it increases the loan facility at a later date.

This indicates that Citadel Securities is seeking additional loans, on top of existing loans they already had in place. As anyone who has been in some kind of financial trouble would know, you would only be looking for more loans if the existing ones you had have already been exhausted. So it certainly points towards this entity within the Shitadel group, which ought to be its stronger component compared to the struggling Hedge Fund, also having significant problems with cash flow at the moment...

2. An expensive new loan

Just a couple of days after this Financial Times article came out, we then heard that Citadel Securities had indeed secured the extra borrowing they had been seeking:

https://www.ft.com/content/f3206b39-0cd9-4956-8a87-f5b2f85025ea

https://preview.redd.it/nb0362ppy9j91.png?width=1590&format;=png&auto;=webp&s;=41df2067a564eac59e7c40f6afb476ece953795d

Some choice excerpts from within this article are:

Citadel Securities borrowed $600mn on Thursday to bolster its balance sheet and trading business, capitalising on strong demand from lenders after volatile markets helped one of the biggest US equity trading houses make a banner start to 2022.

The company told lenders, which include credit funds, that it planned to use the $600mn in part for additional trading capital. Citadel has sought to expand into new markets outside of the US and build its business with institutional traders in fixed income.

The loan matures in February 2028 and was issued with an interest rate 3 percentage points above Sofr, the new floating interest rate that has been widely adopted to replace Libor. The large appetite to lend to Citadel allowed the Goldman Sachs bankers marketing the deal to tighten the terms — it had initially offered the loan with an interest rate a quarter-point higher — and increase its size by $200mn.

So what we can take away from this second news about Shitadel last week includes the following:

• Citadel Securities managed to get the loan they were hoping for - in fact, 50% more even than they were originally seeking

• They have used the reason of "business expansion" for asking for these loans

• The price for this, as secured by their investment banker Goldman Sachs, is an interest rate 3% higher than the standard Sofr rate that financial institutions use for borrowing

• The current Sofr rate according to the Fed (https://www.newyorkfed.org/markets/reference-rates/sofr) is 2.29%, meaning Citadel Securities has agreed to borrow this $600 million at a whopping 5.29% rate - 2.31 times the going rate!

Again, as anyone who has faced financial difficulties would know, it is hard to get extra loans to the ones you already have if you have poor credit. Typically lenders would either be too wary to give extra cash, or they would ask you to pay well above the normal interest rate, to take on the risk of lending you more money. With Citadel Securities LLC being asked to pay **more than double** the normal rate - I think we can surmise that these lenders have pushed them to borrow at a very high rate due to a perception that this is a borrower with high risk.

The fact that they have given a likely BS reason - further business expansion - for asking for more money is also telling for me. Again, anyone who has struggled for cash flow would know that explaining "I need to borrow money because I don't have money" is likely to get shut down very quickly by a bank. Hence another more palatable reason needs to be given, and I think that is what has happened here. However these unknown lenders weren't born yesterday and probably said something like: "OK, we'll lend you the money for this 'business expansion'...but we'll charge you well over double what we would for someone we think is in a more financially healthy condition."

3. What happened to the Sequoia & Paradigm money?

Now let's have a look at one more tidbit of information the article also shares, about the bigger borrowing picture for Citadel Securities

The company earlier this year was valued at $22bn when Griffin sold a $1.2bn stake in the business to venture capital firms Sequoia and Paradigm, and its new backers were keen for Citadel to expand into cryptocurrency trading. The market-making business has been continuously tapping credit markets for cash as it has grown, and the new borrowing will swell the size of an existing loan to more than $3.5bn.

The reference here is to the much publicised news, at the beginning of this year, about the first time Kenny gave away any part of ownership of Shitadel group in exchange for money:

https://www.marketsmedia.com/citadel-securities-sells-1-15bn-stake-to-sequoia-and-paradigm/

https://preview.redd.it/la43bpyf9aj91.png?width=1768&format;=png&auto;=webp&s;=83dbd67ca488dddab609d7e9125ccc98993a7be1

This is recapping some old news, but worth reminding a few points:

• Kenny started up Shitadel 32 years ago, so it was very interesting timing that he would only agree to "partner" with other companies - in the form of cash in exchange for losing some control of his business - only in the last few months

• We know how much he loves to hodl what is precious to him - the mayo jar and his company - so this would have come as a major surprise to anyone not following this story too closely

• Again they used some hoodwinking BS of trying to expand into the crypto markets in partnership with Paradigm, as a reason for giving away part ownership in exchange for a large cash injection

• However, as far as I am aware, there has not been a peep from all these parties about anything new they have launched in the crypto area, in these last 8 months since that deal

My guess is that Shitadel has burned through that cash injection already, and hence needed more money. Having used the "crypto expansion" card already, they knew they could not use this as a reason to ask lenders for even more money. So instead this time they went with the "international expansion" line, in an effort to diversify the BS they are using for keeping the borrowed cash flow coming in. Hence the current dire situation they find themselves in: **$3.5 billion in debt!**

4. Financial Statement for 2021

Now I want to take a closer look at Citadel Securities' most recent Financial Statement, which they filed with the SEC on 25th February 2022 for the year ending 31st December 2021:

https://www.sec.gov/Archives/edgar/data/1146184/000128417022000004/CDRG_BS_Only_FS_2021.pdf

https://preview.redd.it/zq7kkdkn9aj91.png?width=1768&format;=png&auto;=webp&s;=eac947a6c6afbfd50a0bca6b8a4ac87e2e5645e4

There are three pieces of information within this that intrigued me - one you would probably already be aware of, but two you may not. The point you may already be familiar with, as it got some good coverage in the sub, was how much of their Assets are canceled out by Liabilities in the form of "Securities sold, not yet purchased, at fair value":

https://preview.redd.it/o3eochmzz9j91.png?width=1768&format;=png&auto;=webp&s;=b0d25df8cb5ec034e5fa1d6076e3ff21b6c84f55

The sheer size of these liabilities, which is really only possible to be of this scale due to Citadel Securities' status as a 'Bona Fide' Market Maker in the NYSE, is quite impressive in itself. However the definition specified in the document for both the securities they own and those "sold, not yet purchased" is quite telling in my opinion:

https://preview.redd.it/yw0s3d280aj91.png?width=1768&format;=png&auto;=webp&s;=315bc0a0bfdb3bf268885afffd18b9bdada2d31a

This seems like an indication that a large volume of their liabilities, and thus their entite business model, is based on selling equities they do not yet own. It thus becomes easy to understand how they can increase their revenue by 23%, as they have done, but really be digging their grave deeper and deeper. A large number of those securities "sold, not yet purchased" could go on to become FTDs, and eventually they may be forced to purchase these. Is it thus any wonder a couple of my other DDs this month pointed to GME having an incredible number of FTDs, in large part probably due to Citadel Securities' (and other similar Market Makers') business practices?

https://www.reddit.com/r/Superstonk/comments/wk5kmf/last_week_i_reported_how_gamestop_had_more_ftds/

https://preview.redd.it/flf4h4br9aj91.png?width=1590&format;=png&auto;=webp&s;=587386acf448daf6b39946e98bff74e7e5260e96

https://www.reddit.com/r/Superstonk/comments/weebvr/in_the_last_10_years_gamestop_had_more_ftds_than/

https://preview.redd.it/whbtvuri1aj91.png?width=1590&format;=png&auto;=webp&s;=5164b07497bb67c87e3d919a8ad87c7101145c88

Now for two more interesting points, hidden away in the "Notes" section of the filing:

https://preview.redd.it/e1ndz0fu1aj91.png?width=1768&format;=png&auto;=webp&s;=709de0aee5100f5615e05e292efd2555782fa556

Let me take you through the two sections here, firstly the Revolving Credit Agreement:

• Citadel Securities has a Revolving Credit Agreement through one of their Prime Brokers, JP Morgan, to borrow up to $500 million

• SOFR replaced LIBOR as the means for deciding inter-financial institutions' lending rates during the period covered by this Financial Statement

• According to the document, they had not made use of this possible $500 million line of credit by the end of 2021

• However, this revolving credit agreement would allow Citadel Securities to carry out that borrowing at far lower interest than the SOFR+3% loan they secured last Thursday

The question that comes to my mind is: why were they trying to get a $400 million loan at the beginning of last week, when they were already able to borrow up to $500 million at a *much* lower interest rate through this Revolving Credit Agreement? It really only makes sense if, some time between January 1st and the beginning of last week, they had *already* used up that particular line of credit. However with this still not being enough, they then had to go out and ask for *another* $400 million, and were eventually able to secure $600 in borrowing.

5. The mysterious Citadel Securities LP

The second interesting point I noticed was this line in the following section:

The Company has entered into an unsecured cash advance agreement with Citadel Securities LP (“CSLP”), an affiliate, in which the Company is the borrower and CSLP is the lender.

Huh? Citadel Securities borrowing money from...itself? We know they do have a number of affiliates and shell companies, but this appears to be the holdings company which actually does most of the borrowing. I tried to search for the SEC filings made by specifically this Citadel Securities LP entity, but the closest match is this other (or same?) holdings company that made its one and only filing back in 2018:

https://sec.report/CIK/0001748042

https://preview.redd.it/qit0tlh82aj91.png?width=1590&format;=png&auto;=webp&s;=4c53c10be849eb6442dd92b0c80f54d62214d8e6

One would think it must be a dead entity. However, I have reason to believe that the loan secured last week was likely, in fact, through this mysterious Citadel Securities LP. The reason I am confident this was the case is this interestingly timed press announcement made by Moody's, the main credit rating agency assessing Shitadel:

https://finance.yahoo.com/news/citadel-securities-lp-moodys-says-163006285.html?guccounter=1

https://preview.redd.it/8e1yy5z0aaj91.png?width=1590&format;=png&auto;=webp&s;=b45e34260b7e7076d90f39a5a0dce666e0f16ae3

Some of the key points within this announcement, which was made just before Citadel Securities LLC secured the $600 million loan, are the following:

Citadel Securities LP's (CSLP) proposed senior secured term loan upsize of $400 million does not affect the Baa3 long-term issuer and senior secured bank credit facility's ratings, and also does not affect CSLP's stable outlook.

Moody's also said that Citadel Securities LLC's (CSLLC), Citadel Securities (Europe) Limited's (CSEL) and Citadel Securities GCS (Ireland) Limited's (CSGI) Baa2 long-term issuer ratings were also unaffected.

Moody's said CSLLC's, CSEL's and CSGI's Baa2 issuer ratings are a notch higher than CSLP's Baa3 issuer rating because of the structural superiority afforded to the regulated operating companies' obligations compared with the holding company's obligations.

Therefore it seems likely this holdings company, Citadel Securities LP, is the one that secured the loan. Using the intra-group borrowing agreement between this parent entity and Citadel Securities LLC, they then likely loaned forward the $600 million to the operating firm. Interestingly, it appears Moody's has a higher credit rating for the child company, hence potentially Citadel Securities LLC could have been able to secure less costly borrowing if going directly.

So why did that not happen, and it was this non-SEC reporting parent company that instead likely got the loan? My conjecture is that it is precisely *because* they are not having to file Financial Statements with the SEC, unlike the operating firm Citadel Securities LLC, that they used this entity. After all, it is best for them to keep the dirty laundry as far away from the public eye as possible. What better way than to have a company that has not made any public disclosures for four years carrying out the negotiations with lenders?

6. Summary

• Citadel Securities reported a 23% increase in revenue last week during the first half of 2022, but this was in keeping with performances by competitors

• They made no commentary on profitability during this period, and it could well be that this was in fact a loss making performance

• The only reason they reported on revenue even was because effectively they were forced to, as a condition of trying to borrow an additional $400 million from lenders for dubious reasons

• Last Thursday they were able to secure a higher loan than hoped for, worth $600 million, but at an interest rate more than double that charged to financial institutions with stronger fundamentals

• This loan is in addition to another $500 million line of credit that they previously had through JP Morgan, which was unused until the end of last year but has a much lower interest charge rate

• It is unlikely they would borrow $600 million at a very high interest rate, without first exhausting their borrowing limit on the lower interest $500 million line of credit

• Therefore I believe it is reasonable to assume that Citadel Securities has now borrowed $1.1 billion so far this year, through these two separate debt mechanisms

• Citadel Securities possibly had a method to take on such borrowing at a cheaper rate, however I conjecture they did so using their holdings company rather than the subsidiary operating company, in order to conceal their financial problems

• Multiple sources now point to their confirmed debt being a total of $3.5 billion, with possibly around a third of this therefore being added so far in 2022 alone

• This is on top of a $1.2 billion cash injection received from two private equity firms at the beginning of 2022, which was money they received in exchange for Kenneth Griffin giving away partial control of his company, for the first time in its 32 year long existence

• Hence combining the loans and cash injections, the Market Making entity of Shitadel has perhaps now taken on around $2.3 billion from external sources so far this year

• Along with their credit rating - just above "junk" status - all of this points to a company that is nowhere near as financially strong as the image they are seeking to portray

• Keeping in mind that Citadel Securities is *still* likely performing better than the hedge fund entity Citadel Advisors LLC, the Shitadel group as a whole could really be trying to survive just "one more day" at the moment