



EfTEN Real Estate Fund III

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# Merger of EfTEN Kinnisvarafond AS and EfTEN Real Estate Fund III AS





# Disclaimer

This presentation has been prepared for the shareholders of EFTEN Real Estate Fund III AS and EFTEN Kinnisvarafond AS for the purpose of providing an overview of the planned merger of EFTEN Real Estate Fund III AS and EFTEN Real Estate Fund AS by forming EFTEN Real Estate Fund AS.

Any information published in regard to the assets, volumes or value of shares of EFTEN Real Estate Fund III AS and EFTEN Kinnisvarafond AS (including the merged EFTEN Real Estate Fund AS) and any other information disclosed in this presentation shall not be interpreted as investment advice, investment recommendations or any other investment or ancillary service.

Forward-looking statements on the assets and volumes of EFTEN Real Estate Fund III AS and EFTEN Kinnisvarafond AS (including the merged EFTEN Real Estate Fund AS) speak only as of the date of publication of this presentation or date stated in this presentation and are not guarantees of future performance. These forward-looking statements include, among other, matters that are not historical facts. They appear in a number of places throughout this presentation and include statements regarding the beliefs or current expectations in regard to the planned merger of EFTEN Real Estate Fund III AS and EFTEN Real Estate Fund AS by forming EFTEN Real Estate Fund AS. EFTEN Real Estate Fund III AS and EFTEN Real Estate Fund AS disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this presentation unless required to do so by applicable law.

The rate of return achieved by EFTEN Real Estate Fund III AS and EFTEN Kinnisvarafond AS in past periods does not guarantee the rate of return in future periods for EFTEN Real Estate Fund AS that is formed as a result of the merger.

# Why merge?

- ▶ Better diversification of underlying assets
- ▶ Matching portfolios of assets
- ▶ Identical dividend policy
- ▶ Total assets of 350 million, 29 commercial properties across the Baltics
- ▶ Two funds have the same investment strategy
- ▶ Better visibility among foreign investors – higher liquidity
- ▶ Clear acceleration for increasing the business volume
- ▶ Wider opportunities for real estate development
- ▶ Both portfolios have been composed and managed by the same team





# How to execute the merger?

The share exchange ratio will be determined by the EPRA NAV\* of 31 March 2020.

The acquiring fund is the publicly listed EfTEN Real Estate Fund III AS, the fund being acquired is EfTEN Kinnisvarafond AS

Valuations of the real estate investments are carried out by an external valuator (Colliers) who has valued the assets of all EfTEN's funds since 2013

\* NAV – Net Asset Value, EPRA NAV explanation available on slides 14 and 17



# The effect of the merger

## Merged portfolio

Real estate  
investments over 310  
million euro

Annual expected  
free cash flow  
over 10 million  
euro

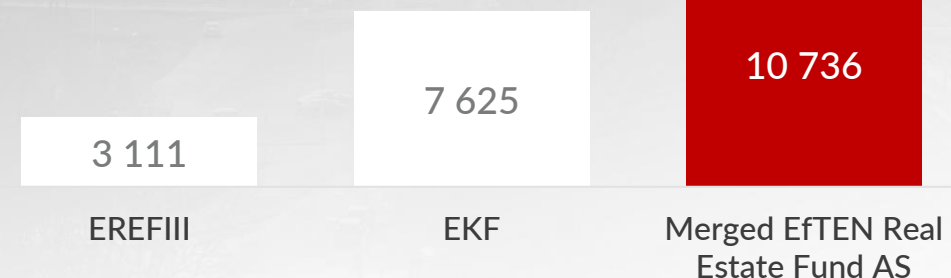
283 th sqm of rental area

Annual NOI  
23,3 million  
euro

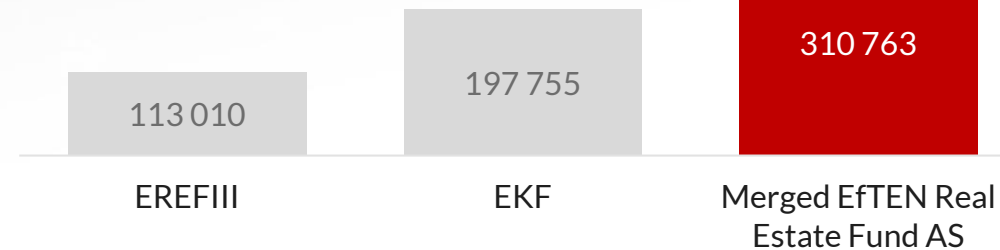
NOI before and after  
merger (th eur)



Free cash flow\* before and  
after merger (th eur)



Value of real estate  
investments before an after  
merger (th eur)

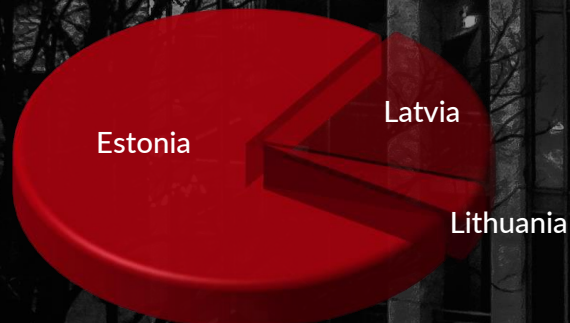
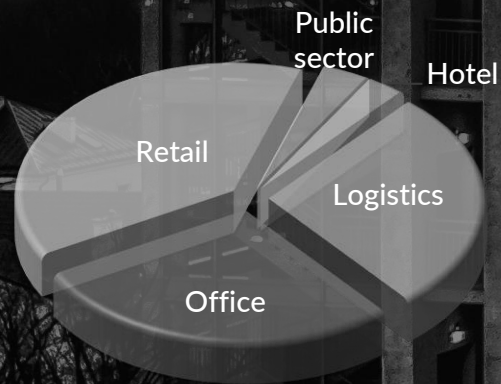


\* As of 31.12.2019. Portfolio values may change during the first quarter of 2020.

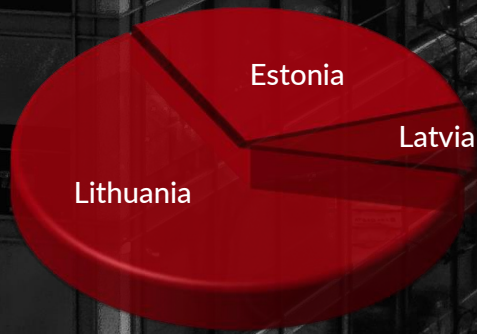


# After the merger

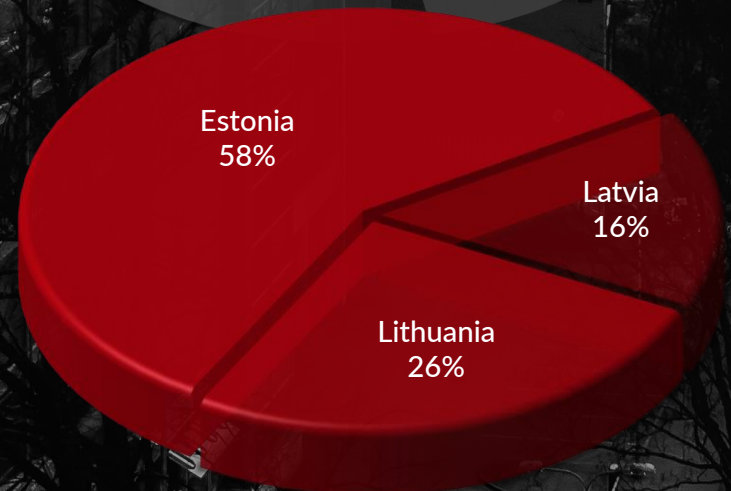
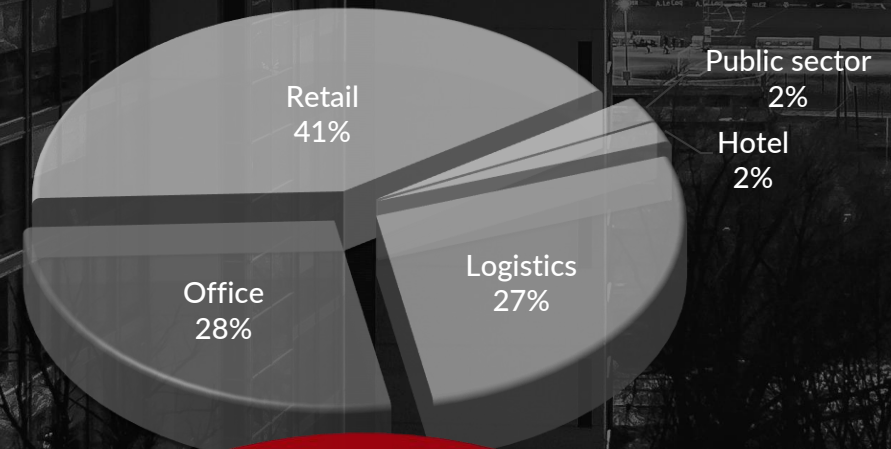
EfTEN  
Kinnisvarafond AS



EfTEN  
Real Estate Fund III AS



Merged EfTEN  
Real Estate Fund AS





# Portfolio **running yield**

	Fair value of the portfolio 31.12.2019	NOI forecast for 2020	Yield
EfTEN Kinnisvarafond AS	197 745	15 149	7,7%
EfTEN Real Estate Fund III AS	113 010	8 165	7,2%
Merged EfTEN Real Estate Fund AS	<b>310 755</b>	<b>23 314</b>	<b>7,5%</b>

\* EfTEN Kinnisvarafond AS figures include 50% of the value and NOI of Hotel Palace

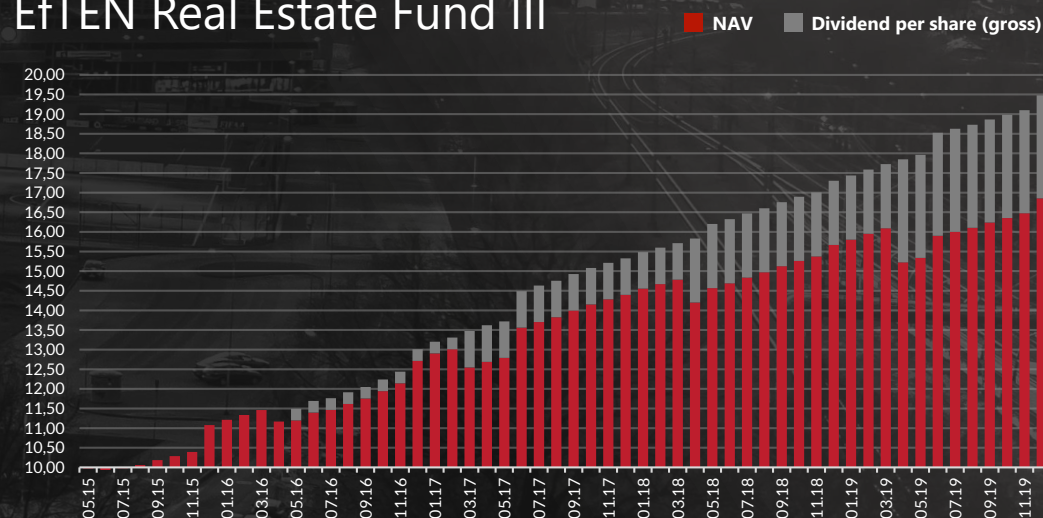


# Balance Sheet and NAV

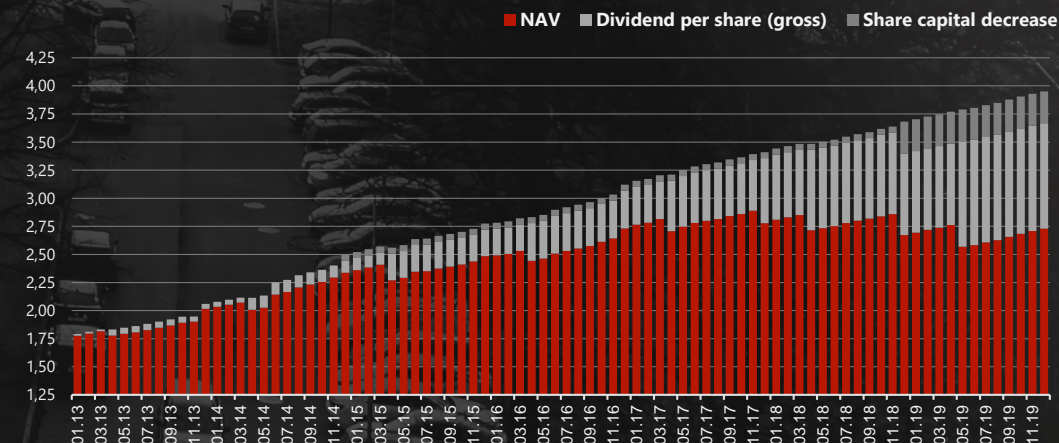
Unaudited consolidated balance sheet, as of 31.12.2019

eur, th	EfTEN Real Estate Fund III AS	EfTEN Kinnisvarafond AS	Total
Investment properties	113 011	194 528	307,539
Investments in joint ventures	0	3 558	3 558
Cash and cash equivalents, term deposits	18 987	9 892	28 879
Other assets	831	492	1 323
<b>TOTAL ASSETS</b>	<b>132 829</b>	<b>208 470</b>	<b>341 299</b>
Loans	55 417	93 037	148 454
Deferred tax liabilities	4 274	478	4 752
Interest rate swap liabilities	271	1 151	1 422
Other liabilities	1 697	6 276	7 973
<b>TOTAL LIABILITIES</b>	<b>61 659</b>	<b>100 942</b>	<b>162 601</b>
Share capital and premium	51 884	52 071	103 955
Reserves	936	2 933	3 869
Retained earnings	18 350	52 524	70 874
<b>TOTAL EQUITY</b>	<b>71 170</b>	<b>107 528</b>	<b>178 698</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>132 829</b>	<b>208 470</b>	<b>341 299</b>
Number of shares	4 222 535	39 391 371	
Net asset value per share (NAV)	16.85	2.73	
EPRA net asset value per share (EPRA NAV)	17.93	2.77	
Loan to value (LTV)	49%	48%	48%

## EfTEN Real Estate Fund III



## EfTEN Kinnisvarafond AS





Why is the  
merger  
beneficial?





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**Real estate business is primarily a business of volume** where size matters. The merger of two funds will create a fund with assets worth about EUR 350 million, comprising a total of 29 commercial buildings across the Baltics. The equity of the joint fund will be about EUR 175 million, which means the fund is expected to enter the TOP 10 of the companies in Nasdaq Baltic Main List.

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**With its higher market capitalization, a joint fund would achieve a greater visibility** among foreign investors as well. This development provides a better basis for increasing the liquidity of the joint fund.

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**From the investor's perspective, the merger ensures better diversification of underlying assets.** While 60% of the third fund's portfolio is today invested in commercial properties in Lithuania, 75% of the assets of EfTEN Kinnisvarafond AS are in Estonia. The Baltic economic area is so small that all three economies are following a similar macroeconomic trend. In our opinion, geographical diversification is not as important as dispersion between different buildings - in the joint fund, the share of each individual property is in overall, smaller than it would be in two separate funds.







**The underlying assets of both funds are performing flawlessly:** the vacancy rate of 18 properties of EfTEN Kinnisvarafond AS remains under 2%, similar to the vacancy rate of EfTEN Real Estate Fund III.

**With assets of the two funds no major capex investments are expected** in the near future, except for the office property at Kadaka tee 63, Tallinn, which will be rebuilt to meet the needs of smaller tenants after Elektrilevi leaves the building. In addition, EfTEN Kinnisvarafond AS owns a landslot in Jelgava, suitable for commercial development.

**Both funds have been created with identical investment strategy**, being of opportunistic and value adding kind. EfTEN Kinnisvarafond AS was EfTEN's first fund, which started investment activities in 2008 and stopped investing in new commercial buildings in 2014 when the fund's target volume was reached. Since its inception in 2015, EfTEN Real Estate Fund III AS has followed an opportunistic and value-added strategy as well. The commercial terms of the third fund were essentially overlapping with those of the first fund. Two funds are of uniform nature because they are created by the same team, with the same investment philosophy. Simply the time horizon of investments has been different.



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**The dividend policy of both funds has been identical** - at least 80% of the free cash flow earned in the previous financial year is paid out as dividends. We have paid dividends every year and will continue this good tradition in the future. EfTEN Real Estate Fund III positions itself as a dividend stock and we do not plan any changes in this respect.

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**The joint fund has greater opportunities than before to engage in real estate development** or in its forward financing.

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Historically, the properties of the development portfolio have been the most productive for investors.

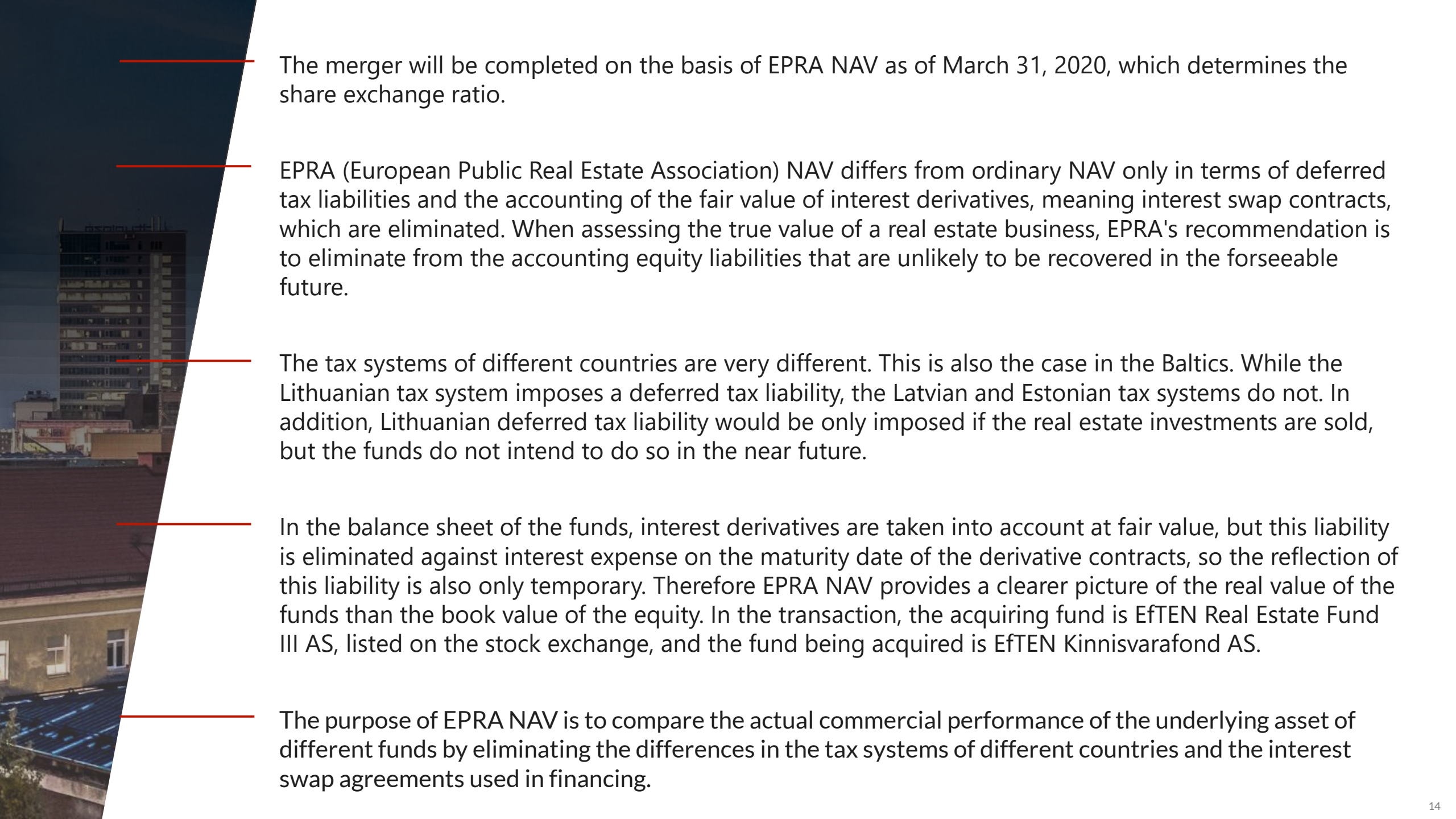




A photograph of a city skyline at dusk. In the foreground, there are traditional European-style buildings with dark tiled roofs and dormer windows. In the background, several modern skyscrapers are visible, some with illuminated windows. A prominent red vertical line runs through the image, passing through the text. The sky is a deep blue with some light clouds.

# Completion of the merger





The merger will be completed on the basis of EPRA NAV as of March 31, 2020, which determines the share exchange ratio.

EPRA (European Public Real Estate Association) NAV differs from ordinary NAV only in terms of deferred tax liabilities and the accounting of the fair value of interest derivatives, meaning interest swap contracts, which are eliminated. When assessing the true value of a real estate business, EPRA's recommendation is to eliminate from the accounting equity liabilities that are unlikely to be recovered in the foreseeable future.

The tax systems of different countries are very different. This is also the case in the Baltics. While the Lithuanian tax system imposes a deferred tax liability, the Latvian and Estonian tax systems do not. In addition, Lithuanian deferred tax liability would be only imposed if the real estate investments are sold, but the funds do not intend to do so in the near future.

In the balance sheet of the funds, interest derivatives are taken into account at fair value, but this liability is eliminated against interest expense on the maturity date of the derivative contracts, so the reflection of this liability is also only temporary. Therefore EPRA NAV provides a clearer picture of the real value of the funds than the book value of the equity. In the transaction, the acquiring fund is EfTEN Real Estate Fund III AS, listed on the stock exchange, and the fund being acquired is EfTEN Kinnisvarafond AS.

The purpose of EPRA NAV is to compare the actual commercial performance of the underlying asset of different funds by eliminating the differences in the tax systems of different countries and the interest swap agreements used in financing.

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Since 2013, the assets of all EfTEN funds have been valued by Colliers International whereas many other funds are using different valuation companies for different assets.

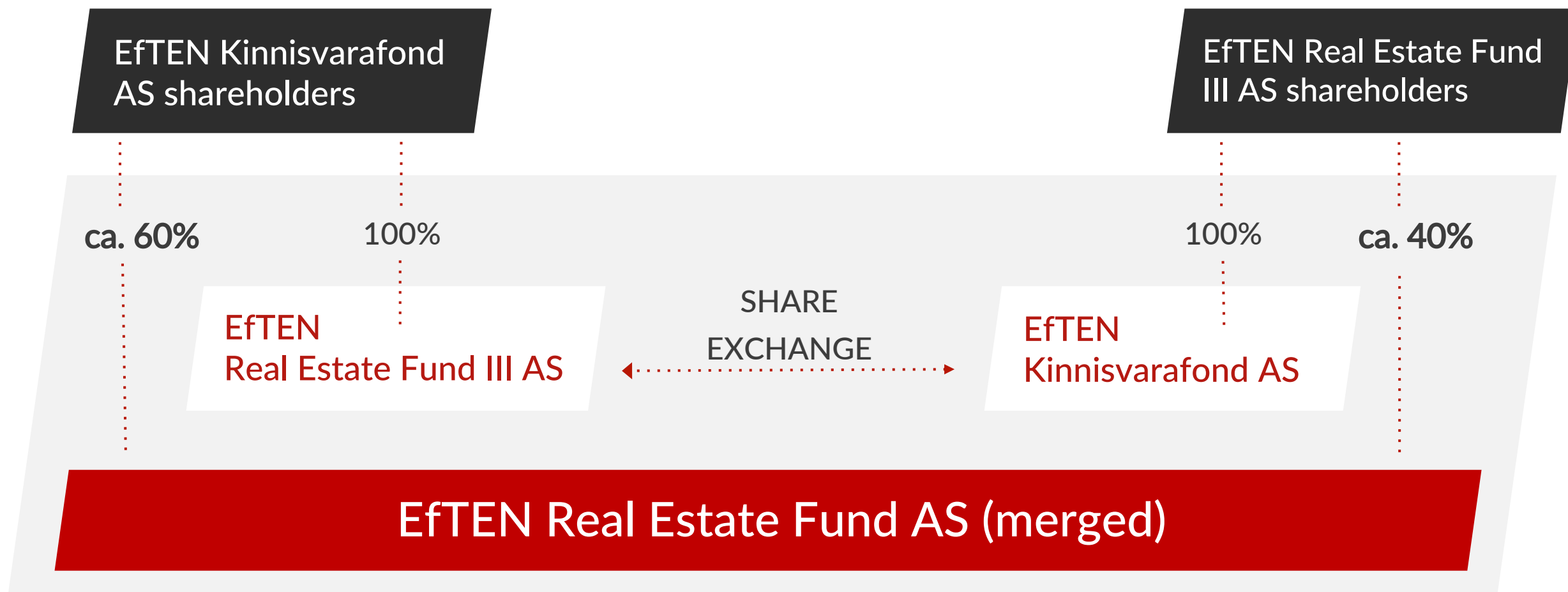
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In the context of both regular comparability and current merger, it is particularly important that all assets of both funds are valued on the basis of a common approach and the same methodology. At the moment, it is not so important whether another appraiser is more optimistic or more pessimistic about the assets of both funds, the similar basis and approach of valuation of the two funds is important, which also ensures a fair exchange ratio for the merger.





# Merger Structure



# Sample calculation of EPRA NAV

- EPRA - European Public Real Estate Association
- EPRA the recommended guideline expects a long-term economical strategy from the real estate companies. Temporary discrepancies in situations where the sale of asset is unlikely to be carried out in the near term decrease the transparency of the fair value of the fund's NAV. Postponed income tax obligations and the fair value of financial derivatives (e.g. Interest swaps) are eliminated from the IFRS-based NAV.

	EftEN Real Estate Fund III AS	EftEN Kinnisvarafond AS
NAV according to IFRS rules	71 265	111 713
+ Elimination of postponed deferred tax liabilities from real estate investments	4 115	453
+ Elimination of the fair value of interest derivatives (swaps)	327	1 263
<b>= EPRA net asset value</b>	<b>75 707</b>	<b>113 428</b>
Number of shares on balance sheet day (pc)	4 222 535	40 866 505
EPRA NAV per share in euro	17,93	2,78



# Sample calculation of share EXCHANGE ratio

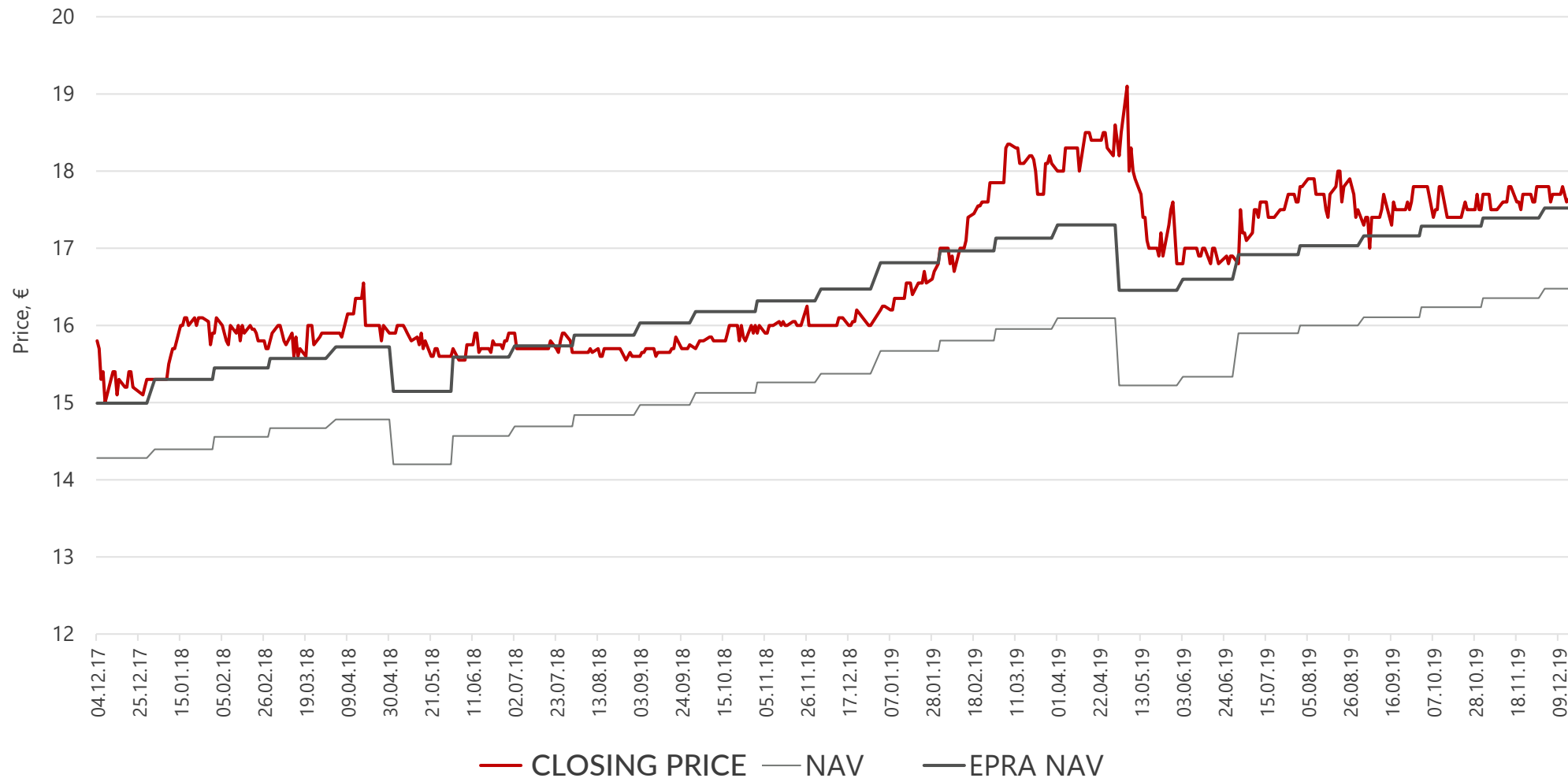
Due to the merger, the share capital of EfTEN Real Estate Fund III AS will be increased for the shareholders of EfTEN Kinnisvarafond AS, where the volume of the share issue equals the EPRA NAV of EfTEN Kinnisvarafond AS and the stock price equals the EPRA NAV per share of EfTEN Real Estate Fund III AS. The following is an example and the actual values will be calculated as of 31.03.2020.

Number of shares targeted to EfTEN Kinnisvarafond AS	=	EPRA NAV of EfTEN Kinnisvarafond AS	÷	EPRA NAV per share of EfTEN Real Estate Fund III AS
6 326 th shares	=	113 428 tuhat euro	÷	17,93 euro
Share exchange ratio	=	EPRA NAV per share of EfTEN Kinnisvarafond AS	÷	EPRA NAV per share of EfTEN Real Estate Fund III AS
0,15	=	2,78 euro	÷	17,93 euro

Forecasted data. Portfolio values may change during the first quarter of 2020.

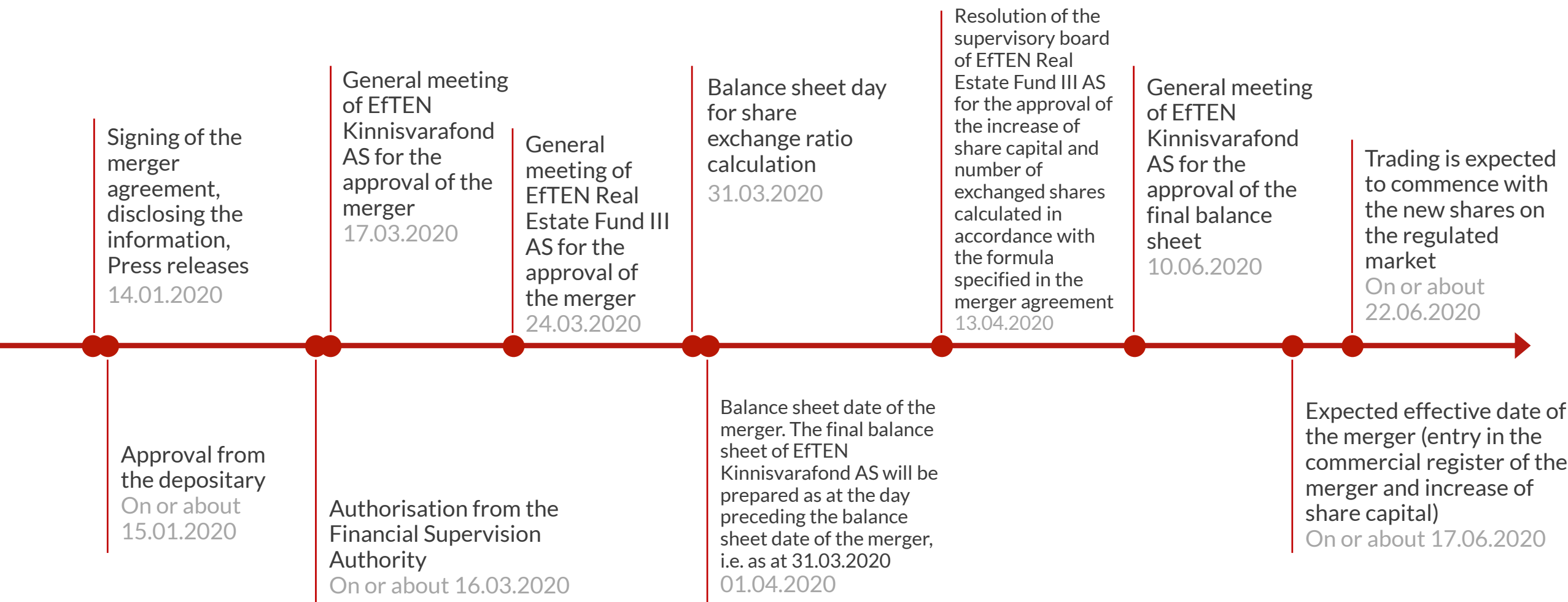
# Why EPRA NAV?

EFT1T closing price, NAV and EPRA NAV; historically the fund has traded near the EPRA NAV.





# Expected timeline of the merger



EFTEN  
Kinnisvarafond AS  
**Portfolio**





# Estonia



## Kadaka office building

Kadaka tee 63, Tallinn

Fair value 31.12.2019: 8 990 th euro

Forecasted NOI 2020: 705 th euro



## Pärnu mnt 105 office building

Pärnu mnt 105, Tallinn

Fair value 31.12.2019: 7 800 th euro

Forecasted NOI 2020: 585 th euro



## Pärnu mnt 102 office building

Pärnu mnt 102c / Jalgpalli tn 1, Tallinn

Fair value 31.12.2019: 16 130 th euro

Forecasted NOI 2020: 1 178 th euro



# Estonia



## Lauteri office building

A. Lauteri 5, Tallinn

Fair value 31.12.2019: 5 190 th euro

Forecasted NOI 2020: 373 th euro



## Hotell Palace

Vabaduse väljak 3 / Pärnu mnt 14, Tallinn

Fair value 31.12.2019: 11 100 th euro, from which the fund owns 50%, i.e. 5 550 th euro

Forecasted 50% of the NOI 2020: 370 th euro



# Estonia



**K-Rauta DIY centre**  
A.H. Tammsaare tee 49, Tallinn  
Fair value 31.12.2019: 14 770 th euro  
Forecasted NOI 2020: 1 215 th euro



**UKU Shopping centre**  
Tallinna 41, Viljandi  
Fair value 31.12.2019: 12 390 th euro  
Forecasted NOI 2020: 936 th euro



**Mustika centre**  
Karjavälja 4, Tallinn  
Fair value 31.12.2019: 36 500 th euro  
Forecasted NOI 2020: 2 739 th euro



# Estonia



**Logistika Pluss logistics centre**  
Punane 73 / Kuuli 10, Tallinn

Fair value 31.12.2019: 10 470 th euro  
Forecasted NOI 2020: 807 th euro



**Betooni 6 logistics centre**  
Betooni 6, Tallinn

Fair value 31.12.2019: 8 970 tuhat eurot  
Forecasted NOI 2020: 691 th euro



**DHL logistics centre**  
Betooni 1a, Tallinn

Fair value 31.12.2019: 7 890 th euro  
Forecasted NOI 2020: 643 th euro



# Estonia



**K-Rauta DIY store**  
F. R. Kreutzwaldi 89, Võru  
Fair value 31.12.2019: 2 880 th euro  
Forecasted NOI 2020: 233 th euro



**Police and rescue centre**  
Kreutzwaldi 5a, Rakvere  
Fair value 31.12.2019: 6 910 th euro  
Forecasted NOI 2020: 572 th euro



**Premia cold storage**  
Betooni 4, Tallinn  
Fair value 31.12.2019: 6 500 th euro  
Forecasted NOI 2020: 535 th euro



# Latvia



**Terbatas Biznesa Centrs office building**  
Lāčplēša 20A, Rīga

Fair value 31.12.2019: 9 308 th euro  
Forecasted NOI 2020: 624 th euro



**Jūrkalne Technology Park**  
Jūrkalnes 15/25, Rīga

Fair value 31.12.2019: 20 747 th euro  
Forecasted NOI 2020: 1 753 th euro

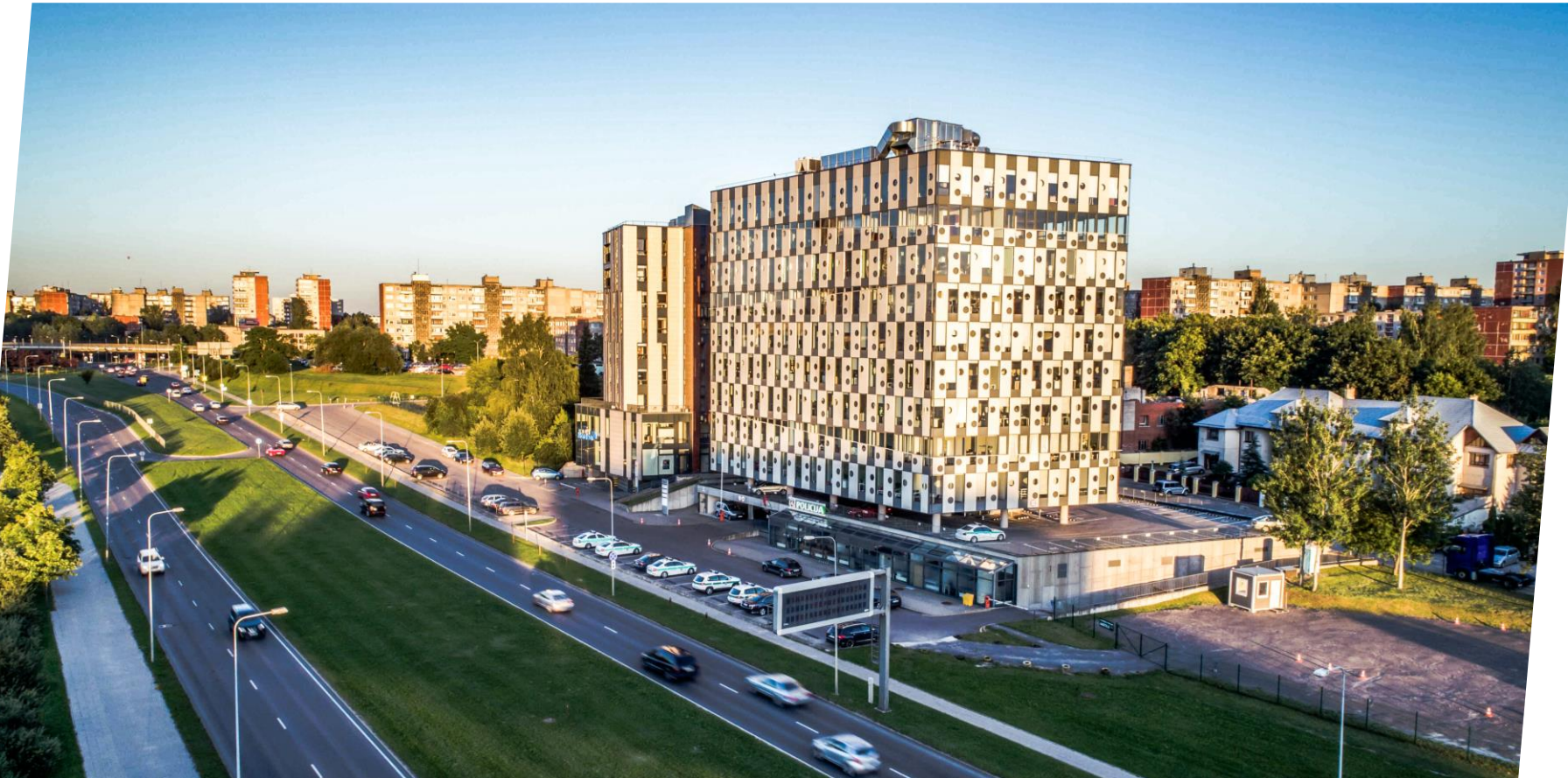


**RAF Centrs shopping centre**  
Rīgas 48, Jelgava

Fair value 31.12.2019: 8 900 th euro  
Forecasted NOI 2020: 627 th euro



# Lithuania



## Menulio office building

### Menulio 11, Vilnius

Fair value 31.12.2019: 7 850 th euro

Forecasted NOI 2020: 562 th euro



EFTEN Real  
Estate Fund III AS

# Portfolio





# Estonia



## DSV logistics centre

Pärnu mnt 535, Tallinn

Fair value 31.12.2019: 12 880 th euro

Forecasted NOI 2020: 986 th euro



## Laagri Selver shopping centre

Pärnu mnt 554, Tallinn

Fair value 31.12.2019: 6 630 th euro

Forecasted NOI 2020: 485 th euro



## HORTES gardening centre

Seljaku 4b ja 2a, Laagri, Harjumaa

Fair value 31.12.2019: 3 520 th euro

Forecasted NOI 2020: 263 th euro



# Estonia



## ABC Motors car dealership centre

Paldiski mnt 105, Tallinn

Fair value 31.12.2019: 3 190 th euro

Forecasted NOI 2020: 240 th euro



## Tähesaju Hortes gardening centre

Tähesaju tee 5, Tallinn

Fair value 31.12.2019: 6 180 th euro

Forecasted NOI 2020: 378 th euro



# Latvia



## DSV logistics centre

Krustpils 31, Rīga

Fair value 31.12.2019: 8 710 th euro

Forecasted NOI 2020: 655 th euro



# Lithuania



## Laisves 3 office building

Laisves 3, Vilnius

Fair value 31.12.2019: 10 180 th euro

Forecasted NOI 2020: 704 th euro



## Ulonu office building

Verkiu 25C, Vilnius

Fair value 31.12.2019: 9 180 th euro

Forecasted NOI 2020: 575 th euro



# Lithuania



**Evolution business centre**  
Ukmerges 223, Vilnius

Fair value 31.12.2019: 10 350 th euro  
Forecasted NOI 2020: 637 th euro



**Saules Miestas Shopping centre**  
Tilžės 109, Šiauliai

Fair value 31.12.2019: 33 390 th euro  
Forecasted NOI 2020: 2 557 th euro

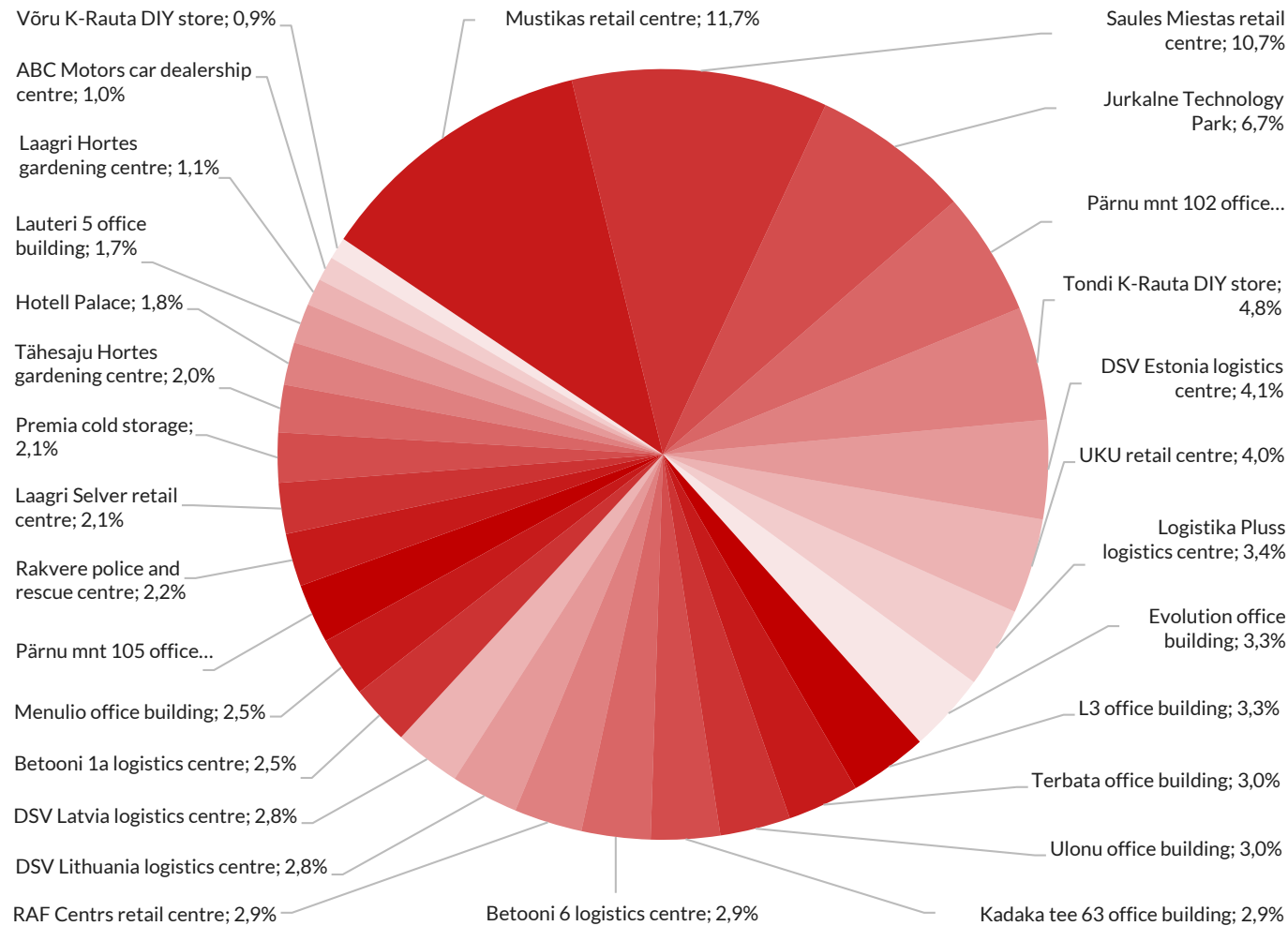


**DSV logistics centre**  
Stasyļu 21, Vilnius

Fair value 31.12.2019: 8 800 th euro  
Forecasted NOI 2020: 683 th euro



# Merged portfolio



Property	Value as of 31.12.2019 eur, th	Share in portfolio
Mustikas retail centre	36 500	11.7%
Saules Miestas retail centre	33 390	10.7%
Jurkalne Technology Park	20 747	6.7%
Pärnu mnt 102 office building	16 130	5.2%
Tondi K-Rauta DIY store	14 770	4.8%
DSV Estonia logistics centre	12 880	4.1%
UKU retail centre	12 390	4.0%
Logistika Pluss logistics centre	10 470	3.4%
Evolution office building	10 350	3.3%
L3 office building	10 180	3.3%
Terbata office building	9 308	3.0%
Ulonu office building	9 180	3.0%
Kadaka tee 63 office building	8 990	2.9%
Betooni 6 logistics centre	8 970	2.9%
RAF Centrs retail centre	8 900	2.9%
DSV Lithuania logistics centre	8 800	2.8%
DSV Latvia logistics centre	8 710	2.8%
Betooni 1a logistics centre	7 890	2.5%
Menulio office building	7 850	2.5%
Pärnu mnt 105 office building	7 800	2.5%
Rakvere police and rescue centre	6 910	2.2%
Laagri Selver retail centre	6 630	2.1%
Premia cold storage	6 500	2.1%
Tähesaju Hortes gardening centre	6 180	2.0%
Hotell Palace	5 550	1.8%
Lauteri 5 office building	5 190	1.7%
Laagri Hortes gardening centre	3 520	1.1%
ABC Motors car dealership centre	3 190	1.0%
Võru K-Rauta DIY store	2 880	0.9%
	<b>310 755</b>	<b>100%</b>





# EfTEN Capital

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About the company



## The largest commercial real estate fund manager in the Baltics

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- ▶ Founded in 2008
- ▶ All management board members are also the co-founders and current shareholders: **Viljar Arakas** (CEO), **Tõnu Uustalu** (CIO), **Maie Talts** (CLO), **Marilyn Hein** (CFO)
- ▶ The only commercial real estate fund manager with dedicated teams in all three Baltic States, altogether 55 team members
  - ▶ Real estate is a local business; hence we deem the local presence extremely important
- ▶ Four real estate funds and private portfolio management
- ▶ Largest commercial real estate fund manager in the Baltics with approximately 750 million euro of assets under management
- ▶ 49 real estate investments, over 1200 tenants, more than 600 th sqm of rentable area
- ▶ Wide investor base, including Baltic pension funds, insurances, EBRD and over 2000 retail investors



## Key personnel



### Viljar Arakas

*Fund Manager, CEO of EfTEN Capital*

- ▶ Founder and CEO since 2008
- ▶ Fund Manager for EfTEN's funds I, II, III and IV
- ▶ Previously CEO of Arco Vara, Arco Transport
- ▶ 18 years of RE industry experience



### Maie Talts

*Chief Legal Officer*

- ▶ Co-founder, head of the legal team since 2008
- ▶ Previously lawyer and head of the legal team at Arco Vara
- ▶ 24 aastat of financial and RE industry experience



### Tõnu Uustalu

*Chief Investment Officer*

- ▶ Co-founder (since 2008) and Investment Manager of EfTEN's funds I, II, III and IV
- ▶ Previously Portfolio and Investment Manager at East Capital. Worked at SEB Bank's corporate Banking and real estate units
- ▶ 25 years of financial and RE industry experience



### Viktors Savins

*CEO of EfTEN Capital SIA*

- ▶ Latvian country manager, CEO of EfTEN Capital SIA since 2013.a.
- ▶ Previously CoB of Arco Development and SIA Arco Real Estate's real estate brokerage
- ▶ 17 years of RE industry experience



### Marilyn Hein

*Chief Financial Officer*

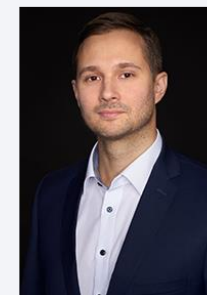
- ▶ Co-founder and CFO since 2008
- ▶ Previously Chief Accountant at Arco Vara and Luiga Mody Hää Borenus law firm
- ▶ 25 years of financial and RE Industry experience



### Laurynas Žilys

*CEO of EfTEN Capital Lietuva UAB*

- ▶ Lithuanian country manager and CEO of EfTEN Capital Lietuva UAB since 2015
- ▶ Previously Partner at CREalty Advisors, head of the investment department at Colliers Lithuania
- ▶ 15 years of RE industry experience



### Indrek Kaldoja

*Head of Investor Relations, Fund Manager*

- ▶ Manager of the Luxembourg subsidiary EC Private Equity Partners, head of investor relations for Fund IV
- ▶ Previously CFO of Skeleton Technologies, Partner at Essentia Capital, Fund Manager at Swedbank
- ▶ 16 years of financial industry experience