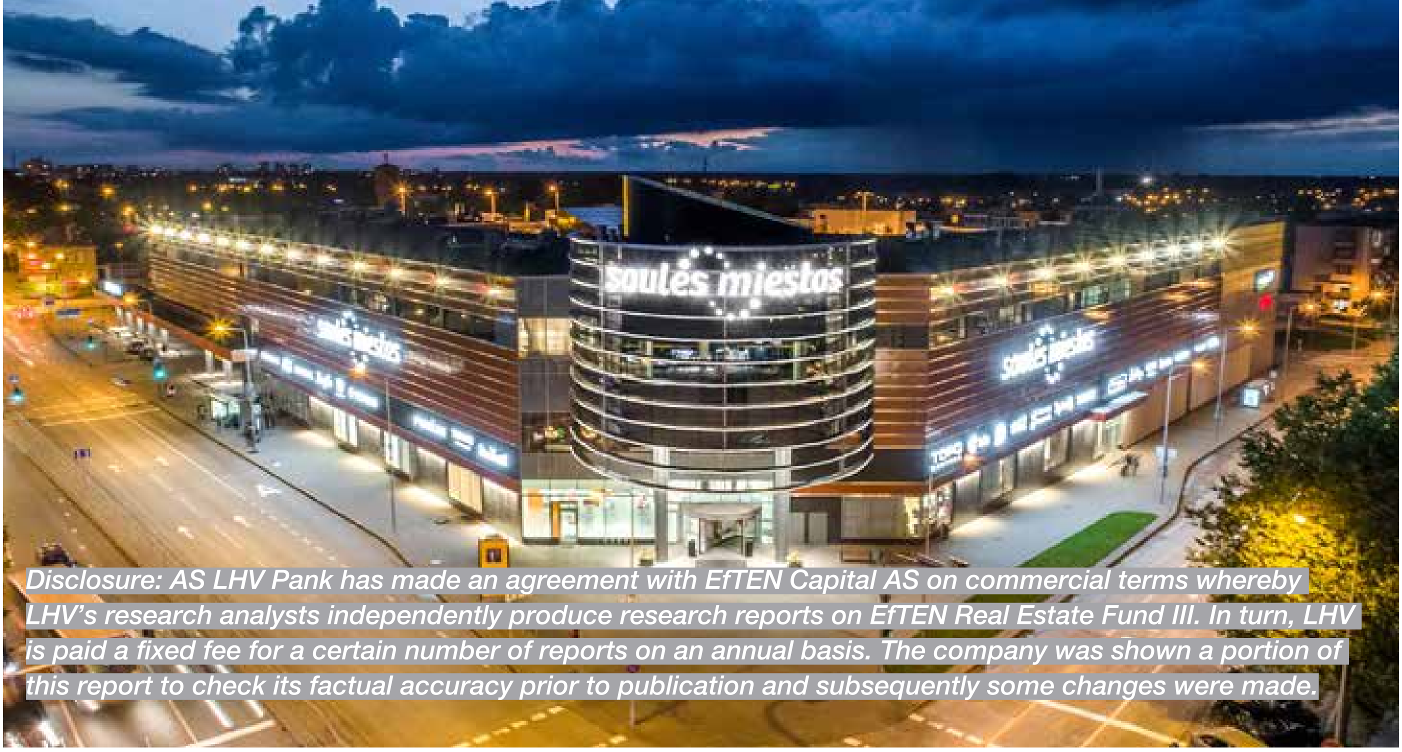
EfTEN Real Estate Fund III (EFT1T ET)

Annual Review

25th April 2019



Disclosure: AS LHV Pank has made an agreement with EfTEN Capital AS on commercial terms whereby LHV's research analysts independently produce research reports on EfTEN Real Estate Fund III. In turn, LHV is paid a fixed fee for a certain number of reports on an annual basis. The company was shown a portion of this report to check its factual accuracy prior to publication and subsequently some changes were made.

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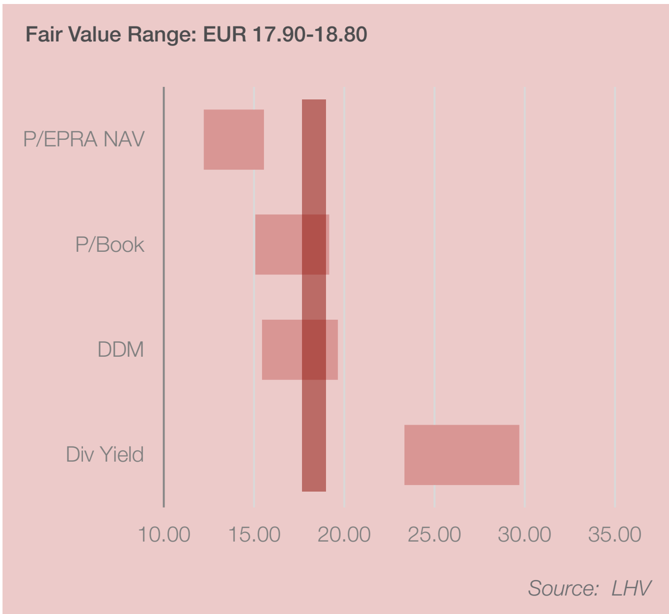
A Fund for All: EfTEN Real Estate Fund III

Investment Summary

As suggested by the title, EfTEN Real Estate Fund III (EFT1T ET) is a regulated, evergreen, closed-end fund for real estate. It was registered in Estonia on June 5, 2015, and, together with the management company, EfTEN Capital AS, is supervised by the Estonian Financial Supervisory Authority. The fund has been listed on the Nasdaq Baltic Main List since December 1, 2017, raising EUR 3.5m during an initial public offering (IPO). Prior to the IPO, the management held three closed rounds of capital raisings, increasing the fund's share capital to EUR 32.2m.

The fund invests directly in commercial real estate in the Baltic states, primarily targeting properties that are already cash-generating. EfTEN targets properties that are strategically located in the retail, office and logistics segments, with reliable tenants and predominantly long-term leases. EfTEN's goal is to achieve a long-term dividend pay-out ratio of 80% of distributed cash flow (EBITDA minus interest payments, minus loan principal payments, minus income tax expenses from profit). The fund is managed by EfTEN Capital AS, the largest commercial real estate fund manager in the Baltic states. By the end of 2018, total assets managed by EfTEN Capital AS reached EUR 700m. EfTEN Capital AS employs over 50 people with offices in all three countries, currently operating four real-estate funds, smaller real estate portfolios and private mandates.

The fund currently manages ten properties that offer tenants c.a. 86,000 sqm of net leasable area, in addition one property is under construction. The fair value of the EfTEN's



property portfolio is c.a. EUR 106m. Properties in the fund's portfolio are highly demanded and currently occupied by tenants predominantly with long-term leases, providing a stable real income to the fund.

The economic environment in the Baltic states is expected to remain relatively stable and investor-friendly. Despite the gradual compression in prime yields over the past eight years, the Baltic countries still offer an attractive premium over Nordic and Western European levels. Commercial real estate yields in the Baltic region compare favourably when evaluated alongside selected eastern European peers, especially when the currency risk is taken into account. Despite the hardening of financial conditions over the last year, Baltic commercial real estate still offers investors an attractive yield gap.

In order to assess the value of the fund, we used four metrics, including:

- P/Book
- Dividend Yield
- P / EPRA NAV
- Dividend Discount Model

From the valuation metrics discussed above, we see the Dividend Discount Model as most applicable to the fund and have given its valuation a 50% weight in determining the total value.

Key Numbers	2017	2018	2019E*	2020E*	2021E*	2022E*	2023E*
Sales (EURm)	7.3	8.7	9.4	10.1	10.2	10.4	10.5
Sales growth (%)	36.9	18.8	8.8	6.9	1.5	1.5	1.5
Net profit (EURm)	6.6	6.3	5.6	6.1	6.2	6.3	6.4
EPS (EUR)	2.39	1.95	1.74	1.89	1.92	1.95	1.98
P/E (x)	6.4	8.3	10.6	9.7	9.6	9.4	9.3
DPS (EUR)	0.80	0.95	0.84	0.96	0.98	1.01	1.03
Dividend yield (%)	5.2	5.9	4.6	5.2	5.3	5.5	5.6
P/Book (x)	1.1	1.0	1.1	1.1	1.0	0.8	0.9
EV/Sales (x)	11.9	11.6	11.6	10.5	10.1	8.6	9.2
EV/EBITDA (x)	15.5	14.9	15.0	13.6	13.0	11.1	11.9
EV/EBIT (x)	10.8	12.1	15.1	13.6	13.0	11.1	11.9
ROE (%)	17.1	13.0	10.8	11.1	10.7	10.3	10.0

** 2019-2023E multiples are based on a share price of EUR 18.40. Source: EfTEN Real Estate Fund III for historicals, LHV for estimates*

The remaining valuation comparisons are each weighted 16.67%. In calculating a peer-implied fair value range, we used the peers' P/Book and Dividend Yield in assessing our expectations for 2019-2020. These multiples were applied to our forecasts for equity dividend per share for the respective years. To establish a range, we then applied a time weighting to the implied values. We decided to apply a 50% weight to all multiples for both 2019 and 2020. Using the 2018 EPRA NAV levels for 14 peers, we established a P / EPRA NAV range for the fund. Based on the valuation outcomes of these measures, we have estimated EfTEN's fair value to be EUR 17.90 -18.80 per share, with a mid-point of EUR 18.35.

EfTEN's property portfolio is solid with a low tenant risk and an impressive vacancy rate (as of 31 December 2018: 1.2%). Also, the fund's portfolio is well balanced between logistics, retail and office sectors. Since the fund follows an opportunistic investment strategy, aiming to acquire properties with a net yield of 8% without financing expenses, our primary concern is the degree of competition within the market, which presents a challenge for the fund in finding new, suitable investment opportunities. We are also concerned about the changes in investment environment, driven by harder financing conditions and a more selective approach by the banks.

Baltic Commercial Property Market

General market characteristics

The Baltic commercial real-estate market, including office, retail and logistics premises, is mostly concentrated in the Baltic capitals: Tallinn, Riga and Vilnius. While commercial properties located in the capitals will remain the top priority for investors, Lithuania's second-largest city, Kaunas, has increased its appeal to investors in recent years.

At the end of 2018, according to Colliers International, the total floor space of speculative commercial real estate (excluding built-to-suit office and industrial solutions) in the Baltic capitals was around 5.6m sqm (including office, retail and industrial segments). In Tallinn and Riga, the office segment is dominated by class B properties, while in Vilnius

Top 10 Cities in Baltic States by Population as of End 2017, thousand persons

1	Riga	Latvia	638
2	Vilnius	Lithuania	541
3	Tallinn	Estonia	431
4	Kaunas	Lithuania	287
5	Klaipeda	Lithuania	148
6	Siauliai	Lithuania	100
7	Tartu	Estonia	97
8	Panevezys	Lithuania	87
9	Daugavpils	Latvia	83
10	Liepaja	Latvia	69

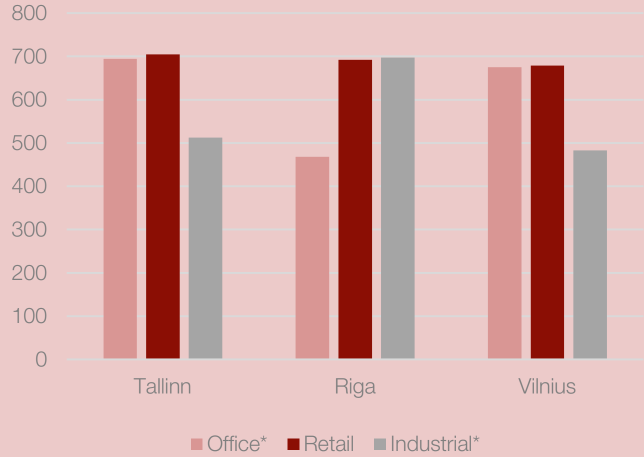
Baltic States by Population as of End 2018, thousand persons

Lithuania*	2,795
Latvia	1,921
Estonia*	1,319
Baltic States Total	6,036

Source: National Statistical Offices, Eurostat

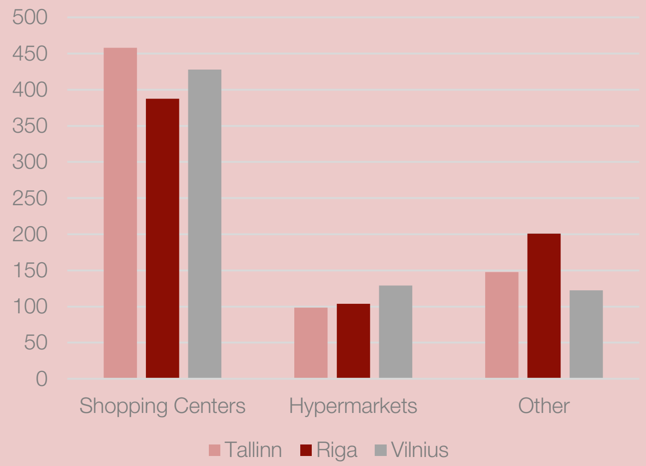
** As of end of 2018*

Speculative Commercial Real Estate Stock in the Baltic Capitals at the End of 2018, sqm Thousands



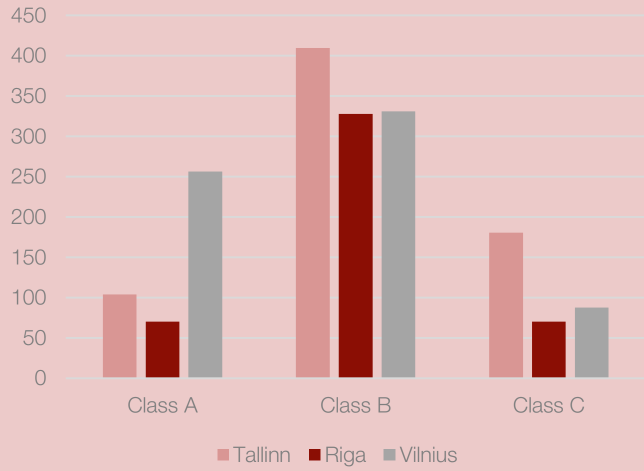
** Speculative stock (built-to-suit office and industrial premises excluded). Source: Colliers International*

Retail Stock in Baltic Capitals at the End of 2018, sqm Thousands



Source: Colliers International

Office Stock in Baltic Capitals at the End of 2018, sqm Thousands*



** Speculative office stock (built-to-suit office premises excluded)*
Source: Colliers International

the stock of class A properties has increased significantly during recent years. The retail stock in all three countries is dominated by shopping centers.

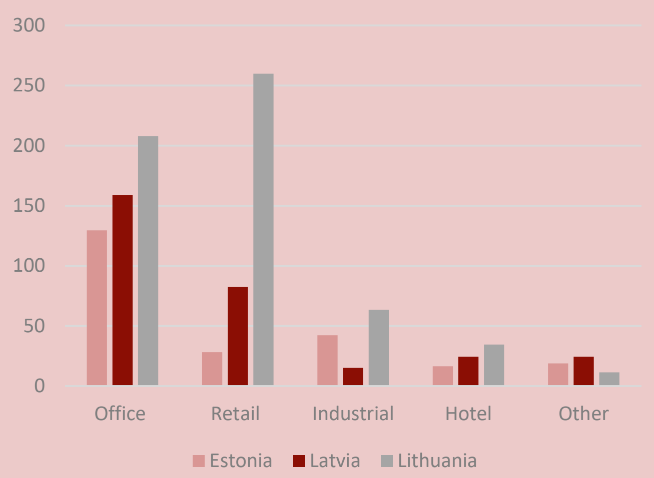
Investment market overview

In 2018 transaction volumes (for office, retail, hotels and multi-residential apartment property deals over EUR 0.4m) in the Baltic States amounted to EUR 1.12bn, 19% up on the levels seen for 2017. 2018 was a record-breaking year in Lithuania, achieving impressive volumes of EUR 578m in total, over half of all investment volumes in the Baltic states. Growth in transaction volumes in Lithuania was driven by attractive, newly built properties, the availability of capital and stronger confidence in the market, as well as some new large international investors entering the country's commercial real estate market in 2018. Following 2018's impressive results, in Q1 2019 Eastnine AB acquired three office buildings (42,500 sqm in total) of the S7 complex in Vilnius for EUR 128.3m, making it the largest office deal in the history of Baltic real estate market.

After a major step back in 2017, the investment market in Latvia recovered, marking a two-fold increase on 2017 (total volume of transactions in 2018: EUR 306m). At the same time, a lack of large transactions in Estonia saw total investment volumes fall 30% y-o-y, slipping to EUR 235m in 2018.

While in 2017 the retail sector was the most favoured by investors, in 2018 the biggest share of investments was attracted by the office segment (44% of all volumes). The retail and industrial sectors accounted, respectively, for 33% and 11% of the whole investment market in 2017. The share of hotel deals (7% of total investment volumes) remained rather low in 2018, due to the very small number of transactions, though some remarkable deals were closed in Riga.

Investment Volume in Baltic States in 2018, EURm



Source: Colliers International

While in 2017 the retail sector was the most favoured by investors, in 2018 the biggest share of investments was attracted by the office segment (44% of all volumes). The retail and industrial sectors accounted, respectively, for 33% and 11% of the whole investment market in 2017. The share of hotel deals (7% of total investment volumes) remained rather low in 2018, due to the very small number of transactions, though some remarkable deals were closed in Riga.

The average size of a transaction last year was EUR 4.1m (EUR 3.6m in 2017), though the variability between investments can be large. Approximately 78% of all transactions in 2018 in the Baltic states were for deals of less than EUR 3m. Only c.a. 4% of deals were valued over EUR 20m and, together, accounted for c.a. 43% of total market volume in 2018.

Broadly speaking, the same investors continued to dominate Baltic real estate investments in 2018. Baltic investors were responsible for 65% of all transactions (52% is 2017), with international and Nordic investors accounting for 19% and 13%, respectively (32% and 16% in 2017). The share of the top-five investors (NEPI Rockcastle, EfTEN Capital, SG Capital, Lewben Investment Management and East Capital) amounted to 37% of all investment volumes in the Baltic states.

The structure of investors in the Baltic states should remain stable over the coming years. As a general rule, the larger European real estate funds are interested in deals of over EUR 100m. Some deals in the region may be undertaken by larger European funds, but generally the market remains rather unattractive for them, with the majority of deals under EUR 5m carried out by the region's wealthier private investors seeking stable investment opportunities for their savings. Although, it should be noted that 2018 saw increased signs that international investors were gaining greater confidence in Lithuania's market.

According to Colliers International, the Baltic market will continue to attract foreign investors due to the availability

Top 10 Deals in the Baltic States in 2018

No	Object	City	Sector	Total area, sqm	Investor
1	Ozas Shopping Center	Vilnius	Retail	93,000	NEPI Rockcastle
2	Office Complex Business Triangle	Vilnius	Office	30,900	Lewben Investment Management
3	SWH Office Center	Riga	Office	40,000	SG Capital
4	Ryo Shopping Center	Panevezys	Retail	26,130	EfTEN Capital
5	Galleria Riga Shopping Center	Riga	Retail	36,895	East Capital
6	Luminor HQ	Tallinn	Office	15,000	Rondam
7	BIG Shopping Center	Klaipeda	Retail	19,920	Westerwijk Klaipeda
8	Marienthal Center	Tallinn	Office/Retail	20,050	EfTEN Capital
9	Alojas Biznesa Centrs	Riga	Office	15,870	Eastnine
10	Park Town Business Center (Stage I)	Vilnius	Office	10,260	Zenith Family Office, DAO Family Office

Source: Colliers International

of investment grade products and higher returns, compared to western Europe and Scandinavia. In the coming years, investment in the retail sector is expected to remain somewhat subdued due to sellers' high expectations and banks' caution towards the segment. Investors are increasingly considering alternative investment options in the hotel, healthcare, housing and development segments due to higher returns from that group than from office, retail and industrial properties. In the coming years, Latvia should see investor interest grow due to the promising pipeline of projects under construction in multiple segments.

Prime yields

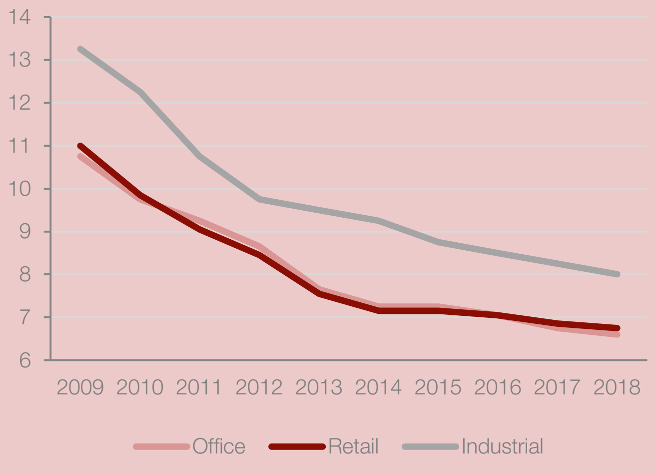
Prime investment yields in the Baltic states have started showing signs of stability after years of gradual compression. With the exception of the office and industrial segments in Vilnius, the region's commercial real estate market saw similar yields in 2017 and 2018. According to industry experts, prime office and retail yields in the Baltic capitals are currently in the range of 6-6.75% and 6.5-6.75%, respectively, while industrial yields remain around 7.75%.

According to Colliers International, prime yields are expected to hold stable for now. Although there is still room for further compression in some areas, namely in Latvia's office and industrial sectors, upward pressure is also present due to tighter financing conditions. During 2018, the upward pressure was more evident in the retail segment, due to the banks' preference for stable cash-flow generating office and industrial properties. More conservative bank lending policies and adjusted expectations from market participants may also result in a growing gap between primary and secondary yields in the future.

Prime Yields in Baltic Capitals as of End 2018	Tallinn	Riga	Vilnius
Prime Office Yield	6.25%	6.45-6.75%	6-6.25%
Prime Retail Yield	6.5-6.75%	6.5-7%	6.5-6.75%
Prime Industrial Yield	7.75%	7.75-8%	7.75%

Source: Colliers International, Newsec, BNP Paribas

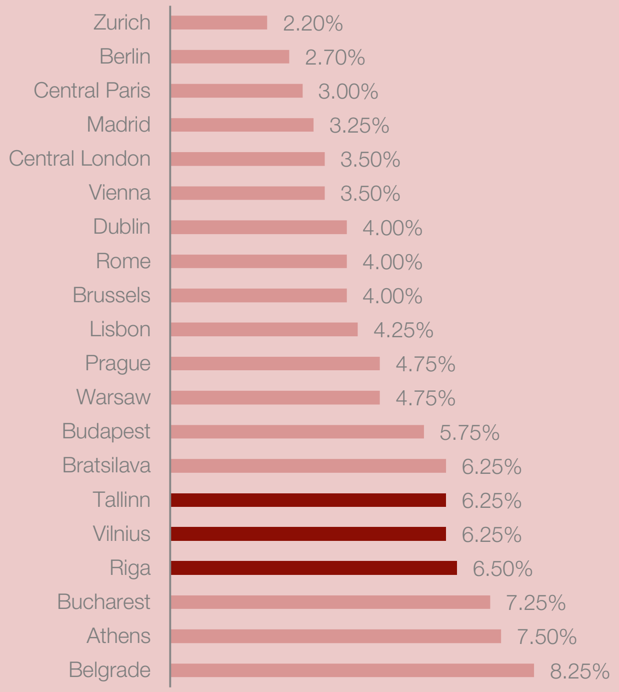
Average Prime Yield Dynamics in the Baltic States



Source: Colliers International

Despite the gradual compression in prime yields over the past decade, the Baltic countries still offer an attractive premium over Nordic and Western European levels. Commercial real estate yields in the Baltic region compare favourably when evaluated alongside selected eastern European peers, especially when the currency risk is

Prime Office Yields in Baltic Capitals Compared to Europe (End 2018)



Source: BNP Paribas

taken into account (the Baltic states are full members of Eurozone).

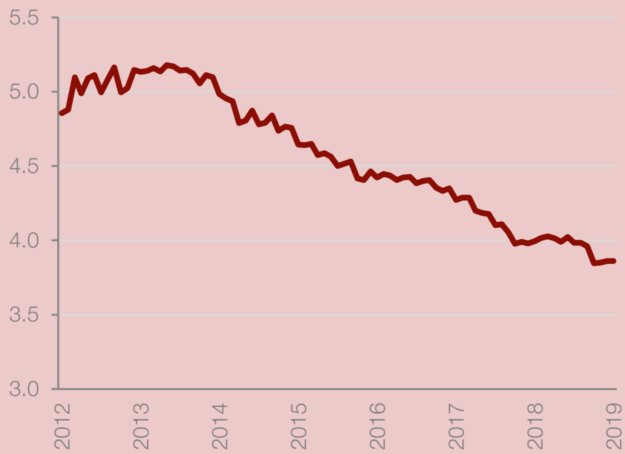
Yield gap

To illustrate the relative attractiveness of the real-estate market in the Baltic countries, we have compared prime office yields to financing costs. To do this we used the lending cost of monetary financial institutions (MFI) on loans in EUR or local currency to non-financial corporations in the region, as reported by the European Central Bank.

Interest rates in the Eurozone have fallen significantly since 2008 and remain at their lowest levels for a decade. From December, 2015, the Euribor 6M, the preferred benchmark rate for loan agreements, has been negative. Also, since the financial position of banks and capital adequacy ratios have consistently improved over the last few years, the banks' lending margins have also fallen. However, according to industry insiders, commercial banks in Baltic states have taken a more selective approach towards the real estate sector in 2018, meaning harder financing conditions and increased lending margins for real estate investors.

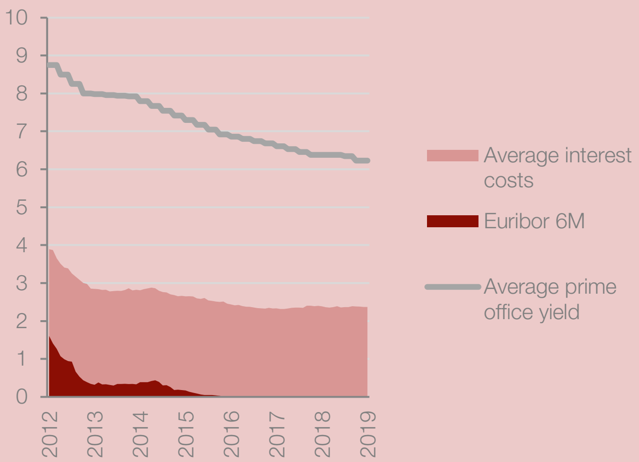
As a result, we estimate that the yield gap – the difference between the average prime office yield and the financing cost – was in the range of 4-4.5% from Q3 2015-Q3 2018. The main reason for the attractive gap in yields has been relatively cheap financing costs. Starting from Q4 2018, due to further contraction in office prime yields, according to our calculations, the yield gap has been slightly below the 4% level.

The Average Prime Office Yield Gap in the Baltics, %



Source: European Central Bank, Colliers International, LHV

Average Prime Office Yield in the Baltics vs. Average Financing Costs, %



Source: European Central Bank, Colliers International, LHV

Countries in Depth

Estonia

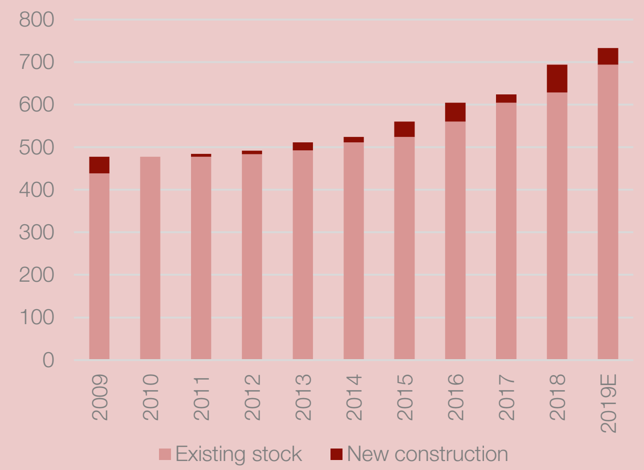
Tallinn: Office Sector

In 2018, the office market in Tallinn acted in pretty much the same way it has over the last six years, seeing buoyant demand and plenty of development activity. According to Colliers International, by the end of 2018, the total estimated stock (speculative and built-to-suit) of modern office facilities was approaching c.a. 1 million sqm. Approximately 66,000 sqm of new speculative office space was added to the market in 2018, bringing the total to c.a. 695,000 sqm.

According to Ober-Haus Real Estate Advisors ('Ober-Haus'), the vacancy rate for Class A space is close to zero, while for Class B it is about 5%. Most potential customers for Class A space are linked to foreign companies and their representative firms involved in IT, medicine and financial services. While, according to Colliers International, rents in Tallinn have remained steady, Ober-Haus reported a 5-10% increase in Class A rents with little movement in class B rates.

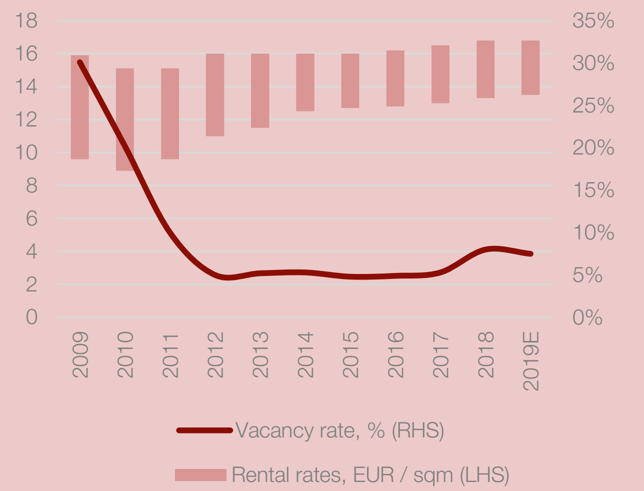
According to Colliers International, c.a. 38,500 sqm and 76,500 sqm of new speculative office space should be delivered to the market in 2019 and 2020, respectively (Ober-Haus estimates c.a. 100,000 sqm new office space in 2019-2020). In addition, design work on the largest office complex in Estonia has started – a total of 49,000 sqm of Class A office space in the central business district of Tallinn. Increased supply lets tenants either leave outdated offices or renegotiate existing leases. In an illustration of this trend, tenants are currently seeking shorter leases (three years instead of five). In general, office rents are expected to remain stable during 2019, although the gap between the lower and upper margins may continue to widen.

Tallinn: Dynamics of Speculative Office Space (sqm, thousands)



Source: Colliers International

Tallinn: Class A Office Rental And Vacancy Rates



Source: Colliers International

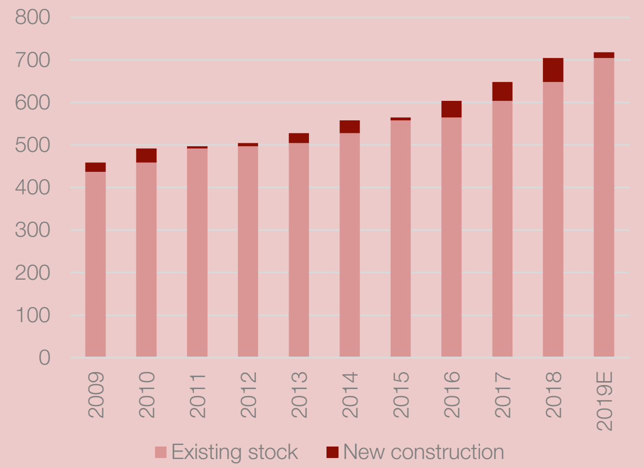
Tallinn: Retail Sector

In 2018, sentiment in the retail sector remained moderately optimistic, with total retail trade turnover (at constant prices) rising 1.0% from 2017.

According to Colliers International, the stock of retail space in Tallinn increased by 56,000 sqm last year, reaching 704,300 sqm. The growth in retail stock stemmed largely from the opening of the T1 Mall of Tallinn. 2018 also saw notable activity in the grocery sector – over 15,000 sqm of new grocery space in seven stores was added to the market. C.a. 56,000 sqm of new retail space is expected to be delivered to the market in 2019-2020, with grocery retailers continuing to seek possibilities for further expansion in Tallinn and its suburbs. In addition, the international grocery chain, Lidl, in expected to enter the Estonian market in 2020.

Many industry experts see risks developing in the current situation. According to Ober-Haus, Tallinn's retail property market is already well-developed with a high ratio of exist-

Tallinn: Dynamics of Retail Space (sqm, thousands)



Source: Colliers International

ing retail space per capita. Further rapid growth in the sector can only be achieved through higher purchasing power and an increasing population, both problematic according to current macro trends. As warning signals from the market become more pronounced, the start of construction work has been postponed on several developments. According to industry insiders, banks have become rather reluctant to finance projects developing retail space. To stay competitive, shopping centres have begun adding entertainment outlets on the premises (cinemas, restaurants, gyms etc.).

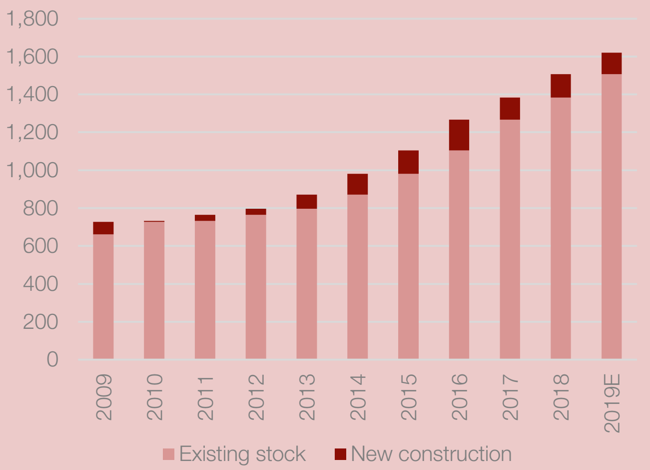
According to Colliers International, rents have remained largely stable in Tallinn's main shopping centres over the last decade, while vacancy rates in the biggest shopping centres have varied from 0.5% to 2% (in 2018, the situation was largely stable). Intensifying competition has applied some downward pressure on rents over the last two years, while rents based on turnover and more flexible leasing agreements have become increasingly common, a trend expected to continue in 2019. Rents should remain stable with some downward movement, while an upward trajectory in vacancy levels could be possible in 2019

Tallinn: Industrial Sector

Last year the market for warehouse and industrial property retained its positive impetus in terms of new developments and buoyant demand for modern quality space. According to Colliers International, new supply of c.a. 124.000 sqm was delivered last year, keeping pace with rate of the last five years. Demand was highest among businesses from the production and manufacturing sectors, followed by wholesale and retail companies. As reported by Ober-Haus, so-called 'stock office' premises, 300-700 sqm in size, in logistically attractive locations in the suburbs continue to be popular, as they allow businesses to combine their warehouse, office and retail needs.

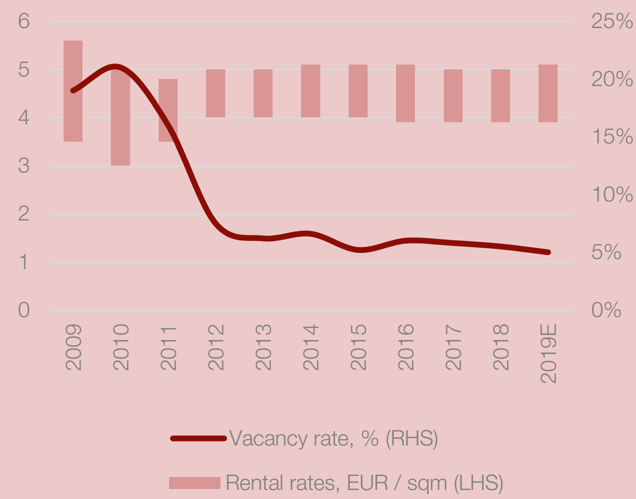
Rents in 2018 broadly reflected the levels of 2016-2017, although some downward pressure built up, even as the vacancy rate continued to tighten. Colliers International sees no drastic changes on the horizon, although the gap

Tallinn and Harju County: Dynamics of Industrial Space (sqm, thousands)



Source: Colliers International

Tallinn and Harju County: Industrial Rental And Vacancy Rates



Source: Colliers International

between the lowest and upper rental margins may continue to widen. Approximately 34,000 sqm of new commercial and warehouse space is planned for 2019, with an additional c.a. 45,000 sqm in the pipeline. Some increase in demand is expected due to the increasing importance of online commerce.

Latvia

Riga: Office Sector

According to Colliers International, last year, Riga's office market saw construction activity intensify gradually, with an additional 34,000 sqm of space added. Development activity will expand further in Riga's office market, with c.a. 100,000 sqm of new office space coming to market in 2019-2020. According to property advisory company, Newsec, among the Baltic capitals, in terms of modern office space per capita, Riga (1.0) lags behind Vilnius and Tallinn (1.2 and 1.7, respectively), showing a strong development potential in the office commercial real estate segment there.

However there are also warning signs here. Some plans are not being followed through to their construction phase, with postponements in the commissioning date. According to Colliers International, much of this can be explained by rising construction costs, labour shortages, increased caution on the part of developers and more careful bank financing.

In 2018, Class A rent rates were stable compared to 2017, with vacancy rates increasing slightly y-o-y. Rising numbers of new projects and increasing competition between landlords will strengthen tenants' negotiating positions. Rents in both Class A and Class B buildings are expected to remain stable in 2019, although vacancy rates in the former might rise slightly.

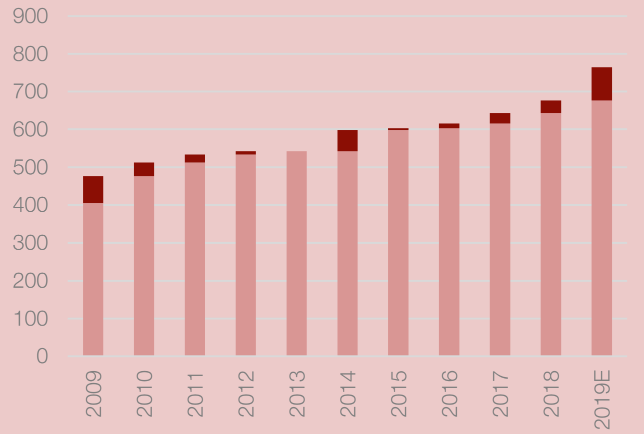
Riga: Retail Sector

More purchasing power, lower unemployment and steady inflation have positively impacted Latvia's retail market growth. In 2018, total retail trade turnover (at constant prices) rose by 4.0% compared to 2017.

The opening of Latvia's first IKEA store (c.a. 34,000 sqm) was the only notable addition to Riga's retail market in 2018. According to Colliers International, after several shopping centres adjusted their tenant mix and expanded their range of services and entertainment, vacancy rates also decreased that year. Meanwhile rents came under pressure, decreasing the income from operating shopping centres. In response, shorter term and more flexible lease agreements are expected to become increasingly common in the coming years.

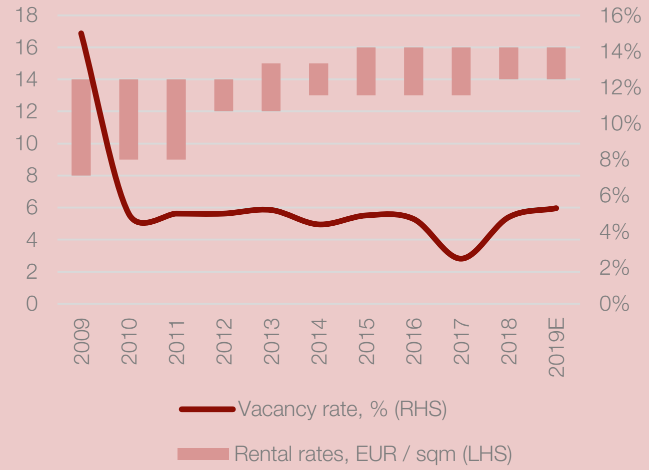
However, despite a relatively uneventful 2018, in 2019, Riga's retail market will experience its biggest ever addition of new space in a one-year period: an increase of 17% (c.a. 116,000 sqm) after the opening of the second-largest shopping centre (Akropole), the first retail outlet park (VIA Jurmala), the fifth DEPO DIY in Riga, plus the expansion of the Alfa shopping centre (becoming the

Riga: Dynamics of Speculative and Built-To-Suit Office Space (sqm, thousands)



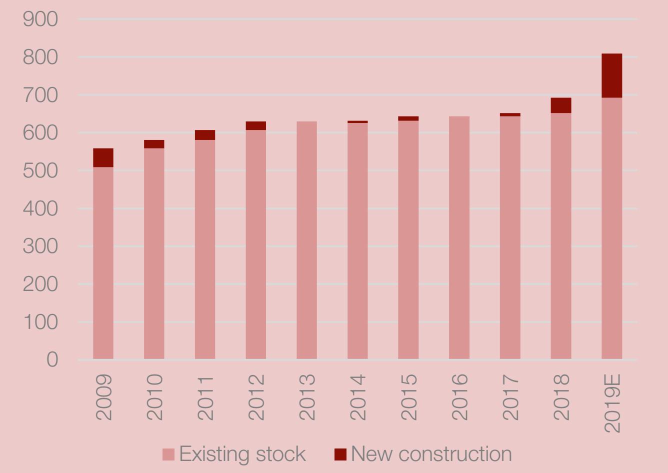
Source: Colliers International

Riga: Class A Office Rental And Vacancy Rates



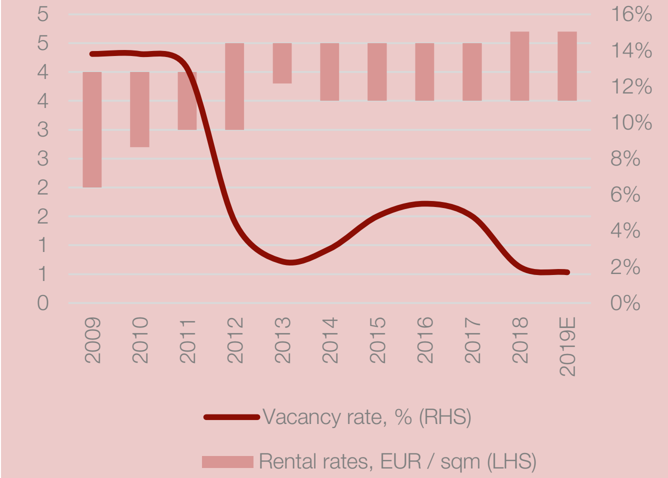
Source: Colliers International

Riga: Dynamics of Retail Space (sqm, thousands)



Source: Colliers International

Riga and Riga Region: Class A Industrial Rental And Vacancy Rates



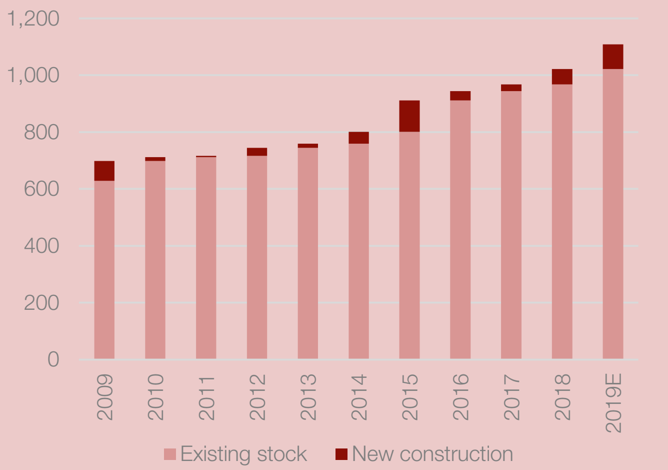
Source: Colliers International

largest such centre in the market). Expansions of other shopping centres – Origo, Domina and Spice – should also be finished during 2020. On top of all this, grocery chains are likely to strengthen their positions through further expansions.

Riga: Industrial Sector

Last year Colliers International reported increased activity in the industrial and warehouse market, in terms of new developments, while demand for qualitative and modern premises remained high. In total, c.a. 54,000 sqm of new industrial stock was added, in 2019, industrial stock is expected to be supplemented by c.a. one-third more space than in 2018. Vacancy rates during last year remained low due to the continuous shortage of industrial premises in Riga and the surrounding region. In 2018, rental rates remained stable with a minor increase in the upper bound caused by new industrial projects, alongside rising construction costs. As shortages of qualitative industrial space will most likely continue, no significant increase in vacancy levels is expected. Rents are forecast to remain stable despite the rising construction costs.

Riga and Riga Region: Dynamics of Industrial Space (sqm, thousands)



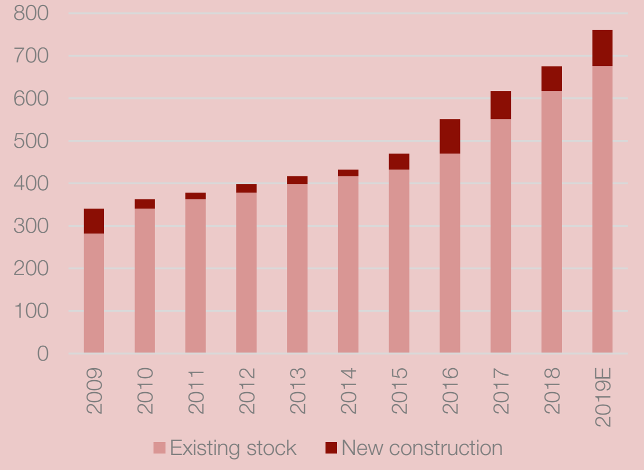
Source: Colliers International

Lithuania

Vilnius: Office Sector

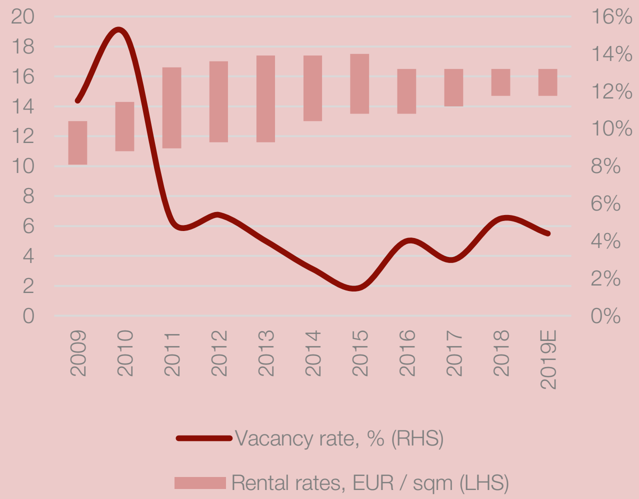
According to Colliers International, in 2018, the Vilnius office market was supplemented by 58,500 sqm of new stock, amounting to 9% growth in total stock y-o-y. New supply was largely dominated by Class A business centres, which accounted for 78% of new office space. The development market in Vilnius has remained intense, in 2019-2020, over 200,000 sqm should be added to the market. Demand for office premises is expected to remain strong, supported by new international companies settling in Vilnius. During recent years, the city has established itself as a growing hotspot for shared service centres in eastern Europe, driven by an educated work-force with good English skills, supportive government policies and relative cost-effectiveness. According to 'Go Vilnius', Vilnius' development agency, during the last three years, the shared service sector in Lithuania has shown remarkable growth of 82%.

Vilnius: Dynamics of Speculative Office Space (sqm, thousands)



Source: Colliers International

Vilnius: Class A Office Rental And Vacancy Rates



Source: Colliers International

According to Ober-Haus, high demand for modern office space has led to a slight increase in supply in the country's capital in 2018. Despite the relatively abundant supply of new premises, the market successfully absorbed this new space. At the end of last year, the vacancy rates of Class A and Class B space stood at 4.9% and 2.9%, respectively. During the coming years, both vacancy and rental rates are not expected to change dramatically in Vilnius.

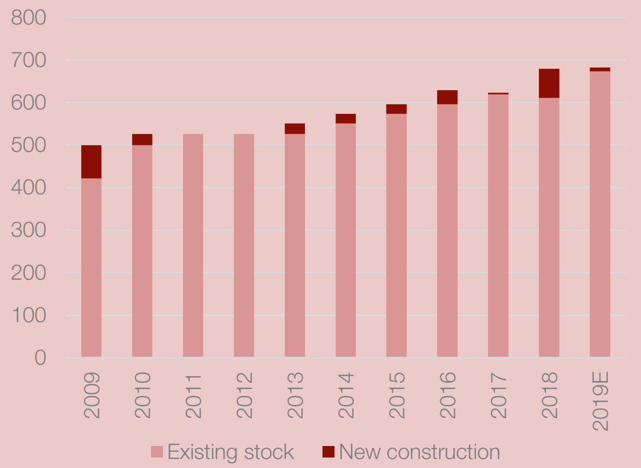
Vilnius: Retail Sector

The favourable macro conditions have helped the retail market to remain strong throughout 2018. During the year, total retail trade turnover (at constant prices) rose by 6.6% compared to 2017. Due to the continuous growth of recent years, interest in retail premises in both shopping centres and high streets remains high. According to Ober-Haus, finding vacant premises in popular shopping centres in Vilnius remains a considerable challenge, as these premises are almost fully leased out and the vacancy rate of shopping centres has remained below 1% since 2013.

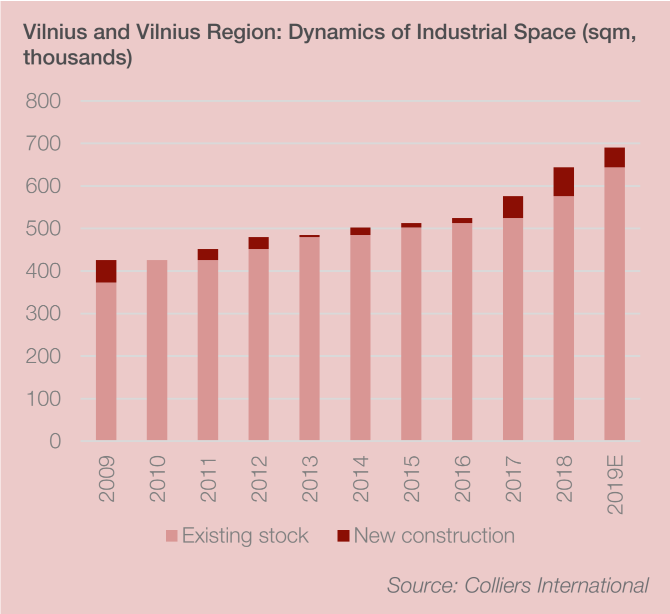
Similarly to Riga, Shopping centres in Vilnius are now entering a phase of renewal. In 2018, renovation began at the Akropolis shopping centre, while, at the beginning of 2019, reconstruction is due to commence at the GO9 shopping centre. Renewals are connected to the age of properties, the need to reflect changes in consumer habits and reacting to the arrival of new shopping centres. In 2020-2021, Vilnius Outlet and the second Akropolis shopping centre should be completed, along with a planned expansion of Panorama and further development of the VNO Business & Retail Park.

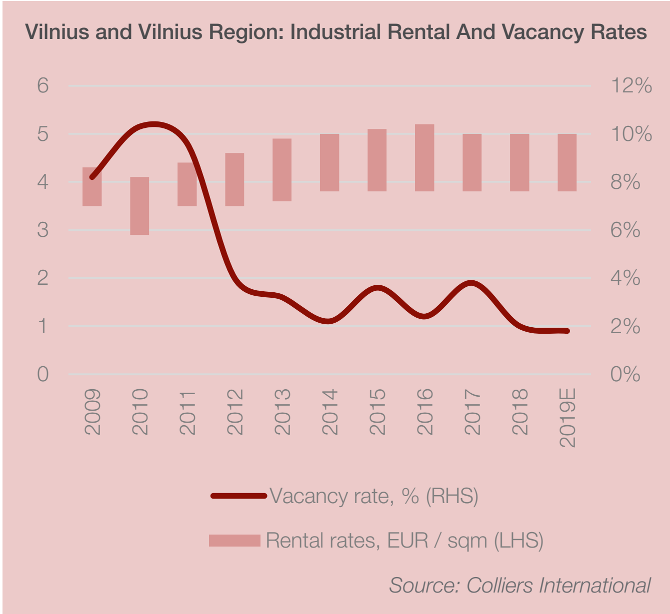
According to Colliers International, in 2018, rents continued to grow, varying according to the size of premises and other factors. In coming years, the main players in the retail sector are expected to continue strengthening their competitive standing, resulting in an expansion of chains, improved space and concepts, as well as bringing new retailers to the market. Existing demand is expected to keep vacancy rates low in 2019, resulting in

Vilnius: Dynamics of Retail Space (sqm, thousands)



Source: Colliers International





the further slight growth of rents, mostly for small and medium premises.

Vilnius: Industrial Sector

The total stock of industrial space in the Vilnius region grew by 12% y-o-y, according to Colliers International. New concepts, such as stock offices, have made their debut in the warehouse and industrial market, seeking to better meet business needs. In 2018, due to the balance between rising costs and growing competition among developers, rents in the Vilnius region remained stable. At the end of the year, vacancy rates fell below 2%, demonstrating strong demand for modern warehouse space. Rents in the Vilnius region are expected to remain within their current range in 2019. Stronger businesses and solid economic growth should stimulate demand for modern warehouse space, while rapid online commerce could affect storage, distribution and delivery patterns in the coming years.

The Baltic Economies

Estonia

After an exceptionally healthy burst of activity in 2017 (4.9%), GDP growth slowed a touch in 2018 to 3.9%. Last year domestic demand expanded at the best pace seen in six years, up 5.3%, mostly fuelled by household consumption, which increased 4.6%. The last time household consumption grew that fast was at the peak of the previous boom in 2007. Growth has recently been broad-based overall, supported by increases in both exports and investments.

GDP cannot grow at this pace for long and is expected to slow over the coming years. According to the recent forecast of the European Commission, the economy should expand 2.7% in 2019 and 2.4% in 2020. Domestic demand is likely to remain the main pillar of growth, as the labour market continues to perform strongly, with very low rates of unemployment. However, Estonia's small and open economy is particularly sensitive to external conditions, suggesting downside risks to the above forecast.

As is normal when comparing economies at different stages of development, headline inflation in Estonia has exceeded the euro area average for the past few years. Inflation reached 3.4% in 2018, lifted by rising global prices for food and energy, both of which account for a relatively high share of Estonia's basket of consumption. According to the European Commission, inflation should slow to 2.8% in 2019 and 2.3% in 2020, as global commodity prices stabilise and the effect of increased excise taxes will dissipate.

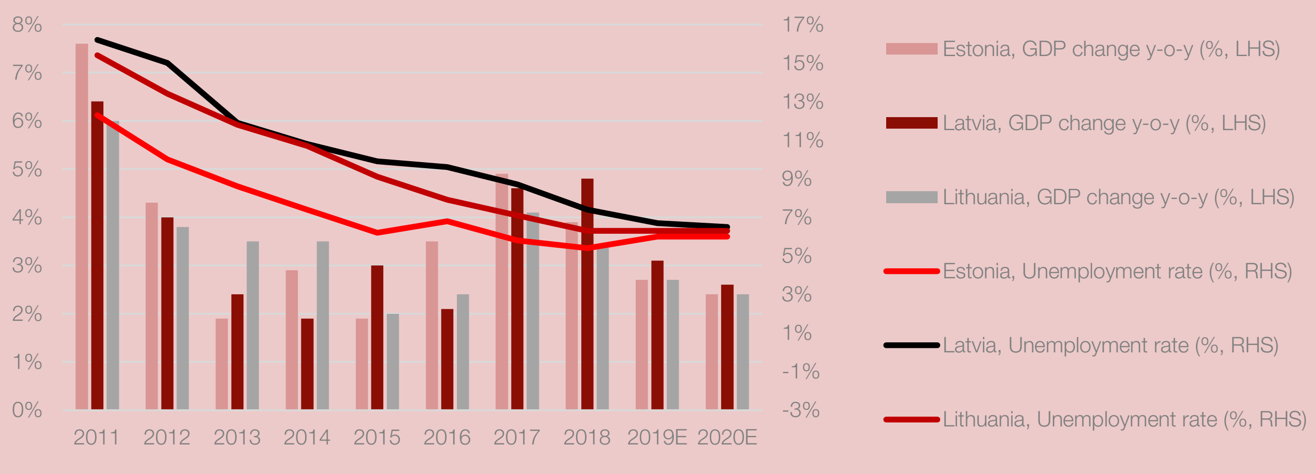
Latvia

Continued rapid investment growth, coupled with persistently strong private consumption, pushed GDP growth in Latvia to 4.7% in 2018. Unemployment decreased even faster than in 2017 as the investment boom helped increase employment notably for the first time in three years. However, export growth slowed down in 2018.

GDP growth is forecast to slow in 2019 as investment growth moderates. However, brisk private consumption growth is expected to extend into 2019 supported by still rapid wage growth. Export growth is set to be modest and public consumption growth is expected to be constrained in 2019. On the back of these factors, according to the recent forecast of the European Commission, GDP growth in 2019 is forecast to cool to 3.1%. Growth is forecast to fall further in 2020 to 2.6%, as slower growth in the rest of the EU will eventually weigh on consumer optimism and private consumption, which have been the backbone of GDP growth over the last three years.

Although this supported continued rapid wage growth, headline inflation slowed to 2.6%, largely due to lower growth in food prices. According to the European Commis-

Baltic States: GDP Growth and Unemployment Rate



Source: Eurostat and Statistics Estonia for historicals, European Commission for estimates sion, inflation should slightly increase up to 2.7% in 2019, followed by a lower rate of 2.3% in 2020.

Lithuania

Following its peak in 2017, Lithuania's real GDP growth rate reached 3.4% in 2018. Overall, growth in 2018 was broad-based across all sectors (with the exception of agriculture).

The strong growth momentum is expected to continue in 2019, as consumer confidence and industrial sentiment indicators remain high. Income tax cuts are set to provide a positive impetus to consumption over the forecast horizon. At the same time, economic growth is forecast to benefit from the continuing support of EU investment funding. Lithuania's economy, however, will not be able to completely escape the impact of weaker growth in its main trading partners. Therefore, according to the recent forecast of the European Commission, GDP growth is forecast to moderate to 2.7% in 2019 and 2.4% in 2020.

Headline inflation dropped from 3.7% in 2017 to 2.5% in 2018. Strong wage growth, coupled with higher oil prices, were the main inflation drivers in 2018. In 2019, a notable increase in gas and electricity prices for households is set to exert upward pressure on inflation. However, moderating oil prices should have a dampening effect. Overall, according to the European Commission, price increases are expected to slow further in 2019 and 2020 to 2.2% and 2.1%, respectively.

Summary

The Baltic economies will continue to outperform the EU average in terms of GDP growth. In the coming years, GDP growth rates, although decreasing compared to the strong levels of 2017-2018, are expected to be in the range of 2.4-3.1%. The labour market in all three countries will remain strong over the next few years, with the lowest unemployment levels in a decade. Wage growth, although gradually slowing, still remains buoyant, supporting private consumption.

The Baltic states have stable public finances and are among the few countries that fulfil the Stability and Growth Pact enforced by members of EMU to ensure fiscal discipline (main criteria: a budget deficit below 3% of GDP and government debt below 60% of GDP). In fact, the Baltic states (especially Estonia) have one of the lowest government debt levels in EU.

Overall, all three economies remain well balanced, showing few signs of overheating, and are well positioned to meet external shocks.

Bottom-Line for EfTEN

All-in-all, as the important numbers are pointing in the right direction, the macro situation looks positive to neutral over the short-to-medium term as far as EfTEN is concerned. The Baltic states are bearing the brunt of decreasing populations, however EfTEN's properties are mainly located in the countries' capitals where the population is growing or remaining stable.

For EfTEN, adverse macro conditions could result primarily in higher vacancy rates at its properties, reducing rental income. Also, a tightening macro situation could result in increased discount rates and exit yields, decreasing the fair value of EfTEN's properties. Bearing in mind the current economic outlook, both abovementioned risks are rather unlikely at the moment.

Company Overview and Business Description

Introduction

EfTEN Real Estate Fund III (EFT1T) is a regulated, evergreen, closed-end fund for real estate. It was registered in Estonia on June 5, 2015, and, together with the management company, EfTEN Capital AS, is supervised by the Estonian Financial Supervisory Authority. The fund has been listed on the Nasdaq Baltic Main List since December 1, 2017, raising EUR 3.5m during an initial public offering (IPO). Prior to the IPO, EfTEN held three closed rounds of capital raisings, increasing the fund's share capital to EUR 32.2m.

The fund invests directly in commercial real estate in the Baltic states, primarily targeting properties that are already cash-generating. It does not invest in land plots for speculative development purposes, properties with the aim of price speculation or residential real estate. The fund may initiate development projects, but only when contracts with the main tenants are signed prior to the initiation of the project. According to the fund's internal rule, at any time, the total value of development projects should not exceed 25% of fund's total assets.

EfTEN targets properties that are strategically located in the retail, office, logistics and hotels segments, with reliable tenants and predominantly long-term leases. At least 80% of the value of the fund's assets must be invested in real estate, while the remaining 20% may only be invested in deposits or derivatives at European credit institutions. In terms of financing investments, the fund may borrow up to 65% of the value of each investment at the time of the transaction. EfTEN's goal is to achieve a long-term dividend pay-out ratio of 80% of distributed cash flow (EBITDA minus interest payments, minus loan principal payments, minus income tax expenses from profit). The fund follows an opportunistic investment strategy, aiming to acquire properties with a net yield of 8% without financing expenses.

The fund is managed by EfTEN Capital AS, the largest commercial real estate fund manager in the Baltic states. As of 31 December 2018, the gross asset value of funds managed by the company totalled EUR 650m. Add to this the assets of private mandates and smaller real estate portfolios and the total assets managed by EfTEN Capital AS exceeded EUR 700m at the end of 2018. The company employs over 50 people with offices in all three countries. EfTEN Capital AS was registered in May 2008.

Currently EfTEN Capital AS manages four alternative investment funds:

- EfTEN Kinnisvarafond AS (founded in 2008) is an opportunistic and value-added strategy fund for commercial real estate. This fund's investment period has ended and it currently forms the largest such fund in the Baltics, with assets of over EUR 200m.

Group Structure as of 31 December 2018	Country of domicile	Investment property	Group's ownership interest
Parent company			
EfTEN Real Estate Fund III AS	Estonia		
Subsidiaries			
EfTEN Tänassilma OÜ	Estonia	DSV Tallinn logistics center	100%
EfTEN Krustpils SIA	Latvia	DSV Riga logistics center	100%
EfTEN Stasylu UAB	Lithuania	DSV Vilnius logistics center	100%
EfTEN Kolmas OÜ	Estonia	ABC Motor's car sales and service center*	100%
Saules Miestas UAB	Lithuania	Saules Miestas shopping center	100%
EfTEN Seljaku OÜ	Estonia	Hortes gardening center in Laagri	100%
EfTEN Tähesaju tee OÜ	Estonia	Hortes gardening center in Tähesaju	100%
EfTEN Laagri OÜ	Estonia	Selver grocery store in Laagri	100%
Verkiu Projektas UAB	Lithuania	Ulonu office building	100%
EfTEN Laisves UAB	Lithuania	L3 office building	100%
EfTEN Evolution UAB	Lithuania	Evolution office building	100%

** Property was acquired in February 2019*

Source: Eften Real Estate Fund III

- EfTEN Kinnisvarafond II AS (founded in 2015) is targeted mainly at institutional investors and invests in commercial properties in the Baltic states that generate a cash flow.

- EfTEN Real Estate Fund III AS (founded in 2015) is an evergreen, closed-end real estate investment fund targeted mainly at retail investors.

- Usaldusfond EfTEN Real Estate Fund 4 (EfTEN Neljas GP OÜ, founded in 2018) is a ten-year closed-end fund designed for institutional investors and is not offered publicly. The fund invests in commercial real estate properties in the Baltic states with a good location, moderate risk and proven rental cash flows. The minimum single investment is set at EUR 15m and the fund does not take development risks. Compared to the EfTEN Real Estate Fund III, this fund's investment strategy is less opportunistic and the targeted yield is lower (similar to EfTEN Kinnisvarafond II AS).

The structure of the EfTEN Real Estate Fund III AS Group as at 31.12.2018 was as follows:

On April 17, 2019, the general shareholders' meeting for EfTEN Real Estate Fund III approved a proposal to raise capital through the new issue of shares. 1.0m new shares will be issued with a nominal value of EUR 10.00 and a share premium of EUR 6.00, amounting to EUR 16.0m of new capital. The subscription period will last from 16 to 31 May 2019 and existing shareholders have a pre-emptive right to subscribe for new shares in proportion to the sum of the nominal value of the shares they currently hold. According to the fund, the capital raised will be mainly used to acquire new properties.

Shareholder Structure and Management

The fund's shareholder structure is diversified. As of 31 December 2018, it had three shareholders owning more than 10%, with another 65.5% held by a large number of private individuals and legal entities.

The CEO of EfTEN Capital AS and management board member of EfTEN Real Estate Fund III AS is Viljar Arakas. From 2002-2008, Mr Arakas served as the CEO of Arco Vara AS, at that time the largest real estate company in the Baltic states. He has c.a. 20 years of experience in the industry and has served as the CEO of EfTEN Capital AS since its establishment.

EfTEN Real Estate Fund III Shareholder Structure as of 31 December 2018	
Altius Capital OÜ	14.1%
Järve Kaubanduskeskus OÜ	10.2%
Hoiukonto OÜ	10.2%
Other shareholders	65.5%
Total	**100%**

Source: EfTEN Real Estate Fund III

Another member of the fund's management board is Tõnu Uustalu. As investment manager of Eften Capital AS, Mr Uustalu has been with the company since its establishment. From 2006-2008 he worked as an investment manager and a member of the board for AS AVEC Asset Management. From 2001 to 2006, Mr Uustalu worked in Real Estate Finance and Corporate Banking Division in SEB Bank.

The Property Portfolio

EfTEN Real Estate Fund III's (hereafter: EfTEN) portfolio consists of eleven commercial properties, located mainly in the Baltic capitals, with the exception of the Saules Miestas shopping centre, which is in Šiauliai, the fourth-largest city in Lithuania. One property, Hortes garden centre in Tähesaju, Tallinn, is currently in its development phase.

The formation of the portfolio began in 2015 with the acquisition of the Saules Miestas shopping centre (August, 2015) and the Ulonu office building (December, 2015). In 2016, following a sales-leaseback transaction, the fund acquired logistical centres in Vilnius, Tallinn and Riga from DSV, a global provider of transport and logistics services, (June-July, 2016). Later that same year, the fund acquired the L3 office building (October, 2016). Both the Hortes gardening centre in Laagri and Selver in Laagri were acquired in May 2017. In May 2018, EfTEN acquired the Evolution office building and a land plot for the Hortes gardening centre in Tähesaju. In February 2019, following the sales-leaseback transaction, the fund acquired ABS Motor's car sales and service centre. With the exception of the Hortes gardening centre in Tähesaju (Tallinn, Estonia), all of the portfolio's properties are operational and generate rental revenues.

At the time of writing, the total size of EfTEN's portfolio was around 86,000 sqm of net leasable area. As of 31 December, 2018, the fair value of the fund's property portfolio was c.a. EUR 102.8m, as valued by Colliers International Advisors OÜ. Assuming that the price paid for ABC Motor's car sales and service centre (EUR 3.0m) represents its fair value, as

Property Portfolio	Location	NLA (sqm)	Fair Value (EUR th)*	Share of Fair Value (%)*	Vacancy
Logistics					
DSV Tallinn logistics centre	Tallinn, Estonia	16,014	12,850	12.1%	0%
DSV Riga logistics centre	Riga, Latvia	12,149	8,660	8.2%	0%
DSV Vilnius logistics centre	Vilnius, Lithuania	11,687	8,730	8.3%	0%
Retail					
Saules Miestas shopping centre	Šiauliai, Lithuania	19,881	31,640	29.9%	2%
Hortes gardening centre in Laagri	Tallinn, Estonia	3,470	3,430	3.2%	0%
Hortes gardening centre in Tähesaju	Tallinn, Estonia		1,636	1.5%	
Selver grocery store in Laagri	Tallinn, Estonia	3,063	6,650	6.3%	1%
Office					
Ulonu office building	Vilnius, Lithuania	5,174	9,220	8.7%	0%
L3 office building	Vilnius, Lithuania	6,151	9,971	9.4%	0%
Evolution office building	Vilnius, Lithuania	6,172	10,000	9.5%	10%
Property portfolio as of 31 December 2018		**83,761**	**102,787**	**97.2%**	**1.2%**
ABC Motor's car sales and service centre*	Tallinn, Estonia	2,149	3,000	2.8%	
TOTAL PROPERTY PORTFOLIO		**85,910**	**105,787**	**100%**	

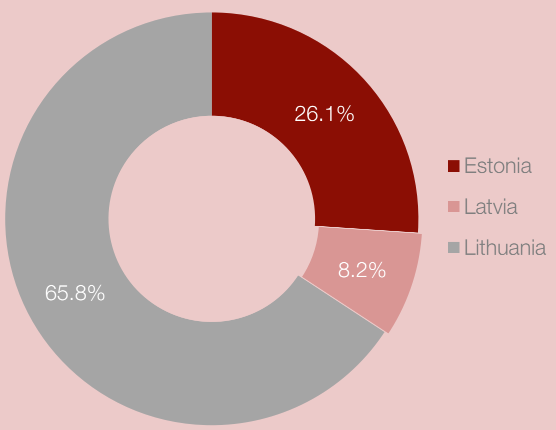
** ABC Motor's sales and service center - transaction price, property was acquired in February 2019*
Source: EfTEN Real Estate Fund III

things stand, the aggregated value of EfTEN's property portfolio would be c.a. EUR 105.8m. The Saules Miestas shopping centre dominates the portfolio in terms of leasable area (c.a. 23% of total) and fair value (c.a. 30% of total).

The fund's current portfolio is solid, with a low tenant risk. Excluding ABC Motor's car sales and service centre, the portfolio's vacancy rate is 1.2%, though it is reasonable to expect a reduction in the current, relatively high vacancy rate (10%) at the Evolution office building. At the time of writing, the fund had a total of 223 tenants.

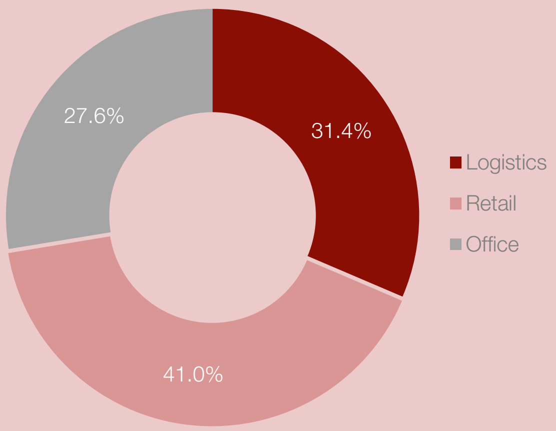
At the time of writing, properties from the retail sector constituted 41.0% (EUR 43.4m) of the fair value of the portfolio,

Property Portfolio by Fair Value, at the time of writing, %



Source: EfTEN Real Estate Fund III

Property Portfolio by Fair Value, at the time of writing, %



Source: EfTEN Real Estate Fund III

with those from logistics accounting for 31.4% (EUR 33.2m) and those from the office sector 27.6% (EUR 29.2m), balancing the property portfolio evenly between the aforementioned sectors. Most of the fund's investments are concentrated in Lithuania (EUR 69.6m or 65.8%), with properties in Estonia (EUR 27.6m or 26.1%) and Latvia (EUR 8.7m or 8.2%) featuring less heavily.

Portfolio in Detail

The tenants of DSV Tallinn, DSV Riga and DSV Vilnius logistic centres (DSV Transport AS, DSV SIA and DSV Transport UAB, respectively) are subsidiaries of DSV A/S, one of the world's leading logistics companies, with offices in more than 80 countries. The fund holds long-term agreements leasing out the properties (as of 31 December 2018, the length of all three leasing agreements is c.a. 7.6 years).

Saules Miestas is a three-floor shopping and entertainment centre in Šiauliai, the fourth-largest city in Lithuania. It has 115 tenants, with RIMI Lietuva UAB forming the anchor. Together with various shops, service companies, cafes and restaurants, the centre also contains a family entertainment park, Vaikystes Mestas, the largest park of its kind in Šiauliai and, more broadly, Lithuania. Saules Miestas has three parking lots for its customers, including underground parking. During the summer season, from May to September, the third floor of the shopping centre hosts Saules Terasa, a multifunctional open-air space containing various facilities for children, sports, cinema and other events. At the end of 2018, a substantial renewal of the tenants' composition will be carried out in the shopping centre, with SportsDirect and Pepco opening their new flagship stores there.

Hortes Gardening Centre is located in Tallinn's Laagri district. The only tenant of the property is Hortes AS, the largest gardening centre in the Baltic states and one of the biggest retailers of plants, gardening goods and accessories in Estonia. The fund holds a long-term agreement leasing out the property (as of December 31, 2017, the length of the lease agreement is 14.4 years). The total land area of the Hortes gardening centre in Laagri is 15,600 sqm.

Property Portfolio	Year built	Date bought	Price (EUR th)	Fair Value (EUR th)*	No of tenants	Sole Tenant / Anchor Tenant	Avg length of rental agreements (years)
Logistics							
DSV Tallinn logistics centre	2003	07/2016	12,228	12,850	1	DSV Transport AS	7.6
DSV Riga logistics centre	2000	07/2016	8,789	8,660	1	DSV Transport SIA	7.6
DSV Vilnius logistics centre	2005	06/2016	8,470	8,730	1	DSV Transport UAB	7.5
ABC Motor's car sales and service centre*	2002	02/2019	3,000	3,000	1	ABC Motors AS	n.a.
Retail							
Saules Miestas shopping centre	2007	08/2015	28,312	31,640	119	Rimi Lietuva UAB	4.5
Hortes gardening centre in Laagri	2006	05/2017	3,108	3,430	1	Hortes AS	13.4
Hortes gardening centre in Tähesaju**	2019	05/2018	1,636	1,636		Hortes AS	
Selver grocery store in Laagri	2017	05/2017	6,223	6,650	9	Selver AS	9.0
Office							
Ulonu office building	2012	12/2015	8,124	9,220	15		2.9
L3 office building	2004	10/2016	8,707	9,971	35		1.8
Evolution office building	2009	05/2018	9,030	10,000	40		1.4
TOTAL			**97,627**	**105,787**	**223**		**5.2**

** ABC Motor's sales and service center - transaction price, property was acquired in February 2019*

*** Land plot was acquired in 05/2018, construction is expected to be finished by Q4 2019*

Source: EfTEN Real Estate Fund III

The Selver in Laagri is a grocery store in the same district as the Hortes gardening centre, opened in December 2017. The anchor tenant is Selver AS, one of the largest grocery store chain operators in Estonia. As of 31 December 2018, the property has a total of nine tenants, with an average rental agreement of 9 years.

According to the agreement with Hortes AS, EfTEN will develop the new garden centre for the company in the Tähesaju district of Tallinn. The land plot for the property (5,300 sqm) was acquired in May 2018 and the construction agreement was signed in September. Construction work should be finished by the end of September and the centre should be opened in Q4 2019. According to the fund, the net yield of investment, without bank leverage, will be 8.5% after the centre has been completed.

The Ulonu office building is located in the northern part of Lithuania's capital, Vilnius. The land and leasable area of the property is 2,200 sqm and 5,200 sqm, respectively. The Ulonu office building is a B-class property with seven floors and 117 parking places. As of December 31, 2017, the average length of rental agreements was 1.9 years.

The L3 office building is located in Vilnius, close to the airport and just off the Vilnius-Klaipeda and Vilnius-Minsk highways. The property is a B-class office building with ten floors and 233 parking places. The land area and leasable area of the property is 2,200 sqm and 5,174 sqm, respectively. As of 31 December 2018, the property operated with a 0% vacancy rate and the average length of rental agreements was 1.8 years. In the Ulonu and L3 office buildings, there are no anchor tenants.

The Evolution office building is a modern ten-floor business centre in the northern part of Vilnius. According to EfTEN, when the property was acquired, the net yield of investment, at a 0% vacancy rate, was 8%. The land and leasable area of the property is 2,700 sqm and 6,172 sqm, respectively. Due to changes in the tenants' mix and renovation works in the building, the property has seen high vacancy rates (10% as of 31 December 2018). According to EfTEN, planned infrastructure projects by the Vilnius municipality should add value and enhance the potential of the building's location.

ABC Motor's car sales and service centre is located in Paldiski road, Tallinn, close to the city centre. The properties are leased to ABC Motors AS, a car retailer representing the 'Renault´ marque in Estonia. According to the fund, at the moment of acquisition, the net yield of investment was 8%, not considering the bank leverage.

Tenant Mix

As the tenants of DSV Tallinn, DSV Riga and DSV Vilnius logistic centres (DSV Transport AS, DSV SIA and DSV Transport UAB, respectively) are subsidiaries of DSV A/S, DSV A/S can be regarded as the largest tenant of EfTEN, contributing 26.7% of the fund's total rental income (as of 31 December 2018). The revenue from the each of the remaining tenants is less than 6% of the fund's total rental income. Besides DSV A/S, the fund's most important tenants are Hortes AS (sole tenant of garden centres in Laagri and Tähesaju), Rimi Lietuva UAB (the anchor tenant at the Saules Miestas shopping centre) and Selver AS (the anchor tenant at the Selver grocery store in Laagri). Having in mind that the market position of the fund's main tenant and financials are solid, then EfTEN's current tenant risk appears low.

From the fund's existing lease contracts, rent prices are generally indexed once per year to the Eurozone or local (i.e., Estonian, Latvian or Lithuanian) consumer price index (CPI). In some cases, especially with anchor tenants, a maximum annual increase in rental prices is fixed. Keeping in mind recent CPI forecasts for the Baltic states, in the coming years, the fund's rental revenues are expected to grow in the range of 1.5-3.0% annually.

For anchor tenants, as a general rule, the fund seeks lease terms that are as long as possible, with contracts of at least ten years typically the norm. On the whole, anchor tenants, especially retailers, share this desire for long-term leases, usually with an option to renew. In selecting tenants, the fund prefers companies with established market share, stable revenues and conventional business models, avoiding tenants with unstable revenues. In some instances, negotiations with suitable tenants may last over 12 months.

With the exception of the Saules Miestas shopping centre, the average length of rental agreements in the logistics and retail segments is currently 7.5-13.4 years, a major degree of certainty for the fund. In the office segment, however, the fund's average length of rental agreements is below three years. Current trends in the market see tenants preferring to sign shorter lease agreements with renewal options, giving them greater flexibility in their decision making. In the coming years, the average length of rental agreements in the office segment may decrease even further.

Financials

Financial forecast

In our forecast, we have assumed that the development of the Hortes gardening centre in Tähesaju will proceed as planned, opening on schedule in Q4 2019. Construction work should be financed using currently available funds. Our forecast also accounts for the loan taken to acquire the ABS Motor's car sales and service centre in Tallinn (EUR 1.8m). Otherwise, we have not factored in any other acquisitions, developments of existing properties, loans and capital raisings. All in all, our forecast takes the view that the fund's capacity to pay dividends is based on its property portfolio after the planned development of the Hortes gardening centre in Tähesaju.

Rental income

The fund's revenues are generated from rental income earned by leasing properties from its real-estate portfolio. Thus, revenues can be determined by the amount of leasable space, expected level of vacancy and rental price. In the case of the Hortes gardening centre in Tähesaju and ABC Motor's car sales and service centre, our rental income forecast is based on the total investment and yield data provided by the fund. We expect the rental price to show modest growth of 1.5% annually in the coming years. The fund's existing lease contracts and rental prices are generally indexed once per year, to the Eurozone or local (i.e., Estonian, Latvian or Lithuanian) consumer price index (CPI).

Operating expenses

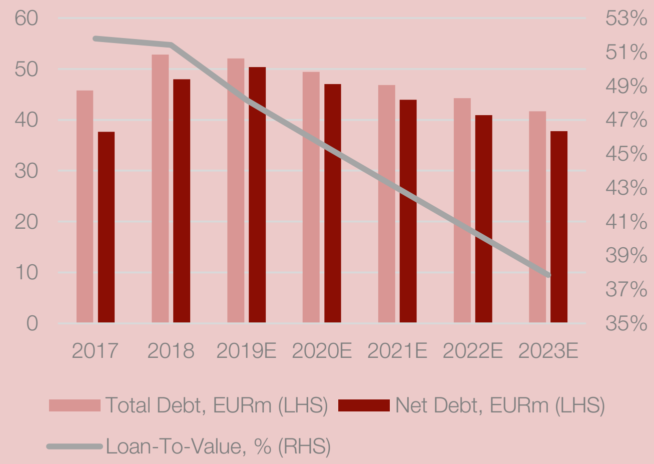
Bearing in mind that most of the fund's expenses are asset based, we expect the total operating cost ratio to remain in the range of 20-21% of gross rental income (GRI) for the period of our forecast (2019-2023). Also, we assume no success fees, on top of the standard fund management fees in the forecast.

Investments

For the forecast period, we expect an annual capitalised improvement in the fund's properties of c.a. EUR 0.5m (c.a. 0.45% of the value of the property portfolio), together with marginal investments in the fund's fixed assets. In addition to that, the Hortes gardening centre in Tähesaju will require investment of c.a. EUR 4.8m in 2019.

Debt position and financial costs

The fund's loan-to-value (LTV) ratio at the end of 2018 was 52% (the same as at the end of 2017), well below the fund's maximum limit of 65% and a reasonable level when stacked up against its peers, whose current LTV ratios range from 39% to 64% (excluding one outlier).



Source: EfTEN Real Estate Fund III

Our estimates foresee an annual repayment of bank loan obligations of EUR 2.6m. Also, we assume an increase in total debt in 2019 (a loan of EUR 1.8m to finance the acquisition of the ABC Motor's car sales and service centre, obtained in February 2019) with no additional loans after that. Based on these assumptions, we expect the fund's LTV ratio to decline to 38% by the end of 2023, placing EfTEN well to obtain additional loan capital or to re-negotiate existing loan contracts in case of need.

Based on the fund's financial statements, the weighted average annual interest rate of its bank loan obligations (including interest swap contracts) was 1.80% in 2018 (1.73% in 2017). Also, according to the fund, at the end of 2018, 56% of loan contracts were based on a floating interest rate and 44% carried fixed interest rates. However, based on signals from the market, interest rates for real estate loans are increasing in the Baltic states. As if to underline this fact, to finance the acquisition of the ABC Motor's car sales and service centre in Tallinn, the fund's bank loan (EUR 1.8m) carried an interest margin of 6M Euribor + 2.95%.

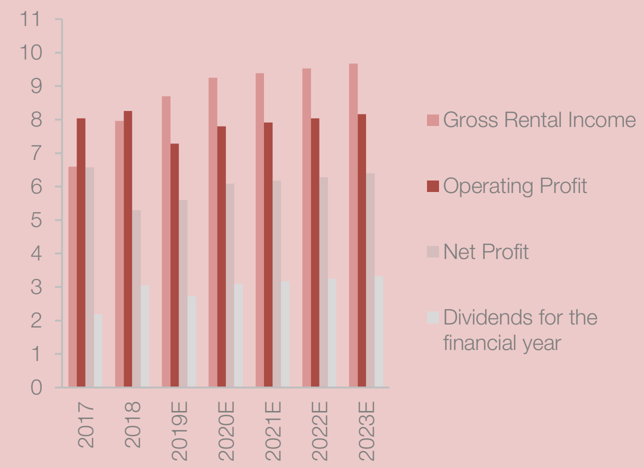
In our forecast, we estimate that the fund's weighted average interest rate will increase from 1.80% in 2018 to 2.25% in 2023.

Dividends

As one of its main financial targets, EfTEN intends to maintain a long-term dividend pay-out ratio of 80% of generated net cash flow (GNCF). The GNCF is calculated by subtracting interest expenses, bank loan repayments and income tax expenses on profits (from subsidiaries in Latvia and Lithuania) from the fund's EBITDA. To calculate net dividends payable to shareholders, dividend income tax is subtracted from the gross dividend.

Based on its GNCF, for 2018, EfTEN was able to pay net dividends to shareholders of EUR 2.38m. However, as the fund is sufficiently liquid (cash balance of EUR 4.86m at the end of 2018), EfTEN decided to increase its dividends to EUR 3.06m (DPS of EUR 0.95, dividend yield of 5.9%). The fund pays dividends once a year. For 2017, it paid shareholders net dividends of EUR 2.2m, a DPS of EUR 0.68 (dividend yield of 5.2%).

Profit Development and Dividends, EURm



Source: EfTEN Real Estate Fund III for historicals, LHV for estimates

Dividend Forecast, EURm	2017	2018	2019E	2020E	2021E	2022E	2023E
Operating profit	**8.0**	**8.3**	**7.3**	**7.8**	**7.9**	**8.0**	**8.2**
Valuation gains on investment properties	(2.9)	(1.6)	-	-	-	-	-
Deprecaiation of fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit on sale of investment property	(0.0)	(0.0)	-	-	-	-	-
Non-monetary change in success fee	0.5	-	-	-	-	-	-
EBITDA	**5.6**	**6.7**	**7.3**	**7.8**	**7.9**	**8.1**	**8.2**
Interest expense	(0.8)	(1.0)	(1.0)	(1.0)	(1.0)	(0.9)	(0.9)
Bank loan repayments	(2.0)	(2.4)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Income tax expense on profit (Latvia, Lithuania)	(0.4)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Generated Net Cash Flow (GNCF)	**2.4**	**3.2**	**3.6**	**4.1**	**4.2**	**4.4**	**4.5**
Dividend payout ratio (as a % of GNCF)	80%	80%	80%	80%	80%	80%	80%
Gross dividend	1.9	2.5	2.9	3.3	3.4	3.5	3.6
Dividend income tax expense	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Net Dividend	**1.9**	**2.4**	**2.7**	**3.1**	**3.2**	**3.2**	**3.3**
Additional cash flow	0.3	0.8	-	-	-	-	-
Dividend income tax expense on additional cash flow	-	(0.1)	-	-	-	-	-
Total Net Dividend*	**2.2**	**3.1**	**2.7**	**3.1**	**3.2**	**3.2**	**3.3**
DPS (EUR)	**0.80**	**0.95**	**0.84**	**0.96**	**0.98**	**1.01**	**1.03**
Dividend yield (%)**	**5.2%**	**5.9%**	**4.6%**	**5.2%**	**5.3%**	**5.5%**	**5.6%**

** Dividends for financial year will be usually payd out in next year's second quarter after the general shareholders' meeting*

** 2019-2023E dividend yields are based on a share price of EUR 18.40*

Source: EfTEN Real Estate Fund III for historicals, LHV for estimates

Taking into account the rental income generated by the fund's current property portfolio, as well as the assumed operating and financial costs and capex, we estimate that the fund is fully capable of maintaining a long-term pay-out ratio of 80% of GNCF for 2019-2023, corresponding to an estimated dividend yield of 4.3%-5.4%. As the fund's financials in 2019-2023 are expected to remain strong, additional cash flows for dividend payments (similar to 2018) are possible.

Forecast Summary

In summary, for the forecast period, we estimate a gradual increase in the fund's net rental income, accompanied by a steady increase in operating expenses. According to our forecast, the gradual decrease in total debt is balanced with the expected increase in interest rates, meaning that net financial expenses are expected to remain around EUR 1.0m annually, during the forecast period. Since the forecast does not assume any valuation gains on investment properties, we expect that the fund will once again reach 2017's level of net profit in 2023.

Valuation

The valuation of the fund is based on four metrics, including:

- P/Book
- Dividend Yield
- P / EPRA NAV
- Dividend Discount Model

Relative Valuation

The task of assembling a representative peer group for EfTEN Real Estate Fund III is challenging, since there is just one listed peer in the region similar to the fund, i.e. Baltic Horizon Fund (NHCBHFFT). There are also only a limited number of real estate funds with reliable data available from Central and Eastern Europe. Therefore, we believe the best way to proceed is to compare the fund to real estate companies in the Nordics. Our selected peer group consists of 16 real estate companies (14 from Scandinavian countries, one from CEE and one from Estonia) mostly engaged in managing office and retail properties, rather than residential real estate, thereby matching the fund's core activities. On the other hand, the majority of the selected peers are significantly larger.

In calculating a peer-implied fair value range, we used the peers' P/Book and Dividend Yield in assessing our expectations for 2019-2020. These multiples were applied to our forecasts for equity dividend per share for the respective years. To establish a range, we then applied a time weighting to the implied values. We decided to apply a 50% weight to all multiples for both 2019 and 2020.

P / EPRA NAV

P / EPRA NAV is a common valuation metric used by real

Company	Country	Market Cap (EURm)	P/Book (x) 2017	2018	2019E	2020E	Div Yield (%) 2017	2018	2019E	2020E
Castellum AB	DNK	4,821	1.1	1.3	1.3	1.2	3.1	3.1	3.5	3.6
Fabege AB	SWE	4,416	1.0	1.3	1.2	1.2	1.6	1.8	2.1	2.2
Hufvudstaden AB	SWE	3,680	1.1	1.2	1.1	1.1	2.3	2.3	2.4	2.5
Entra ASA	NOR	2,485	1.2	1.2	1.1	1.1	3.3	3.4	3.6	3.7
Atrium Ljungberg (B-shares)	SWE	2,093	1.0	1.1	1.0	1.0	3.0	3.0	3.1	3.3
Wihlborgs Fastigheter AB	SWE	1,907	1.1	1.3	1.2	1.2	2.4	2.7	3.1	3.3
Olav Thon Eiendomsselskap ASA	NOR	1,658	0.7	0.6	0.6	0.6	1.5	1.6	3.2	3.4
Citycon OYJ	FIN	1,652	0.9	0.8	0.8	0.8	0.5	6.7	6.8	6.7
Kungsleden AB	SWE	1,586	0.9	1.0	1.0	1.0	2.9	3.1	3.4	3.6
Hemfosa Fastingheter AB	SWE	1,305	1.0	1.1	1.0	0.9	5.9	4.1	3.3	3.7
Klövern AB	SWE	1,168	0.7	0.8	0.8	0.7	3.3	3.5	3.7	3.9
Globe Trade Centre SA	PLN	1,026	1.2	1.0	1.0	0.9	3.6	3.8	4.0	4.7
Diös Fastigheter AB	SWE	990	1.1	1.4	1.2	1.1	3.8	4.1	4.2	4.4
Platzer Fastigheter AB	SWE	925	1.1	1.3	1.1	1.1	1.9	2.2	2.4	2.7
Norwegian Property ASA	NOR	614	0.8	0.7	0.7	0.7	2.6	2.7	2.9	2.8
Baltic Horizon Fund*	EST	103	0.9	0.9	0.9	0.9	5.1	7.5	6.7	7.4
Median (excluding outliers)			**1.0**	**1.1**	**1.0**	**1.0**	**2.7**	**3.0**	**3.3**	**3.5**
Harmonic mean (excluding outliers)			1.0	1.0	1.0	0.9	2.0	2.7	3.2	3.3
Quartile 1			0.9	0.9	0.9	0.9	2.2	2.6	3.1	3.2
Quartile 3			1.1	1.3	1.2	1.1	3.4	3.9	3.8	4.1
Respective denominator for EfTEN Real Estate Fund III			46.4	50.5	53.0	56.4	0.80	0.95	0.84	0.96
Indicative unit's price			15.06	16.74	17.04	17.20	29.00	31.23	25.50	27.55

** Baltic Horizon Fund's financial ratios - LHV estimates*

Source: Bloomberg, LHV.

estate funds and property developers. The EPRA NAV is calculated by adjusting the equity book value for deferred tax liabilities and financial instruments. According to the definition used by the European Public Real Estate Association (EPRA), the fund's assets should be long term, and the value of the deferred tax liabilities and any financial hedging instruments should be regarded as zero as they are unlikely to materialise.

Using the 2018 EPRA NAV levels for 14 peers (after excluding two outliers), we found that the P / EPRA NAV range varies from 0.76x (first quartile) to 0.86x (third quartile). If we apply this to the fund's 2018 EPRA NAV, we estimate an implied EPRA NAV price range of EUR 12.3-14.4 per share, with a median value of EUR 13.9 per share.

Dividend Discount Model

For the Dividend Discount Model (DDM), we have used our estimated financials as a proxy for what to expect from the fund over the five-year forecast. We would like to emphasise that our forecast does not include new acquisitions, developments of existing properties, loans and capital raisings. It reflects our view on the fund's capacity to distribute cash based on its property portfolio after the planned development of the Hortes gardening centre in Tähesaju.

In the DDM we used the following base assumptions:

- **Risk-free rate and market risk premium**: We sourced the long-term risk free rate and appropriate market risk premium for the Baltic markets from the '2017 Valuation Handbook - International Industry Cost of Capital', published by Duff & Phelps.
- Levered beta: we used a leveraged beta of 0.64x, calculated on the real estate development sector's unlevered beta and transforming it to levered beta according to group's long-term debt to equity ratio. The sector's beta value is sourced from the book cited above.
- **Country risk premium**: We used a country risk premium based on a ratings-based default spread sourced from the Damodaran database, applying country risk premiums of 0.81% to Estonia, and 1.38% for both Latvia and Lithuania. Using weighted averages based on the fund's property portfolio division between three countries, as of the end of 2018 (Estonia: 24%, Latvia: 8%, Lithuania: 68%), we calculated a country risk premium of 1.24% for the fund.

Share price: DDM sensitivity to changes in assumptions

Terminal growth rate	Cost of Equity: 5.5%	6.5%	7.5%	8.5%	9.5%	10.5%	11.5%
2.2%	30.6	23.9	19.8	16.9	14.8	13.2	12.0
2.3%	31.4	24.4	20.1	17.1	15.0	13.4	12.1
2.4%	32.3	24.9	20.4	17.3	15.1	13.5	12.2
2.5%	33.2	25.4	20.7	17.5	15.3	13.6	12.3
2.6%	34.2	25.9	21.0	17.8	15.4	13.7	12.4
2.7%	35.3	26.5	21.4	18.0	15.6	13.8	12.4
2.8%	36.4	27.1	21.7	18.2	15.8	14.0	12.5

Source: LHV

DDM Assumptions	
Risk free rate	2.5%
Market risk premium	5.1%
Levered Beta	0.64
Country risk premium	1.2%
Company-specific risk premium	1.5%
Growth rate	2.5%
Cost of equity	**8.5%**

Source: LHV

Dividend Discount Model, EURm	2017	2018	2019E	2020E	2021E	2022E	2023E
Dividends	2.2	3.1	2.7	3.1	3.2	3.2	3.3
Terminal value							55.4
NPV			**2.6**	**2.8**	**2.7**	**2.7**	**45.7**
NPV of distributable value, total sum							**56.5**
Shares outstanding (millions)							3.2
Share price (EUR)							**17.5**

Source: LHV

- **Company-specific risk premium**: To capture the fund's operational risks discussed in the financials section of this report, we applied a company-specific risk premium of 1.5%.

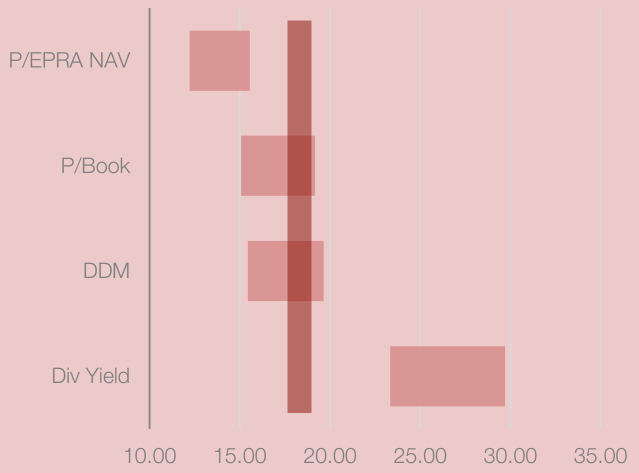
- **Growth rate**: In calculating the terminal value, we assumed a stable growth rate of 2.5% for terminal growth.

Weighted Value Per Share, EUR	Period weights		Total weighted value	Weights	Contribution to value
	2019E	2020E			
Method	50%	50%			
Div Yield	25.5	27.6	26.5	16.67%	4.4
DDM			17.5	50.00%	8.8
P/Book	17.0	17.2	17.1	16.67%	2.9
P/EPRA NAV	12.3	14.4	13.9	16.67%	2.3
Total weighted value per unit					**18.35**

Source: LHV

Based on these assumptions, we calculated a DDM-based value for the fund's equity of about EUR 56.5m or EUR 17.5 per share. Clearly, any result of the valuation derived from the CDDM method is particularly sensitive to changes in the main assumptions, as demonstrated in the accompanying sensitivity table.

Fair Value Range: EUR 17.90-18.80



Source: LHV

Valuation Summary

Using the four metrics discussed above, we established a fair value range for the fund. As the majority of the peer group companies are considerably larger than EfTEN, we see the Dividend Discount Model as more applicable to the fund and have given its valuation a 50% weight in determining the total value. The remaining valuation comparisons are each weighted 16.67%.

Based on the valuation outcomes of these measures, we have estimated EfTEN's fair value to be EUR 17.90 -18.80 per share with a mid-point of EUR 18.35.

Financial Tables

Income Statement, EURm	2015*	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Gross rental income (GRI)	1.2	4.6	6.6	8.0	8.7	9.3	9.4	9.5	9.7
Expenses reimbursement revenue	0.3	0.7	0.7	0.7	0.7	0.8	0.8	0.9	0.9
Total revenue	**1.5**	**5.3**	**7.3**	**8.7**	**9.4**	**10.1**	**10.2**	**10.4**	**10.5**
Cost of services sold	(0.0)	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net Rental Income (NRI)	**1.5**	**5.2**	**7.1**	**8.4**	**9.0**	**9.7**	**9.8**	**10.0**	**10.1**
Management fee and change in success fee liability	(0.4)	(0.8)	(1.0)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Marketing expenses	(0.2)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
General and administrative expenses	(0.2)	(0.5)	(0.5)	(0.5)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
Other operating income & expenses	-	0.0	0.0	0.0	-	-	-	-	-
Total operating expenses	**(0.7)**	**(1.7)**	**(2.0)**	**(1.7)**	**(1.8)**	**(1.9)**	**(1.9)**	**(1.9)**	**(1.9)**
Operating expenses as a % of GRI	*61.5%*	*37.3%*	*29.6%*	*20.8%*	*20.3%*	*20.2%*	*20.2%*	*20.2%*	*20.2%*
Valuation gains on investment properties	1.4	2.4	2.9	1.6	-	-	-	-	-
Operating profit	**2.1**	**5.8**	**8.0**	**8.3**	**7.3**	**7.8**	**7.9**	**8.0**	**8.2**
Net financial income/expenses	(0.2)	(0.7)	(0.7)	(1.1)	(1.0)	(1.0)	(1.0)	(0.9)	(0.9)
Pre-tax profit	**1.9**	**5.1**	**7.3**	**7.2**	**6.3**	**6.8**	**7.0**	**7.1**	**7.2**
Tax expense	(0.4)	(0.8)	(0.8)	(0.9)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)
Profit for the period	**1.5**	**4.3**	**6.6**	**5.3**	**5.6**	**6.1**	**6.2**	**6.3**	**6.4**

** 06.05. - 31.12.2015*

Source: EfTEN Real Estate Fund III for historicals, LHV for estimates

Balance Sheet, EURm	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Investment property	36.5	73.5	88.4	102.8	108.1	108.6	109.0	109.5	110.0
Fixed and intangible assets	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Long-term receivables	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	**36.6**	**73.6**	**88.5**	**102.9**	**108.2**	**108.7**	**109.2**	**109.7**	**110.2**
Trade and other receivables	0.3	0.4	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Prepaid expenses	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Cash and equivalents	2.0	3.2	8.1	4.9	1.7	2.4	2.9	3.4	3.9
Total current assets	**2.3**	**3.6**	**8.8**	**5.6**	**2.5**	**3.3**	**3.7**	**4.2**	**4.7**
TOTAL ASSETS	**38.9**	**77.2**	**97.3**	**108.5**	**110.7**	**112.0**	**112.9**	**113.9**	**114.9**
Paid-in capital	13.9	23.9	32.2	32.2	32.2	32.2	32.2	32.2	32.2
Share premium	-	1.0	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Reserves	-	0.1	0.3	0.6	0.9	0.9	0.9	0.9	0.9
Retained earnings	1.5	5.4	10.2	14.0	16.2	19.6	22.7	25.8	28.9
Total equity	**15.3**	**30.3**	**46.4**	**50.5**	**53.0**	**56.4**	**59.5**	**62.6**	**65.7**
Interest bearing loans and borrowings	19.8	40.7	43.7	44.7	43.9	41.3	38.7	36.1	33.5
Deferred income tax liabilities	1.8	2.3	2.9	3.5	3.9	4.4	4.8	5.3	5.7
Other non-current liabilities	0.7	1.1	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Total non-current liabilities	**22.3**	**44.2**	**46.9**	**48.7**	**48.4**	**46.2**	**44.1**	**41.9**	**39.8**
Interest bearing loans and borrowings	0.9	1.9	2.1	8.1	8.1	8.1	8.1	8.1	8.1
Accounts payable	0.4	0.6	1.8	1.0	1.1	1.2	1.2	1.2	1.2
Derivative instruments	-	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Total current liabilities	**1.3**	**2.7**	**4.0**	**9.3**	**9.3**	**9.3**	**9.3**	**9.4**	**9.4**
Total liabilities	**23.6**	**46.9**	**50.9**	**58.0**	**57.7**	**55.6**	**53.4**	**51.3**	**49.2**
TOTAL EQUITY AND LIABILITIES	**38.9**	**77.2**	**97.3**	**108.5**	**110.7**	**112.0**	**112.9**	**113.9**	**114.9**

Source: EfTEN Real Estate Fund III for historicals, LHV for estimates

Cash Flow, EURm	2015*	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Pre-tax profit	1.9	5.1	7.3	7.2	6.3	6.8	7.0	7.1	7.2
Financial income and expenses	0.2	0.7	0.7	1.1	1.0	1.0	1.0	0.9	0.9
Gain/Loss from revaluation of investment properties	(1.4)	(2.4)	(2.9)	(1.6)	-	-	-	-	-
Depreciation and amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash items	0.3	0.5	0.4	(0.0)	-	-	-	-	-
Cash flow before change in working capital	**1.0**	**3.9**	**5.6**	**6.7**	**7.3**	**7.8**	**7.9**	**8.1**	**8.2**
Change in working capital	(0.0)	(0.1)	(1.5)	(0.1)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Cash flow from ongoing operations	**1.0**	**3.8**	**4.1**	**6.6**	**6.7**	**7.2**	**7.4**	**7.5**	**7.6**
Sale/Purchase of investment property and subsidiaries	(20.5)	(34.4)	(10.3)	(13.2)	-	-	-	-	-
Purchase of property, plant and equipment	-	(0.0)	(0.0)	(0.1)	-	-	-	-	-
Capitalised improvements	(0.2)	(0.2)	(0.7)	(0.4)	(5.3)	(0.5)	(0.5)	(0.5)	(0.5)
Other investing activities	-	0.0	-	-	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Cash flow from investing activities	**(20.7)**	**(34.7)**	**(11.0)**	**(13.7)**	**(5.3)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**
Proceeds from issuance of shares	13.9	11.0	11.0	-	-	-	-	-	-
Loans received	8.2	23.2	5.1	9.5	1.8	-	-	-	-
Loan repayments	(0.2)	(1.2)	(2.0)	(2.4)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Interest paid	(0.2)	(0.6)	(0.8)	(1.0)	(1.0)	(1.0)	(1.0)	(0.9)	(0.9)
Dividends paid	-	(0.4)	(1.5)	(2.2)	(3.1)	(2.7)	(3.1)	(3.2)	(3.2)
Income tax paid on dividends	-	-	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Change in other liabilities	-	-	-	-	0.3	0.5	0.5	0.5	0.5
Cash flow from financing activities	**21.7**	**32.0**	**11.8**	**3.8**	**(4.6)**	**(6.0)**	**(6.4)**	**(6.5)**	**(6.6)**
Cash and equivalents at beginning of the period	**-**	**2.0**	**3.2**	**8.1**	**4.9**	**1.7**	**2.4**	**2.9**	**3.4**
Total periods cash flow	2.0	1.2	4.9	(3.3)	(3.2)	0.7	0.4	0.5	0.5
Cash and cash equivalents at end of the period	**2.0**	**3.2**	**8.1**	**4.9**	**1.7**	**2.4**	**2.9**	**3.4**	**3.9**

** 06.05. - 31.12.2015*

Source: EfTEN Real Estate Fund III for historicals, LHV for estimates

Main Ratios	2015	2016	2017	2018	2019E*	2020E*	2021E*	2022E*	2023E*
Growth, %									
Total revenue growth	n.a.	253.6%	36.9%	18.8%	8.8%	6.9%	1.5%	1.5%	1.5%
EBIT growth	n.a.	173.3%	38.8%	2.8%	-11.8%	7.1%	1.5%	1.6%	1.5%
Pre-tax profit growth	n.a.	167.1%	43.2%	-2.5%	-11.7%	8.1%	1.7%	1.9%	1.9%
Net profit growth	n.a.	191.5%	51.2%	-4.2%	-11.1%	8.6%	1.5%	1.7%	1.7%
Margins and profitability, %									
Gross margin	96.9%	96.7%	97.7%	96.3%	95.8%	95.9%	95.9%	95.9%	95.9%
EBIT margin	n.a.	173.3%	38.8%	2.8%	-11.8%	7.1%	1.5%	1.6%	1.5%
Pre-tax profit margin	n.a.	167.1%	43.2%	-2.5%	-11.7%	8.1%	1.7%	1.9%	1.9%
Net margin	98.9%	81.5%	90.1%	72.6%	59.4%	60.3%	60.4%	60.5%	60.6%
Return ratios, %									
ROCE	5.9%	10.6%	9.7%	8.4%	7.0%	7.4%	7.5%	7.5%	7.6%
ROE	n.a.	19.0%	17.1%	13.0%	10.8%	11.1%	10.7%	10.3%	10.0%
ROA	3.8%	7.5%	7.5%	6.1%	5.1%	5.5%	5.5%	5.5%	5.6%
Leverage									
Total debt (EURm)	20.73	42.67	45.78	52.85	52.05	49.45	46.85	44.25	41.65
Net debt (EURm)	18.75	39.48	37.64	47.99	50.35	47.02	43.97	40.90	37.79
Total debt/Equity ratio (x)	1.35	1.41	0.99	1.05	0.98	0.88	0.79	0.71	0.63
Net debt/Equity ratio (x)	1.22	1.30	0.81	0.95	0.95	0.83	0.74	0.65	0.57
Net debt/EBITDA (x)	18.75	10.06	6.70	7.15	6.89	6.01	5.54	5.07	4.62
LTV based on total debt (%)	56.8%	58.0%	51.8%	51.4%	48.2%	45.6%	43.0%	40.4%	37.9%
LTV based on net debt (%)	51.3%	53.7%	42.6%	46.7%	46.6%	43.3%	40.3%	37.3%	34.3%
Valuation									
Shares outstanding, end of the period (m)	1.39	2.39	3.22	3.22	3.22	3.22	3.22	2.62	3.22
Share price (EUR)	n.a.	n.a.	15.30	16.20	18.40	18.40	18.40	18.40	18.40
Market Cap (EURm)	n.a.	n.a.	49.30	52.21	59.29	59.29	59.29	48.23	59.29
Enterprise Value (EURm)	n.a.	n.a.	86.95	100.19	109.65	106.31	103.27	89.12	97.09
EV/Revenue (x)	n.a.	n.a.	11.91	11.55	11.62	10.54	10.09	8.58	9.21
EV/EBIT (x)	n.a.	n.a.	10.82	12.13	15.06	13.64	13.05	11.09	11.90
P/E (x)	n.a.	n.a.	6.40	8.29	10.58	9.75	9.60	9.44	9.28
P/Book (x)	n.a.	n.a.	1.06	1.03	1.12	1.05	1.00	0.77	0.90
P/CF (x)	n.a.	n.a.	11.89	7.92	8.79	8.19	8.06	6.45	7.80
Dividend yield (%)	n.a.	n.a.	5.2%	5.9%	4.6%	5.2%	5.3%	5.5%	5.6%

** 2019-2023E multiples are based on a share price of EUR 18.40*

Source: EfTEN Real Estate Fund III for historicals, LHV for estimates

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