AB INVALDA

Comment on the merger with AB Nenuorama

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MERGER PROSPECTUS COMMENT

On the 24th of August, Invalda and Nenuorama released final details on their previously announced merger, with Invalda acquiring its biggest shareholder in a share swap deal. Nenuorama is wholly owned by the group of Invalda's other major shareholders, D. J. Mišeikis, A. Banys, V. Bučas (Invalda's chairman of the board), and D. Šulnis' (Invalda's CEO) „Lucrum Investicija", as well as related parties – A. Bučas and D. Banienė. On its own part, Nenuorama controls 48.67% of Invalda's share capital, as well as 43.79% stake in Invaldos Nekilnojamojo Turto Fondas (from hereon INTF).

The conversion ratio of Nenuorama to Invalda shares, as cited in the prospectus and equal to 1839.45 Invalda shares for each share of Nenuorama, was calculated based on Nenuorama evaluation prepared by V. Černiaus Property Assessment Company. However, we found several methodologies employed by the valuators to be highly questionable in the light of the upcoming merger:

- **10 = 11 for Invalda's majority shareholders?**

  First of all, when valuing Invalda share portfolio, the valuators apply a 10% "control premium" (a total of LTL 41.2M) to the stock's market value (calculated as weighted average price during the last month's trading), due to Nenuorama, together with related parties, having effective control of the company. While we agree that such method is widely used in cases where strategic investor is planning to acquire controlling stake of the company, by no means is it correct to be used for determining the share swap ratio of two interlinked companies, as control does not change hands. Since Nenuorama shares are going to be exchanged for Invalda shares taken at market value, it is erroneous to treat Invalda shares in Nenuorama's books as more valuable to those that are going to be received in return.

- **8.37 P/NAV for real estate business?!**

  We also find Discounted Cash Flows (DCF) valuation method employed for INTF unsuitable for the type of business the firm operates in. As the main activity of INTF is real estate rent, and all company's assets are accounted at market value, there can hardly be any additional value hidden outside the balance sheet of the company, since real estate market value already includes most of the potential that can be extracted from its development and price appreciation.

  While employing DCF method, the valuators estimate company's value at LTL 196.7M, resulting in P/NAV (Price / Net Asset Value) and EV/A (Enterprise Value / Assets) multiples of 8.37 and 1.72 respectively, which are undoubtedly too high for the industry standards. For reference, INTF IPO failed a year ago, even though at the lowest offer price the company was valued at LTL 150M, giving it multiples of only 1.45 P/NAV, and 1.07 EV/A. We think that, adjusted for the change in capital structure since IPO has taken place, realistic values of 2.98 P/NAV and 1.2 EV/A would be more in order, putting a total company value at LTL 69.9M, a total of LTL 126.7M less than estimated by the valuators.

Having accounted for differences in valuation methods, we estimate that Nenuorama's share could be worth as low as LTL 26.5K, as opposed to LTL 34.6K, bringing conversion ratio from 1839.45 down to 1408.83 (-23.4%). Accounting for resulting dilution, we gauge that minority shareholders lose ca LTL 26M due to the merger, or almost 11% of their pre-merger share value.

We recommend the shareholders to vote AGAINST the merger, at least under the proposed conditions.