

# Presentation – AS Pro Kapital Grupp

February 2020



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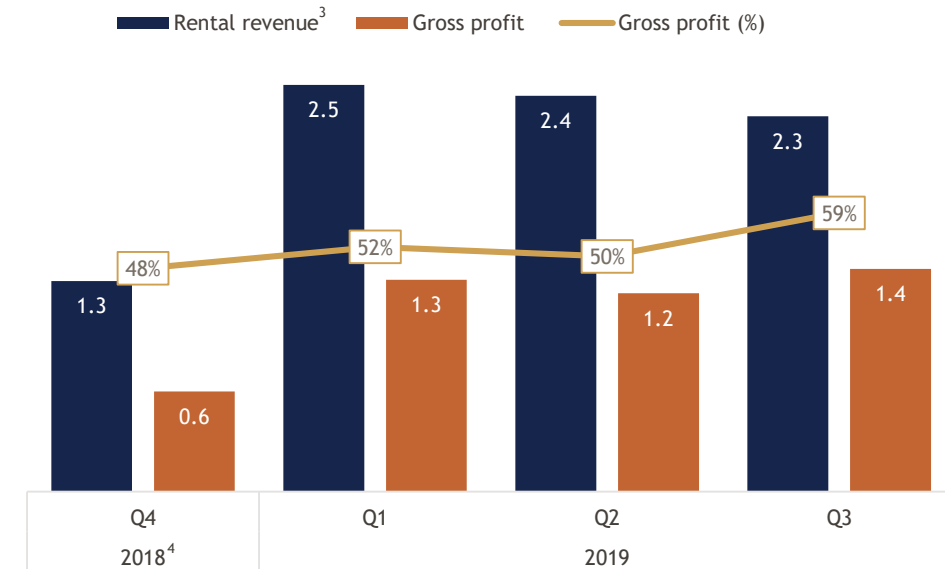
# Background to underperformance of T1 Mall of Tallinn

Ongoing discussions with lender following covenant breach and subsequent payment default

## Overview of recent events in the T1 Subsidiary

- The T1 Mall of Tallinn opened to the public in November 2018
- Lower demand for retail premises has led to lower rental income than forecasted during first year of operations
  - 14% of the 55,000 m2 gross leasable area stood vacant<sup>1</sup> as of year-end 2018 due to lower demand for retail spaces than originally forecasted
  - This was partially driven by the fact that Debenhams, one of T1's anchor tenants, had to delay its store opening by almost a year and reduce its store size by ~ 40% due to its restructuring process in UK
  - In order to reduce vacancies, the Group has worked actively during 2019 to find new tenants as well as to transform parts of the previously designated retail spaces to entertainment venues
- Lower operating profitability has triggered covenant breach in the secured loan in the T1 Subsidiary
  - The T1 Subsidiary is primarily financed by a secured loan amounting to EUR 75.4 million<sup>2</sup> as of 30 November 2019 from a European Direct Lender (the "T1 Lender")
  - The terms of the abovementioned loan includes two maintenance covenants, governing the Debt Service Coverage Ratio ("DSCR") and Net Leverage Ratio ("NLR"), respectively
  - Due to the previously mentioned financial underperformance of T1 Mall of Tallinn, both covenants were breached on the first testing date, 31 March 2019
  - The Group has been in continuous dialogue with the T1 Lender in order to find a suitable solution, however the parties have not yet managed to reach a mutual agreement, albeit Pro Kapital remains hopeful that a feasible solution will be achieved
  - Discussions have continued throughout 2019, and the Group made its first regular interest payment according to plan on the T1 Loan in September 2019
  - However, on 3 September 2019 the T1 Subsidiary did not pay default interest on the T1 Loan which subsequently triggered a payment default which has persisted since then<sup>5</sup>
  - Following the payment default in September, the T1 Subsidiary has made no further interest payments; awaiting the outcome of discussions with the T1 Lender

## Historical financial performance of the T1 Subsidiary (EUR million)



## Main drivers of financial underperformance

### Higher vacancy rates than originally expected

- driven by lower than expected demand for retail premises

### High initial rental rebates offered to tenants

- temporarily subduing rental revenues and reducing profitability

Notes: 1) Throughout 2019, the vacancy rate has ranged between 15-20%, 2) Including EUR 10 million of capitalised interest, 3) Including revenue from related services, 4) Only including operations from November-December 2018, 5) The T1 Subsidiary is also in payment default under a material construction contract

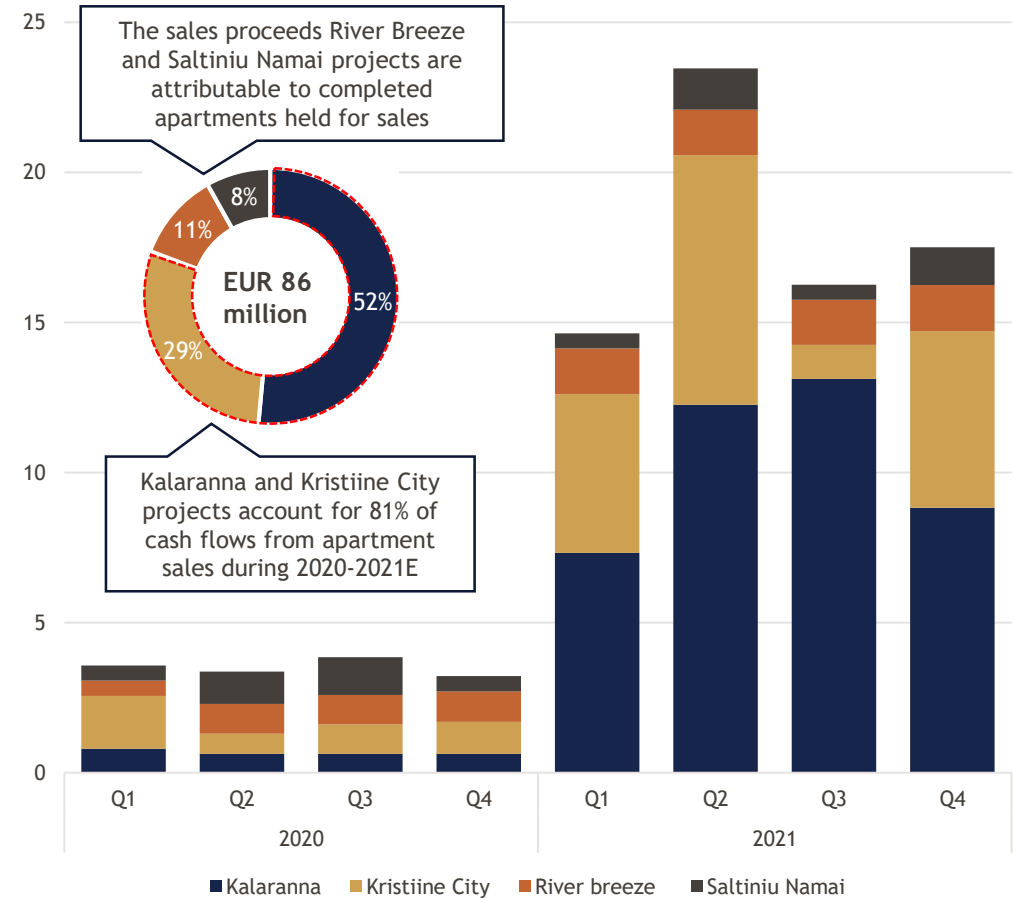
# Residential developments

Residential pipeline for 2020-2021 includes 463 new apartments in addition to completed apartments for sale

## Expected completion of apartments

Talinn, Estonia		<p><b>Kalaranna (Residential)</b></p> <ul style="list-style-type: none"> <li>The Kalaranna development is located at the very heart of Tallinn, in the most exclusive and prestigious area, right on the beachfront</li> <li>The total net sellable or rentable area of the development is in excess of 33,000 m<sup>2</sup>, most of which is residential real estate</li> <li>The Group has commenced construction of 8 out of the 12 buildings in late 2019</li> </ul>
Talinn, Estonia		<p><b>Kristiine City (Residential)</b></p> <p>Kristiine City is one of the largest residential areas in the Baltic countries, located in a residential area close to central Tallinn</p> <p>The project combines historical red brick buildings with the modern architecture that characterises the centre of the project site</p> <p>The residential area is developed mainly to offer a green living environment</p>
Riga, Latvia		<p><b>River Breeze (Residential)</b></p> <ul style="list-style-type: none"> <li>River Breeze Residence is a newly constructed residential building - a new landmark of Riga city left bank skyline. It is the first building in Kliversala Quarter - exclusively located residential development of Pro Kapital Latvia set on the river Daugava and Agenskalna bay</li> <li>River breeze is comprised of 1 building containing 48 apartments</li> </ul>
Vilnius, Lithuania		<p><b>Saltiniu Namai (Residential)</b></p> <ul style="list-style-type: none"> <li>Šaltinių Namai is a prestigious residential quarter surrounded by the nature in the peaceful part of the Old Town of Vilnius</li> <li>In 2019, 5 buildings (116 apartments) were completed as part of Šaltinių Namai Attico development.</li> <li>Two additional stages with a total of 50 apartments are currently in planning</li> </ul>

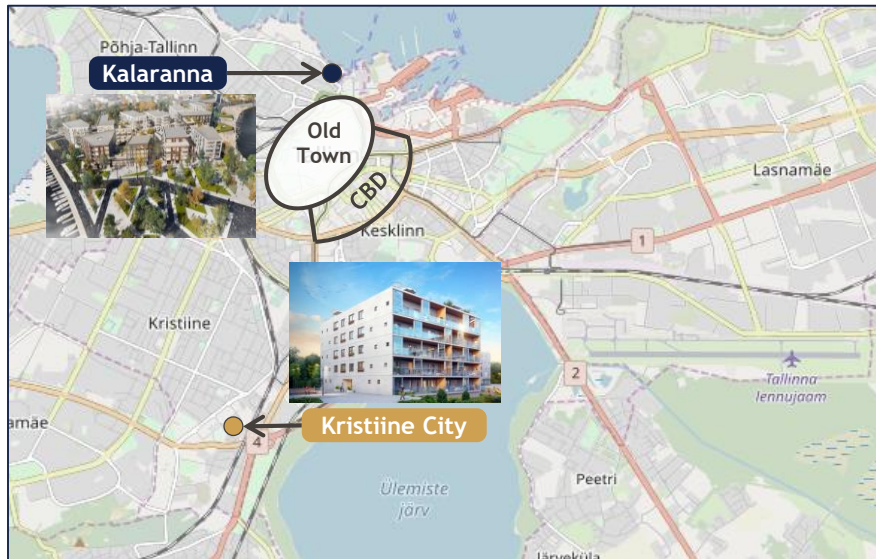
## Expected gross cash flow from sale of apartments (EUR million)



# Detailed overview of Kalaranna and Kristiine City projects

Projects estimated to account for >80% of cash flows from apartment sales until the end of 2021

## Geographic location and positioning



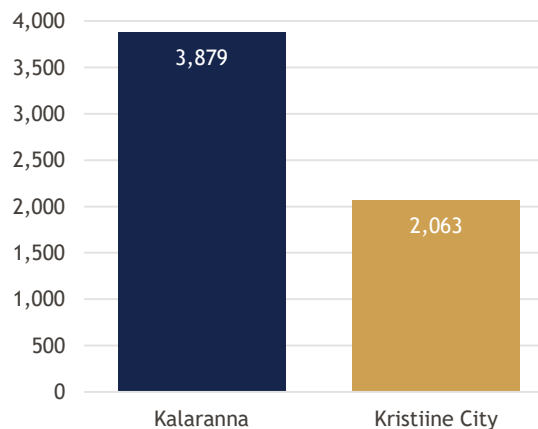
### Projects offer exposure to two different subsegments

- Both the Kalaranna and Kristiine city projects are located in Tallinn, but offer exposure to different subsegments
- Kristiine city offers more affordable apartments, located in the Kristiine residential district located south of central Tallinn
- Kalaranna is focused on the premium segment, offering ocean side apartments located in one of the most attractive residential districts in all of Estonia

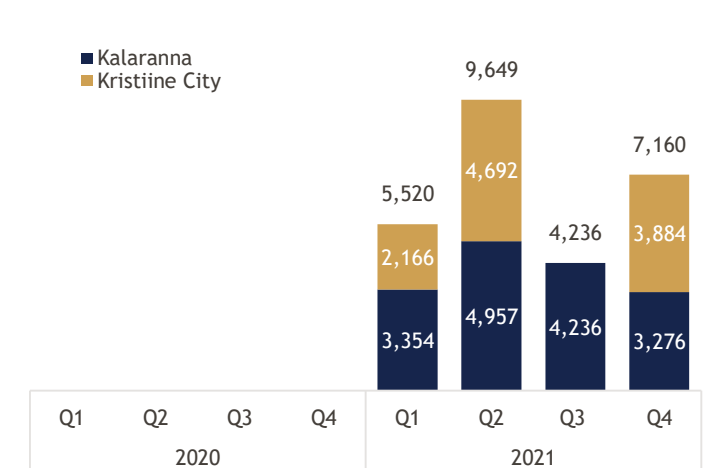
## Forecasted construction period and completions

		2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Kalaranna	Stage 1.1								
	Stage 1.2								
	Stage 1.3								
	Stage 1.4								
Kristiine City	Marsi 5								
	Sõjakooli 6 H1 Stage 1								
	Tondi 49a								
	Sõjakooli 6 H2 Stage 2								
	Tondi 53 Stage 1								

### Average forecasted sales price / sqm<sup>1</sup>



### Forecasted completions by project (GLA, Sqm)



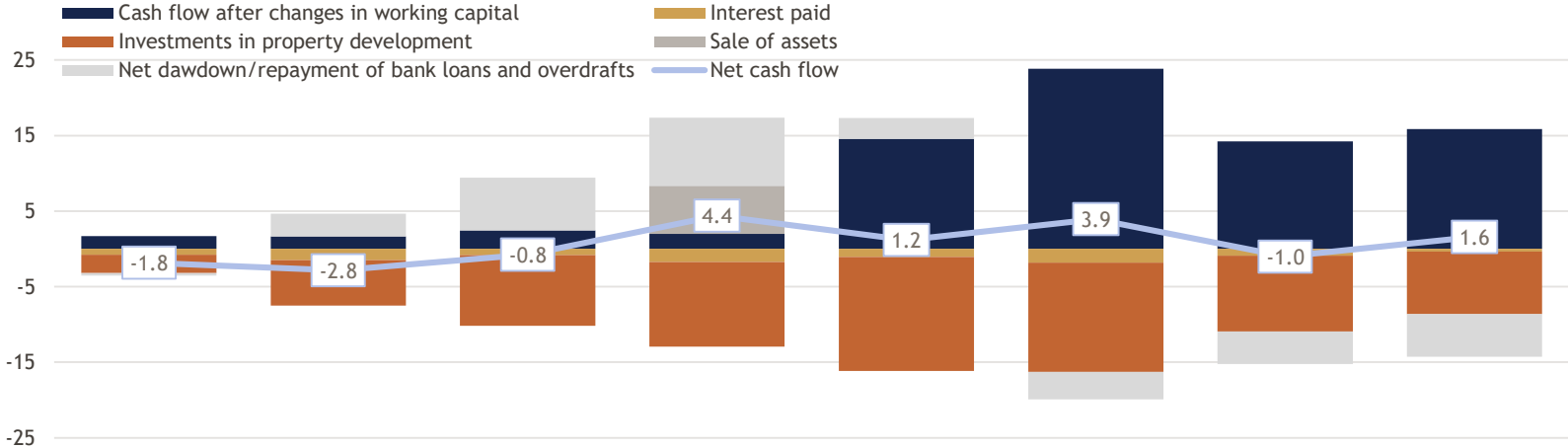
Notes: 1) Excluding VAT

# Cash flow forecast

Solid initial cash position and positive net cash flow of EUR + 4.7 million forecasted from Q1 2020 – Q4 2021

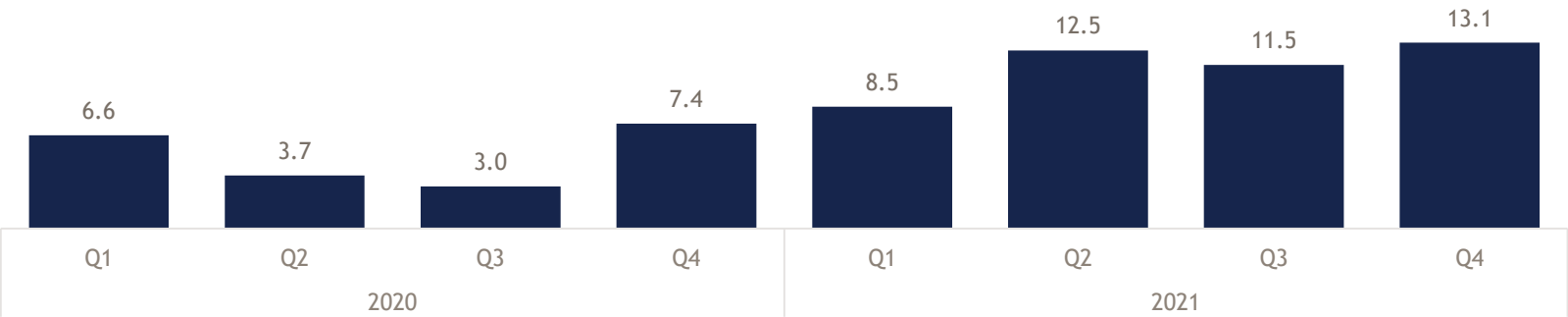
Quarterly cash flow forecast before bond amortisations and repayments (2020 - 2021)

Key takeaways



- Operating cash flows in 2020 are forecasted to be mainly driven by sales apartments in projects which have completed in 2019 as well as investments in projects which are forecasted to be completed in 2021
- In addition, the Group is planning to divest its hotel property in Bad Kreuznach, Germany
  - Discussions are already on-going with an interested party and a transaction is estimated to be made possible during the second half of 2020
- In 2021, cash flows are forecasted to improve materially as construction for additional stages of the Kalaranna and Kristiine City projects are finalised

Forecasted cash balance before bond amortisations and repayments (2020 - 2021)<sup>1</sup>



Notes: 1) Balance at the end of each quarter

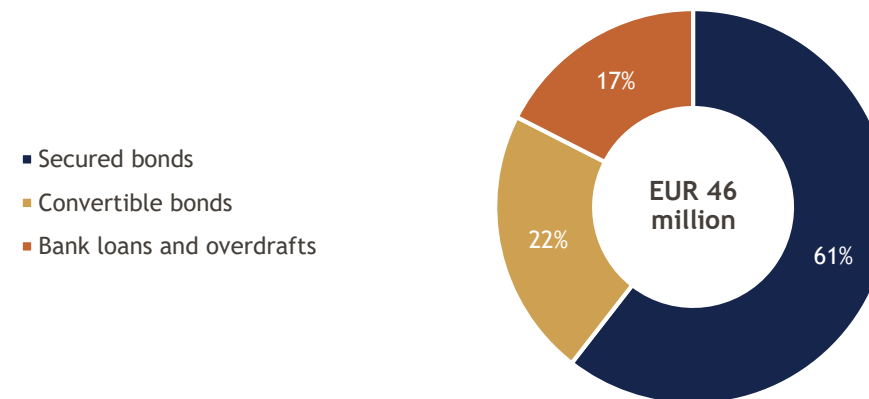
# Debt overview

Bank loans, convertible bonds and secured & unsecured bonds (excluding T1 debt<sup>1</sup>)

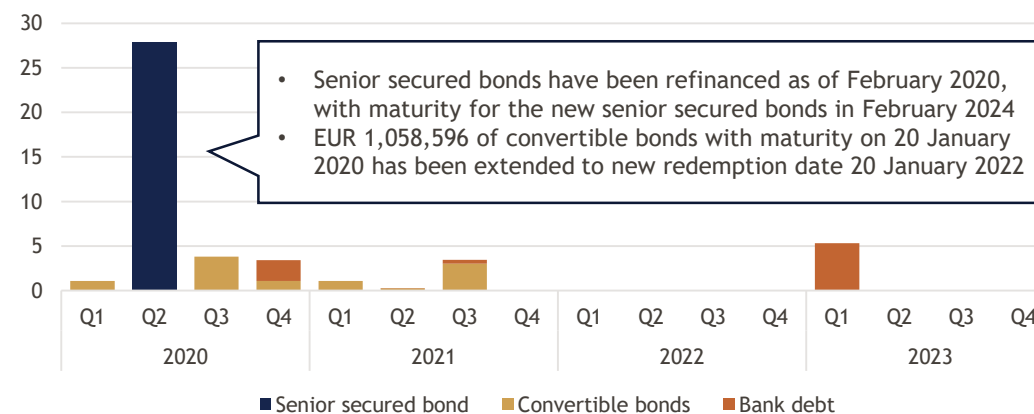
Pro-forma debt overview excluding T1 (31.12.2019)	EUR 000
LHV Bank AS (EE)	5,300
AS Swedbank (LV)	2,339
Luminor Bank AS (EE)	417
Swedbank (EE), credit cards	1
<b>Bank loans and overdrafts</b>	<b>8,056</b>
Convertible bonds, various investors (discounted value)	10,126
Secured bonds, various investors (discounted value)	27,867
<b>Total interest bearing debt</b>	<b>46,049</b>

- The Group currently has EUR 8.1 million of bank debt and overdrafts which is primarily related to the financing of Kalaranna (EUR 5.3 million) and River breeze (EUR 2.3 million) projects
- The Group forecasts bank loans and overdrafts to increase in order to fund the development of additional stages in the Kalaranna and Kristiine City Projects
  - Bank debt is forecasted to peak at EUR 36.7 million in Q2 2021 and subsequently decline as the development projects completes construction
- In addition to bank debt and its senior secured bonds, the Group also has convertible bond debt in a nominal amount of EUR 10.25 million spread over 7 maturities between Q1 2020-Q1 2022

Debt structure overview (excluding T1) as of 31.12.2019



Debt maturity profile (excluding T1 loan facility)



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