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Baltic Capital Markets Bond Issues: Opportunities for Baltic Companies

Aare Tammemäe, Senior Partner

Vilnius, M&A Market in Lithuania: Expectation for 2014

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Content

- SME sector as the growth driver
- Capital markets situation in the Baltics
- Practical suggestions for bond issuers
- Capital markets initiatives in 2014

- Key question:



How can Baltics move to a more diversified financial market, with greater involvement of institutional / non-bank investors and higher shares of direct capital market financing?

Redgate Capital – Your Partner in the Baltics



Redgate Capital is an independent pan-Baltic investment bank, offering its clients high-quality, individualized alternative investment solutions and corporate finance services through comprehensive local knowledge on the Baltic area

Bond issues advised in Estonia

2009
ABC Group – 6 MEUR bond restructuring for a large Estonian consumer goods retailer

2010
Creditstar Group – 2 MEUR bond issue for an international and Estonian largest fast consumer credit provider

2011
Creditstar Group – 3 MEUR bond issue (refinancing and new issue) for an international and Estonian largest fast consumer credit provider

2012
Creditstar Group – 3 MEUR bond issue (refinancing) for an international and Estonian largest fast consumer credit provider

2013
Creditstar Group – 5 MEUR bond issue (refinancing and new issue) for an international and Estonian largest fast consumer credit provider

luteCredit Europe – 1 MEUR bond issue for a fast consumer credit provider in Moldova

Hüpoteklaen (Mortgage Loan) – 4 MEUR bond issue for a largest non-bank mortgage loan provider in Estonia

Dental Invest Estonia – 2 MEUR bond issue for a largest Orthodontic service provider in Estonia

Investment Banking

M&A and Capital Raising advisory – attracting equity, mezzanine and bond financing for Baltic corporates

Global Partners



Leading Nordic Investment Bank

Region



Selected Capital Raising and Bond Transactions

<p>ABC Grupp</p> <p>Bond restructuring in the amount of EUR 6.5 M</p> <p>Financial adviser to ABC Grupi AS</p> <p>2009</p>	<p>SPORTLAND</p> <p>Strategic adviser in the capital restructuring</p> <p>Financial adviser to Sportland International Group</p> <p>2010</p>	<p>TERE</p> <p>Arranged trade financing facility in the amount of EUR 2.5 M</p> <p>Financial adviser to Tere AS</p> <p>2010</p>
<p>CREDIT STAR SMS LAEN</p> <p>Bond issue in the amount of EUR 2.0 M</p> <p>Financial adviser to Creditstar Group AS</p> <p>2010</p>	<p>coffee IN</p> <p>Arranged the I stage expansion capital for entering Latvian market</p> <p>Financial adviser to Coffee IN AS</p> <p>2011</p>	<p>CREDIT STAR SMS LAEN</p> <p>Bond issue in the amount of EUR 3.0 M</p> <p>Financial adviser to Creditstar Group AS</p> <p>Legal adviser Sorainen</p> <p>2011, 2012</p>
<p>ORTODONTIA</p> <p>Bond issue in the amount of EUR 2.0 M</p> <p>Financial adviser to Dental Invest Estonia</p> <p>Legal adviser Sorainen</p> <p>2013</p>	<p>Hüpoteklaen</p> <p>Bond issue in the amount of EUR 4.0 M</p> <p>Financial adviser to Hüpoteklaen AS</p> <p>Legal adviser Sorainen</p> <p>2013</p>	<p>lutecredit</p> <p>Bond issue in the amount of EUR 1.0 M</p> <p>Financial adviser to luteCredit Europe AS</p> <p>Legal adviser LEXTAL</p> <p>2013</p>

NASDAQ OMX
FIRSTNORTH

Finance
Estonia.eu

EstVCA

SMEs – Engine for Growth in Europe

- SMEs form ca 99.9% of all BALTIC enterprises, employing ca 80% of all employees and generating ca 75% of the total value added
- SMEs are creating jobs and leading innovation
 - 85% new net jobs in EU between 2002 – 2008
- SME growth rates 2% pa (2006 – 2010)
 - with private equity 7%¹

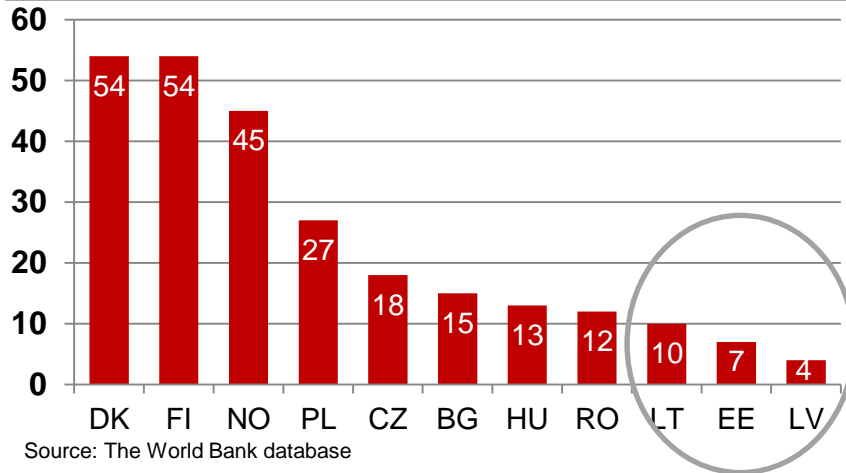
European capital markets remain underdeveloped compared to other economies and non-bank financing remains largely inaccessible to SMEs²

1) Return Attribution in Mid-Market Buy-Out Transactions, Prof Christoph Kaserer

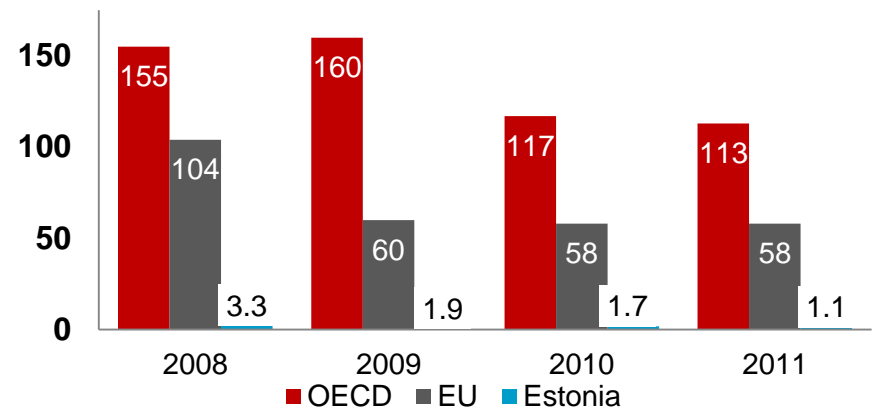
2) Green Paper, Long-Term Financing of the European Economy, European Commission

Capital Markets Situation in Baltics

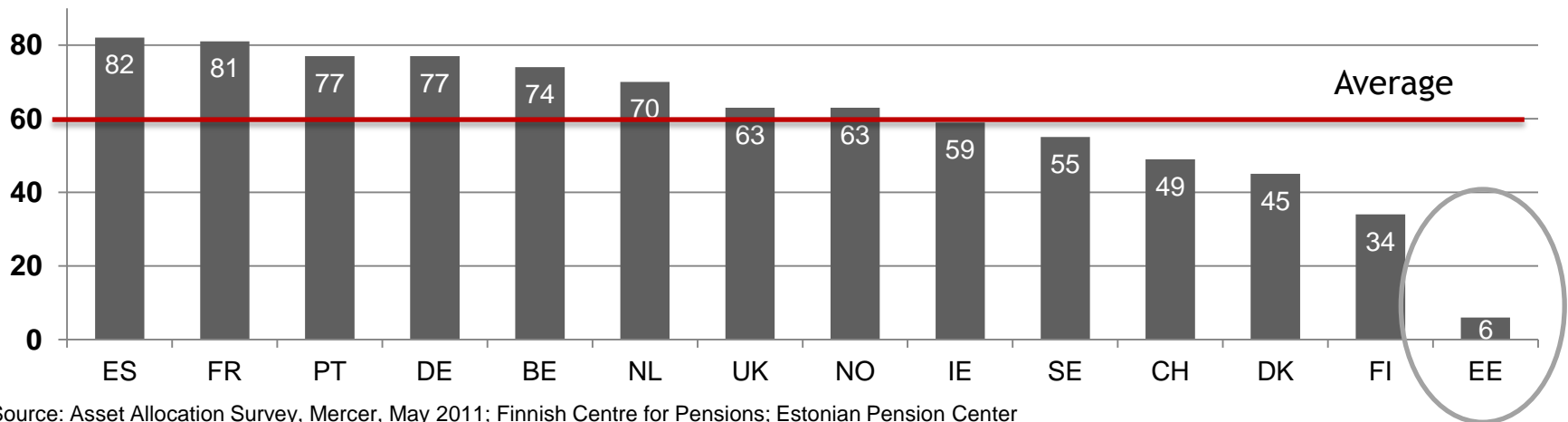
Stock Exchange capitalization per GDP, % 2011



Stock Exchange turnover, % from GDP

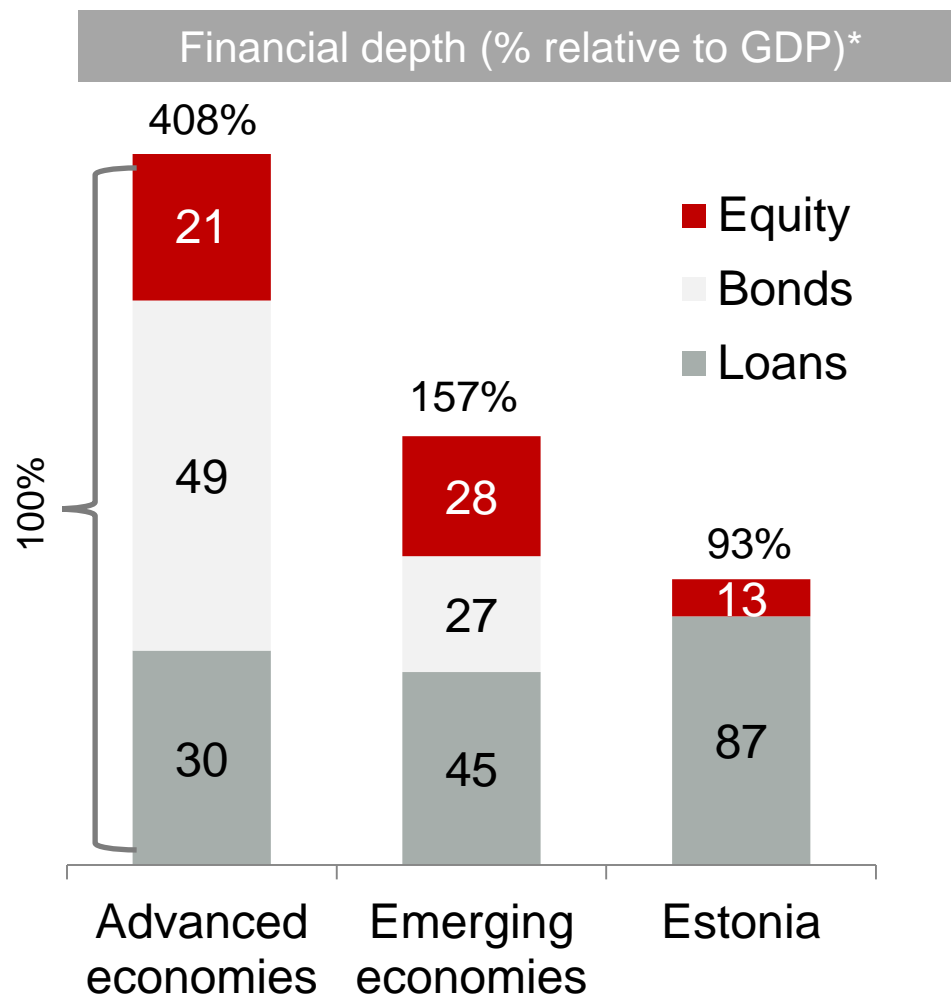


Pension fund allocation, share of home market, 2011 (%)



Baltics – Low Financial Depth

- SME access to capital problematic
- Financing for SMEs is bank centered
 - Banks well capitalized, but cautious to take SME risks
 - Loan to Deposit ratios dropped to ca 110-120% in Baltic countries
- SME access to public equity and debt financing is limited
 - Stock Exchange is not a viable source of capital today
 - Corporate Bond market has dried out after financial crisis
 - Pension funds restricted to invest directly into SMEs
 - Private Equity is only now becoming to emerge (Jeremy; Baltic Investment Fund)



* Source: McKinsey Global Institute 2012: Financial globalization: Retreat or reset?, NASDAQ OMX Baltic, Bank of Estonia

Bond Markets: ESTONIA

- No government or municipal bond market. No trading
- 2 government owned company bonds placed on international capital markets (Estonian Energy and Elering)
- Bad history. Banks had to bail out investors from Hansa Private Debt Fund and SEB arranged bonds (Kolle, Kobe Asset, Q Vara)
- Corporate bonds for selected issuers only. Typical conditions:
 - Issue size 2-5 MEUR (rare over 5 MEUR)
 - Interest 7 – 15% pa
 - Short maturities (1-3 years)
 - Secured or collateralized bonds
- Investors: HNWI's (family offices, private banks), pension funds
- Very few bond advisors: Redgate Capital, LHV

Bond Markets: LITHUANIA

- Active government bond market
 - Government securities dominate the market
 - Secondary market trading is mainly based on government bonds
- Bond market for private companies during last several years was basically not existent
- „Project bonds“ – for tax optimization reasons, or share sale transactions between related parties
- Bond market for corporates is emerging slowly. Typical conditions:
 - Issue size 3 MEUR and over (also 10 MEUR and up)
 - Interest 5 – 11% pa
 - Short maturities (1-5 years)
 - Security: share pledge, asset pledge, cash flow protection
- Investors: Institutional bond funds; credit institutions; HNWI's
- Advisors: Banks and middle size investment boutiques

2014: Suggestions for Baltic SMEs

- Good sentiment for Bond issues
 - Low interest rate environment
 - Local investors cash rich
- Which Issuers attract bond investors?
 - Typically not a „bankable“ project
 - Attractive interest level (over 7% pa)
 - Shorter maturity (1-3 years)
 - Refinancing strategy should be clear
 - Investors require protection: any kind of security
- When Bonds should be preferred over bank loans?
 - Fast growth phase, opening new market, launching new product etc
 - Higher leverage needed for investments – issuer pays only interest
 - Larger loan amounts where banks feel short-handed

Typical industry for bonds

Industrials,
manufacturing



Energy



Medical
services



Financial
services



Food



2014: Capital Market Initiatives in Estonia

Improve Market Offering

IPO's for state owned companies

- IPO's and listings of state companies on the Stock Exchange

Re-launch debt capital markets

- Government bond issues
- State-owned companies' bond issues
- Centralized municipal lending vehicle

Improve Market Demand

More active approach by pension funds

- Lift investment restrictions in share and bond issues (currently 10% participation restriction; listing rule)
- More investments into non-listed equity's and bonds (increase from 10% to 30% of total fund assets)

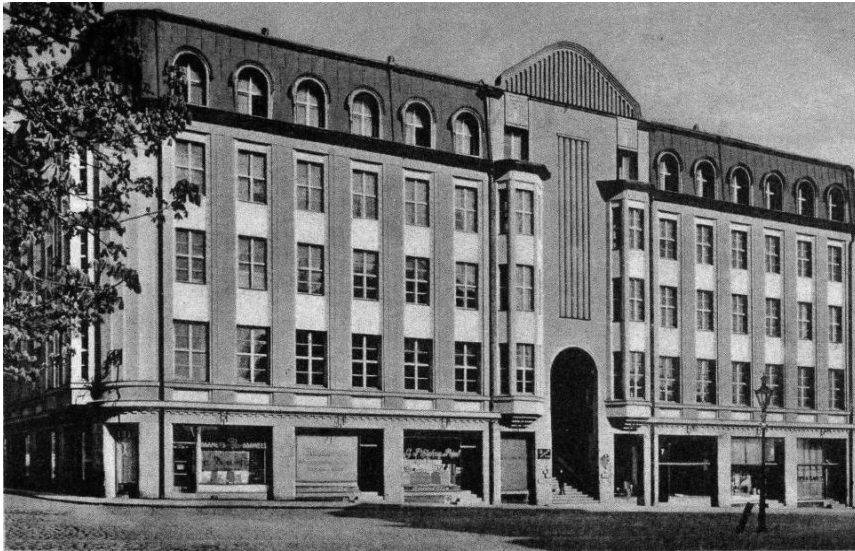
Fiscal-political initiatives

- Easier access to bond markets for private persons
- Covered bond regulations
- Increase investment awareness

THANK YOU



REDGATE CAPITAL



Pärnu road 10
Tallinn 10148
Estonia

T +372 66 68 200

M +372 50 67 147

E aare.tammema@redgatecapital.eu

W www.redgatecapital.eu

