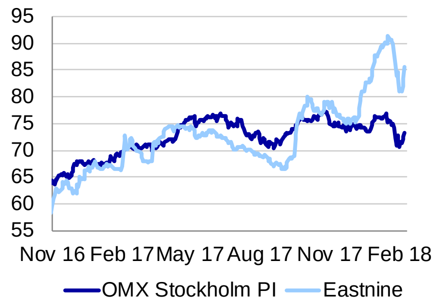
Commissioned research
19 February 2018

Eastnine

Investment companies | Sweden

Key data	
Country	Sweden
Bloomberg	EAST SS
Reuters	EAST9.ST
Share price	84.60
Free float	94.6%
Market cap (m)	SEK 2,099
Website	www.eastnine.com
Next report date	16 May 2018

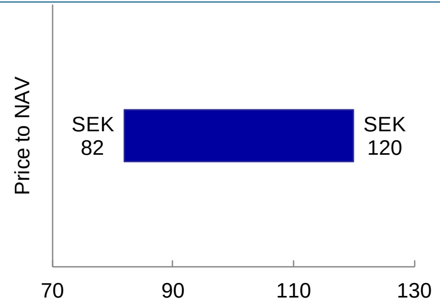
Absolute and relative performance



	-1M	-6M	-12M	YTD
Absolute	-4%	24%	22%	3%
Relative	-1%	23%	16%	4%

Source: FactSet and Bloomberg

Valuation approach



Source: Nordea Markets

Q4 2017 review - The Melon and the momentum

The quarter in numbers

Eastnine's Q4 2017 showed good performance in all segments: direct real estate was up 6.9% q/q with low leverage, (due to revaluation which is attributable to the whole year with FY at 11.2%), real estate funds were up 2.9% and other investments were up 11.8% (mostly due to a welcomed positive revaluation of Melon Fashion Group, which we believe should be seen mostly as a y/y revaluation). 3 Bures was revalued at the upper range of our potential range while MFG was revalued to the upper range of our previous fair value range. Q4 NAV was EUR 242.5m, the discount to the reported NAV was ~15% at year end and return on NAV for the quarter came in at 7.9%.

What we learned about the direct real estate portfolio

Profit from property management came in 37% below our expectations, but we see this as a neutral. Two items caused the deviation: 1) Q4 cost recognition of deferred construction VAT attributable to the whole year; and 2) high tenant turnover causing remodelling expenses. The former yields estimate revisions to NOI until 2019 (-2.6% from Q2 2018). The latter is a positive for coming quarters due to increased rental income.

Striking gold in Russia yet again

With new design teams producing more popular collections, sales were exposed to less discounting, yielding **28.3%** y/y growth **(~20% over two years due to easy comps)**. Other factors contributing to the success this quarter are **consumer confidence**, which is on the upswing in Russia, and **store relocations contributing well above a 30% growth in sales/store y/y. Our EBITDA estimates were beat by ~15%.** We raise our fair value of MFG.

Valuation and revision to fair NAV

We use peer discounts for real estate and historical discounts for Eastnine's other investments, adjusting for recent developments such as cost improvements. We arrive at a fair value of SEK 82-120, applying a discount of ~3-22% to our NAV.

FULL-YEAR DATA

	2015	2016	2017	Current
Mcap, EURm	158	196	212	212
NAV, EURm	254	248	243	244
NAV per share growth	3%	9%	10%	13%[1]
NDA NAV discount	n.a.	n.a.	n.a.	19% to 31%
Rep. NAV discount	38%	28%	21%	21%
No. of shares (m)	28.5	28.2	24.8	24.8[2]
DPS, SEK	0.80	0.90	2.10	
Dividend yield	1.58%	1.35%	2.57%	

1. Year to date. 2. Adjusted for shares held by the company: 22.6

OTHER KEY DATA

Performance	Q3	9m[1]	LTM[2]	LYTD[3]
NAV/share perf.	2%	2%	13%	5%
NAV/share perf. rel. OMX	1%	-7%	0%	-1%
Change in discount	-2.9 pp	-7.6 pp	-10.9 pp	-7.0 pp
Average discount	**-3m**	**-12m**	**-5y**	**-10y**
Reported NAV	#DIV/0!	23%	34%	32%
Nordea discount	n.a.	n.a.	n.a.	n.a.

1. From Jan '17 to Sept '17. 2. From Oct '16 to Sept '17. 3. FY '17 + YTD

Source for both tables: Company data and Nordea Markets

Nordea

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Q4 2017 review

Even if some performance is owed to the whole year, direct real estate was up 6.9% q/q, while real estate funds were up 2.9% and other investments up 11.8%

The third quarter of 2017 saw a good performance in all segments: direct real estate was up 6.9% q/q with low leverage, (mostly due to revaluations in 3Bures which should be seen as attributable to the whole year – yearly development was 11.2% for 2017), while real estate funds were up 2.9% and other investments up 11.8% (mostly due to a welcomed positive revaluation of Melon Fashion Group, which we believe should be seen as a y/y revaluation rather than a q/q).

3Bures was revalued to the upper range of our potential range – meaning the revaluation was not out of bounce with the revaluation seen in Swedish and Finnish real estate firms. MFG was revalued to the upper range of our previous fair value range. We have made adjustments to our MFG estimates and hence to its fair value range as the quarter's outcome beat our EBITDA estimates by some 15%. As of the end of 2017, the discount to the reported NAV was ~15%. Return on NAV for the quarter came in at 7.9% – which is a strong performance even if some of it should, in our eyes, be seen as being on the back of the whole year. For the year, the performance in NAV/share has been 9.3%.

Transition to a pure real estate company progressing…

Eastnine is progressing with its transformation. About 5% of total NAV was disinvested during the quarter to leave room for focus assets: directly owned office real estate in Baltic capitals. A notable event after the quarter is, as already reported, the acquisition of Alojas Business Centre – contributing to rental income from Q1 2017 and in full from Q2.

DEVIATION TABLE OF NAV

	E9 est. 31/12/17	Q4 rep 31/12/17	Deviation
Real estate - directly owned			
Vertas	29.7	29.9	0.67%
3 Bures	27.6	30.7	11.23%
3 Bures development	10.0	13.6	36.00%
Total	**67.2**	**74.2**	**10.42%**
Real estate funds			
EC Baltic Property Fund II	21.3	20.8	-2.35%
EC Baltic Property Fund III	15.5	16.2	4.52%
Total	**36.7**	**37.1**	**1.09%**
Total Real Estate	**103.9**	**111.2**	**7.03%**
Other investments			
Melon Fashion Group	39.0	48.6	24.69%
Eastern Europe Small Cap Fund[1]	18.7	19.2	2.67%
EC Global Frontier Markets Fund	12.2	12.1	-0.52%
Komercijalna Banka Skopje	10.3	10.3	0.37%
Miscellaneous investments	0.0	0.0	0.00%
Total	**80.1**	**90.2**	**12.61%**
Total invested portfolio	**184.0**	**201.4**	**9.46%**
Cash and cash equivalents	43.8	41.1	-6.08%
Other assets and liabilities net	-2.7	-0.1	-96.30%
NAV	**225.1**	**242.5**	**7.75%**
net cash & listed	**158.9**	**179.0**	**12.67%**
Number of shares outstanding (m)	22.9	22.9	0.00%
NAV/share, EUR	9.81	10.57	7.75%
NAV/share, SEK	96.42	103.89	7.75%
Price, EUR	8.3	8.3	
Price, SEK	81.8	81.8	
Price/NAV	84.8%	78.7%	-6.1 pp
Premium (+)/Discount (-)	**-15.2%**	**-21.3%**	-6.1 pp
net cash	**-18.9%**	**-25.7%**	-6.8 pp
net cash & listed	**-21.6%**	**-28.9%**	-7.3 pp
EUR/SEK	9.83	9.83	
Market cap, EURm	206.3	206.3	
Market cap, SEKm	2,029	2,029	

[1]Previously East Capital Deep Value Fund

Source: Company data and Nordea Markets

Directly owned real estate

We estimate that 3Bures revaluation is ~10 pp due to falling yields (and perhaps rental increases) while ~1-2 pp is due to positive cash flow in the quarter

This quarter, **3Bures** went through a positive revaluation of value, which left the valuation on Eastnine's books in the upper range of our potential value range. We have slimmed the range now, as that 3Bures as the width of the range owes to the time since last revaluation. The revaluation of the property was 4.8%, with a ~51% current LTV causes the NAV contribution to increase 11.3%. We suppose that positive cash flow has contributed with ~1-2 pp to the revaluation and that ~10 pp is due to falling yields and increases in rents during the year (though none such was seen during the quarter).

Reported vacancy structural, hence we estimate 2% going forward

We see 3Bures vacancy of 4% in the end of Q4 as structural, switching of tenants etc, and has decreased to 1% since. We estimate 2% for the whole direct RE stock going forward rather than the 3% reported at the end of Q4.

3Bures development deviated due to continued construction

One notable deviation was the 3Bures development, for which we did not project the level of completion for Q4 of an additional EUR 2.2m, but the deviation is attributable to EUR 1.5m revaluation as well. The project is reportedly on track, and the magnitude of the deviation should have been expected. We still expect the building to be ready during Q3 2018, though up and running in Q4 2018 with rental income attributable partly in Q4 and in full Q1 2019.

Discrepancy in cash owing to 3Bures investment

The EUR 2.2m invested in 3Bures accounts for the difference in the cash reserves in the NAV contribution

Investment pace must about double to keep deadline…

Going forward, Eastnine will have to ramp up the investment pace in 3Bures development to reach the goal. The current value of the property (which deviates from the NAV contribution positively as much as Vertas deviates negatively – we assume some within-group financing manoeuvre) is EUR ~15m which means the property is half way there as of end-Q4. An investment pace of at least EUR 5m/quarter is needed, and it has recently been half of that.

…though this will not affect liquidity of Eastnine

NAV contribution flat going forward

We anticipate that the increased investment pace will not affect the liquidity of Eastnine on a group level as the rest of the project will be financed with debt arriving at a ~50% LTV at completion. Invoicing for coming construction work is done through the bank providing the loan – against the loan. We hence expect a NAV contribution of 3 Bures development to lay more or less flat as the value of the property grows.

Now fully let and EUR 1.5m revaluation is due to value creation in Visma contract

The last 2% of the area is now rented out. The interest rate swap for the loan is already in place and has contributed to some revaluations during previous quarters. This quarter however, the revaluation does not appear to be materially attributable to this or to falling yields, but to value creation through additional terms in the Visma contract (30% of 3Bures development) which is now completely closed.

We anticipate higher risk-adjusted returns going forward as interest costs are coming down from upper range of 2-3% to 2.5% for existing property and lower after future acquisitions

The Vertas property will be financed by a EUR 14m loan, landing the property at a close to 50% LTV, beginning in February of Q1 2019. We have estimated interest rate costs in the upper range of 2-3% previously. **Vertas** is now being financed by a 1.9% interest loan. As the interest rate swap for 3Bures is already in place, we expect the building to get similar interest as previously estimated, while Vertas and Alojas (which we believe will be levered to 50% in 2019) will be financed with a cost of 1.5% on the debt side. In our estimates, this results in a 2.5% interest cost for existing property in 2019 and we believe potential new acquisitions could contribute to a lowered total financing cost.

Giving strength to the Alojas acquisition

In our report following the Alojas acquisition, we considered it a fair yield of acquisition and that the upside was in developments of the property. We now expect lowered costs of financing to give strength to the Alojas case.

Tenant-turnover and remodelling

We do not estimate changes of value in properties

Breaking down operation results of directly owned real estate

DEVIATION FOR DIRECTLY OWNED REAL ESTATE - Q4 2017

Real Estate P&L, EURm	2017 Q4E	Q4 rep	Deviation
Rental income	**1.7**	**1.6**	-4%
Property costs	-0.2	-0.5	
Management & administrative expenses	-0.1	-0.3	
Other income and expense	0.0	0.0	
Net operating income	**1.3**	**0.9**	-32%
Surplus ratio, %	*78*	*54*	-24.4 pp
Net interest	-0.2	-0.2	
Profit from property management	**1.1**	**0.7**	-37%
Changes in value of properties	0.0	4.5	
Changes in value of derivatives	n.a.	-0.2	
Profit before tax	**1.1**	**4.9**	340%
Income tax	0.0	4.9	
Deferred tax	-0.2	-1.0	
Net profit	**0.9**	**3.9**	338%
Return to NAV[1]	**7.3%**	**7.7%**	0.4 pp

1. Return to NAV is calculated as profit from property management less paid tax in relation to NAV of real estate portfolio, yearly

Source: Company data and Nordea Markets

Rental income for Q4 came in with a 4% negative deviation and EUR ~0.4m higher in property costs, management and admin.

- **Rental income and property costs**: As there have been structural changes to the tenant pool, there has been a temporary vacancy during the quarter during which remodelling and renovations have taken place. This means that there are fewer tenant-square-metres during the quarter, yielding less rental income (1.63 vs our 1.69 estimate), while we assume that the remodelling has been taken as cost during the quarter, yielding a higher property costs item in the P&L (0.5 vs our estimate of 0.2). Note that tenant turnover is in line with our estimates, but that this quarter saw abnormal levels of tenant-turnover in the properties.
- **Management and admin**: Management and admin was higher than expected as well (EUR 0.3m vs EUR 0.1m in our estimates). This is owing to construction VAT of the operation 3Bures buildings (going back some eight years) taken up as costs in Q4. Going forward, the company aims to smooth the cost recognition of construction VAT between quarters instead of having it all end up in Q4 every year. The VAT cost taking lasts 10 years, and for 3Bures that means until 2019.

We find quarters prior to this Q4 more representative of the future for the current properties

- **We do not extrapolate** the current quarter, apart from an extra EUR ~0.05m in management and admin for every quarter going forward, as Eastnine management has communicated that this cost will be smoothed out between quarters and disappear after 2019, when 3Bures is no longer exposed to the cost. All in all, we find previous quarters more representative of the future than this Q4.

We do not forecast value changes in properties, which is the main deviating factor closer to the bottom line.

Going forward

Lower costs of financing, yields coming down and new acquisitions

As explained above, we believe financing costs will slowly decrease in the directly owned real estate portfolio, yields are coming down and we anticipate future acquisitions.

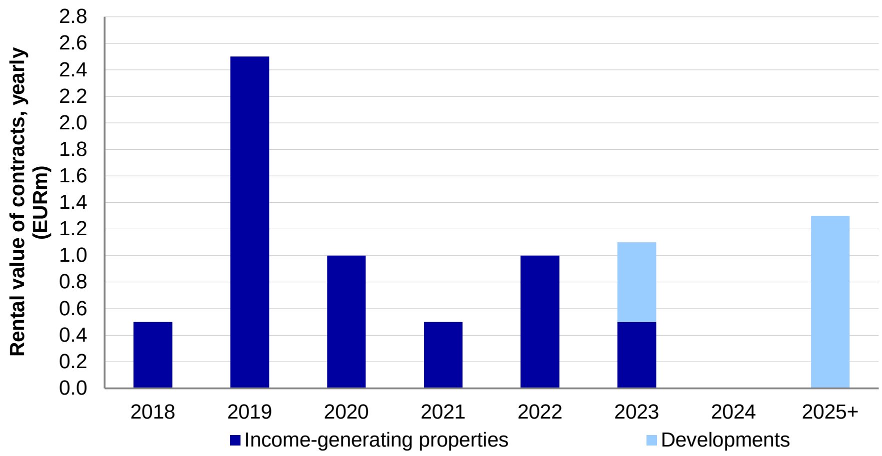
Apart from this, we expect rents to continue to increase. The company renews contracts on an ongoing basis with tenants and current rental levels are below the

Rental levels expected to continue increase in Vertas, Alojas and 3 Burės

market average, which we find unwarranted. New tenants can be assumed to sign for rent of EUR 15-16/m²/month – the midpoint of which is some 12% above the current average. Although not all renegotiations will lead to such an increase, we believe many tenants, especially smaller ones, could experience rent hikes of some 20-25% while others experience much lower hikes. Looking at lease term maturities, we foresee a steady flow of potential renegotiations in the coming years, with one of the larger contracts contributing to a peak in 2019.

Long maturities of contracts but rental increases are waiting around the corner

DISTRIBUTION OF LEASE MATURITIES, Q4 2017



Source: Company data and Nordea Markets

Eastnine has a niche in the market with its buy-and-hold strategy and ability to cater to Scandinavian companies in the Baltics

One competitive edge that Eastnine has is its commitment to a buy and hold strategy, which is quite uncommon on the Baltic real estate scene – characterised by close-end funds with set lifespans. In this way, Eastnine can focus on the quality of tenants in acquisitions rather than short-term performance. Another edge is its presence as a Scandinavian investor, allowing it to cater to the needs of Scandinavian companies expanding to the Baltic region. The tenant roster is filled with Scandinavian companies, while Eastnine enjoys the higher Baltic real estate yields with interest rates in line with those for Scandinavian real estate firms.

Promising macro fundamentals, despite wage risk

Macro fundamentals are still positive, with projected growth in the region looking set to increase and more international firms establishing a presence in the region. The wage gap between the Baltics and many other parts of Europe remains, while the labour force is fairly well-educated. A shrinking wage gap is one of the bigger macro risks for office space demand in the Baltics.

Melon Fashion Group surprises on the upside... again

MFG grew by 28.3% y/y (with easier comps) owing to improved collection (hence more full price sales) and also due to Russia macro fundamentals

MFG experienced y/y sales growth of around 28%, which is much more than the 16.5% we expected due to easy comps. With operation leverage, items further down in the P&L beat our expectation more, with EBIT at 62% higher than expected (though it should be noted that MFG's EBIT is volatile).

We expected MFG's operational improvements to materialise gradually over a longer period. With Q2-Q4 results strong, we believe this marks the beginning of a period with better operational returns. We increase our estimates in coming periods while lowering the long-term improvements which we had previously anticipated – all in all a positive for the fair value of MFG.

DEVIATION FOR MFG - Q4 2017

RUBm	2017 Q4E	Q4 rep	Deviation
Sales	3,694	4,071	10%
growth	*16.5%*	*28.3%*	11.9 pp
Adjusted gross profit	1,982	2,277	15%
margin (%)	*53.7%*	*55.9%*	2.3 pp
EBITDA	432	667	55%
margin (%)	*11.7%*	*16.4%*	4.7 pp
EBIT	315	509	62%
margin (%)	*8.5%*	*12.5%*	4.0 pp
Net income	248	394	58%

Source: Company data and Nordea Markets

The strong operational performance and positive surprise in MFG can be explained by the following:

- **Better collections** and hence **less discounting** in stores. This in turn meant that both the **top line and margins improved**, amplifying the effect on EBIT. **All brands are performing well**, according to Eastnine.
- **Macro**: **Consumer confidence** is on the rise in Russia, while inflation is lower. MFG has seen consumers return to the stores and has recorded **higher traffic** in its stores.
- We anticipated a slight increase in the number of stores. Even though there may be stores left to close, the net change was positive at 14 stores. The **net positive change in the number of stores** is expected to continue, according to Eastnine.
- Restructuring centrally (**supply chain and IT**), on the brand level (**new design teams and better collections**) and on the store level (**increased and more effective average store area, relocations of stores and more effective use of employees**). The increase in area per store follows a pattern since at least 2012, while the number of full-time equivalents has decreased slightly during the last quarter as sales and the number of stores has gone up.
- A marginal contributor to the success was **internet sales** which, making up roughly 7% of sales for the whole year, grew by ~80% y/y. Third party online sales have dominated and grown much more rapidly. We have previously been sceptical to this. Eastnine management has related that third party sales are more profitable though it binds more working capital. MFG is developing its three brands' online platform, and in so doing aims to increase the profitability of in-house internet retail.

Stores are coming up…

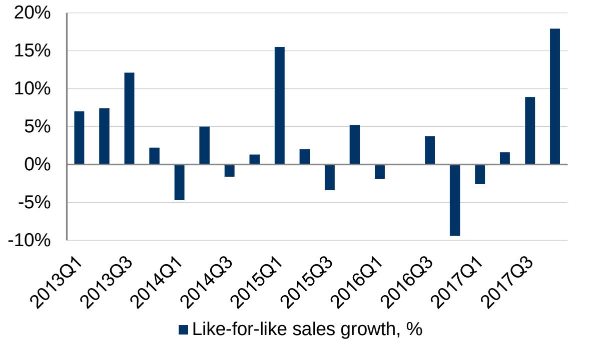
…like-for-like is very promising (18%)…

…but store relocation strategy contributes even more…

We expect 10% like-for-like coming quarter and ~610 stores by 2021

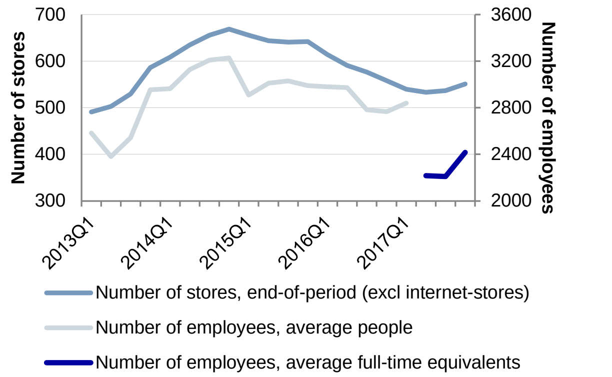
Even if the tides are turning with an increasing number of stores, it is still down y/y by seven from 558 to 551. However, total sales are up by 28.3%, which speaks to the underlying increase in sales per store. As like-for-like sales has grown by 17.9% (which is lower than total sales growth) we take it that relocated stores, newly opened stores and closing of stores has seen a significant "unlike-for-unlike" growth of sales per store far above 30%. To have such a successful strategy for stores expansion in an environment when even like-for-like sales are positive bodes well. It should be noted however that Q4 like-for-like sales meet easy comps and adjusted for this, it would about 9%, just as in Q3. We expect a like-for-like in coming quarter of 10%. We increase our forecasts in number of stores as well; up by 15 for next quarter reaching 611 by 2021.

LIKE-FOR-LIKE SALES GROWTH, QUARTERLY



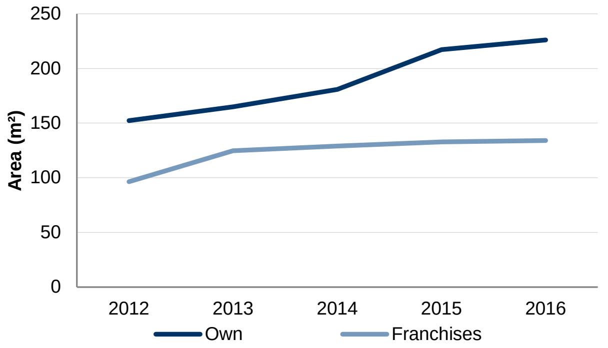
Source: Company data and Nordea Markets

NUMBER OF STORES AND EMPLOYEES SINCE Q1 2013



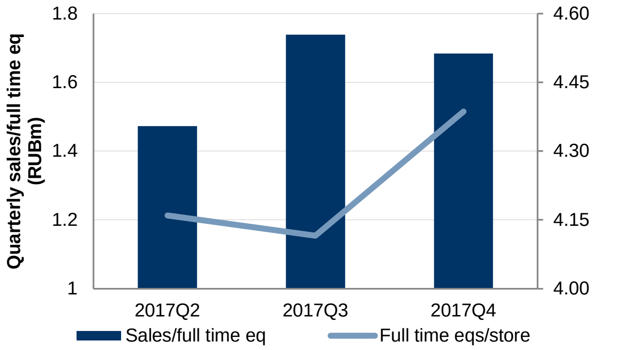
Source: Company data and Nordea Markets

TOTAL REAL ESTATE PORTION OF NAV, Q4 2017



Source: Company data and Nordea Markets

SEGMENT DIVISION OF INVESTED PORTFOLIO, Q4 2017



Source: Company data and Nordea Markets

Our expectations for Q1 2018 are set high and we anticipate the first profitable Q1 since 2013 on the back of less rebated sales

On the back of this momentum in operational and macro fundamentals, we increase our sales per store growth as well to 18% for Q1 2018 going down gradually to 6% in 2019. We further increase EBITDA margin from 10.3% in 2018E to 12.3%. We have high expectations for Q1 – a quarter which has taken a loss on the bottom line since at least 2013. With improved collections and hence hopefully less rebated sales, as well as operational improvements and store relocations we estimate adjusted gross margin of 46.5% compared to 44.3% Q1 2017 and an EBIT of RUB 40m, which would be sensational as the first profitable Q1 since at least 2013.

Anticipating continued transition to new strategy

After the Q4 report we remain positive towards the transition to only Baltic real estate. We see the following:

Both the investment and the divestment sides seem promising going into Q1-Q3 2018

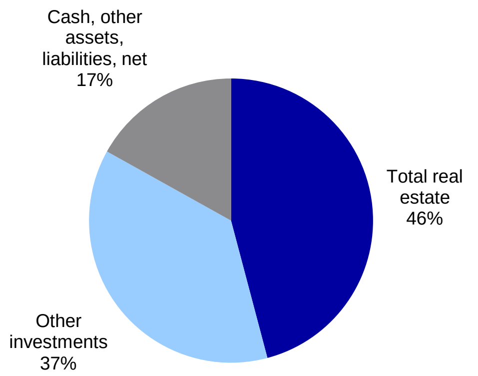
- **Investment side**: The company has communicated that the pipeline is strong. It does not see a greater or lower probability of the next acquisition being in any specific capital, which we believe indicates that the company is actively looking at options in all three capital cities. As a result of this, we believe that one to two acquisitions in Q1-Q3 2018 is likely. That said, we suggest that it is possible that the acquisition will be land, development or income-generating office properties.
- **Divestment side**: We regard the underlying sentiment needed to sell off MFG more positive following the strong Q3 and Q4 reports as well as improving macro in Russia. If MFG can keep up this performance and macro factors in Russia remain positive, we are even more hopeful about a divestment within the timeframe set by Eastnine (the goal was previously 2018, but is now 2020, implied by the general goal to be transformed into a pure real estate company by then). Our take is that it is very possible to see a

divestment before or in 2019, or possibly even in 2018. East Capital East Europe Small Cap Fund (previously Deep Value Fund) seems to be divested according to schedule with EUR ~2m per quarter – this quarter's EUR 2m has already been sold, and we do not expect anything more of the holdings in the fund at the end of Q4 2017 to be divested during Q1 2018 but these EUR 2m. EUR 4m was divested in the East Capital Frontier Markets Fund following the end of Q4, though we do not anticipate as strong of a future divestment, but rather that it will time real estate investments due to its liquidity.

Portfolio composition

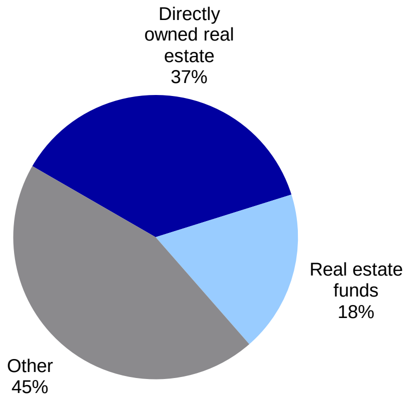
Due to the strong performance of MFG, the Other segment grew more than directly owned real estate, however, recent acquisitions put directly owned real estate at 42% and total real estate at 60% of the invested portfolio.

TOTAL REAL ESTATE PORTION OF NAV, Q4 2017



Source: Company data and Nordea Markets

SEGMENT DIVISION OF INVESTED PORTFOLIO, Q4 2017



Source: Company data and Nordea Markets

Group costs

We make slight changes to our estimates for group-level costs, following the Q4 report. The outcome in divestments and investments changes our forecasts of future developments of holdings and as such management fees. Furthermore, the outcome of opex (and staff in particular) feeds into our projections of future costs, where staff expenses has increased somewhat on a yearly basis going forward.

Dividend

Eastnine proposes a dividend of SEK 2.10/share, where we estimated 1.98, and the deviation is mostly due to NAV revaluations. We estimate dividends to increase gradually to reach ~SEK 5.30/share by 2022.

Revised fair NAV

Owing to a revision of Melon Fashion Group's fair value, an estimate of possible revaluation scenarios for the 3 Burės and Vertas properties, and changes following Eastnine's NAV report for Q3, we revise our Nordea NAV, detailed in the following table:.

UPDATE OF NDA NAV FOR BOTH Q4 END AND 16 FEB 2018

	31/12/17		16/02/18	
	Old NDA NAV	**New NDA NAV**	**Old NDA NAV**	**New NDA NAV**
Real estate - directly owned				
Vertas	29 to 30.7	13.1 to 19.3	29 to 30.7	13.1 to 19.3
3 Bures	23.4 to 34.6	29.2 to 32.3	23.4 to 34.6	29.2 to 32.3
3 Bures development	10.0	13.6	10.0	13.6
Alojas Biznesa Centrs + adjacent		29.6	29.6	29.6
Total	**62.3 to 75.3**	**85.5 to 94.8**	**91.9 to 104.9**	**85.5 to 94.8**
Real estate funds				
EC Baltic Property Fund II	21.3	20.8	21.3	20.8
EC Baltic Property Fund III	15.5	16.2	15.5	16.2
Total	**36.8**	**37.0**	**36.8**	**37.0**
Total Real Estate	**99.1 to 112.1**	**122.5 to 131.8**	**128.7 to 141.7**	**122.5 to 131.8**
Other investments				
Melon Fashion Group	33.9 to 60.9	45.9 to 78.5	33.9 to 60.9	45.9 to 78.5
Eastern Europe Small Cap Fund[1]	18.7	17.2	18.7	17.2
EC Global Frontier Markets Fund	12.2	12.2	12.3	12.1
Komercijalna Banka Skopje	10.3	12.5	12.4	12.5
Miscellaneous investments	0.0	0.0	0.0	0.0
Total	**75.1 to 102**	**87.8 to 120.3**	**77.3 to 104.3**	**87.6 to 120.2**
Total invested portfolio	**174.2 to 214.1**	**210.3 to 252.1**	**206.1 to 246**	**210.1 to 252**
Cash and cash equivalents	43.8	27.0	12.2	28.3
Other assets and liabilities net	-2.7	-0.1	-2.7	-0.1
NAV	**215.2 to 255.2**	**237.3 to 279.1**	**215.5 to 255.5**	**238.4 to 280.3**
net cash & listed	**149.1 to 189**	**185.6 to 227.4**	**178.7 to 218.6**	**185.6 to 227.4**
Number of shares outst. (m)	22.9	22.6	22.6	22.6
NAV/share, EUR	9.4 to 11.1	10.5 to 12.4	9.5 to 11.3	10.6 to 12.4
NAV/share, SEK	92.2 to 109.3	104.1 to 122.4	94.2 to 111.6	105.1 to 123.6

[1]Previously East Capital Deep Value Fund

Source: Company data and Nordea Markets

Factors to consider when investing in Eastnine

Some factors to consider when investing in Eastnine are the transition process, which we believe will expose the company to a Baltic real estate market where macro factors are beneficial and Eastnine can have an edge in office space, along with cost cuts and its recent transformation into a separate entity, which we argue provides more transparency and demands a lower discount than seen historically. We see potential in the transformation and argue we could see lower discounts ahead. The strong transaction focus, macro environment and personnel are a few key risks.

We find the following key aspects relevant for an investment in Eastnine:

Transition of the portfolio, macro environment and the renewed sense of the company as a separate entity are all important factors

- Its vision of becoming a pure real estate company by 2020 opens a door of opportunity.
- The target market of the Baltic countries suggests promising macro fundamentals overall, and Eastnine has already taken a strategic market position in the office segment.
- Since the termination of the contract with East Capital, the company has not only seen a decrease in total costs but also increased transparency; both trends we believe will continue, constituting solid fundamentals for a lower discount.

We identify certain risk factors that should be considered as well, including:

Risks include strong transaction focus, dependence on the macro outlook, key personnel, vacancies, interest rates, currencies and politics

- The strong transaction focus ahead, which might expose the portfolio to unfavourable deviations from book values during divestment, as well as expose the company to possible timing issues, risk of overpaying and integration issues of acquired units.
- Dependence on the economic outlook – in particular the economic sentiment in the Baltic region.
- Dependence on a few key people, which could affect the operations and relations of the company if such people were to leave.
- Vacancy, interest rate, currency and political risks.
- Portfolio transition

Portfolio transition

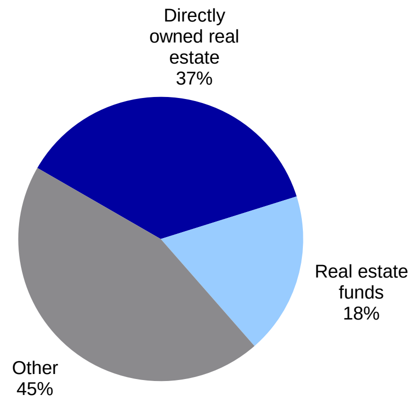
Majority of investments are in real estate

Directly owned real estate in the Baltics – and in particular offices – is the future for Eastnine. Although the current constituents of the portfolio are mixed in nature, some 34% of the reported value of the invested portfolio by Q3 2017 is direct real estate. Another 23% is in real estate funds giving exposure to the Baltic area, meaning the majority of the invested portfolio gives Eastnine the right exposure, even if directly owned real estate will be its focal point.

Goal to transform by 2020, which we regard possible to achieve

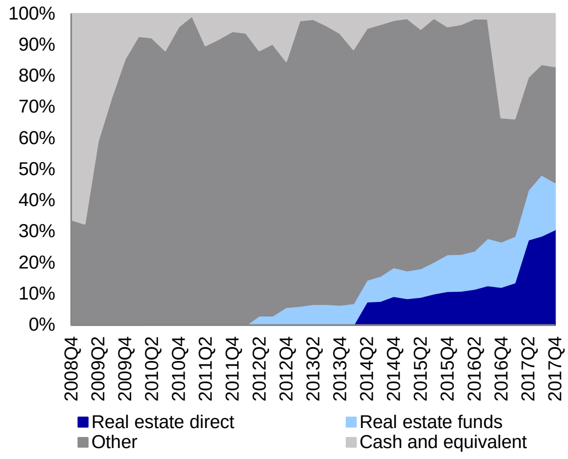
The company has an explicit goal of transforming by 2020 into a pure real estate company. In recent quarters, we have seen consistent investments into Baltic real estate through acquisitions and construction, and the direct real estate portfolio has provided a 10.9% annual return on average. After considering both the rate of investments and the possibility of divestments, we conclude that this goal is possible within the timeframe set.

SEGMENT DIVISION OF INVESTED PORTFOLIO, Q4 2017



Source: Company data and Nordea Markets

DEVELOPMENT AND TRANSITION OF PORTFOLIO



Source: Company data and Nordea Markets

Macro and market position

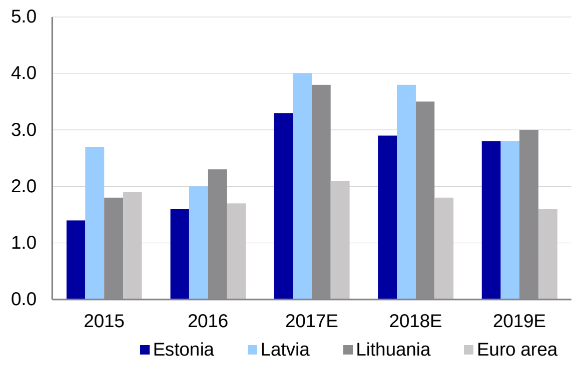
Supportive macro fundamentals

- The region offers a mix of sound growth, financial stability and a well-educated labour force – with GDP growth expected by Nordea Markets to outdo the Eurozone.
- All Baltic countries are members of the Economic and Monetary Union of the European Union (EMU).
- An increasing number of international firms are moving their support functions and so-called shared service centres to the Baltics, due to these countries' technical development and skills, coupled with their relatively low wages.

Eastnine can have an edge in offices

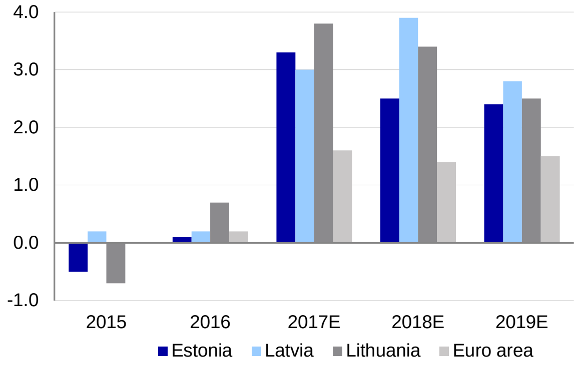
- Eastnine's edge in the market is in offices, where it can more easily cater to the needs of Nordic companies in expanding or offshoring to the Baltic region.

GDP GROWTH ESTIMATES COMPARISON, %



Source: Company data and Nordea Markets

INFLATION EXPECTATIONS, BALTICS AND EURO AREA, %



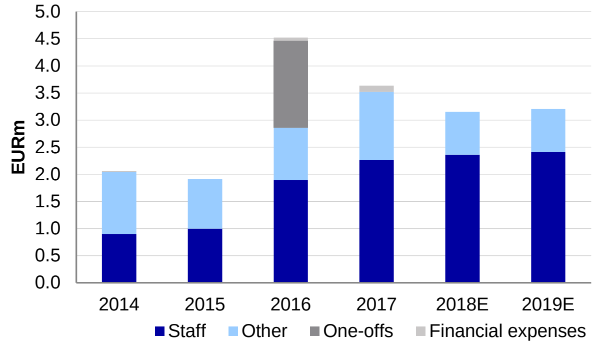
Source: Company data and Nordea Markets

Cost cuts, transparency and future ambition

Termination of contract has yielded cost cuts – more expected following new structure

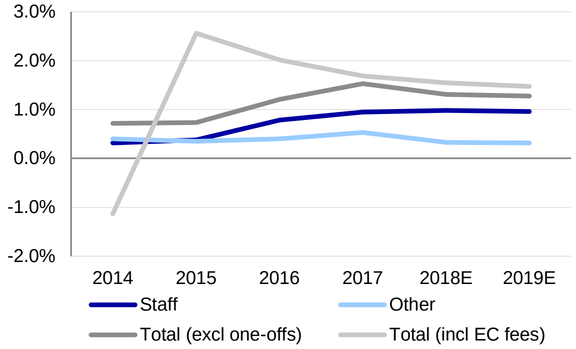
Eastnine previously invested a majority of its portfolio in East Capital funds. East Capital was the sole investment manager for Eastnine and had a full investment mandate within the frames of Eastnine's investment policy, although some investments required approval by the board. This could be seen as a possible source of conflict of interest and a suboptimal cost structure. Following the termination of the investment management contract with East Capital, Eastnine cut total costs including management fees by some ~40% from 2015 to 2017, constituting ~1.1% in relation to NAV. We expect another decrease following corporate structure changes that move subsidiaries from Cyprus and Luxembourg to Stockholm and the Baltics amounting to 0.21% in relation to NAV. The restructuring is as of Q4 2017 well on its way and we expect it to affect 2018. All else equal, these lowered costs would yield value in Eastnine.

HISTORICALS AND ESTIMATES OF OPEX/FIN EXPENSES



Source: Company data and Nordea Markets

TOTAL COSTS EXCL AND INCL EC FEES AS % OF NAV



Source: Company data and Nordea Markets

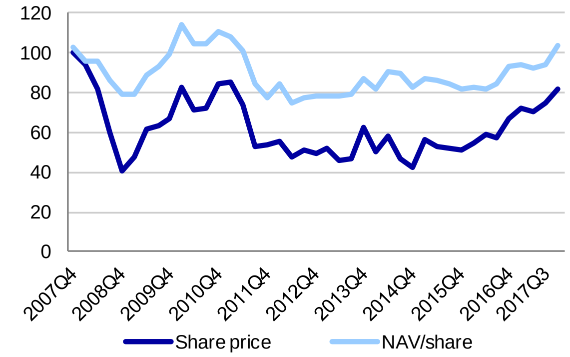
The discount to NAV proposition

Nordea NAV is -3% to +15% of estimated Eastnine NAV

A ~3-22% discount yields fair value of SEK 82-120

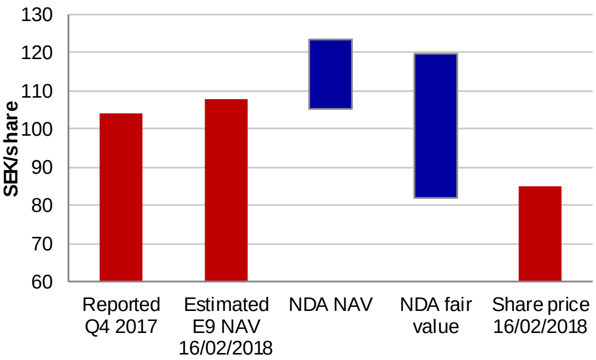
A discount to NAV has followed the stock since the IPO, with discounts amounting to up to 50% – even during periods of high levels of liquid holdings in the portfolio. We first have a view on the fair NAV of Eastnine – which we call "Nordea NAV" (NDA NAV) – which is a range from 3% below the per share NAV that we estimate for Eastnine to 15% above. Considering that Eastnine is transitioning into a real estate company, that possible conflicts of interest have been reduced and that cost cutting has already been carried out (and more is expected in the future), we conclude that a justifiable NAV discount for Eastnine is ~3% to ~22%, which yields a value per share of SEK 82 to SEK 120 as of 16 February 2018.

HISTORICAL SHARE PRICE AND NAV/SHARE



Source: Company data and Nordea Markets

VALUATION AND PRICE TO NAV FOR EASTNINE



Source: Company data and Nordea Markets

Valuation

We value Eastnine partially as a real estate firm and partially as an investment company. We base our fair value on peer discounts for real estate as well as on historical discounts to NAV for Eastnine's investment company activities, quantifiable changes to that historical discount such as changes in cost structure and more intangible aspects such as financial targets and geographical exposure. We also perform a DCF valuation of Melon Fashion Group and a sensitivity analysis and revaluation potential of direct real estate holdings.

We use a combination of valuation approaches to derive a fair value for Eastnine

Our valuation approach for Eastnine relies on three main pillars:

1. Adjust for market value changes and other events since the end of Q3 2017. Q3 Reported NAV, adjusted only for market value and post-Q3 events we refer to as **estimated Eastnine (E9) NAV**.
2. Determine a fair value of portfolio constituents. This is done by valuing Melon Fashion Group in a discounted cash-flow (DCF) framework and arguing for a fair value of direct real estate. NAV adjusted for market value changes, post-Q3 events *and* our fair value estimates of portfolio constituents we refer to as **Nordea (NDA) NAV**.
3. Argue from a fundamental point of view what range of price to NAV (and hence discount or premium to NAV) would be justified for Eastnine. For this we consider:
    a. Discounts to NAV for real estate companies and investment companies
    b. Eastnine's historical discount
    c. Quantifiable aspects that justify deviation of current fair value from Eastnine's historical figures such as cost structure changes
    d. Intangible aspects such as the transitioning of the portfolio, change of geographic exposure, reduction of potential historical conflicts of interest, the Baltic real estate market's probability to outperform as well as Eastnine's ability to outperform in the Baltic real estate market.

Background

As a background to this valuation process it is important to understand how real estate companies as well as investment companies are valued. We will then take into account that Eastnine is partially a real estate company and partially an investment company. We will also explain the essence of a DCF framework and multiples valuation which also play a role in our valuation process of Eastnine.

Investment companies are usually valued at a discount or premium to their NAV – which is based on markets perception of management execution, where both expectation of pre-cost investment outcomes and the cost structure of the company come into play, underlying volatility in NAV (mostly attributable to unlisted assets, but in Eastnine's case, also geographic exposure) and governance.

Real estate companies are valued on earnings potential and macro trends

Real estate firms can be valued in a similar sense, but the valuation of assets are usually more transparent than some unlisted assets in investment companies although usually less transparent than listed assets in investment companies, as there are market yields to which the value of properties can usually be benchmarked against. However, it is also important to take into account possible future earnings above current earnings, by, for example, changing rents as contracts come to an end as well as vacancy levels.

A DCF framework is used to value expected future cash flows of a company

In our valuation approach, we use a **DCF framework** for Melon Fashion Group – the fundamental idea of which is to value a company with future cash flows. An investor wants to be paid back in excess; and the sooner the better. The (fair) enterprise value (EV) is the value of future free cash flows in the firm, which we derive by estimating cash flows in the company and valuing future cash flows less the further in the future they are estimated to arrive (discounting). When we have derived the current value of future cash flows we add it to the current level of cash to arrive at the total value of the company to all who have a claim on the company. Since equity claims are junior to debt claims, we then deduct the value of debt from the total value to arrive at the fair value.

Multiples valuation capture a relationship between an operational or value metric and valuation

We partially use **multiples valuation**, which basically means that one assumes a relationship between an operational or valuation metric and another valuation metric by a certain factor. For example, if free cash flows one year ahead into perpetuity are estimated not to grow while the WACC is 10%, a discounted value of those cash flows is 10 times the free cash flow. In the same way, aspects affecting free cash flow, all else equal, could potentially be valued by a factor 10 as well, given that they are expected to continue in perpetuity. For example, an additional EUR 100 in profit into perpetuity, all else equal, would affect free cash flows with an additional EUR ~100 and yield 10x on value, ie EUR 1,000.

Adjusted NAV

Estimated Eastnine NAV is adjusted for market values and events after Q3 while Nordea NAV is adjusted for sensitivity and our estimated fair value ranges

Our fair value of the assets of Eastnine may differ from Eastnine's own view. We derive a range of Nordea NAV (NDA NAV) by valuing Melon Fashion Group in a DCF framework, arguing for a fair value range of the real estate holdings, adjusting values in the portfolio for market value fluctuations (for listed assets), currency fluctuations (for non-listed assets), and lastly adjusting for events after the quarter such as share buybacks. The adjusted NAV that does not take into account our revaluations but merely market value changes and post-Q3 events will be referred to as estimated Eastnine NAV. We specify constituents and total value of both estimated Eastnine NAV and Nordea NAV further down in this section.

DCF of Melon Fashion Group

A CAPM approach is used to derive the WACC for discounting free cash flows

We derive a value range of Melon Fashion Group using a DCF approach. We discount our estimated free cash flows with a WACC that reflects a) time value of money – ie incorporate a risk-free rate; b) the risk in the market; c) incorporate said risk of the market to the extent that the company is exposed to market risk, ie beta; and d) the risk associated with the illiquidity of the holding.

We use some assumptions about Russia, risk and rates from Aswath Damodaran at NYU

With some assumptions taken from the works of Aswath Damodaran at NYU, we use an equity risk premium in Russia of ~9.2% with a risk-free rate of 5.5%. With a forward-looking asset beta of 0.9 and an equity weight of 90%, we reach a WACC of 13.9%. However, since MFG is an illiquid holdings, and the data used are obviously from traded stocks and hence more liquid. We choose to add a 2.5% liquidity premium to the WACC as an investor would demand a higher average return for an illiquid asset than one that is liquid as it poses a greater risk to the investor's portfolio. We believe that to be compensated for the liquidity risk, the WACC to use is ~16.4%.

WACC ASSUMPTIONS

WACC components	
Risk-free interest rate	5.5%
Equity risk premium	9.2%
Forward looking asset beta	0.9
Forward looking equity beta	1.0
Cost of equity	14.8%
Cost of debt	7.5%
Tax-rate used in WACC	20.0%
Equity weight	90.0%
WACC (liquid)	**13.9%**
Liquidity premium	2.50%
WACC	**16.4%**

Scenarios and sensitivity of MFG DCF valuation

In the tables below, we show the sensitivity of our DCF approach, both in terms of percentage upside/downside to Eastnine's equity stake as well as the absolute value of the actual equity stake in different scenarios. We vary both the cost of capital, ie WACC, as well as the sales growth and EBIT margin.

SENSITIVITY OF DCF OF MFG, FAIR VALUE OF E9 STAKE

		WACC				
		-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp
Sales growth	-1.0 pp	55.8	53.7	51.9	50.1	48.4
	-0.5 pp	60.4	58.2	56.1	54.1	52.2
	+0.0 pp	65.5	63.0	60.6	58.4	56.4
	+0.5 pp	71.0	68.2	65.6	63.2	60.9
	+1.0 pp	77.0	73.9	71.0	68.3	65.8

SENSITIVITY OF DCF OF MFG, RELATIVE TO REPORTED

		WACC				
		-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp
Sales Growth	-1.0 pp	+17.2%	+12.9%	+9.0%	+5.2%	+1.7%
	-0.5 pp	+26.9%	+22.2%	+17.8%	+13.6%	+9.8%
	+0.0 pp	+37.6%	+32.3%	+27.4%	+22.8%	+18.5%
	+0.5 pp	+49.1%	+43.3%	+37.8%	+32.7%	+27.9%
	+1.0 pp	+61.8%	+55.3%	+49.2%	+43.5%	+38.2%

SENSITIVITY OF DCF OF MFG, FAIR VALUE of E9 STAKE

		WACC				
		-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp
EBIT margin	-1.0 pp	58.3	56.1	54.0	52.0	50.2
	-0.5 pp	61.9	59.5	57.3	55.2	53.3
	+0.0 pp	65.5	63.0	60.6	58.4	56.4
	+0.5 pp	69.0	66.4	63.9	61.6	59.5
	+1.0 pp	72.6	69.9	67.3	64.8	62.6

SENSITIVITY OF DCF OF MFG, RELATIVE TO REPORTED

		WACC				
		-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp
EBIT margin	-1.0 pp	+22.5%	+17.8%	+13.4%	+9.3%	+5.5%
	-0.5 pp	+30.0%	+25.1%	+20.4%	+16.1%	+12.0%
	+0.0 pp	+37.6%	+32.3%	+27.4%	+22.8%	+18.5%
	+0.5 pp	+45.1%	+39.5%	+34.4%	+29.5%	+25.0%
	+1.0 pp	+52.6%	+46.8%	+41.3%	+36.3%	+31.5%

SENSITIVITY OF DCF OF MFG, FAIR VALUE OF E9 STAKE

		Sales growth				
		-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp
EBIT margin	-1.0 pp	45.9	49.8	54.0	58.6	63.5
	-0.5 pp	48.9	52.9	57.3	62.1	67.3
	+0.0 pp	51.9	56.1	60.6	65.6	71.0
	+0.5 pp	54.8	59.2	63.9	69.1	74.7
	+1.0 pp	57.8	62.3	67.3	72.6	78.5

SENSITIVITY OF DCF OF MFG, RELATIVE TO REPORTED

		Sales growth				
		-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp
EBIT margin	-1.0 pp	-3.5%	+4.6%	+13.4%	+23.0%	+33.5%
	-0.5 pp	+2.7%	+11.2%	+20.4%	+30.4%	+41.3%
	+0.0 pp	+9.0%	+17.8%	+27.4%	+37.8%	+49.2%
	+0.5 pp	+15.2%	+24.4%	+34.4%	+45.2%	+57.0%
	+1.0 pp	+21.4%	+31.0%	+41.3%	+52.6%	+64.9%

Sourceall tables: Company data and Nordea Markets

We find these sensitivity analyses reflect a range of fair values

It is important to differentiate between sensitivity, scenarios and fair value. The fair value should be based on expected cash flows and the fair cost of capital. Possible scenarios can generally be much more positive or negative than the fair value. With this said, we find that the outcomes in the tables capture a fair range of the value of MFG. We therefore estimate Eastnine's ownership stake at between EUR 46m and EUR 78m, which includes the estimated value of MFG reported by Eastnine ~EUR 48m.

Value of real estate holdings

For the real estate funds we also assume the value reported by East Capital through Eastnine and apply a scenario analysis on the direct real estate holdings.

Since the direct real estate holdings are valued externally with more or less a market yield, we argue for the fair value based on the value reported by Eastnine.

SENSITIVITY OF REAL ESTATE EQUITY GIVEN FIXED

Relative change in yield	Leverage: 0%	38%	50%	51%	65%
+0.075x	0.93x	0.89x	0.86x	0.86x	0.80x
+0.050x	0.95x	0.92x	0.90x	0.90x	0.86x
+0.025x	0.98x	0.96x	0.95x	0.95x	0.93x
	1.00x	1.00x	1.00x	1.00x	1.00x
-0.025x	1.03x	1.04x	1.05x	1.05x	1.07x
-0.050x	1.05x	1.09x	1.11x	1.11x	1.15x
-0.075x	1.08x	1.13x	1.16x	1.17x	1.23x

Source: Company data and Nordea Markets

We allow for yield spans of ±0.025 and ±0.05x and arrive at a fair value range for 3 Burės and Vertas – while Alojas is kept to Eastnine's book value

As we base our fair value range on the value reported by Eastnine, we allow for a yield range of ±0.025x for 3 Burės and ±0.05x for Vertas allowing for a range of discrepancy as Eastnine values its portfolio on an annual basis, as Vertas was valued longer ago than that, as it was acquired in June this year. This corresponds to a range in Eastnine's equity stake for 3 Burės of –5% to +5% and for Vertas a range of -9% to +10%.

Since Vertas was valued at purchase this June and 3 Burės was last valued as of Q4 2017, we find it probable that there is a dormant revaluation potential in Vertas. We use in Q3 revaluations for Swedish and Finnish real estate companies below to add the median of 0.9% to the value of Vertas. We estimate Vertas' fair value range at EUR 13.1-19.3m following the debt refinancing and 3 Burės' at EUR 29.2-32.3m.

Adjusting for market value and events after Q4

After Q4 2017, there are a few known events in Eastnine that will affect NAV. We do adjust for:

- **Repurchase of shares** – we estimate that 0.38m shares have been repurchased for an average of SEK 77.0 per share
- EUR 2.0m of East Capital **Eastern Europe Small Cap Fund** (formerly Deep Value Fund) has been divested
- **Operational expenses and reimbursements** from East Capital are estimated to net EUR -0.48m and are deducted from cash and equivalents. They could theoretically affect other assets and liabilities, but it would give the same net effect to NAV.
- Symmetrically we add **SEK 0.48m in net profit from properties**. These are not added to the properties in our NAV calculation, but rather to group-level

cash, even if the proceeds could be stored in the property subsidiaries.

- Acquisition of **Alojas Business Centre** (and included properties) amounting to SEK 29.4m.
- **Levering Vertas** to ~49% of property value, affecting NAV contribution negatively from the property and is added back to group-level cash.

We furthermore adjust for the latest market value of listed assets. In the case of Melon Fashion Group, we keep the valuation in RUB fixed, while adjusting the value in EUR with the EUR/RUB rate.

PRICE/NAV ESTIMATES OF EASTNINE

	Q4 31/12/17	Market value adj.	Other adj.	E9 est. 16/02/18	NDA adj.	NDA NAV 16/02/18
Real estate - directly owned						
Vertas	29.9		-14.0	15.9	-2.8 to 3.4	13.1 to 19.3
3 Bures	30.7			30.7	-1.5 to 1.6	29.2 to 32.3
3 Bures development	13.6			13.6		13.6
Alojas Biznesa Centrs + adjacent			29.6	29.6		29.6
Total	**74.2**		**15.6**	**89.8**	**-4.3 to 5.0**	**85.5 to 94.8**
Real estate funds						
EC Baltic Property Fund II	20.8		0.0	20.8		20.8
EC Baltic Property Fund III	16.2			16.2		16.2
Total	**37.1**		**0.0**	**37.1**		**37.0**
Total Real Estate	**111.2**		**15.6**	**126.8**	**-4.3 to 5.0**	**122.5 to 131.8**
Other investments						
Melon Fashion Group	48.6	-1.0		47.6	-1.7 to 30.9	45.9 to 78.5
EC Eastern Europe Small Cap Fund[1]	19.2		-2.0	17.2		17.2
EC Global Frontier Markets Fund	12.1	0.0		12.1		12.1
Komercijalna Banka Skopje	10.3	2.2		12.5		12.5
Miscellaneous investments	0.0		0.0	0.0		0.0
Total	**90.2**	**1.1**	**-2.0**	**89.3**	**-1.7 to 30.9**	**87.6 to 120.2**
Total invested portfolio	**201.4**	**1.1**	**13.6**	**216.1**	**-6.0 to 35.9**	**210.1 to 252**
Cash and cash equivalents	41.1	-	-12.8	28.3		28.3
Other assets and liabilities net	-0.1			-0.1		-0.1
NAV	**242.5**	**1.1**	**0.8**	**244.4**	**-6 to 35.9**	**238.4 to 280.3**
net cash & listed	**179.0**	**-1.0**	**13.6**	**191.6**	**-6 to 35.9**	**185.6 to 227.4**
Number of shares outstanding (m)	22.9		-0.4	22.6		22.6
NAV/share, EUR	10.57			10.84		10.6 to 12.4
NAV/share, SEK	103.89			107.79		105.1 to 123.6
Price, EUR	8.3			8.5		8.5
Price, SEK	81.8			84.9		84.9
Price/NAV	78.7%			78.8%	-2pp to 10.1pp	68.7% to 80.7%
Premium (+)/Discount (-)	**-21.3%**			**-21.2%**	-2pp to 10.1pp	**-31.3% to -19.3%**
net cash	**-25.7%**			**-24.0%**	-2.2pp to 10.8pp	**-34.8% to -21.8%**
net cash & listed	**-28.9%**			**-27.1%**	-2.4pp to 11.5pp	**-38.6% to -24.7%**
EUR/SEK	9.83			9.95		9.95
Market cap, EURm	206.3			211.8		211.8
Market cap, SEKm	2,029			2,107		2,107

[1]Previously East Capital Deep Value Fund

Source: Company data, FactSet and Nordea Markets

Discount to NAV net cash reached 24% on 16 February 2016

Discount to estimated Eastnine NAV is 21%, or 24% when attributing the discount to non-cash items and 27% if attributing it to non-listed non-cash items. The same discount ranges are 19-31%, 22-35% and 25-39%, respectively, for Nordea's adjusted NAV.

Based on our derived fair NAV range and the actual discount we argue for a fair price to NAV range – in essence a range of justified discount/premium for Eastnine.

Peer overview and relevance for Eastnine valuation

Investment company discounts are not very comparable

Generally, investment companies are trading at a price to NAV ratio that reflects their management's skill or lack thereof in conducting investments that outperform the market, the underlying risk in NAV, cost structure, etc. However it is difficult to compare the discount of Eastnine to that of other investment companies. Nonetheless, to get an overview of the discount of Swedish investment companies, we provide a table with the investment companies that Nordea covers as of 16 February 2016.

INVESTMENT COMPANY KEY DATA

10/11/2017	Share			NAV	Change in discount			Average discount		
SEKm	Price	Mcap	NAVPS	discount	-1w	-3m	-12m	-12m	-5y	-10y
Industrivärden C	196.4	90,570	220.5	10.9%	0.1 pp	0.7 pp	2.7 pp	-278.0%	8.3%	14.5%
Investor B	361.9	283,898	501.6	27.9%	0.3 pp	-0.5 pp	8.5 pp	335.3%	21.0%	24.8%
Kinnevik B	284.6	76,652	335.0	15.0%	0.1 pp	-1.1 pp	-0.2 pp	-161.5%		
Latour	96.6	64,429	95.3	-1.4%	0.0 pp	1.2 pp	8.9 pp	-466.0%	-7.3%	6.1%
Lundbergs	610.0	76,012	589.9	-3.4%	0.0 pp	-2.4 pp	1.1 pp	125.4%	-6.7%	6.2%
Ratos B	31.2	11,539	33.5	6.9%	0.1 pp	-9.6 pp	3.0 pp	1677.5%	2.8%	-7.8%
Eastnine*	82.5	1,931	100.3	18.5%	0.2 pp	-3.6 pp	-5.4 pp	-669.1%	22.2%	32.7%

Source: Company data, FactSet and Nordea Markets

However, Eastnine trades at a discount above the median – and almost above all other Swedish investment companies

It is evident that Eastnine trades at a higher discount than most other investment companies, with the only contender being Investor. Considering Eastnine's high net cash position however, Eastnine trades at a higher discount. Even if netting cash makes investment companies more comparable in terms of price to NAV, it is still difficult to compare investment companies' price to NAV in a meaningful way.

We will therefore start our argumentation about the fair price to NAV in the historical discounts of Eastnine for the parts of the company which should be valued as an investment company. We argue for some changes to that historical range, since the company is different now than during the time for which the historical discount figures are derived from. Nonetheless, we find it useful to highlight the discount of other investment companies even if other companies' price to NAV should not necessarily be applied to Eastnine.

Nordic real estate companies trade between a 21% discount and a 20% premium, with a median of a 1% discount

At the time of writing, Nordea covers 13 Nordic real estate companies. In November 2017, these companies traded at between a 21% discount and a 20% premium, with a median discount of around 1%. Finnish real estate companies have historically had higher discounts than Swedish real estate companies. We consider it reasonable to assume that Baltic property companies will be valued at or below the median discount in order to be conservative. Hence, we use the discount range of 1-21% initially for the real estate parts of Eastnine.

One of few relevant Baltic peers trades at a ~10% discount to Q3 reported NAV

In the Baltics, we have not found many peers, although INVL Baltic Property is an equity that might be relevant. INVL Baltic Property is run like a fund although it is quite small. For the end of Q4 2017, INVL Baltic Property reported NAV of EUR ~32m. Lately, the company trades at ~10% discount to Q3 reported NAV per share, suggesting that the discount range we use captures the scope of Baltic real estate discounts.

Justified price to NAV range for Eastnine

We propose a few ways in which we believe the market could interpret and value Eastnine. To begin with, we find a view which we deem reasonable based on **quantifiable aspects** of the company, after which we will take into account **aspects which are harder to quantify**.

Counting real estate funds as part of real estate firm and taking into account future and past cost cutting with 10x multiple yields a fair value range of SEK 80.4 – SEK 103 per share

- **The first** view is to value cash at a 0% discount, all real estate holdings at a 1-21% discount and the rest of the company at a historical discount range from the time it was considered an investment company (we use Q1 2010-Q4 2015), during which time the company traded at a net cash discount of 21-50%. We do not believe Eastnine's transformation into a pure real estate company was priced in, and so we find it a suitable range to begin with in discounting the "investment company" part of Eastnine. We arrive at a fair value of SEK 80.4-103 per share as we account for:
    - **Eastnine having decreased total costs** by ~1.1 pp of Eastnine NAV, from 2015 to 2017. Since costs have been volatile in the past, we do not want to factor in cost cuts where costs in 2015 could have been high in some aspects. We believe, however, that we can assume a 0.8 pp to NAV cost cut in perpetuity. Using a 10x multiple to fair value of the company, yields a discount reduction of 8% of NAV, which we apply to the investment company part of Eastnine.
    - We further estimate some future total cost cuts of ~0.23 pp, which we apply a 10x multiple to in a similar manner.

…reaching SEK 78.4 – 117.3 with Nordea NAV as base

- **Using Nordea NAV as a base** we see an implied share price of SEK 78.4 – 117.3, which in relative terms is -8 to +38% of the share price as of 16 February 2018. We find this the most relevant quantifiable view on the Eastnine share, and will use this range as a base to discuss more intangible aspects of the fair price to NAV.

100% real estate would give SEK 86-122 and SEK 105-124 if valued without a discount

- As a point of reference, **valuing all of Eastnine as a real estate company** with Nordea NAV yields an implied share price of SEK 85.6-122.5, or in relative terms +1 to +44%.

- Further, also as a point of reference, **valuing Eastnine without a discount** to the Nordea NAV, we see a share price of SEK 101.6 – 119.5 or 24 to 48% to current share price.

We find using Nordea's NAV as a base with cost cuts included and real estate funds as real estate company parts the best quantifiable view on the fair value. This implies a discount of 5-25% of Nordea NAV, implying a relative share price of -8 to +38%. However, we find that there are intangible aspects which would underestimate the fair value if omitted. Some of these aspects are:

Possible over-performance in the Baltic office segment

- **If the Baltic real estate market performs better than the Nordic market**, in risk-adjusted terms, a fair discount would probably be lower than what we have assumed so far.

- **Eastnine could have an edge in offices** with its connections with strong Swedish and Nordic tenants and long contracts. This could mean that Eastnine would outperform the Baltic real estate market in risk-adjusted terms. If so, a higher price to NAV would possibly be justifiable.

Previous possible conflict of interest has been reduced

- Possible **conflict of interest** with East Capital is reasonably priced into the historical numbers we have used, but should not likely be priced into the current fair value as the contract with East Capital has been terminated. This, we believe, would also call for a lower discount, although the effect of the reduction of this possible conflict of interest is, as previously indicated, difficult – if at all possible – to quantify.

The transformation process means less exposure to Russia's political and economic environment

- If we look at the higher bounds of the discount range of Eastnine's history (used in the quantifiable part of the valuation) we see that 50% discounts were reached during high economic or political instability in connection with Russia. Since parts of Eastnine's geographic exposure are undergoing transformations, the discount attributable to its **geographical exposure** to Russia should not weigh down the fair value of Eastnine to the extent it has previously.

Transformation process should be taken into account

- In addition, the quantifiable valuation does not take into account that **the company is transforming**. This could also lead to a lower discount, even if the markets do not (and perhaps should not) price in Eastnine as a pure real estate company just yet.

Higher dividend yield expected…

- The **financial targets** are new as of 26 September 2017, and if they have any effect on the fair value of Eastnine, this will not yet be reflected in the historical numbers. As these new financial targets will probably increase the dividend yield of Eastnine, at least at current price levels, we find these goals likely to be appreciated by the market.

…coupled with buy-backs

- **Share buybacks**, where the historical limit of 20% discount has been removed, could perhaps be interpreted as a signal from the company and lower the downside of the stock.
- **If historical discounts were unfairly high**, then the discount range we have arrived at so far would also be too high, just as it would be too low if historical discounts were unjustifiably low.

We value Eastnine between its quantifiable discount and a pure real estate company

With this in mind, we find it reasonable to value Eastnine between the quantifiable valuation and that of a pure real estate company, which would mostly cut off the upper bounds of the discount range, arriving at a discount of ~3% to ~22% of Nordea's NAV, implying a share price of SEK 82 to SEK 120 – or --3% to +41% in relative terms. Below, we show a table of implied share price and share price potential of Nordea's NAV with different discounts.

IMPLIED EASTNINE SEK/SHR

16/02/18	Nordea NAV range	
Discount	**Lower**	**Upper**
0%	105.1	123.6
3%	102.0	119.9
6%	98.8	116.2
9%	95.7	112.5
12%	92.5	108.8
15%	89.4	105.1
18%	86.2	101.4
21%	83.1	97.6
24%	79.9	93.9
27%	76.8	90.2
30%	73.6	86.5

Lower NAV is EUR 238.4m and upper is EUR 280.3m.

IMPLIED SHARE PRICE POTENTIAL

16/02/18	Nordea NAV range	
Discount	**Lower**	**Upper**
0%	+23.8%	+45.6%
3%	+20.1%	+41.2%
6%	+16.4%	+36.9%
9%	+12.7%	+32.5%
12%	+9.0%	+28.1%
15%	+5.3%	+23.8%
18%	+1.6%	+19.4%
21%	-2.2%	+15.0%
24%	-5.9%	+10.6%
27%	-9.6%	+6.3%
30%	-13.3%	+1.9%

Source both tables: Nordea Markets and FactSet

IMPLIED DISCOUNT OF EASTNINE IN DIFFERENT SCENARIOS AND NORDEA FAIR PRICE/NAV RANGE

	% of portfolio			Discount (+) / Premium (-)				Share price	
Scenario 1 2 3 4 Base	**r.e.**	**inv. c.**	**cash**	**r.e.**	**inv. c.**	**cash**	**total**	**Implied**	**Relative[5]**
Counting real estate funds as part of real estate firm and taking into account future and past cost cutting with 10x multiple									
x x x Est. E9 NAV	52%	37%	12%	1% – 21%	11% – 40%	0%	4% – 25%	80.4 – 103	-5% – 21%
Using NDA NAV as NAV base rather than estimated Eastnine NAV									
x x x x NDA NAV	47% – 51%	43% – 37%	10% – 12%	1% – 21%	11% – 40%	0%	5% – 25%[6]	78.4 – 117.3	-8% – 38%
Regarded 100% real estate company									
x - - x NDA NAV	90% – 88%	0%	10% – 12%	1% – 21%	-	0%	1% – 19%[6]	85.6 – 122.5	1% – 44%
Valued without discount									
x - - - NDA NAV				0%	0%	0%	0% – 0%[6]	105.1 – 123.6	24% – 46%
Our fair value range									
x - - - NDA NAV							3% – 22%[1]	82 – 119.9	-3% – 41%

1. x=Base is NDA NAV rather than estimated Eastnine NAV

2. x=Deducting price-cutting from termination of contract with East Capital from discount by a factor 10x

3. x=Deducting expected future cost-cuts from change of corporate structure, etc, by a factor 10x

4. x=Counting real estate funds as part of a real estate firm rather than a part of an investment company

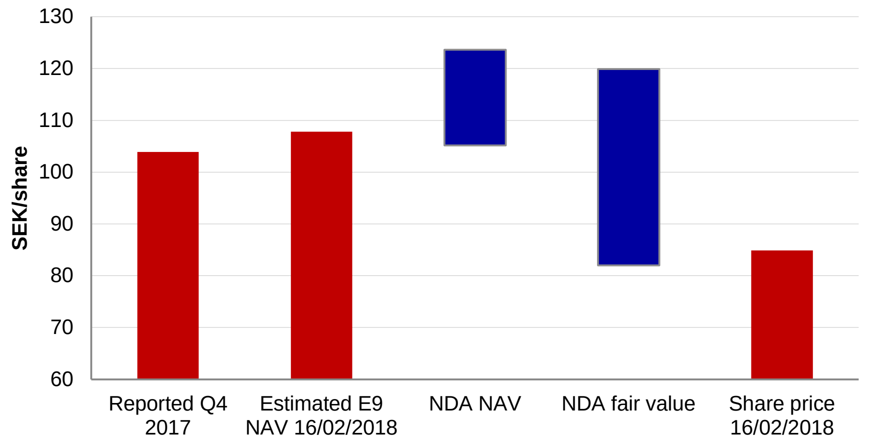
5. Relative to the close price 17/10/2017 of SEK 78.0 per share

6. Discount of Eastnine calculated with NDA NAV as base where the min range discount corresponds to the max range NAV and vice versa.

Note: Differences to the tables on the previous page are attributable to rounding of discounts in this table.

Source: Company data, FactSet and Nordea Markets

VALUATION AND PRICE TO NAV FOR EASTNINE



NDA NAV includes estimated Eastnine NAV

NDA fair value range includes the current share price

Historical discounts becoming less and less indicative of future fair value

In the future, we believe, that following the transition into a pure real estate company, we could see a lower fair discount to Eastnine. We also believe that the company's performance within Baltic real estate will become more and more indicative of a fair price to NAV than the company's historical investment outcomes and discount range.

Estimates

We estimate on a quarterly and an annual basis the income statements both for the direct real estate segment of Eastnine and for Melon Fashion Group. The latter is used in the valuation section to derive a fair value of the MFG holding. We also estimate the future cost structure of Eastnine and expect that costs will be cut by some 0.2 pp of NAV, creating a margin between estimated costs and the company's target.

Cost reduction on both the parent and holding company level, while directly owned real estate could generate profits of EUR 16.5m when fully invested

We forecast the income statement of the direct real estate holdings, costs of management for Eastnine and the operations of Melon Fashion Group. We conservatively apply slightly high paid taxes and no value adjustments to our estimates for direct real estate. We expect a decline in group costs, firstly following corporate structural changes and secondly owing to some costs during the past 12 months relating to rebranding (not expected to continue). We regard Melon Fashion Group as likely to expand margins following several projects and programmes set in place by management – we have seen some of this margin expansion in the Q3 and Q4 numbers. The income statement of the direct real estate portfolio is expected to see some EUR 18.7m in a fully leveraged scenario.

Income statement of direct real estate portfolio

Conservative estimates that exclude revaluations

We estimate the income statement of the current real estate holdings and known pipeline – ie Vertas, 3Burės and Alojas, on a quarterly and annual basis including the development. Our estimates are conservative in that we do not include any change in the value of properties. We expect Eastnine to revalue 3 Burės including the development in Q4 every year and Vertas in Q2 of every year, though indications from the company is that valuations might occur quarterly going forward. We see potential for upcoming value adjustments to stem from inflation, rent changes and/or yield contraction, although this is dependent on the underlying assumptions in Eastnine's valuation.

Rental income expected to be EUR ~2m for next quarter

Development done in Q4 2018

We estimate that rental income will reach EUR ~2.0m owing to Alojas attributing to the quarter a third of its quarterly base of rental income (on costs we attribute about half for the coming quarter, meaning the bottom line is quite conservative). We expect that rental income will be collected from 3 Burės development in Q4 2018, but that just over one month of that quarter will yield rental income. Rental income for 2019 is then expected to reach EUR ~12.1m, we estimate. For 2020-21 we expect full or close to full investment of Eastnine in Baltic real estate, we believe, however, that the portfolio will see some upswing in interest expenses earlier than that as we expect the company to leverage its real estate portfolio more fully beginning coming year. We estimate a scenario of full investment and a 50% loan-to-value ratio and full investment. We expect that full investment with full leverage (ie 50% loan-to-value ratio) can be achieved around 2022.

Return on NAV to reach some 8.4% when fully leveraged

We estimate a return on NAV, excluding revaluations, calculated as pre-tax profit minus paid income tax over the equity stake in the real estate portfolio, which reaches 8.7% in the fully leveraged scenario. We find this approach suitable, although there may very well be other definitions of return on NAV. Note that this measurement excludes revaluations.

We consider our estimates quite conservative as:

Conservative estimates since low acquisition yields small value adjustments and slightly high paid taxes assumed

- To simulate the fully invested scenario, we assume an average yield of 5.9% at purchase
- We do not factor in any value adjustments of the real estate portfolio, even if we expect the properties to be revalued on an annual basis or more

frequently

- We assume Lithuanian tax of 20%. We estimate that taxes will be fully accrued until 2018, where it will start to be partially paid, reaching 8% of pre-tax profit by 2019.

INCOME STATEMENT FOR DIRECT REAL ESTATE FOR CURRENT PORTFOLIO AND KNOWN PIPELINE, QUART.

	2016				2017				2018			
Real Estate P&L, EURm	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1E**	**Q2E**	**Q3E**	**Q4E**
Rental income	**1.1**	**1.1**	**1.1**	**1.0**	**1.1**	**1.3**	**1.7**	**1.6**	**2.0**	**2.4**	**2.4**	**2.6**
Property costs	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	-0.2	-0.5	-0.2	-0.2	-0.2	-0.4
Management & administrative expenses	-0.1	0.0	0.0	-0.3	-0.1	-0.2	-0.1	-0.3	-0.2	-0.3	-0.3	-0.3
Other income and expense	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net operating income	**1.0**	**1.0**	**1.2**	**0.6**	**0.8**	**1.0**	**1.3**	**0.9**	**1.5**	**1.9**	**1.9**	**2.0**
Surplus ratio, %	*89*	*91*	*103*	*58*	*72*	*78*	*80*	*54*	*76*	*79*	*79*	*76*
Net interest	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
Profit from property management	**0.7**	**0.8**	**0.9**	**0.3**	**0.5**	**0.8**	**1.1**	**0.7**	**1.2**	**1.6**	**1.6**	**1.6**
Changes in value of properties	0.0	0.0	0.0	1.1	0.0	0.0	0.0	4.5	0.0	0.0	0.0	0.0
Changes in value of deriavatives								-0.2	0.0	0.0	0.0	0.0
Profit before tax	**0.7**	**0.8**	**0.9**	**1.4**	**0.5**	**0.8**	**1.1**	**5.2**	**1.2**	**1.6**	**1.6**	**1.6**
Income tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.2	0.0	0.0	0.0	-0.1
Deferred tax	0.0	0.0	0.0	-1.4	-0.1	-0.1	-0.1	-1.1	-0.2	-0.3	-0.3	-0.3
Net profit	**0.7**	**0.8**	**0.9**	**0.0**	**0.5**	**0.7**	**1.0**	**9.3**	**1.0**	**1.3**	**1.3**	**1.3**
Return to NAV[1]	**9.9%**	**11.0%**	**12.0%**	**3.9%**	**5.9%**	**8.7%**	**9.4%**	**39.5%**	**7.7%**	**8.1%**	**8.0%**	**7.4%**

1. Return to NAV is calculated as profit from property management less paid tax in relation to NAV of real estate portfolio

Source: Company data and Nordea Markets

INCOME STATEMENT FOR DIRECT REAL ESTATE - CURRENT PORTFOLIO AND KNOWN PIPELINE, ANNUALLY

Real Estate P&L, EURm	**2016**	**LTM**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**Fully invest. w/ leverage[1]**
Rental income	**4.3**	**4.5**	**5.7**	**9.3**	**12.1**	**12.6**	**13.1**	**37.3**
Property costs	-0.5	-0.6	-1.0	-1.1	-1.6	-1.7	-1.8	-5.1
Management & administrative exp.	-0.4	-0.6	-0.7	-1.0	-1.2	-0.9	-1.0	-2.7
Other income and expense	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net operating income	**3.8**	**3.6**	**4.0**	**7.2**	**9.3**	**10.0**	**10.3**	**29.5**
Surplus ratio, %	*88*	*80*	*70*	*78*	*77*	*79*	*79*	*79*
Net interest	-1.2	-1.1	-0.9	-1.2	-2.0	-2.1	-2.1	-6.1
Profit from property mgmt	**2.7**	**2.5**	**3.1**	**6.0**	**7.3**	**8.0**	**8.2**	**23.4**
Changes in value of properties	1.1	1.1	4.5	0.0	0.0	0.0	0.0	0.0
Changes in value of deriavatives	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Profit before tax	**3.8**	**3.6**	**7.3**	**6.0**	**7.3**	**8.0**	**8.2**	**23.4**
Income tax	0.0	0.0	4.9	-0.1	-0.4	-0.6	-0.7	-2.1
Deferred tax	-1.4	-1.6	-1.3	-1.1	-1.0	-1.0	-0.9	-2.6
Net profit	**2.4**	**2.1**	**6.1**	**4.8**	**5.8**	**6.4**	**6.6**	**18.7**
Return to NAV[2]	**9.2%**	**7.6%**	**18.1%**	**7.8%**	**8.4%**	**8.8%**	**8.8%**	**8.7%**

1. Fully invested and leveraged scenario assumes all of current Eastnine NAV in real estate and 50% leverage - measured in 2017 prices

2. Return to NAV is calculated as profit from property management less paid tax in relation to NAV of real estate portfolio

Source: Company data and Nordea Markets

Group cost estimates

Forecasting only costs and paid-back management fees

As forecasting value change in subsidiaries is a speculative matter, we revert to estimating the costs of managing the portfolio instead. We project Eastnine's reported "Other income" as this is paid-back management fees from East Capital – in essence, reversed costs. We base our forecast on the following:

Management fees going down as funds are divested

- Management fees paid back (or Other income) are from East Capital for East Capital East Europe Small Cap Fund (previously Deep Value Fund) and East Capital Frontier Markets Fund. We estimate EUR ~2m divestment in the former fund per quarter, while the latter fund is likely to be divested in 2018-20 gradually with the same pace, meaning we believe there is some Other income to be expected in 2019.

Staffing expenses up due to new investment team

- We expect staffing expenses to be higher than, for example, in 2015 as the company has doubled its investment team following the termination of the contract with East Capital. From 2017 to 2018 we correct for overlapping CEO salaries in forecasting.

Some rebranding expenditure in LTM; unlikely to remain

- Other operating expenses should decrease due to some expenses in 2016 (and LTM) being attributable to rebranding following the termination of the East Capital contract. Furthermore, the new corporate structure, with subsidiaries in Cyprus and Luxembourg being moved, should decrease other expenditures by EUR 0.3-0.5m, according to the company. As management indicating successful execution we assume EUR 0.45m – mid-upper range.

No more one-offs relating to consulting expected

- The one-off in 2016 is attributable to consulting on the termination of the East Capital contract. We do not expect any more one-offs in the coming years and exclude this from aggregate costs to get a more comparable picture of costs.

Expecting zero financial expenses

- Financial expenses in 2016 were attributable to currency fluctuations and so we assume these will be zero going forward.

Expected decrease in net management fees

- Net management fees exclude management fees paid back (reported by Eastnine as Other income) and are thus the management fees for East Capital Baltic Property Fund II and III. Going forward, in expectations we estimate gradual payouts in the coming years. We expect inflows to Fund II from Eastnine amounting to the EUR 5.9m left in commitments with it being invested between now and mid-2019. In expectation, we believe that Fund III will be divested to half by year-end 2020 and that Fund II is more or less fully divested by then. The total holdings of East Capital funds for which management fees are paid should decrease, and thus also the actual net fees paid.

Costs to decline by ~0.23 pp of NAV

In total, we expect costs in relation to NAV to decrease by some ~0.23 pp 2017 last 12 months (ending in September 2017) to 2019.

OPERATING AND FUND MANAGEMENT COSTS - ESTIMATES							
EURm	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Staff	-0.90	-1.00	-1.89	-2.26	-2.36	-2.41	-2.46
Other	-1.15	-0.92	-0.96	-1.26	-0.79	-0.79	-0.79
One-offs	0.00	0.00	-1.60	0.00	0.00	0.00	0.00
Opex less one-offs	**-2.05**	**-1.92**	**-2.86**	**-3.52**	**-3.15**	**-3.20**	**-3.25**
% NAV²	*0.72%*	*0.73%*	*1.19%*	*1.47%*	*1.29%³*	*1.26%³*	*1.23%³*
Financial expenses	-0.01	0.00	-0.06	-0.12	0.00	0.00	0.00
Total (excl one-offs)	**-2.06**	**-1.92**	**-2.92**	**-3.64**	**-3.15**	**-3.20**	**-3.25**
% NAV²	*0.72%*	*0.73%*	*1.21%*	*1.52%*	*1.29%³*	*1.26%³*	*1.23%³*
Total managment fees	5.30	-4.80	-2.69	-1.39	-1.08	-0.68	-0.36
Mgmt fees paid back¹	0.00	0.00	0.69	0.89	0.52	0.18	0.02
Net management fees¹	**5.30**	**-4.80**	**-2.00**	**-0.50**	**-0.57**	**-0.50**	**-0.34**
% NAV²	*-1.85%*	*1.83%*	*0.83%*	*0.21%*	*0.23%³*	*0.19%³*	*0.13%³*
Total incl net mgmt	**3.25**	**-6.72**	**-4.86**	**-4.02**	**-3.72**	**-3.70**	**-3.59**
% NAV²	*-1.14%*	*2.56%*	*2.01%*	*1.68%*	*1.52%³*	*1.45%³*	*1.36%³*

1. East Capital management fees paid back (Other income) are deducted in net management fees.
Starman performance fee and fees to East Capital for contract termination excluded from net mgmt fees
2. % of NAV is calculated using average NAV at the end of the last four quarters
3. The NAV base for unreported quarters is our estimated Eastnine NAV as of 16/02/2018

Source: Company data and Nordea Markets

Estimates for Melon Fashion Group

Slight increase in number of stores

High growth in sales per store expected to decline

We derive future estimates for the operations of Melon Fashion Group by modelling a increase in the number of stores from 551 in Q4 2017 to 591 at the end of Q4 2018 Nominal sales per average store have grown by some ~10% y/y for the last few years, and since inflation is expected by Nordea to come down in Russia, we expect y/y growth in sales/average store to decline from ~18.3% in Q3 to 5.5% in 2020. As of late, hedged gross margins have been around 45% in Q1s and 53-55% in other quarters, although we expect these to improve somewhat. For this coming Q1 2018 we expect a gross margin of 46.5%.

Capex high for about a year

We use the Russian corporate tax of 20%. Capital expenditure (investments) is projected to be almost as high in the coming nine to 12 months as during the past year and then remain slightly larger than depreciation and amortisation to converge after 2024. This reflects the store developments, relocations, IT- and infrastructure investments going forward.

Reasons to expect margin expansion in MFG are…

1. Given our assumptions of income and expenses so far, we do not account for potential operational costs improvement. There are several reasons why we believe margins will expand through lower SG&A in relation to sales:

…closure of unprofitable stores…

2. Melon Fashion Group is closing unprofitable stores and moving stores to better locations, even if we believe most efforts in cleanly closing stores are done (though not the efforts in relocating stores). The closure of unprofitable stores and moving stores to more favourable places should, intuitively, expand margins rather than keep them stable – ie this should see costs decline in relation to sales.

…historical disconnect between costs and sales…

3. For the past three to four years, sales have grown quite rapidly – at around 10% CAGR – while operational costs have been quite flat – or at least have not followed sales. It would be reasonable to assume that a portion of costs is fixed, such as some central functions, while some costs relating to

distribution would more likely be variable. All in all, it is important to note that in recent years, costs have not followed sales growth by a certain fraction.

...possible success with expansion into Eastern Europe...

4. Margins could grow in the medium term if expansion into Eastern Europe is successful, since it could both trigger operational leverage and alleviate the company from some of the economic stress relating to Russia recently.

...internet sales growing faster with lower costs...

5. Internet sales grew by some 80% y/y in 2017. The company halved costs in conjunction with warehousing for internet sales in 2016. If internet sales grow more rapidly than other revenue for some time – which we believe is reasonable – this would also intuitively lead to margin expansion as segments with higher margins would grow faster than those with smaller margins.

...lower cost per m²...

6. Furthermore, MFG expects to have larger store areas in coming years, reducing costs per m². This does not necessarily increase margins, but MFG expects it to do just that. Since they have already seen the result of some store relocations we believe it is reasonable to take this guidance into account.

...and cost-cutting programmes and financial goals for the coming five years

7. On top of this, or as an aspect of the points already mentioned, the company is undergoing an extensive cost-cutting programme. It has distinct five-year goals, with financial indicators for every department and programmes for logistics/supply chain, assortment planning, store operations, etc. We expect the supply chain to improve gross margins and store operations' EBITDA margin.

EBITDA margin expansion by ~2.4 pp by year-end 2021

With this in mind we find it reasonable to expect that MFG will expand EBITDA margins by ~2.4 pp by the end of 2021 through lower overhead costs alongside the assumptions set out above. This approach yields an EBIT margin of 13.3% in 2021 quite above the LTM ending in December 2017 reported margin of 10.9%. The gross margin contributes about fifth of the EBIT margin improvement from the last 12 months period until 2021.

ESTIMATES 2021 COMP'D TO LTM

	LTM	2021E	Change
Gross margin¹	52.6%	53.1%	+0.5pp
Opex/sales	41.7%	39.8%	-1.9pp
EBITDA margin	10.9%	13.3%	+2.4pp
EBIT margin	7.0%	9.6%	+2.5pp
NWC/sales	1.2%²	1.4%	+0.2pp

1. Gross margin is hedged

2. LTM is also an estimate / approximate number

Source: Company data and Nordea Markets

Lease commitments of RUB ~8.8bn

The lease commitments of Melon Fashion Group amounted to RUB ~8.8bn at the end of 2016, 27% of which was to be paid within a year, 63% between one and five years and the remaining 10% in more than five years. We have not capitalised these commitments in our estimates.

Gross margins adjusted for hedging

The following tables provide detailed estimates for Melon Fashion Group, with gross profits adjusted for hedging (income/expense from hedging is usually reported below the gross profit line).

MELON FASHION GROUP REPORTED NUMBERS AND DETAILED ESTIMATES

RUBm	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Sales	11,192	12,569	12,474	13,869	16,883	18,507	19,769	20,843	21,960	23,135	24,372
growth	*24.8%*	*12.3%*	*-0.8%*	*11.2%*	*21.7%*	*9.6%*	*6.8%*	*5.4%*	*5.4%*	*5.4%*	*5.3%*
Adjusted gross profit	7,071	6,100	5,748	7,290	8,898	9,820	10,490	11,060	11,653	12,277	12,933
margin (%)	*63.2%*	*48.5%*	*46.1%*	*52.6%*	*52.7%*	*53.1%*	*53.1%*	*53.1%*	*53.1%*	*53.1%*	*53.1%*
EBITDA	481	803	610	1,507	2,081	2,404	2,597	2,769	2,917	3,073	3,237
margin (%)	*4.3%*	*6.4%*	*4.9%*	*10.9%*	*12.3%*	*13.0%*	*13.1%*	*13.3%*	*13.3%*	*13.3%*	*13.3%*
EBIT	247	514	209	977	1,478	1,677	1,863	1,995	2,102	2,214	2,333
margin (%)	*2.2%*	*4.1%*	*1.7%*	*7.0%*	*8.8%*	*9.1%*	*9.4%*	*9.6%*	*9.6%*	*9.6%*	*9.6%*
Net income	44	279	107	769	1,175	1,334	1,483	1,589	1,674	1,764	1,859
Adj. NWC/sales[1]	1.4%	3.9%	2.2%	0.5%	1.6%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Depreciation to sales	2.2%	2.3%	3.2%	3.8%	3.6%	3.9%	3.7%	3.7%	3.7%	3.7%	3.7%
Capex to sales	4.3%	2.3%	5.7%	7.8%	7.6%	4.0%	4.2%	4.1%	4.1%	4.0%	3.9%

1. Historicals are estimated to reflect NWC levels and are hence approximate

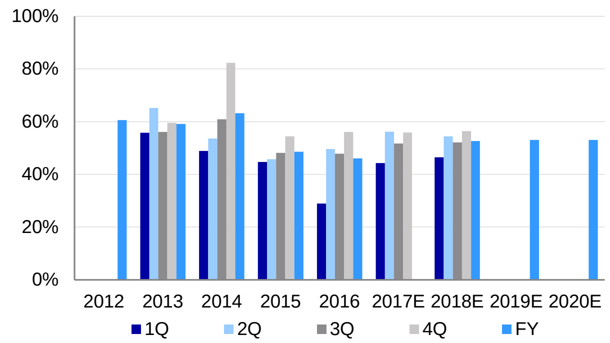
Source: Company data and Nordea Markets

MELON FASHION GROUP REPORTED NUMBERS AND DETAILED ESTIMATES - QUARTERLY

RUBm	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E
Sales	2,839	3,101	3,362	3,172	2,690	3,265	3,842	4,071	3,565	4,158	4,499	4,661
growth	*-1.1%*	*1.6%*	*6.5%*	*-9.1%*	*-5.2%*	*5.3%*	*14.3%*	*28.3%*	*32.5%*	*27.3%*	*17.1%*	*14.5%*
Adjusted gross profit	822	1,538	1,607	1,781	1,192	1,836	1,985	2,277	1,658	2,264	2,345	2,631
margin (%)	*29.0%*	*49.6%*	*47.8%*	*56.2%*	*44.3%*	*56.2%*	*51.7%*	*55.9%*	*46.5%*	*54.4%*	*52.1%*	*56.5%*
EBITDA	-233	136	148	560	-92	426	505	667	181	592	548	760
margin (%)	*-8.2%*	*4.4%*	*4.4%*	*17.6%*	*-3.4%*	*13.1%*	*13.2%*	*16.4%*	*5.1%*	*14.2%*	*12.2%*	*16.3%*
EBIT	-315	53	63	408	-190	305	353	509	53	447	389	589
margin (%)	*-11.1%*	*1.7%*	*1.9%*	*12.9%*	*-7.1%*	*9.3%*	*9.2%*	*12.5%*	*1.5%*	*10.7%*	*8.6%*	*12.6%*
Net income	-269	31	38	306	-154	226	303	394	40	356	309	470

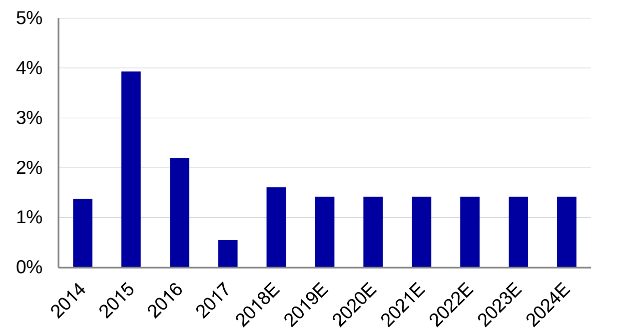
Source: Company data and Nordea Markets

HEDGED GROSS MARGINS, HISTORICALS & ESTIMATES



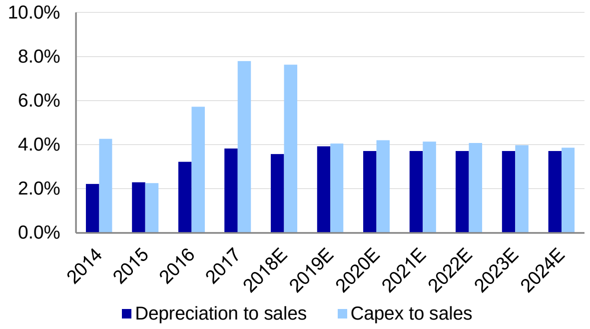
Source: Company data and Nordea Markets

NWC HISTORICALS (APPROXIMATE) AND ESTIMATES



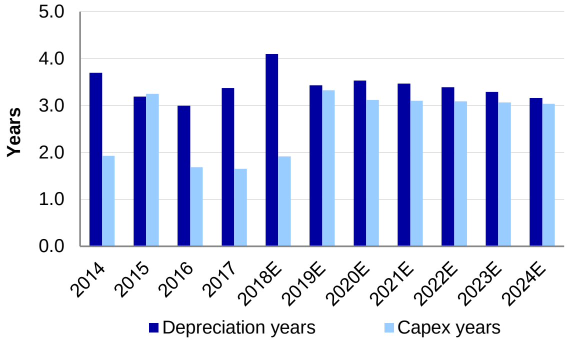
Source: Company data and Nordea Markets

DEPRECIATION AND CAPEX TO SALES



Source: Company data and Nordea Markets

DEPRECIATION AND CAPEX YEARS



Source: Company data and Nordea Markets

Risk factors

In this section, we list the main risk factors we find relevant for Eastnine. The main risks we see relate to the divestitures of current holdings, exchange rate fluctuations, the integration of the new investment team and future economic sentiment in the Baltic region in which Eastnine operates.

Strong transaction focus ahead

Strong transaction focus in the near term introduces a clear valuation risk

Eastnine's latest strategic shift towards owning only Class-A properties in the Baltic region means that only 37% of the Q3 NAV from the current holdings will remain after the transition, requiring a strong transaction focus going forward. Since only about 10% of its current holdings are listed assets, the company faces a valuation and liquidity risk in its aim to divest the remaining assets at a fair value. Regarding investments in the desired segment, we expect acquisitions to occur in the near term due to the company's currently strong net cash position. Future profitability greatly depends on the company's ability to compound attractive acquisitions and conclude attractive deals. In this respect, there is a risk that the group might not successfully identify, acquire and integrate properties and could possibly overpay.

Dependence on the economic outlook

Risk of economic downturn, globally, in real estate and/or the Baltics

The value of the company's holdings will also be affected by market conditions, mainly in the Baltics (57% in September 2017), Russia (24%) and the Balkan region (11%) where the company has its largest exposure. The company's holdings are mainly within finance and consumer goods and a downturn in these areas in the regions could affect sales and profitability – and thereby valuation – negatively. The strategy shift towards owning only class-A properties in the Baltic region concentrates the market exposure in terms of geography and industry.

Dependence on few key people and recently appointed CEO

Few employees entails personnel sensitivity

Eastnine depends on a few key employees and its management's ability to motivate, retain and attract talented people to pursue successful operations in the future. The company recently changed its CEO, from Mia Jurke to Kestutis Sasnauskas. He is the former CIO of Eastnine and co-founder of East Capital. We believe he has relevant experience, but we have yet to observe his performance when he is fully integrated into this role. The company is dependent on the knowledge of its employees and is affected if key individuals choose to leave.

Vacancies and number of tenants

Increasing wages in the region threatens the offshore activities of international companies in the Baltics

The past few years have offered significant GDP growth in the Baltic region, especially evident in 2012-14. This has attracted investors and the number of dwellings has increased substantially. The increase in real estate supply is expected to prevail, mainly driven by the construction of office buildings, which introduces the risk of oversupply. Eastnine is already and will be increasingly dependent on demand for office and commercial rentals from companies in strong financial positions. The company believes the willingness of internationals to move offshore will be driven by lower salaries in the area; salary growth in the past few years has been 5-8% annually. If salaries continue to increase at this rate, it could result in decreased demand for office rentals and increased vacancy rates, which would cause rent levels to decline, affecting profitability negatively. There are also commercial risks such as the possibility of emerging trends to decentralise companies, have people work from home or even something as simple as having less office space per employee.

Interest rate risks

Interest rate increases could affect profitability negatively

The valuation of divestments will most probably be affected by interest rates, as an increase in interest rates could possibly make it more difficult for buyers to obtain financing or create a higher cost of debt, causing the price for divestments to decrease. Concerning Eastnine's own investments, an increase in interest rates could hamper the company´s ability to obtain financing and thereby its capability to pursue value-creating investments in the future. Moreover, real estate investments generally include payment obligations over a longer time period and are accordingly sensitive to interest rate fluctuations.

Currency risk

Eastnine faces currency risk mainly tied to underlying investments in non-monetary assets in RUB and USD

Eastnine operates and invests in different markets, and unfavourable currency movements in those regions could impact results negatively. The company holds monetary and non-monetary assets in currencies other than EUR, with about 99.9% of monetary assets in EUR at the end of 2016. The non-monetary assets are primarily exposed to RUB, USD and MKD, for which the company reported exposure of non-monetary assets of 24%, 26% and 6%, respectively, at the end of 2016. Most operating costs and all dividends to be paid are in SEK, which the company can decide to hedge. Eastnine generally does *not* hedge for fluctuations in the local currencies in which its underlying investments are traded or their values derived from, and so Eastnine is affected by value changes resulting from FX movements in these non-monetary assets. The shift in strategy towards increased investment focus in the Baltic region should reduce the currency risk in the future, as all Baltic states are members of the EMU.

Political risk

Political instability often decreases consumer spending

The decision to operate in Eastern Europe presents a larger political risk than more developed countries like the Nordics, which in turn could affect profitability negatively. The company is currently dependent on consumer spending in Russia and increased political risks could potentially cause a loss in value due to increased consumer wariness. Currently, less than 25% of Eastnine's invested portfolio is held in Russia and it has previously experienced large downturns in the region following political instability.

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