

Boreo's and Sievi Capital's Combination Agreement

29 September 2021



FAQ Sievi Capital Plc

How did Sievi Capital's board of directors come up with the proposal to merge?

The Board of Directors of Sievi Capital, elected at the end of April 2021, started strategy work in the spring to determine the company's future options. Which option would create the most value for shareholders: continue as a private equity investment company, become a conglomerate or a compounder, or merge with another company? An experienced financial advisor was used.

Following the launch of the strategy, Preato Capital, the largest owner of Sievi Capital, proposed to the Board as one alternative to explore the potential benefits and conditions of the merger with Boreo.

The Board continued its strategy work, in which Preato's representatives did not participate. After a careful strategy analysis, Sievi Capital's board of directors came to the conclusion that the best option would be to change the strategy from a private equity investment company to a compounder, and a combination with Boreo would be the fastest way to achieve this strategic change. Negotiations were initiated with Boreo.

Board members independent of the principal owner, Preato Capital, acted as negotiators from both parties.

Both sides had their own goals in the negotiations. After thorough negotiations and based on expert opinion, the outcome was the best achievable for the owners of Sievi Capital.

What role has Preato Capital played in the planning of the combination?

In the spring, the new board of directors decided to launch a strategy review at Sievi Capital. In May, Preato Capital, the largest owner of Sievi Capital, proposed to the Board of Directors of Sievi Capital to merge Sievi Capital and Boreo into a leading compounder. Preato's main owner, Simon Hallqvist, withdrew from the board's strategy work with the proposal. Other members of the board of directors finalised the strategic choices, selected advisors and entered into negotiations with Boreo. When the letter of intent was signed, Preato Capital expressed its support for the contemplated combination.

Did the Board of Directors of Sievi Capital investigate other options during the negotiation process regarding Sievi Capital's strategy besides combine with Boreo or continue as an independent listed company?

The Board of Directors of Sievi Capital has carried out a careful strategy analysis. In assessing the company's strategic options, the combination with Boreo to create a new leading compounder in the Finnish market proved to be the solution that provided the most shareholder value in the opinion of the board of directors and its strategic advisor. As a result of the combination, Sievi Capital's shareholders will be able to continue as shareholders in a new, faster-growing company.

Other strategic options that were assessed by the Board of Directors of Sievi Capital included the continuation of the current investment company model, transformation into a conglomerate and combination with another company. In the opinion of the board of directors and its advisor, a merger with Boreo would bring the most benefits in terms of shareholder value.

Is the conversion rate of 40/60 used as the basis for the agreement good for Sievi Capital's shareholders?

The conversion rate is clearly better than the market value ratio at the time of the negotiations and the board of directors considers it good for all Sievi Capital shareholders, who as owners of the new company will benefit from a broader business portfolio, risk diversification and faster growth.

The ratio takes into account the market values of the companies and, in addition, valuations based on both companies' financial situation and profitability, calculated using different methods. The conversion rate is not based on the short-term market valuation of companies, as is the case for combinations usually, but takes them into account over a longer period of time. In its strategy work, Sievi Capital's Board of Directors has analysed various options for increasing shareholder value. The board of directors considers the proposed merger to be the best option for Sievi Capital's shareholders. Note that the proposed transaction is not a tender offer in which the shareholders of Sievi Capital would sell their shares.

By accepting the proposed merger, the shareholders of Sievi Capital will be able to join as owners in the fast-growing, profitable compounder Boreo.

Inderes, which follows Sievi Capital, has given the company a significantly higher target price as a result of the merger. The research company also considers the exchange ratio to be sufficient, taking into account the future company's strategy and future prospects.

Since the publication of the Letter of Intent (18.8.2021), the share prices have changed and the announced premium has melted. Is the premium still good enough to be approved by shareholders of Sievi Capital?

The merger will create a company that is stronger than Sievi Capital and Boreo would be as standalone companies. The merger on the published terms is the best possible solution for all shareholders of both companies.

The Board of Directors of Sievi Capital considers that the largest potential of the merger will benefit shareholders in the long term, but already the imputed premium of the transaction in relation to the companies' trading volumes weighted average prices (so-called VWAP) is attractive to Sievi Capital's shareholders. The most typical short-term imputed premiums for the period ending on 17 August 2021 were 24.0 per cent (1 month VWAP), 16.8 per cent (3 months VWAP) and 12.6 per cent (6 months VWAP), but the longer 12-month period was also taken into account in the valuation negotiations.

After the announcement of the conversion rate on 18 August 2021, the companies' share prices have also evolved in a linked way and approached the conversion rate indicated at the time, which is normal in arrangements between listed companies.

The Board members, who are independent of the principal owner of Sievi Capital, consider that the aforementioned imputed premiums to Sievi's shareholders take into account the fair values of Sievi Capital and Boreo.

Why is the future company's strategy based on Boreo's current strategy, not Sievi Capital's? How is it ensured that this maximises the value of the whole?

Boreo has implemented a strategy reform in spring 2021 and the company has strong evidence of its successful implementation. One indication of this is that Boreo's share in the stock exchange is valued relatively higher than Sievi's.

The board of directors of the companies have estimated that Boreo's business model and strategy create the best conditions for creating shareholder value and that the combination will allow shareholders of both Sievi Capital and Boreo to benefit from the future development of the company.

The similarities between Boreo's and Sievi Capital's operations (such as acquisitions and entrepreneurial culture) provide a good basis for the future development of the company.

Has the impact of the acquisition of Rakennuttajatoimisto HTJ, published on 21 September, on Sievi Capital been taken into account in the conversion rate and, if so, how?

The HTJ acquisition has been taken into account in the conversion rate according to the company value and the purchase price.