



Value Investing in Eastern Europe

Presented by Steven Gorelik

Firebird Management

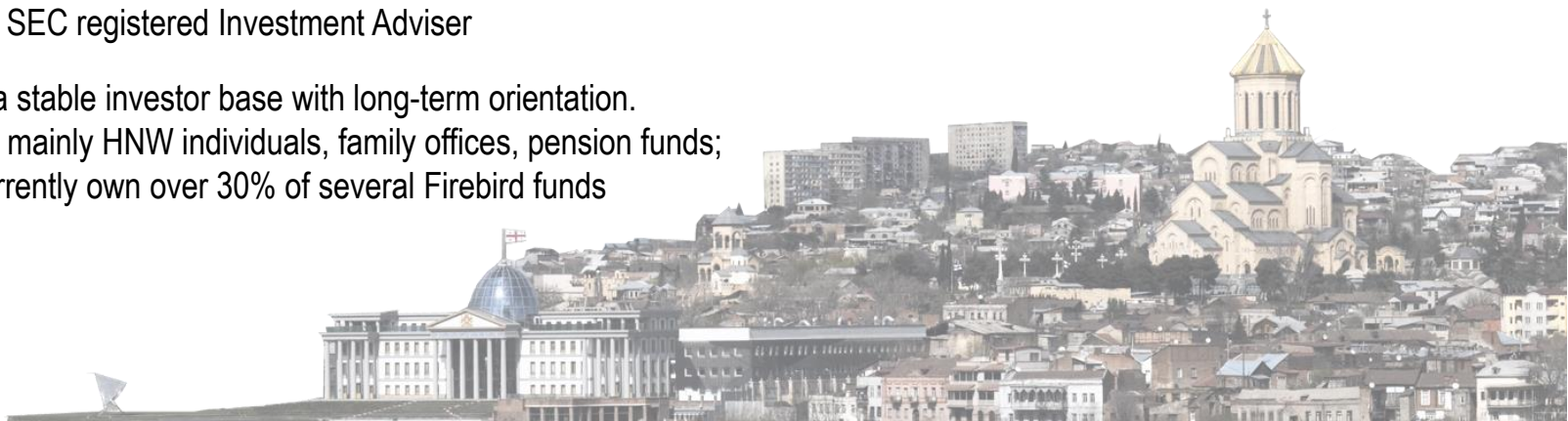


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FIREBIRD MANAGEMENT

- **Firebird Management LLC is based in New York City** and, through affiliates, maintains representative offices in Estonia, Lithuania and Mongolia
- We manage approximately **US\$0.7 billion** in six Emerging Markets portfolio funds, one U.S. portfolio fund, three private equity funds and one hybrid (see next slide)
- Firebird has a track record of **22 years** and principals **Harvey Sawikin** and **Ian Hague** are among the few Russia and FSU focused managers that have invested in the region over several investment cycles
- Always close to regional markets, Firebird managers and analysts held 500+ company meetings in the last year, and, including our Amber private equity JV, serve on 8 Boards of Directors of the funds' portfolio companies
- Since inception in May 1994 Firebird Fund has delivered **17.3% net annualized returns** to investors*
- Firebird funds have created over US\$1.1 billion of value over the years, and distributed over US\$3 billion back to our investors**
- Firebird is an SEC registered Investment Adviser
- Firebird has a stable investor base with long-term orientation. Investors are mainly HNWI individuals, family offices, pension funds; Principals currently own over 30% of several Firebird funds



FIREBIRD INVESTMENT STRATEGY

FIREBIRD INVESTMENT OBJECTIVES:

Long-term capital appreciation through diversified exposure to equities of companies operating in Emerging Europe including Russia, Romania, Baltics, Balkans, Georgia, and other ex-communist countries.

SELECT COUNTRIES IN OUR TARGET REGION WITH THE BEST INVESTMENT PROSPECTS, BASED ON:

- Political Stability and Development
- Level of Privatization
- Favorable Macroeconomic Conditions
- Stock Market Infrastructure and Securities and Tax Laws

BUY SHARES IN THE BEST COMPANIES IN THE INVESTABLE COUNTRIES

- Undervalued based on earnings, assets and/or franchises
- In the more advanced Emerging Markets (e.g., Russia, Baltics), emphasis on earnings, growth, dividend yield, transparency
- Also event-driven equities, including small- and mid-caps with the potential to become liquid or achieve international listing
- In the Frontier Markets (e.g., Kazakhstan), emphasis on franchise/market share or resource, quality of management: can it be a future blue chip?
- Maintain a medium term (18-24 month) investment horizon
- Emerging markets are inefficient – patience is required

SELL WHEN SHARES BECOME FULLY VALUED

- Widespread positive analyst coverage, Institutional Investors acquiring positions
- It is necessary to leave some upside for the market
- Stay contrarian



Why we beat the index

	Indexes and ETFs	Firebird Funds
Concentration	Regional Indexes are concentrated with top-10 names accounting for 60 to 80%	Firebird funds are diversified with 20 to 30 positions accounting for 80% of portfolio
Composition	State owned companies often get biggest index weighting	Firebird focuses on cash flows and management incentives
Liquidity	Limited to large liquid names	Large insider ownership of funds and long term perspective allows for outsized investments in smaller companies
Results*	17.3% - Firebird Fund's fund annualized return since inception in 1994 beating MSCI Russia by 9.7% per year 12.0% - Firebird Republics Fund's annualized return since inception in 1997 beating MSCI Eastern Europe by 9.4% per year	

* Please see disclosures and page 20.



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Sources of Value in Emerging Markets

➤ **Serial Compounders**

- Companies whose business models allow to reinvest cash flows at above cost of capital
- Generally capital light businesses benefitting from efficient business model and brand value rather than legacy fixed assets
- Higher GDP growth accelerates the compounding effect
- *Examples: Regional Banks, Consumer Oriented Companies*

➤ **Companies with Superior Assets**

- Owners of legacy assets often trading at a fraction of their fair market value or replacement cost
- Superior assets or significant past investments allow for significant free cash flow generation relative to current MCAP
- Important to pay attention to owner's incentives and capital allocation since these companies often end up as value traps
- Tremendous value is generated from marginal improvements in perception of the company
- *Examples: Natural Resources Companies (Norilsk Nickel, Uralkali), Steel Companies (Severstal)*



SAMPLE INVESTMENTS

Company	Category	Key Considerations
Bank of Georgia (Georgia)	Serial Compounder	<p>Western trained management brought in to turn around a failing lender with large market share</p> <p>Turned into biggest and most efficient bank in Georgia</p> <p>All major decisions are done with ROI and ROE targets in mind</p> <p><i>Result: 24% IRR over 12 year holding period</i></p>
Uralkali (Russia)	Superior Asset	<p>Company controls one of the largest potash deposits in the world</p> <p>Initially trading at 2% of replacement value of the infrastructure due to poor corporate governance</p> <p>New shareholders improved perception</p> <p><i>Result: Per share price went up from \$0.08 to \$16</i></p>
Apranga (Lithuania)	Serial Compounder	<p>Go to franchisee for any retailer looking to enter the Baltic countries</p> <p>Competitive advantage comes from superior execution and scale that allows for higher negotiating leverage</p> <p><i>Result: Double digit IRR over 10 year + holding period</i></p>



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Why invest in Eastern European Banks

➤ **Broad Exposure**

- All activity in the economy flows through the banks
- Often times best regulated/managed businesses in the country.

➤ **Simpler Business Models**

- High Net Interest Margins and strong demand for growth
- Profit is made from traditional banking activity, not derivative trading and excessive risk taking

➤ **Macroeconomic environment**

- Economies are often under-banked
- Structurally higher asset growth

➤ **Accommodating Competitive Landscape**

- Foreign Banks are retreating from the region due to bigger problems at home
- Strong local players often have better understanding of risks



Eastern European Banks

Metric	Macro Environment	Valuation	Funding	Quality of assets	Efficiency	Firebird IRR
Key Measures	GDP CAGR – inv. Period*	ROE + Growth/ (P/B)	Loan / Deposit	CF Interest / accrued int.	Improving Cost/Income	Since Position Inception

Performance when all the boxes are checked

Bank of Georgia (Georgia)	9.6%	22%	127%	100%	53%↓	24%
Banca Transilvania (Romania)	8.0%	16%	75%	97%	40%↓	29%
Halyk Bank (Kazakhstan)	14.1%	23%	101%	90%	29%↓	27%
Siauliu Bankas (Lithuania)	6%	24%	58%	100%	52%↓	43%

What happens when macro variable is missing

Sberbank (Russia)	-22%	17%	98%	97%	47%↓	-6%
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* Nominal GDP CAGR in USD terms, Except Siauliu which is in Euro, based on World Bank Data

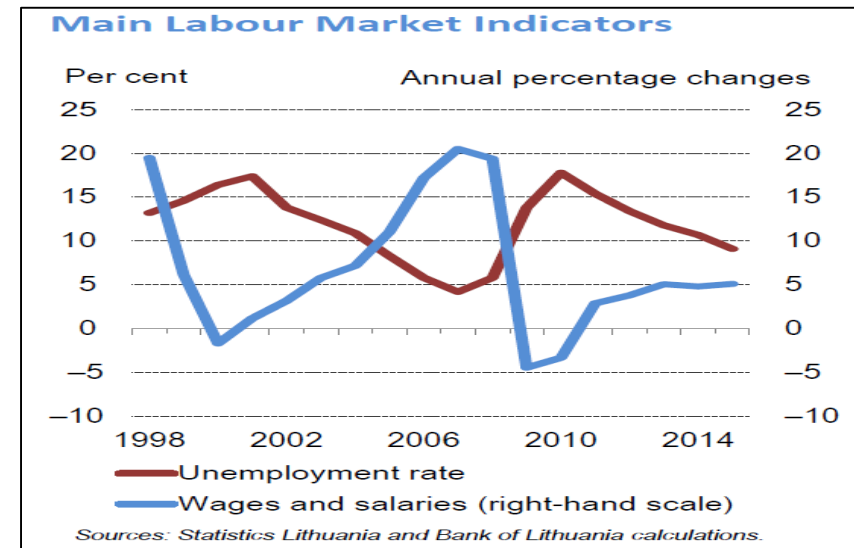
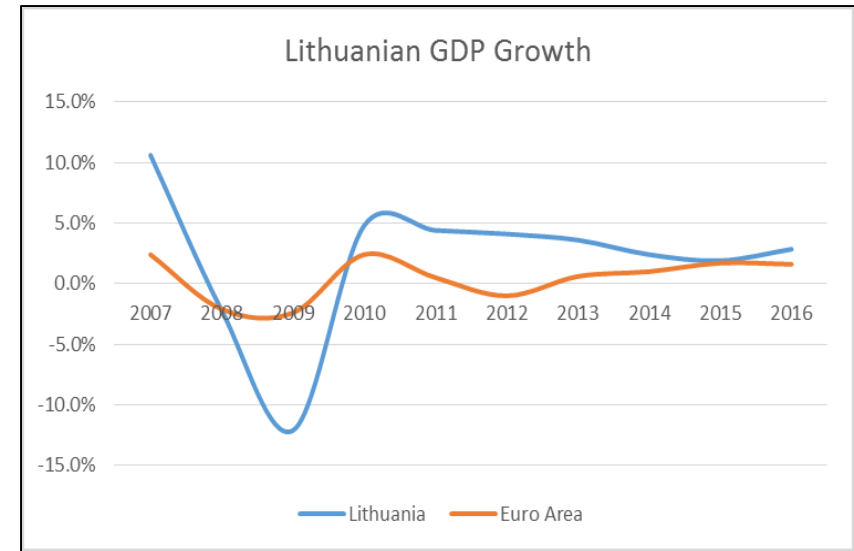


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Lithuanian Macro

- **Lithuania is a country of 2.9 million people**
 - Former Soviet Republics
 - EU member since 2004; Euro member since 2015
- **GDP Growing faster than EU average**
 - Recovered from deep crisis during 2008/2009
 - Diversified economy benefitting from FDI and EUR structural support
- **Unemployment is down dramatically**
 - 8.9% down from high double digits immediately after the crisis
 - Wages grew 6.2% in 2015 increasing spending power of consumers



Lithuanian Banking System

➤ Dominated by Scandinavian banks

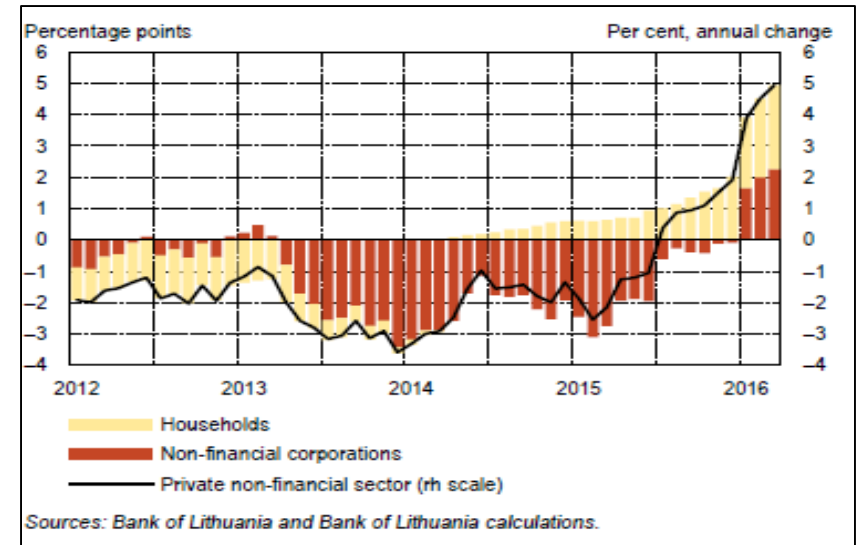
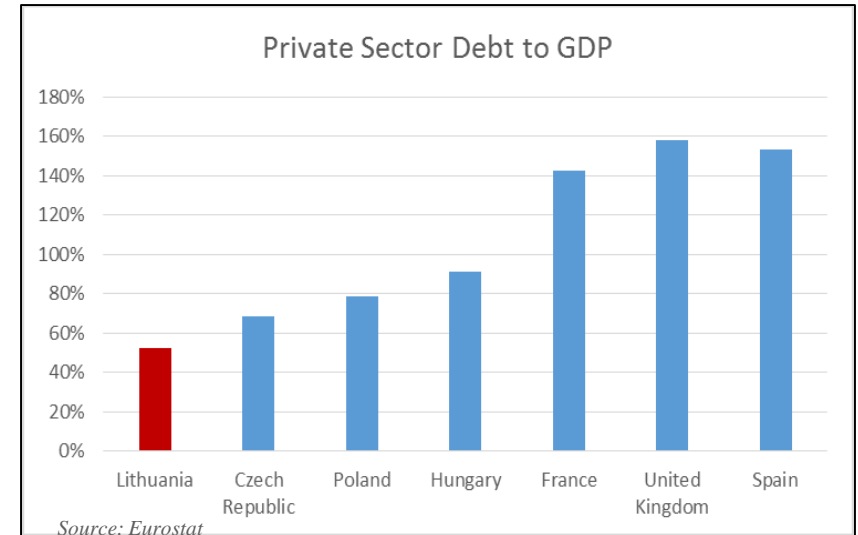
- Top 3 banks represent 73% of the market
- Foreign owned bank control 90% of the banking system

➤ Stable

- Non-Performing loans are down to 5% from the peak of 20% immediately following the crisis
- Primarily funded with domestic deposits
- System capital is at 24.5% - well above regulatory minimums

➤ Underbanked

- Banking assets to GDP of 53%
- Loan growth was negative from 2008 until mid-2015



Siaulių Bankas - Background

➤ 4th largest bank in Lithuania

- 5.7% market share
- EUR 142M MCAP; (Daily Trading Volume: ~ EUR 10k)
- Only bank specifically targeting SME clients
- Listed on Vilnius Stock Exchange (SAB1L LH)

➤ Locally Owned

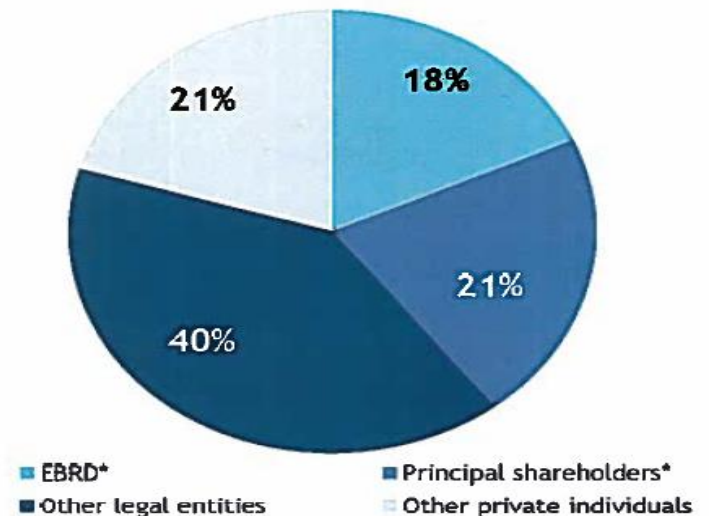
- Group under shareholder's agreement owns 40%
- Remainder is free float

➤ Recently Transformed

- Bought two smaller local competitors solidifying its place as the largest locally owned bank
- New Management team working on transforming the bank since 2011



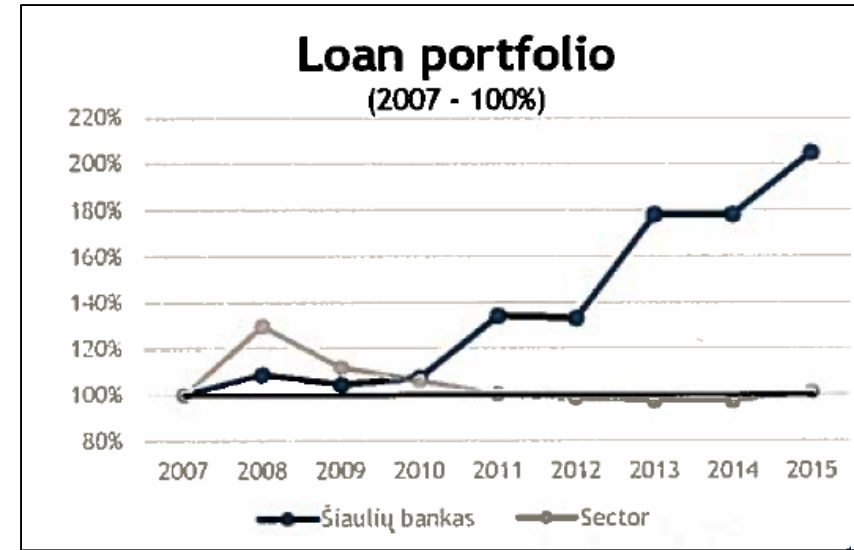
Shareholders:



Siaulių Bankas – Transformation through Consolidation

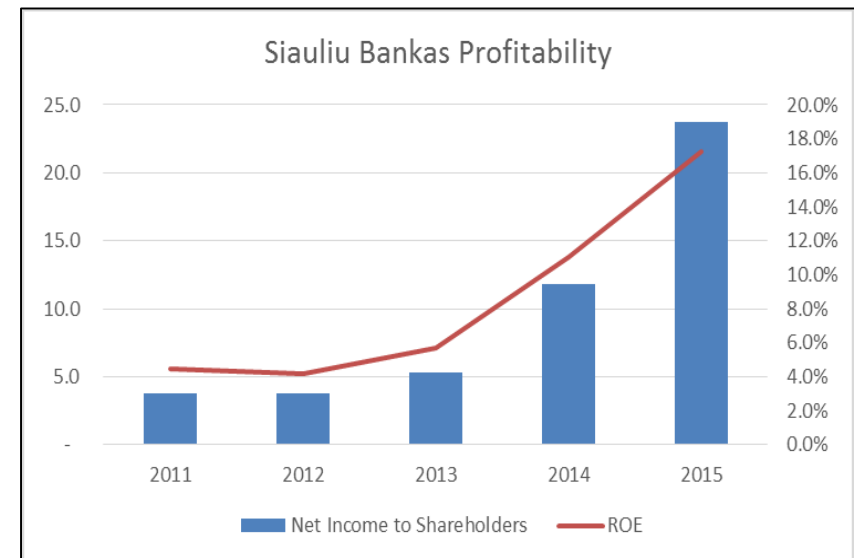
➤ Consolidation

- Assumed assets and liabilities of Ukio Bankas, sixth largest bank in the country, with the backing of Lithuanian Deposit Insurance Fund
- Bought Finasta Bank - Seller insisted on compensation in Siaulių shares
- Bank doubled its balance sheet and in the process gained market leading market share in leasing



➤ Transformation

- Cost/Income Ratio down from 90% to 50% since 2012
- Cleaning up Ukio legacy through sale of non-core assets and land holdings
- ROE up from 4% to 17%
- Currently Trades at 0.9x P/B and 7x 2016 P/E



Siauliu Bankas - Valuation

Metric	Macro Environment	Valuation	Funding	Quality of assets	Efficiency	Expected IRR
Key Measures	Real GDP Growth	ROE + Growth/ (P/B)	Loan / Deposit	CF Interest / accrued int.	Improving Cost/Income	Medium term holding period
Siauliu Bankas (Lithuania)	2.3%	24%	58%	100%	52%↓	36%

Growth Value

Return on Equity (ROC)	13%
Cost of Equity (R)	10%
Normalized Growth (G)	7%
ROC/R	
G/R	
Capital or Equity (C)	162
$PV = C * (ROC - G)/(R - G)$	325 Present Value
$EPV = C * (ROC/R)$	211 Earnings Power Value
EPV Multiple (ROC/R)	1.30 EPV
M = PV/EPV	1.54 Growth Multiplier
EPV with Growth Multiple (EPV * M)	2.00

$$M = PV/EPV$$

$$PV = C * (ROC - G)/(R - G)$$

$$EPV = C * (ROC/R)$$

$$M = 1 - (G/R)(R/ROC)/1 - (G/R)$$

IRR	8/19/16	12/31/16	12/31/17	12/31/18	12/31/19
Entry Price	(142)				
Intermediate CFS					
Exit @ EPV Multiple					398
Total CFS	(142)	-	-	-	398
IRR	35.9%				



Siauliu Bankas – Why is it cheap?/ Catalysts

➤ Baltic Market Is Cheap

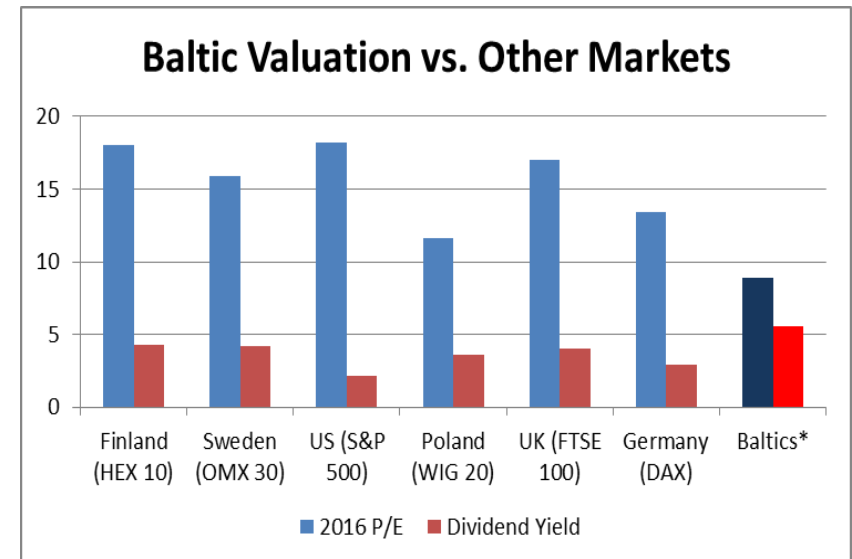
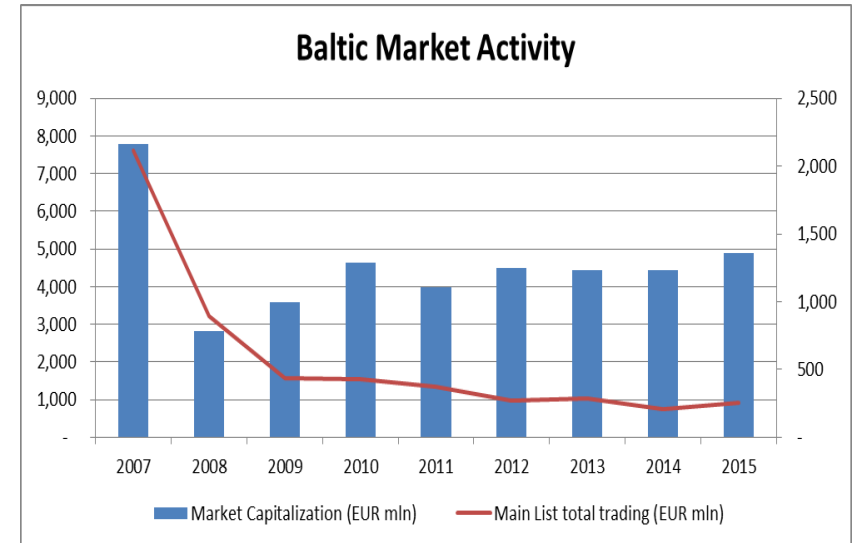
- The whole market is underfollowed with due to lack of liquidity and free float
- Too small for foreign institutions
- Local pension funds are not participating in the market

➤ Market is still unsure of recent improvements

- Lack of analytical coverage
- Ukio assets were considered tainted as a result of bankruptcy

➤ Catalysts

- Should generate teen medium term IRR without re-rating
- Attractive takeover candidate for banks trying to build pan-Baltic presence



Summary & Contact

- Eastern European Banks have great potential serial compounders
- Macro and management matters – *a lot*
- Lithuanian economy is well position for growth in short to medium term
- Lithuania is underbanked
- Siauliu Bankas is 4th largest bank in Lithuania; largest locally owned bank
- Siauliu Bankas went through recent transformation through consolidation that is just starting to be noticed by market participants
- Trading at 0.9x P/B and 7x PE
- Should generate 25 to 35% IRR to long-term holders



Steven Gorelik

E-mail: sgorelik@fbird.com

Tel: +1 212.698.9260

Firebird Management LLC

<http://www.fbird.com>

152 West 57th Street,

24th floor,

New York, New York 10019



Disclaimer

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*Fund performance includes dividend/income reinvestment and benchmarks are price return indices that do not include reinvestment of dividends/income. Returns for Firebird Fund are reported (Net of all fees) since its inception in May 1994. Returns for MSCI Russia and MSCI Eastern Europe are reported since their inception in January 1995.



Appendix: Checklist for investing in Eastern-European Banks

➤ **Macroeconomics**

- Is the overall economy on the right track? What is the GDP growth in USD terms?

➤ **Quality of assets**

- Cash interest received as % of accrued?
- Non-loan assets
- Provisions/NPL coverage; Collateral coverage usually ends up being realized at 20 to 40% of face value.
- Related Party disclosures

➤ **Funding Sources**

- Loan to Deposit Ratio
- Deposit concentration
- General reliance on capital markets

➤ **Valuation:** $(\text{ROE} + \text{Growth in assets}) / \text{Price to Book}$

