



Heimstaden AB

Fairness opinion
Heimstaden ehf.
(Heimstaden Iceland)

KPMG Advisory

—

30th of September 2023

Private and confidential

The Directors
Heimstaden AB
Östra Promenaden 7a
211 28 Mamlö
Sweden

29th of September, 2023

KPMG ehf.
Borgartún 27
105 Reykjavík
Iceland

Fairness opinion in relation to sale of shares in Heimstaden ehf. (Heimstaden)

Dear Sirs/Madams

In accordance with our Engagement Contract appendix and emails dated 19th of May 2023 ("our Engagement Contract"), we enclose our Fairness Opinion on the valuation of Heimstaden as of 30th of June 2023. The valuation has been prepared in order to provide opinion to the directors of Heimstaden AB (the client) on the proposed transaction price of 100% of shares in Heimstaden between Heimstaden AB and Fredensborg AS, which is a related party. Throughout this report please note that Heimstaden refers to Heimstaden Iceland.

In preparing this report, our primary sources have been Heimstaden's management information and representations made to us by the Target and consisted of financial data, conference calls and responses to written Q&A via email. We do not accept responsibility for such information. The scope of KPMG's work is limited to the data that was provided as well as the information that KPMG obtained independently and is referred to in this report.

This report contains the main assumptions and results of KPMG's valuation on Heimstaden ehf. The basis of value was to evaluate the equity value of the company based on the company's ongoing business model and current profitability and that the company will remain operational on a going concern basis.

- This report, its results and underlying analysis are the basis of KPMG's fairness opinion to Heimstaden's AB shareholders.
- Our calculation and analysis indicates that the fair value of Heimstaden ehf. equity is in the range of ISK 26.8 – 33.8 bn. as of 30th of June 2023. KPMG consider the proposed transaction terms fair and reflect a valuation within the fair value range estimated by KPMG.

This report has been prepared solely for the purpose stated herein and should not be relied upon for any other purpose. We accept no liability (including for negligence) to any other party or for any other purpose in connection with this report.

Yours sincerely



Magnús Gunnar Erlendsson
Partner, KPMG ehf.

Disclaimer

The valuation is based upon data, information and assumptions provided by Client's management, as well as management of Client's subsidiary companies. KPMG has not verified the data, information and assumptions provided by management and has relied upon the management of the Client to provide information that are materially accurate, complete and fair in a manner of its portrayal and therefore forms a reliable basis for the valuation.

The information presented in this report does not reflect the outcome of due diligence procedures as KPMG has not conducted such a task nor is KPMG aware of any such procedures being conducted presently or in the near future. The reader is cautioned that the outcome of that process could change the information herein and the valuation, and that change could be material.

Throughout this valuation, the emphasis is to place a value on The company under the scope of the valuation. We do not make any representations or warranties regarding the accuracy of legal status or ownership status of each individual company wholly or partly owned by the Client or Client's subsidiary companies.

The achievement of prospective financial results may be affected by fluctuating economic conditions and is dependent on the occurrence of future events that cannot be assured. Therefore, the actual results achieved may vary from prospective financial statements and variations could be material. KPMG makes no assurances regarding the achievability of any projections.

To the fullest extent permitted by law, KPMG accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including, without limitation, negligence) or otherwise, and to the extent permitted by applicable law, KPMG accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

Responsibility for any decision made by the Client and any result arising from the decisions, and for management of any consequences will rest solely with the Client.



KPMG approach and methodology

Valuation methodologies

The basis of the valuation is the market value as defined in the international valuation standards::

“Market value is the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

The International Valuation Standards define the three main valuation methods used in valuation. The main evaluation methods are:

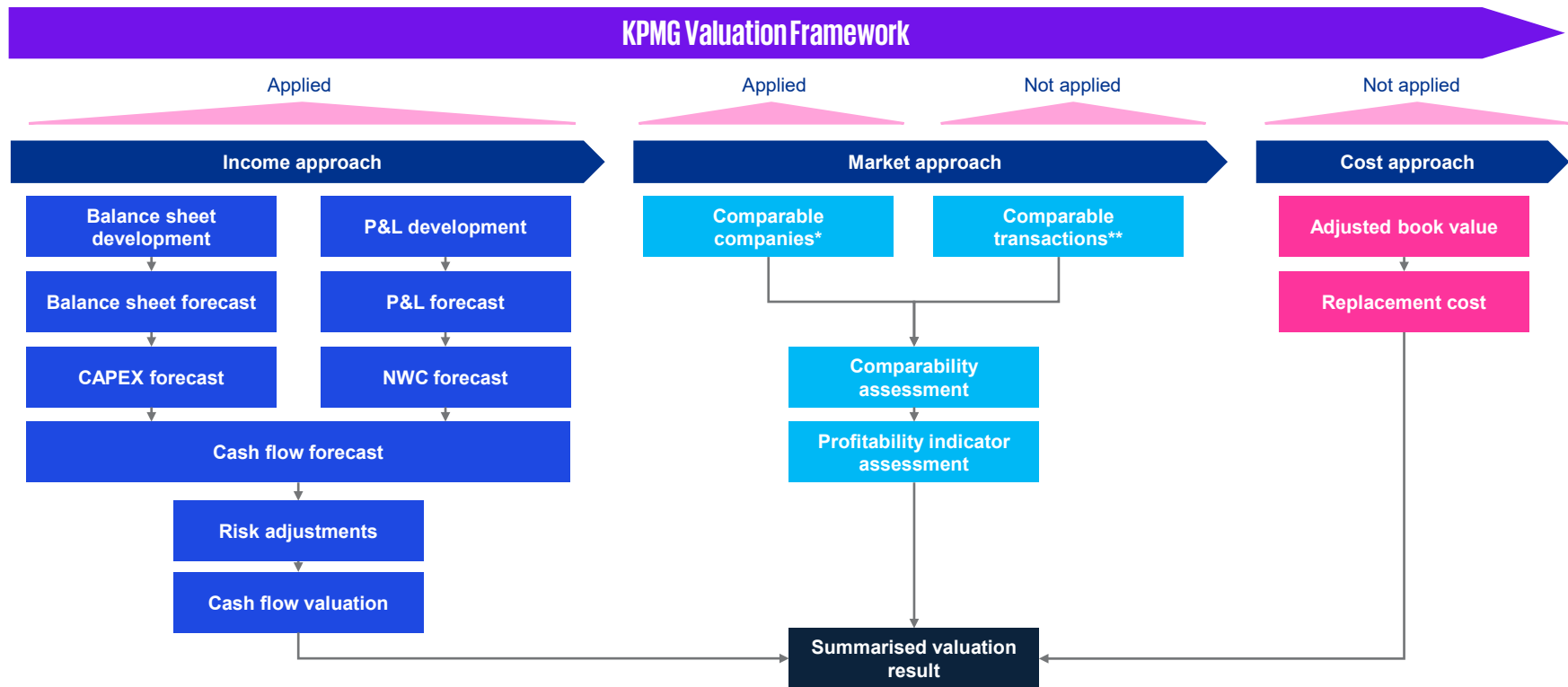


KPMG's valuation on Heimstaden is based on the company's ongoing business model and current profitability and that the company will remain operational on a going concern basis.

KPMG has valued Heimstaden according to the income approach where estimated future cash flow is discounted to date with an appropriate discount rate, estimated by KPMG. The enterprise value is adjusted for the Fair Value of non-operating assets and the company's liabilities to derive Heimstaden's equity value.

Finally, KPMG examined and analysed valuation multiples of comparable companies and used them for comparison and to support the results from the cash flow valuation in order to derive an appropriate valuation range.

Valuation Diagram



* Multiples of comparable companies are obtained from Capital IQ.

** Multiples from comparable transactions are obtained from MergerMarket.

DCF Valuation

Balance sheet

Heimstaden ehf's fixed assets are mostly comprised of residential real estate properties rented out to individuals. Over the past 3 years, Heimstaden's fixed assets have increased significantly, partially due to investments but also due to an increase in the asset's fair value.

At the end of June 2023, the company had 11 properties and 43 apartments under construction classified as held for sale. The value of the properties is estimated based on expected sales price but apartments under construction at cost.

In October 2021, Heimstaden signed an agreement for the purchase of 84 apartments in two buildings at Eskiás 2 & 4 in Garðabær. One building was finalized recently and the other will be completed in year 2024.

Current assets of the company are comprised of trade receivables, other receivables and cash and cash equivalents.

- The decrease in other receivables between 2020 and 2022 is caused by a decrease in outstanding sales proceeds and short term bonds.

The company's deferred income tax liability is related to Heimstaden's investments properties and changes in the underlying fair value. The liability will not become payable unless the investment properties are sold out of the company with taxable profit.

Interest bearing debt amounted to approx. ISK 38.0bn (excluding accrued interest) on the valuation date, 30.6.2023.

Other short term payables include accrued interest of loans, security deposits and pre-paid income.

The company's book value of equity amounted to ISK 35.8bn at the end of Q2 2023.

- The book value of equity has increased by 68% since yearend 2020 or by a compounded annual growth rate (CAGR) of 23% - mostly driven by fair value changes related to housing price increases in Iceland.
- Heimstaden's equity ratio is 43%.

Balance sheet - 30.6.2023				
m.ISK	2020	2021	2022	Q2 2023
Assets				
Investment properties	51.851	63.995	75.756	76.020
Investment properties held for sale	-	-	-	2.933
Investment properties under construction	-	668	1.534	360
Fixed assets	46	51	44	62
Non-current assets	51.897	64.714	77.334	79.375
Trade receivables	20	41	25	23
Unpaid selling price of inv. properties	-	-	-	2.486
Other receivables	665	174	88	62
Cash and cash equivalents	1.151	945	728	913
Current assets	1.836	1.161	841	3.484
Total assets	53.733	65.875	78.176	82.858
Equity				
Share capital	11.251	11.251	11.251	11.251
Statutory reserve	6	718	1.544	1.544
Restricted share reserve	10.222	242	568	580
Retained earnings	-253	16.131	20.839	22.375
Total equity	21.227	28.342	34.202	35.750
Non-current liabilities				
Deferred income-tax liability	3.191	5.245	7.272	7.659
Lease payables	688	647	643	641
Loans and borrowings	27.168	26.072	34.990	37.468
Non-current liabilities	31.047	31.964	42.906	45.768
Current liabilities				
Loans and borrowings	567	4.981	404	497
Trade and other payables	891	587	664	842
Current liabilities	1.459	5.568	1.068	1.340
Total liabilities	32.506	37.533	43.974	47.108
Total equity and liabilities	53.733	65.875	78.176	82.858

Source: Financial statements and KPMG analysis

Operating assumptions

Revenues

For year 2023, rental income is based on the company's actual income for the first seven months of the year in addition to management forecast for the remainder of the year.

- The revenue forecast (as well as expected operating expenses) is adjusted for assets held for sale.

For 2024, the rental income is estimated based on Heimstaden's expected run-rate income as of December 2023.

Real rental income growth during the forecast period, i.e. growth in excess of the price level, is estimated at 1.0% per year and is based, among other things, on KPMG's analysis of the development of rental prices in comparison to the consumer price index over the past years and decades.

Vacancy (including renovation vacancy), loss of claims and discounts are assumed to grow over the forecasted period and account to 3% of gross rental income going forward. Such utilization rate is equivalent to each apartment being empty or without a rental income for almost four months every 10 year period.

Revenues						
ISK m.	2022	2023	2024	2025	2026	2027
Rental income	3.984	4.268	4.158	4.200	4.242	4.284
% growth	16,6%	7,1%	-2,6%	1,0%	1,0%	1,0%
Other income	7	16	16	16	16	16
Vacancy		0	-42	-84	-85	-129
Net income	3.991	4.284	4.132	4.132	4.173	4.172

Note: Revenues for the forecast period are based on the CPI for midyear 2023 and the corresponding revenues. Future revenues are forecasted in real terms, past revenues are presented as reported in annual statements.
Source: Financial statements, Heimstaden's management and KPMG analysis

Property tax

Property taxes are estimated based on property tax value of each apartment according to Registers Iceland and the current property tax rate set by the relevant municipality. Property taxes for year 2023 amount to ISK 392m.

Management expects the portfolio's property taxes to increase by 20% in year 2024, due to increased tax value. Property tax is estimated to amount to ISK 453m in year 2024 and is kept fixed throughout the forecasted period.

Insurance

The cost of insurance is based on actual cost for 2023 adjusted for assets held for sale.

Maintenance

Maintenance costs are intended to cover the expensed maintenance costs on the one hand and the salaries of the Heimstaden's employees who carry out the company's maintenance on the other. Maintenance expenses (including salaries) amounts to ISK 295m for year 2023.

Going forward, maintenance expenses are expected to amount to ISK 333m annually, which is in line with historical average.

Other operating expenses for investments properties

The cost of heating and electricity and other expenses related to the company's investments properties, such as purchased services and management costs, is expected to amount to ISK 270m annually based on Heimstaden's current cost structure.

Administrative expenses

Administrative expenses, for 2024 and onwards, are based on Heimstaden's expected cost structure and run-rate expenses as of December 2023. Historically, the administration expenses have been in the range of 9.2 – 12.5% of rental income. However, management have been optimizing the company's operations and expect that monthly expenses will be around ISK 24m going forward.

Net working capital, CAPEX and depreciation

Net Working Capital

The company's NWC over the forecasted period is based on historical development. Current working capital is assumed to reflect the expected development going forward.

- Number of days of other receivables outstanding has lowered heavily in recent years due to decrease in outstanding sales proceeds and short term bonds.
- The company's operating cash is estimated to amount to approximately ISK 350m which corresponds to 3 months of operating expenses.

It is estimated that the company's net working capital will be close to -6.0% of revenue over the coming years. The current ratio is estimated to be negative by 0.6 – 0.7 throughout the forecast period.

Net Working Capital						
ISK m.	2022	2023	2024	2025	2026	2027
Account receivables	25	36	34	34	35	35
Other receivables	88	95	92	92	93	92
Operating cash	333	357	344	344	348	348
Account payables	-605	-675	-663	-663	-663	-663
Other payables	-59	-63	-61	-61	-62	-62
NWC	-217	-251	-254	-254	-250	-250
% of revenues	-5,4%	-5,9%	-6,1%	-6,1%	-6,0%	-6,0%
Current ratio	-0,7	-0,7	-0,6	-0,6	-0,7	-0,7

CAPEX

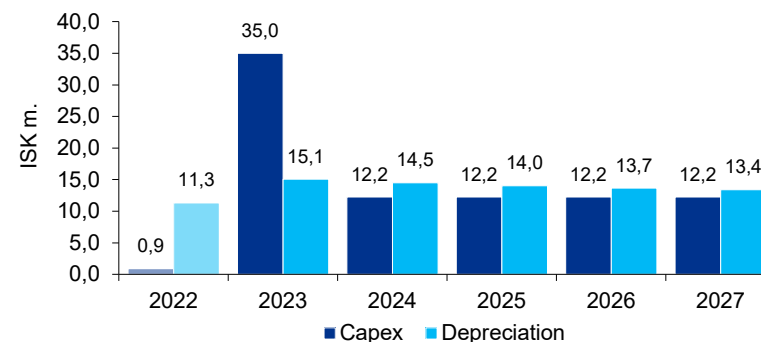
Fixed assets mainly consist of the company's vehicles. The carrying amount of fixed assets amounts to ISK 62.0m at the end of Q2 2023 – and increased by approx. ISK 20m from Q1 2023.

In recent years, the company's net investments in fixed assets have been in the range of ISK 1-26m annually. Investments during the forecasted period are estimated to be approximately ISK 12m annually based on historical average.

Depreciation

Depreciation of fixed assets was 17 – 22% over the last three years. Going forward, depreciation of fixed assets / vehicles is estimated to be 20% which is in line with Heimstaden's depreciation profile.

Capex and depreciation



Source: Financial statements and KPMG analysis

Weighted Average Cost of Capital (WACC)

Cost of capital is calculated on a real basis, based on the following assumptions:

- The risk free rate of 1.9% is based on the average yield of RIKS 37 0124, the longest indexed government bond in Iceland, over a three month period prior to the valuation date.
- The market risk premium is estimated 5.75% based on KPMG analysis and on recent studies.
- The median five year unlevered beta of comparable companies is obtained from Capital IQ. The observed beta is 0.38 (see appendices for further information).
- Company specific premium (alpha) of 1.25% is applied that incorporates company specific risks, consisting of a size and marketability premium.

Debt ratio is estimated 65% which is based on general benchmarks for real estate leverage in Iceland, the capital structure of comparable companies, as well as the company's current capital structure.

Debt margin over the risk free rate is estimated 1.5% based on KPMG analysis of interest premiums in recent transactions with registered bond of real estate companies in Iceland.

The weighted average cost of capital (post-tax WACC), based on the aforementioned assumptions is 4.79%.

- Pre-tax WACC is estimated 5.52%.

Levered beta for Heimstaden:	
Selected unlevered beta	0,38
Target D/E ratio	1,86
$1+(D/E \times (1-\text{tax}))$	2,49
Levered beta	0,95

Cost of Debt	
R_f	1,9%
Debt margin	1,5%
Tax	20,0%
Cost of debt (K_D) - post tax	2,7%

Cost of Equity	
R_f	1,9%
Market Risk Premium	5,8%
Levered beta	0,95
Alpha factor	1,3%
Cost of Equity (K_E)	8,6%

WACC	
Debt (target)	65,0%
Equity (target)	35,0%
WACC (post-tax)	4,79%

Source: Capital IQ and KPMG analysis

$$B_U = B_L / [1 + (D/E) \times (1-T)]$$

$$B_L = B_U \times [1 + (D/E) \times (1-T)]$$

$$K_D = (R_f + \text{álag}) \times (1-\text{skattur})$$

$$K_E = (R_f + B_g(R_m - R_f) + a$$

$$\text{WACC} = (D \times K_D) + (E \times K_E)$$

Mark-to-market on interest bearing debt

Interest bearing debt

According to information provided by management, remaining principal of Heimstaden's interest bearing debt amounted to ISK 38.25bn as of 30th of June 2023, excluding accrued interest.

- Difference from total interest bearing debt of ISK 38.0m, according to financial statements, is due to capitalized borrowing costs of ISK 288m.
- Based on current interests rates, accrued interests for the period calculates approx. ISK 77m, resulting in total outstanding interest bearing debt of ISK 38.3bn.

Fair value

KPMG calculated the fair value of Heimstaden's interest bearing debt by discounting the expected cash flow of each loan to date with an estimated market yield.

- All of Heimstaden interest bearing debt, except for one bullet loan are inflation indexed annuities with fixed interest rate.
 - The real yield used to calculate the present value of the expected cash flow is equal to the estimated pre-tax cost of debt for Heimstaden, 3.4%.
- The bullet loan is on nominal terms with a floating interest rate of 218 basis point premium on top of 1m REIBOR.
 - When calculating the present value, the interest rate was set equal to the loans current premium of 2.18% but the future cash flow is discounted with Heimstaden's estimated debt premium of 1.5%. Future fluctuation in the REIBOR curve are therefore excluded.
 - As the interest rate of the bullet loan is set equal to the underlying premium, accrued interest calculates lower than actually is according to financials.

Based on KPMG analysis the fair value of Heimstaden's interest bearing debt amounts to ISK 39.5bn equalling approx. ISK 1.2bn premium on outstanding amount.

Mark to market on interest bearing debt					
ISK m.	Remaining principal as of 30th of June 2023	Accrued interest	Principal balance and accrued interest	Present value of principal	Premium / (discount)
Loan 1	5.418	11	5.429	5.411	-18
Loan 2	7.015	16	7.032	7.265	234
Loan 3	1.499	3	1.502	1.583	81
Loan 4	532	1	533	557	24
Loan 5	578	1	579	614	35
Loan 6	8.545	15	8.560	8.667	107
Loan 7	8.543	15	8.558	8.778	220
Loan 7	3.217	11	3.228	3.623	395
Loan 8	1.105	2,95	1.108	1.209,18	101
Loan 9	1.800	1	1.801	1.805	4
Total:	38.253	77	38.330	39.512	1.182

Source: Heimstaden's management and KPMG analysis

Valuation results

Based on the aforementioned assumptions and estimates, a future real growth of 1.0% and by using an discount rate of 4.79% (post-tax WACC) the total enterprise value of Heimstaden, as of 30th of June 2023, is estimated ISK 57.4bn.

- The valuation is equivalent to an EV / EBITDA multiplier of 22.0 for 2022 EBITDA and 20.0x expected 2023 EBITDA.

To derive the underlying equity value of Heimstaden, the enterprise value is adjusted for non-operating assets and the company's liabilities.

- Non-operating cash of the company amounts to ISK 580m and its tax asset, 20% of tax loss carry forward, amounts to ISK 162m.
- Net asset value of investment properties held for sale amounts to ISK 11.0bn based on expected sales price and expected proceeds from assets under construction is ISK 587m (expected sales price less construction cost).
- As Heimstaden is valued on a going concern basis, the company's tax liability (book value of ISK 7.7bn) is not considered to affect the derived value of equity since it will not become payable unless assets are sold.
- Lease payables amounts to 642m at the valuation date but is not considered to affect the calculated equity value.
- Fair value of Heimstaden's interest bearing debt is estimated ISK 39.5bn.

The calculated equity value of Heimstaden is ISK 30.2bn.

Sensitivity analysis

The table shows how sensitive the result is for changes in key assumptions:

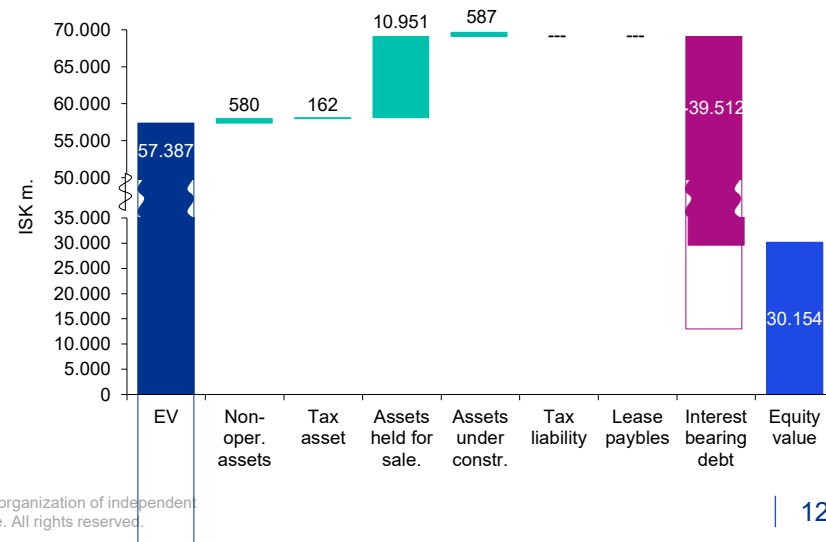
WACC	EBITDA margin				
	-2,0%	-1,0%	0,0%	1,0%	2,0%
3,8%	48.143	49.310	50.477	51.645	52.812
4,3%	36.789	37.781	38.773	39.764	40.756
4,8%	28.430	29.292	30.154	31.017	31.879
5,3%	22.018	22.781	23.544	24.307	25.070
5,8%	16.944	17.628	18.313	18.997	19.681

Source: KPMG analysis

Valuation							
ISK m.	2022	2023	2024	2025	2026	2027	FV
EBIT*	2.594	2.855	2.731	2.731	2.772	2.771	2.813
Depreciation	11	15	14	14	14	13	13
EBITDA	2.606	2.870	2.746	2.745	2.786	2.785	2.826
Tax	-2.016	-574	-549	-549	-557	-557	-565
Operating cash	2.296	2.197	2.196	2.229	2.228	2.228	2.261
Ch. in NWC	34	2	0	-4	0	0	-4
Capex	-35	-12	-12	-12	-12	-12	-12
Free Cash flow	2.295	2.186	2.184	2.213	2.216	2.216	2.245
Future value							59.193
Partial period factor	0,50						
Discount factor	0,98	0,94	0,90	0,86	0,82	0,82	0,82
Present value	1.128	2.062	1.965	1.900	1.816	1.816	48.515
EV	57.387						

* EBIT excluding Fair value increases

Value of equity



Comparable company analysis

Valuation multiples

Comparable companies

A peer group of companies was obtained from Capital IQ by searching for Scandinavian companies who's primary industry classification is Residential Building Operators and Lessors.

The table to the right presents the comparable companies' valuation multiples:

- EV/EBITDA 2023 is based on figures as of June 2023 (the same goes for EV/Sales 2023).
- EV/EBITDA 2022 is based on real operating figures for 2022 (same goes for EV/Sales 2022).
- EBITDA margin is the real margin for 2022.

Valuation multiples of Heimstaden are presented in the bottom row of the table. The multiples are calculated based on the companies EV from the DCF valuation.

Comparable company multiples							
		Market Cap EUR m	EBITDA %	EV/ Sales 2022	EV/ Sales 2023F	EV/ EBITDA 2022	EV/ EBITDA 2023F
Company	Country						
Slottsviken Fastighetsaktiebolag (publ)	Sweden	3	31,4%	7,4	6,8	23,7	21,8
Hufvudstaden AB (publ)	Sweden	2.200	47,7%	14,3	12,3	30,0	25,9
Amhult 2 AB (publ)	Sweden	35	69,0%	15,0	12,5	21,8	18,2
John Mattson Fastighetsföretagen AB	Sweden	191	57,0%	19,9	16,6	34,9	29,1
Mofast AB (publ)	Sweden	43		12,5	11,6		n/a
Akelius Residential Property AB (publ)	Sweden	10.932	38,9%	49,9	49,4		n/a
Kojamo Oyj	Finland	2.130	58,1%	16,9	13,9	29,0	24,0
Ovaro Kiinteistösi joitus Oyj	Finland	23	20,2%	5,9	4,9	29,0	24,2
Svenska Nyttobostäder AB (publ)	Sweden	287	62,2%	30,4	34,1	48,9	54,8
Annehem Fastigheter AB	Sweden	89	54,8%	10,7	10,3	19,6	18,7
FastPartner AB (publ)	Sweden	679	67,2%	15,9	12,2	23,7	18,2
Samhällsbyggnadsbolaget i Norden AI	Sweden	583	46,0%	20,1	14,9	43,8	32,3
Fastighets AB Trianon (publ)	Sweden	215	48,5%	13,1	11,5	27,0	23,7
Fortinova Fastigheter AB (Publ)	Sweden	89	49,7%	11,6	11,2	23,3	22,5
Fastighets AB Balder (publ)	Sweden	3.857	69,0%	15,7	14,7	22,7	21,3
Atrium Ljungberg AB (publ)	Sweden	1.998	51,2%	15,3	14,9	29,8	29,1
Diös Fastigheter AB (publ)	Sweden	827	62,5%	12,1	11,3	19,4	18,1
Fabege AB (publ)	Sweden	2.072	58,0%	19,0	17,1	32,7	29,4
Real Fastigheter AB (publ)	Sweden	29	38,6%	6,8	6,7	17,6	17,4
Average		1.383	51,7%	16,4	15,1	28,0	25,2
Median		287	53,0%	15,0	12,3	27,0	23,7
25 percentile		2.035	61,2%	17,9	14,9	30,0	29,1
75 percentile		66	46,4%	11,8	11,2	22,7	18,7
Heimstaden	Iceland		65,3%	14,4	13,4	22,0	20,0

...Price-to-Book multiples of the comparable companies were 0.7x on average in yearend 2022 which is in line with KPMG's conclusion.

Valuation multiples – results

Result of comparable company analysis

KPMG compiled multiples from comparable companies (CoCo). Based on them, upper and lower limits were determined. By applying the operating figures of Heimstaden on the upper and lower limits, a range for each multiple is constructed.

- As the company is not listed and located in Iceland, where multiples have been lower than abroad, the lower limit is based on the lower quartile of the CoCo's multiples while the upper limit is based on the CoCo's median multiples.

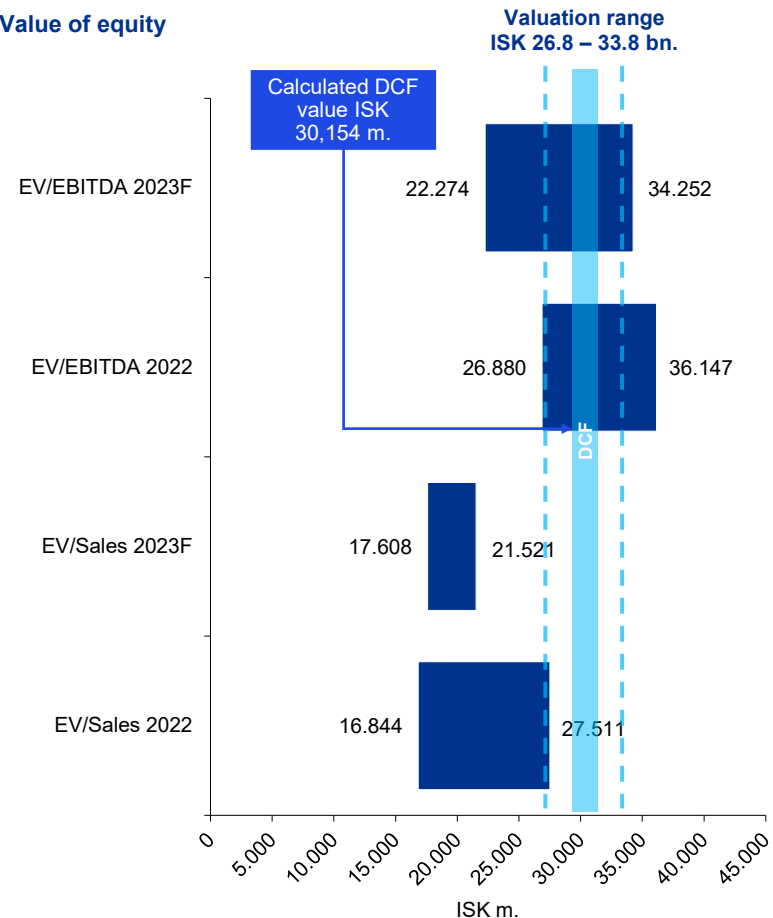
Estimated enterprise value of Heimstaden, which is approximately ISK 57.5bn according to the DCF valuation, is within the valuation range based on the EV / Sales multiplier. Estimates based on the multiplier are in the range of 47.2 – 60.0bn.

- After adjustments for non-operating assets, interest bearing debt and a 16% discount due to lack of marketability, the calculated equity value based on EV/Sales multiples in ISK 16.8 – 27.5bn for 2022.
- After aforementioned adjustments, the calculated equity value based on EV/EBITDA multiples is ISK 26.8 – 36.1bn for 2022.

The estimated enterprise value based on a DCF valuation and multiple analysis is in the range of 54 – 61bn, resulting in an equity value of ISK 26.8 – 33.8bn.

Based on Heimstaden's current operations, profitability and valuation multiples of comparable companies, a transaction price in the range of ISK 26.8bn to 33.8bn is considered appropriate.

Value of equity



Source: Capital IQ and KPMG analysis

**Proposed
transaction**

Proposed transaction

Transaction mechanism

Heimstaden AB has presented to KPMG a proposal of terms and sale price for 100% of the shares in Heimstaden ehf. to Fredensborg AS.

The price for the shares has been agreed to ISK 30.83bn (SEK ~ 2.45bn) ('Purchase Price').

The Purchase Price is to be settled as follows:

- ISK 18.89bn (SEK ~ 1.5bn) is paid in cash by Fredensborg AS to Heimstaden AB upon closing.
- The remaining amount of ISK 11.94 bn (SEK ~ [0.95]bn) will be paid in accordance with the following:
 - **Option 1: successful resale to third party**
 - ISK 3.15 bn (SEK ~ 0.25bn) to be distributed to Heimstaden AB from Heimstaden as dividend pre-closing of sale to Fredensborg
 - ISK 8.79 bn (SEK ~ 0.70bn) conditional payment payable at the time of completion of the transaction to third party, less:
 - Risk premium of ISK 1.23 bn (SEK ~ 0.10bn) collected by Fredensborg to cover the transaction and credit risk undertaken by Fredensborg in relation to a successful divestment to third party.*
 - Furthermore the share transfer agreement includes additional mechanism that entitles Heimstaden AB all proceeds received in excess of 100% of the initial purchase price.
 - **Option 2: Disposal of assets**
 - ISK 3.15 bn (SEK ~ 0.25bn) to be distributed to Heimstaden AB from Heimstaden as dividend pre-closing of sale to Fredensborg

*) Risk premium is commercially agreed between the parties taking into consideration both the credit cost and risk of Fredensborg on the initial cash payment as well as the fair value of Heimstaden having accepted to defer part of the purchase price.

Note: SEK/ISK exchange rate of 12.596 as of 30.6.2023

- The remaining amount is to be settled when the ongoing liquidation of Heimstaden has been executed in full based on the following mechanism:
 - If the liquidation net proceeds exceed ISK 18.89bn (SEK ~ 1.5bn) and up to ISK 35.75bn (SEK ~ 2.84bn), Heimstaden AB receives 2/3 of the excess proceeds and Fredensborg 1/3.
 - If the liquidation net proceeds exceed ISK 35.75bn (SEK ~ 2.84bn), the excess will be distributed equally between the parties.

In the event that the asset sale has not been completed or Fredensborg has not otherwise paid the full purchase price within three years of completion of the transaction, Heimstaden AB will have a unilateral right to demand that the transaction is reversed upon (a) full repayment of amount received from Fredensborg plus interest of 10%, less (b) any value transferred out of Heimstaden (Leakage) since completion of the transaction, and when applicable, interest of 10%. Interest on Leakage will accrue if LTV level has not been maintained compared to pre-closing of sale to Fredensborg.

Heimstaden AB will, regardless of whether option 1 or 2 applies, remain as guarantor in relation to the outstanding bonds of Heimstaden. As consideration for remaining liable in relation to the bonds, Fredensborg is to pay to Heimstaden AB a guarantee commission of 2.5% of the outstanding value of the bonds.

Considering the negotiated purchase price of ISK 30.83bn (SEK 2.45b) including different options of settlement, estimated liquidation value of the asset portfolio, expected timeline and associated uncertainty, risk premium, guarantee commission and reverse option, the proposed transaction terms are considered fair and reflect a valuation within the fair value range estimated by KPMG.

The valuation is sensitive to both timing and sales prices of Heimstaden's portfolio, as buyer and seller share the risk of successful liquidation. SEK prices are furthermore subject to FX risk.

Appendices

Cash flow forecast

Cash flow forecast											
ISK '000	2018R	2019R	2020R	2021R	2022R	2023F	2024F	2025F	2026F	2027F	FV
Revenues	4.181.808	3.789.819	3.178.975	3.422.148	3.991.237	4.284.017	4.132.492	4.131.660	4.172.816	4.171.544	4.213.098
Growth		-9,4%	-16,1%	7,6%	16,6%	7,3%	-3,5%	0,0%	1,0%	0,0%	1,0%
Property taxes	377.178	351.584	291.342	311.185	330.441	392.779	452.599	452.599	452.599	452.599	452.599
% of revenues	9,0%	9,3%	9,2%	9,1%	8,3%	9,2%	11,0%	11,0%	10,8%	10,8%	10,7%
Insurance	61.343	63.231	55.349	51.077	57.132	65.690	62.176	62.176	62.176	62.176	62.176
% of revenues	1,5%	1,7%	1,7%	1,5%	1,4%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%
Maintenance	257.852	275.717	413.919	377.333	337.711	295.761	333.829	333.829	333.829	333.829	333.829
% of revenues	6,2%	7,3%	13,0%	11,0%	8,5%	6,9%	8,1%	8,1%	8,0%	8,0%	7,9%
Heat and electricity	136.829	123.020	113.777	109.815	112.480	126.706	121.810	121.810	121.810	121.810	121.810
% of revenues	3,3%	3,2%	3,6%	3,2%	2,8%	3,0%	2,9%	2,9%	2,9%	2,9%	2,9%
Other investment prop. Expenses	182.727	137.442	150.701	145.396	181.828	151.825	151.825	151.825	151.825	151.825	151.825
% of revenues	4,4%	3,6%	4,7%	4,2%	4,6%	3,5%	3,7%	3,7%	3,6%	3,6%	3,6%
Administration expenses	401.127	361.322	337.755	426.884	365.952	380.934	264.480	264.480	264.480	264.480	264.480
% of revenues	9,6%	9,5%	10,6%	12,5%	9,2%	8,9%	6,4%	6,4%	6,3%	6,3%	6,3%
Total operating expenses	1.417.056	1.312.316	1.362.843	1.421.690	1.385.544	1.413.695	1.386.720	1.386.720	1.386.720	1.386.720	1.386.720
% of revenues	33,9%	34,6%	42,9%	41,5%	34,7%	33,0%	33,6%	33,6%	33,2%	33,2%	32,9%
EBITDA	2.764.752	2.477.503	1.816.132	2.000.458	2.605.693	2.870.322	2.745.772	2.744.941	2.786.096	2.784.824	2.826.378
EBITDA ratio	66,1%	65,4%	57,1%	58,5%	65,3%	67,0%	66,4%	66,4%	66,8%	66,8%	67,1%
Depreciation	93.053	(13.803)	(9.031)	(11.174)	(11.323)	(15.061)	(14.497)	(14.045)	(13.684)	(13.395)	(13.164)
EBIT	2.857.805	4.158.837	3.761.064	10.983.265	13.728.759	2.855.261	2.731.276	2.730.896	2.772.412	2.771.429	2.813.215
Capex	(4.392.272)	(4.044.509)	(4.416.392)	(1.843.399)	(1.523.830)	-	-	-	-	-	-
Net working capital	841.680	925.504	58.819	(86.711)	(217.346)	(251.417)	(253.527)	(253.609)	(249.535)	(249.661)	(245.548)
% of revenues	20,1%	24,4%	1,9%	-2,5%	-5,4%	-5,9%	-6,1%	-6,1%	-6,0%	-6,0%	-5,8%

Note: Revenues for the forecast period are based on the CPI for midyear 2023 and the corresponding revenues.
Future revenues are forecasted in real terms, past revenues are presented as reported in annual statements.

Source: Financial statements, Heimstaden's management and KPMG analysis

Weighted average cost of capital

Capital comes at a cost, as lenders require interest and owners want a return on their investment in the companies equity. This cost is generally referred to as the cost of capital.

Weighted average cost of capital (WACC) is the cost when the capital structure has been taken into account. It is determined by to which degree the company is financed with debt on the one hand, and equity on the other hand. WACC is used to discount the company's free cash flow when the Discounted Cash Flow (CDF) valuation approach is used.

Return on equity is the return that shareholders demand for their investment in the company. Cost of debt is the cost associated with the company's debt financing. The cost of debt is based on the nominal interest rate available to the company at the valuation date.

According to recognized methods for deriving cost of capital, the market value of equity should be used when the ratio of debt and equity is determined.

Companies can often reduce the average cost of capital by increasing the ratio of debt in their capital structure. It stems from the fact that debt is generally cheaper than equity. In addition, debt is subject to tax advantages, as interest expenses are deducted from earnings before taxes are calculated.

The optimal capital structure is determined by various external factors that are subject to change, such as interest rates, tax rates, and the market value of the company.

As a consequence, the WACC can be expected to change only slightly with minor fluctuations in the financial structure, as the impact on the cost of capital on the one hand, and the cost of equity the other hand, do not work in the same direction.

To determine the weighted average cost of capital (WACC), the following formula was used:

$$WACC = K_e \times \left(\frac{E}{E + D} \right) + K_d \times (1 - T) \times \left(\frac{D}{E + D} \right)$$

K_e = Cost of equity

K_d = Cost of debt

E = Market value of equity

D = Market value of debt

T = Corporate tax rate

The cost of equity was derived using the Capital Asset Pricing Model (CAPM):

$$K_e = R_f + \beta \times (R_m - R_f) + \alpha$$

R_f = Risk free rate

R_m = Expected market return

$R_m - R_f$ = Market risk premium

β = Beta, correlation with the market

α = Alpha, company specific risk

Beta and leverage												
Félag	Land	Atvinnuvegur	NWC/		Levered beta		Total debt 5 Year		D/E	Tax ratio	Unlevered beta	
			EBITDA %	Revenue	2 year	5 year	Debt	Eqyity			2 year	5 year
Slottsviken Fastighetsaktiebolag (publ)	Sweden	Real Estate Operating Companies	40,6%	-68,3%		0,58	54,6%	45,4%	120,4%	21%		0,30
Hufvudstaden AB (publ)	Sweden	Real Estate Operating Companies	48,1%	-18,3%	0,93	0,99	24,5%	75,5%	32,5%	21%	0,70	0,78
Amhult 2 AB (publ)	Sweden	Real Estate Operating Companies	67,5%	-230,8%		0,57	52,5%	47,5%	110,3%	21%		0,30
John Mattson Fastighetsföretagen AB (publ)	Sweden	Real Estate Operating Companies	60,3%	-15,5%	1,06	0,79	61,1%	38,9%	157,3%	21%	0,26	0,35
Mofast AB (publ)	Sweden	Real Estate Operating Companies		-25,2%						21%		
Akelius Residential Property AB (publ)	Sweden	Real Estate Operating Companies	41,4%	-17,8%		0,48	48,8%	51,2%	95,2%	21%		0,27
Kojamo Oyj	Finland	Real Estate Operating Companies	57,5%	-14,3%	0,99	0,72	47,8%	52,2%	91,5%	20%	0,42	0,41
Ovaro Kiinteistösiijoitus Oyj	Finland	Real Estate Operating Companies	45,2%	11,4%	0,57	0,61	58,7%	41,3%	142,4%	20%	0,37	0,29
Svenska Nyttobostäder AB (publ)	Sweden	Real Estate Operating Companies	51,7%	1133,0%						21%		
Annehem Fastigheter AB	Sweden	Real Estate Operating Companies	54,9%	-27,6%	0,87	0,57	61,5%	38,5%	159,6%	21%	0,35	0,25
FastPartner AB (publ)	Sweden	Real Estate Operating Companies	68,4%	-24,7%	1,46	1,20	55,6%	44,4%	125,3%	21%	0,52	0,60
Samhällsbyggnadsbolaget i Norden AB (publ)	Sweden	Real Estate Operating Companies	-106,8%	-394,7%	1,77	1,50	70,1%	29,9%	234,2%	21%	0,17	0,53
Fastighets AB Trianon (publ)	Sweden	Real Estate Operating Companies	50,8%	1,2%	0,92	0,77	60,0%	40,0%	149,9%	21%	0,28	0,35
Fortinova Fastigheter AB (Publ)	Sweden	Real Estate Operating Companies		4,6%	0,71					21%	0,24	
Fastighets AB Balder (publ)	Sweden	Real Estate Operating Companies	69,3%	44,4%	1,33	1,26	63,2%	36,8%	171,5%	21%	0,38	0,53
Atrium Ljungberg AB (publ)	Sweden	Real Estate Operating Companies	51,2%	20,2%	1,04	0,98	52,4%	47,6%	110,1%	21%	0,55	0,52
Diös Fastigheter AB (publ)	Sweden	Real Estate Operating Companies	62,8%	-27,0%	1,03	0,97	59,6%	40,4%	147,3%	21%	0,43	0,45
Fabege AB (publ)	Sweden	Real Estate Operating Companies	55,2%	-26,7%	1,07	1,01	45,2%	54,8%	82,4%	21%	0,50	0,61
Real Fastigheter AB (publ)	Sweden	Real Estate Operating Companies	41,1%	-24,8%	0,69	0,79	70,2%	29,8%	235,2%	21%	0,29	0,28
Average			44,7%	15,7%	1,03	0,86	0,55	0,45	1,35	21%	0,39	0,43
Median			51,7%	-18,3%	1,01	0,79	0,57	0,43	1,34	21%	0,38	0,38

Maximum			69,3%	1133,0%	1,77	1,50	0,70	0,75	2,35	0,21	0,70	0,78
Average			44,7%	15,7%	1,03	0,86	0,55	0,45	1,35	0,21	0,39	0,43
Median			51,7%	-18,3%	1,01	0,79	0,57	0,43	1,34	0,21	0,38	0,38
Minimum			-106,8%	-394,7%	0,57	0,48	0,25	0,30	0,33	0,20	0,17	0,25

Source: Capital IQ and KPMG analysis

Comparable company valuation summary

Comparable Companies - Multiple analysis									
ISK m.	DCF valuation	EV/sales 2022		EV/sales 2023F		EV/EBITDA 2022		EV/EBITDA 2023F	
		Min	Max	Min	Max	Min	Max	Min	Max
CoCo multiples		11,8	15,0	11,2	12,3	22,7	27,0	18,7	23,7
Operating results - Heimstaden		3.991.237	3.991.237	4.284.017	4.284.017	2.605.693	2.605.693	2.870.322	2.870.322
Enterprise value	57.510.865	47.284.183	59.983.245	48.194.235	52.852.250	59.232.007	70.263.756	53.748.212	68.008.821
Non-operating assets	579.960	579.960	579.960	579.960	579.960	579.960	579.960	579.960	579.960
Tax asset	162.000	162.000	162.000	162.000	162.000	162.000	162.000	162.000	162.000
Assets held for sale	10.951.337	10.951.337	10.951.337	10.951.337	10.951.337	10.951.337	10.951.337	10.951.337	10.951.337
Assets under construction	586.830	586.830	586.830	586.830	586.830	586.830	586.830	586.830	586.830
Tax liability	0	0	0	0	0	0	0	0	0
Lease paybles	0	0	0	0	0	0	0	0	0
Interest bearing debt	-39.512.257	-39.512.257	-39.512.257	-39.512.257	-39.512.257	-39.512.257	-39.512.257	-39.512.257	-39.512.257
Equity value	30.278.735	20.052.052	32.751.114	20.962.105	25.620.120	31.999.877	43.031.626	26.516.081	40.776.691
DLOM*	16%	3.208.328	5.240.178	3.353.937	4.099.219	5.119.980	6.885.060	4.242.573	6.524.271
Value of equity incl. DLOM		16.843.724	27.510.936	17.608.168	21.520.901	26.879.896	36.146.566	22.273.508	34.252.420

*Discount for lack of marketability

Source: Capital IQ and KPMG analysis

Shares of private companies are considered to be illiquid, which implies the inability to sell them within a specific period of time. Investors tend to value liquidity, thus, pay premiums for liquidity and on the contrary, demand discount for the lack of liquidity.

Therefore, to compensate for the illiquidity, DLOM of 16% is applied to the calculated equity value of Heimstaden when using the market approach (CoCo analysis).

The 16% DLOM corresponds to a portion of the 1.25% alpha factor in the discount rate used in KPMG's cash flow valuation, where the portion has an approx. 16% negative effect on the calculated equity value.

Icelandic Real Estate Companies

KPMG also examined and analysed the valuation multiples of the listed Icelandic Real Estate Companies - Eik, Reitir and Reginn – even though these companies only own commercial real estate.

- The EV / Sales multiple of these companies are in the range of 12.6 – 13.6 and the EV / EBITDA is 16.7 – 18.8.
- The calculated enterprise value of Heimstaden would therefore be lower if based on the Icelandic multiples or in the range of ISK 43.5 – 58.3bn.
- After adjustments for non-operating assets, interest bearing debt and an 16% DLOM, the estimated equity value would be ISK 13.7 – 26.1bn.

Debt margin

Credit Spread - Bonds							
Symbol	Name	Indexation	Last price trade time	Last yield	Last duration	Risk free	Credit spread
AL280629	Almenna leigufélagið ehf.	Verðtryggt	16.des.22	3,20%	4,94	1,90%	1,30%
AL260148	Almenna leigufélagið ehf.	Verðtryggt	10.jan.23	3,25%	10,83	1,94%	1,31%
EIK 141233	Eik fasteignafélag hf.	Verðtryggt	25.okt.22	3,05%	8,25	1,94%	1,11%
EIK 050749	Eik fasteignafélag hf.	Verðtryggt	28.des.22	3,12%	11,42	1,85%	1,27%
EIK 050726	Eik fasteignafélag hf.	Verðtryggt	23.feb.22	0,72%	3,94	-0,29%	1,01%
EIK 161047	Eik fasteignafélag hf.	Verðtryggt	14.jún.23	3,47%	10,65	1,94%	1,53%
REGINN280130	Reginn hf.	Verðtryggt	27.okt.22	3,05%	5,79	1,73%	1,32%
REGINN290547	Reginn hf.	Verðtryggt	14.jún.23	3,39%	9,53	1,98%	1,41%
REGINN280429	Reginn hf.	Verðtryggt	5.maí.22	1,35%	5,94	0,25%	1,10%
REGINN50 GB	Reginn hf.	Verðtryggt	25.okt.22	2,93%	12,07	1,83%	1,10%
REGINN27 GB	Reginn hf.	Verðtryggt	11.nóv.22	2,95%	4,11	1,73%	1,22%
REITIR150537	Reitir fasteignafélag hf.	Verðtryggt	30.sep.22	3,00%	9,51	1,91%	1,09%
REITIR150527	Reitir fasteignafélag hf.	Verðtryggt	8.jún.23	3,78%	3,53	2,47%	1,31%
REITIR150528	Reitir fasteignafélag hf.	Verðtryggt	9.mar.23	3,13%	4,52	1,72%	1,41%
REITIR150529	Reitir fasteignafélag hf.	Verðtryggt	15.nóv.22	3,00%	5,29	1,81%	1,19%
Average							1,24%
Median							1,27%

Source: KPMG analysis

- Most of the traded bonds are issued by commercial Real estate companies.
- The average credit spread for the observed bonds, i.e. traded bonds over the last two years, was 1.24% on the valuation date, the median being 1.27%. Looking solely at recently traded bonds for residential real estate companies the spread is around 1.3%
- When estimating appropriate credit rate of Heimstaden, KPMG primarily took note of Almenna leigufélagið's publicly traded bonds as well as be looking at the most recent transactions as the underlying credit spread has been increasing over the recent months.
The most recently traded bonds are issued by commercials property companies, yielding a spread of 1,31 – 1,53%.
- **For the Fairness Opinion, the Heimstaden's appropriate debt margin is estimated 1.5%.**



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