



Press release from Bergs Timber AB (publ)

Mörlunda, 2018-01-22.

Bergs Timber has signed a letter of intent to acquire Norvik Timber Industries' operations in the Baltics and the United Kingdom

Bergs Timber AB (publ) ("Bergs Timber") has today signed a letter of intent (the "Letter of Intent") with Bergs Timber's principal owner, Icelandic Norvik hf ("Norvik") with respect to the acquisition of a number of companies within Norvik Timber Industries ("NTI" or the "Target Companies") with operations in Latvia, Estonia and the United Kingdom.¹

Summary of the intended acquisition

- Bergs Timber intends to acquire Norvik Timber Industries' operations in Latvia, Estonia and the United Kingdom (the "Intended Acquisition").
- The Target Companies demonstrated, during a period corresponding to Bergs Timber's financial year 2016/2017, net sales of approximately SEK 1,613 million and a profit after tax amounting to SEK 78 million. Payment is intended to be paid with 170 million newly issued shares in Bergs Timber, (the "Issue in Kind"), as well as a cash payment of SEK 270 million.
- A completed acquisition will increase Bergs Timber's product processing and is thus intended to limit Bergs Timber's sensitivity to fluctuations in the economic cycle. At the same time, Bergs Timber assesses that there is potential for synergies within areas such as raw material procurement, distribution and sales.
- Bergs Timber assesses that the Intended Acquisition will lead to an increase in Bergs Timber's earnings per share.
- The Target Companies are owned by Bergs Timber's largest shareholder Norvik, which currently holds 29.52 percent of the outstanding shares and votes in Bergs Timber. If the acquisition is completed, Norvik is expected reach a holding in Bergs Timber of 64.68 percent. Norvik has announced its intention to sell parts of its shareholding in connection with the completion of the acquisition with the long term intention to reduce its holding to levels below 50 percent.
- The Swedish Securities Council has granted Norvik an exemption from the mandatory bid obligation that would otherwise arise if Norvik subscribed for shares in the Issue in Kind.
- The Indented Acquisition is subject to the conclusion of a final acquisition agreement and that the Issue in Kind is resolved on by the general meeting in Bergs Timber.

"With the planned transaction, our product offering is increased significantly. We will cooperate in different ways in the new planned group to further improve the profitability and the service

¹ The companies intended to be acquired are the Latvian companies SIA Vika Wood (Reg. no 40003241801) and BYKO-LAT SIA (Reg. no 40003139), the Estonian companies Aktsiaselts Laesti (Reg. no 11562764) and Aktsiaselts EWP (Reg. no 10250689) and the British company Continental Wood Limited (Reg. no 05518779).

to the market. At the same time, the business will continue to operate with a strong decentralized responsibility under existing brands”, says Peter Nilsson, CEO of Bergs Timber.

“Since the sale of Broakulla to Bergs Timber we have been a large shareholder in the company. During this time we have experienced the strength and ambitions of the company and the company’s executive management. We are confident that this transaction is the right way to further develop our companies, not least due to our and Bergs Timber’s management’s shared view of the importance of decentralized responsibility and the use of current existing brands”, says Jon Helgi Gudmundsson, Chairman of the board of Norvik hf.

“We are pleased with the opportunity to acquire NTI which is a well-managed company with good profitability and great potential for development. The acquisition is well in line with our growth strategy and our ambition to create shareholder value. Through the acquisition, we will establish ourselves in new markets while strengthening our position in markets where we currently operate. A broadened and more large-scaled business enables economies of scale and synergies that lead to increased competitiveness and long-term profitability”, says Lars Gustafsson, Chairman of the board of Bergs Timber.

Background and strategic reasons for the intended acquisition

The Target Companies operate within three areas: production of sawn timber products, wood processing as well as port- and distribution operations. The number of employees amount to approximately 800. Sales during the period September 2016 – August 2017 amounted to correspondingly SEK 1,613 million, the operating result to SEK 102 million and result after tax to SEK 78 million².

The production of sawn timber products takes place at a modern, larger plant in Latvia (Vika Wood) with an annual output of 270,000 m³ and at two smaller plants in Estonia with a total output of 120,000 m³.

The wood processing business (Byko-Lat) is located in two regions in Latvia where production of planed products for construction purposes³, windows and doors, modular houses as well as joinery products for gardening purposes takes place. Most of Byko-Lat’s raw material procurement is from the two Estonian sawmills as well as from two Russian sawmills operated within a part of Norvik Timber Industries which is not subject to the intended acquisition.⁴ Byko-Lat’s products are sold to a large extent to Western European markets, including the Baltics.

The port business (Norvik Shipping) is located east of London and includes handling of forest industry products, steel and other goods. The business also includes the operation of a ship. Within its own port area NTI also operates a distribution business (Continental Wood Product or CWP) for the import and sales of sawn timber products and processed products in the English market.

Through the acquisition of the Target Companies, Bergs Timber’s product processing will increase significantly, which is intended to limit Bergs Timber’s sensitivity to fluctuations in the economic cycle while at the same time acquiring knowledge and experience with respect to

² Based on the existing exchange rate EUR/SEK on 19 January 2018.

³ These are primarily intended for the Dutch, French, Baltic and Icelandic construction retail market which Bergs Timber currently does not encompass.

⁴ Concurrently with the acquisition, an agreement with NTI will be entered into with respect to continued deliveries of sawn timber products from the Russian sawmills, including an option for Bergs Timber to acquire the operations within a four-year period.

production and markets for several processed products that are currently not a part of Bergs Timber's product selection.

Bergs Timber is currently active exclusively within a limited region in eastern Götaland and is as such fully exposed to the corresponding local market for raw materials. Through the acquisition of the Target Companies, Bergs Timber will establish itself in new geographical markets in the eurozone with other and lower labor costs as well as with increased opportunities for cost effective procurement of raw materials, particularly with respect to the production of processed products.

The new structure entails that the sales of several by-products, including cellulose chips, originating from the sawmill production on respective sides of the Baltic Sea, can be integrated and optimized.

Synergies also exist within the distribution area. The sawmill Vika is well established on the large Japanese market, which also may give rise to further sales opportunities for Bergs Timber's Swedish products. Similarly, conditions exist for Bergs Timber to more clearly introduce Byko-Lat's products on the Swedish construction retail market. Not only within sales, but also logistics synergies and opportunities exist within the European supply chains of the group.

Overview of the merged company

Below, an overview of selected data pertaining to Bergs Timber's and the Target Companies' key figures are presented for the period September 2016 – August 2017, corresponding to Bergs Timber's last fiscal year.⁵

Key figures	Bergs Timber	Target Companies	Summary
Net sales (MSEK)	1,244	1,613	2,857
EBITDA (MSEK)	82	141	223
Operating result (MSEK)	37	102	139
Net result (MSEK)	25	78	103
Employees	221	800	1 021

Purchase price and valuation

Payment is intended to be paid in 170 million newly issued shares in Bergs Timber as well as a cash payment of SEK 270 million. The cash payment is intended to be paid with SEK 100 million in connection with the completion of the transaction, SEK 100 million on 30 June 2019 and SEK 70 million on 30 June 2020. On the amounts paid after the completion of the transaction, it is intended that Bergs Timber shall pay an interest of STIBOR 12-month plus two percent. Furthermore, it is intended that Norvik shall be entitled to a performance-based earn-out, which may amount to a maximum of SEK 40 million to be paid for the periods 2018, 2018 and 2020.

⁵ The data with respect to the Target Companies are not audited and several adjustments, e.g. due to differences in accounting principles used by the Target Companies and Bergs Timber respectively, may be required in order to make the numbers comparable. The data with respect to the Target Companies is based on the existing exchange rates on 19 January 2018 and have not been reviewed by Bergs Timber's auditors.

Provided that the earn-out is paid in full and otherwise based on Bergs Timber's closing price (SEK 2.71) and existing exchange rates on 19 January, as well as the Target Companies net debt per the end of August 2017, which is also the end of Berg Timber's financial year, the total consideration for NTI amounts to SEK 770.7 million or to SEK 891.6 million on a debt-free basis.⁶

Shareholder value

Through the acquisition, Bergs Timber's operations are broadened to include production and cost bases in other regions and currencies, while increasing product processing, which Bergs Timber assesses should lead to more even and less cyclically dependent earnings.

Certain cost synergies are expected to arise within areas such as distribution, procurement of raw materials and management of by-products. Furthermore, Bergs Timber's preliminary review of the Target Companies indicate that significant opportunity exists for optimizing certain parts of the operations. Irrespective of the effects of these synergies and optimization measures, the transaction is expected to contribute to an increase in Bergs Timber's earnings per share.

Based on Bergs Timber's and the Target Companies' net results respectively for the period corresponding to Bergs Timber's financial year 2016/2017, the earnings per share is increased by about 90 percent. The positive effect is expected to be considerably less pronounced during periods when Bergs Timber's Swedish operations benefits from favorable economic conditions for saw mills.

Financing of the merged group

Bergs Timber has held discussions with a number of banks in connection with the planned acquisition regarding the financing of the merged group. It is understood the banks view the transaction favorably and it is Bergs Timber's assessment that a long-term financing may be obtained for the funds required to pay the cash part of the purchase price.

Prerequisites for the completion of the transaction and the continued process

Bergs Timber has initiated a formal review of the Target Companies, a so called due diligence process, which is planned to be completed in the beginning of March. A conditional purchase agreement is thereafter intended to be entered into between Bergs Timber and Norvik.

The Issue in Kind will require approval by Bergs Timbers shareholders and to this end an extraordinary general meeting will be held at a time during the second quarter 2018 which Bergs Timber will announce at a later date. The resolution to approve the Issue in Kind will be made in accordance with the so called "LEO"-rules in accordance with the Swedish Companies Act, meaning that a valid decision will require that the proposal in respect of the Issue in Kind is supported by shareholders representing at least nine tenths (9/10) of both the votes and shares represented at the meeting.

⁶ The basis for the calculation has not been audited and differences in accounting principles may occur. The calculation should not be considered as a pro forma as several adjustments may be required in order to make the numbers comparable. The information has not been reviewed by Bergs Timber's auditors. The indicative comparison is based on the existing exchange rate on 19 January 2018.

Well in time before the general meeting that will resolve on the Issue in Kind, the shareholders of Bergs Timber will be able to receive a fairness opinion with respect to the acquisition obtained from independent expertise, as well as the prospectus that Bergs Timber is required to issue due to that the shares issued in the Issue in Kind are admitted to trading on Nasdaq Stockholm.

For the continued process it is required that any necessary approvals of relevant regulatory or competition authorities are obtained as well as Norvik entering into a “lock-up agreement” entailing that Norvik may not sell its shares in Bergs Timber during a period of two years from the completion of the acquisition agreement. The lock-up agreement shall not prevent Norvik from divesting its shares by means of any kind of bilateral transactions, provided that such a bilateral transaction may not be carried out if Norvik’s share of Bergs Timber would amount to less than 40 percent following such a transaction, calculated on the basis of the number of outstanding shares after the completion of the Issue in Kind.

It is assessed that the transaction may be completed during the second quarter 2018.

Norvik, which per the day of the signing of the Letter of Intent holds 29.52 percent of all outstanding shares and votes in Bergs Timber, is expected to increase its holding in Bergs Timber to an ownership of 64.68 percent through the Issue in kind. The Swedish Securities Council has on 17 January 2018 granted Norvik an exemption from the mandatory bid obligation in accordance with the Swedish Stock Market (Takeover Bids) Act that would otherwise arise if Norvik had subscribed for shares in the Issue in Kind. Norvik has announced its intention to sell significant parts of its shareholding in connection with the completion of the acquisition with the long term intention to reduce its holding to levels below 50 percent.

Bergs Timber’s board of directors currently includes two members that are involved in the Norvik Group. Should the Issue in Kind be completed, Norvik has declared its intention to adhere to continuity with respect to the composition of the board of directors and does not intend to pursue that more members of the board of directors that are active within the Norvik Group are elected to the board of directors in Bergs Timber.

Further information about this press release can be provided by Bergs Timber’s CEO and group president Peter Nilsson (+46 703 15 09 27 or +46 10 19 98 504).

The information is such that Bergs Timber AB (publ) is required to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, on 22 January 2018 at 13:00 (CET).

Bergs Timber AB (publ), 556052-2798, Bergs väg 13, SE-570 84 Mörlunda, telephone +46 10 19 98 500. More information about our operations can be found on our web page under the address www.bergstimber.se.
