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BDO – Fairness opinion regarding valuation of project companies within the Magnolia Group

Magnolia Bostad AB
Att: Board of directors
Sturegatan 6
114 35 Stockholm

Stockholm, 25 September 2017

At your request, we, BDO Corporate Finance, have been hired to, from a financial perspective, assess the value of a project company which is currently being established and named Magnolia Holding 4 AB (hereinafter the “Company” or “Holding 4”) and Magnolia Holding 3 AB (hereinafter “Holding 3”) within the Magnolia company group (the “Group”). Holding 4 is a newly established company in which the Group means to allocate all new projects (except for development of hotels) which is started during the period H2 2017 until the end of 2022. Holding 3 currently serve the same function, but limited to rental apartments and with exclusivity meant to extend to February 2019. The value of the hotel business of the Group (the “Hotel Business”) has also been analysed. The Hotel Business is recently started and has not yet had any sale.

The purpose of the value assessment is to determine the reasonability, from a financial perspective, of a proposed restructuring of the ownership of the Group. To achieve an even distribution of ownership between the Group’s business areas for the Group CEO, Fredrik Lidjan, the board of directors propose that the exclusivity of Holding 3 is terminated early and that Fredrik Lidjan is compensated for the impaired value of his current 10 per cent ownership in Holding 3 by a part of Holding 4. Fredrik Lidjan’s current ownership of 24 per cent of the Hotel Business will also be reduced to correspond to the ownership in Holding 4. The board of directors proposes an ownership of 8 per cent in Holding 4 and the Hotel Business for Fredrik Lidjan. The board of directors of the Group considers the value of Fredrik Lidjan’s ownership in the Group to be equal before and after a restructuring, why the restructuring does not provide him with an economic advantage at the expense of other shareholders.

Information sources

In addition to publicly available annual reports, BDO has had telephone calls and mail correspondence with Fredrik Tibell, board member, Fredrik Westin, CFO, and Jimmy Henriksson, responsible for Group accounting. BDO has also obtained consolidated accounts for Magnolia Holding 3 AB and its subsidiaries, as well as documentation for the Hotel Business.

In addition to this, information has been obtained from analyses from stock analysts following the Group, the annual and quarterly reports for 2013-2016 of the Group, listing prospectus and the finance database Thomson Reuters Eikon.

Valuation model and comments

In view of the Company’s current situation and received information, BDO has chosen to value Holding 3 (from an assumption of exclusivity until February 2019 as well as terminated during 2017), Holding 4 and the Hotel Business by a cash-flow valuation in order to compare the value of Fredrik Lidjan’s current shares to the value of his shares after the proposed restructuring.

Conclusion

BDO considers, based on the conducted analysis, the terms for the restructuring reasonable from a financial point of view for the shareholders of Magnolia, as the value of Fredrik Lidjan's shareholding in the group is not considered increased after the restructuring, compared to before the restructuring.

BDO has also analysed the proposed restructuring from an income tax perspective, and concludes that there exist no particular tax risk for the Group.

Disclaimer

Facts in this report are supplied by the Company. BDO cannot ensure the correctness or completeness of such facts. As such, BDO does not assume any liability for loss which may arise due to the report being incorrect, which is based on faulty, or otherwise misleading information obtained from the Company, nor for any other indirect loss caused by use or reliance of material from this report.

We have, within the scope of this assignment, not carried out any audit of the material and the facts provided to us. Our valuation is based on an assumption that the information is correct and that no material information is missing. In view of the available information, we consider the conducted assessment to be both reasonable and justifiable.

Robert Nordahl
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