AS Virši-A

18th Oct 2021

Disclosure: LHV is the arranger for the announced securities offering and has been engaged for advisory services by AS Virši-A as part of its preparations for admission to trading on Nasdaq Baltic First North.

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Investment Summary

A leading domestic fuel retail chain with growth ambitions

AS Virši-A (hereinafter referred to as the 'Company' or 'Virši', together with its subsidiaries the 'Group') is the largest and fastest-growing domestic fuel trader in Latvia, operating an expanding network of filling stations combined with convenience stores. Virši was founded in 1995 when the first filling station was opened in Aizkraukle, while currently, it operates a total of 63 stations, with the strongest presence in the Vidzeme region, followed by Riga, Latgale, Kurzeme, and Zemgale. In addition to the retail market, the Group is active in the fuel wholesale segment, primarily servicing clients in the agriculture and forestry sectors, clients using heating oil for heat generation as well as own franchises. As of 2020, the Group employed 552 people on average. Since its foundation, Virši has been fully controlled by domestic capital, currently being directly owned by five private persons, who are all Latvian citizens. Apart from traditional fuel types, considering the changes in regulations and market demand, the Group is actively developing the sales infrastructure for alternative fuel types, including CNG as well as electric charging points. Virši plans to enter the next stage of growth, envisaging rapid expansion of its station network, accompanied by the development of alternative fuel segments. Virši aims to attract c.a. EUR 7m of new equity capital via an initial public offering (IPO), followed by the listing of the shares on the Nasdaq Baltic First North alternative market.

The Latvian fuel retail market is highly competitive as all market leaders are offering a broadly similar range of base products and services while trying to gain competitive advantages, mainly in station network range, customer experience, and client bonuses. Although the Virši station network is currently holding the fourth position behind Circle-K, Neste, and Viada (former LUKoil), the Group aims to catch up with the leaders with the planned network expansion, alternative fuel accessibility, digitalisation, innovative payment solutions, and loyalty programmes. The fuel market has shown strong resilience and steady growth over the last decade. Following a pandemic-induced setback in 2020, Latvia's fuel consumption has almost recovered to pre-crisis levels and is set to grow further, backed by supportive macroeconomic conditions in the country. Regulators are taking several actions to promote alternative fuel use in transportation, potentially leading to a gradual decline in traditional fuels in the longer run. However, Virši is the leading alternative fuel provider in Latvia, thus aiming to keep its competitive advantage as the first mover.

Our financial projections and equity valuation of Virši are prepared on a post-money basis, assuming the Group manages to attract at least EUR 7m of new equity in the IPO process. We have approached the valuation of Virši using a combination of the income and market approaches. For the income approach, we used the Discounted Cash Flow model. For the market approach, we used a peer group valuation, which considers several peer group trading multiples for 2021-2023E. We see the income approach as more suited for the valuation of Virši and assigned a 60% weight to DCF-based valuation in the total value, leaving the peer valuation weight at 40%. Overall, we decided to set our fair value range (FVR) for the Group's total equity at EUR 78-92m. Using the mid-point of our FVR and our forecasts for 2022, the Group would be valued at the following 2022E multiples: P/E – 16.1x, P/B – 1.6x, and EV/EBITDA – 9.8x, with the respective ratios declining to 13.2x, 1.5x, and 8.5x by 2023E. In our view, assuming the growth ambition is executed in a reasonably balanced and efficient way, the Group has a good chance to expand its market share in the Latvian fuel market by c.a. one-third or 4% over the five-year horizon. We believe that the core attractions of the investment case of Virši are its strategic aim to focus on growth, a possibility to benefit more from its image as a leading domestic fuel trader with a clear focus on the Latvian market and local customers, its proven track record to profitably develop the convenience store concept, as well as active development of sales channels of alternative fuels. The key risk factors to our valuation include a deterioration of Latvia's macroeconomic environment, slower than the projected expansion of the station network and revenues, and weaker than anticipated margins for its core operating segments.

Key Numbers (EURm)	2016**	2017**	2018**	2019	2020	2021E	2022E	2023E	2023E	2023E
Revenue	113.6	148.4	180.3	187.0	171.4	202.7	224.4	245.0	265.6	285.2
EBITDA	3.1	5.6	6.3	7.4	7.8	8.8	9.8	11.3	13.8	16.3
Operating Profit	1.4	3.5	3.9	3.8	4.7	5.2	5.9	7.2	9.3	11.5
Net Profit	1.1	3.1	3.8	3.6	4.2	4.8	5.3	6.4	8.4	10.2
Total Assets	37.3	41.7	56.1	72.0	72.8	86.1	90.9	97.4	106.4	114.8
Net Debt	3.4	4.2	9.8	17.3	17.1	11.2	13.0	15.4	16.2	16.0
Total Equity	19.0	21.2	27.3	32.6	36.6	48.4	52.7	57.6	64.1	70.9
CAPEX	3.9	2.2	2.2	8.5	6.5	9.2	10.2	11.6	11.8	11.6
EV/Revenue (x)*	-	-	-	-	-	0.5	0.4	0.4	0.4	0.3
EV/EBITDA (x)*	-	-	-	-	-	10.9	9.8	8.5	7.0	5.9
P/E (x)*	-	-	-	-	-	17.9	16.1	13.2	10.1	8.3
P/Book (x)*	-	-	-	-	-	1.8	1.6	1.5	1.3	1.2

Source: The Company for historicals, LHV for estimates. * The valuation multiples are calculated using the mid-range of post-money equity valuation (EUR 78-92m).
**Note: All P&L and CF data until 2018 (BS data until 2017) is presented based on Latvian GAAP, from 2019 (BS data from end-2018) based on IFRS.

Company Overview

AS Virši-A (hereinafter referred to as the 'Company' or 'Virši' together with its subsidiaries, the 'Group') is the largest and fastest-growing domestic fuel trader in Latvia with a wide network of gas stations providing a wide range of fuel products - fossil and alternative. The Group operates in retail and wholesale segments. Furthermore, besides retail and wholesale of fuel products, the Group engages in the retail sale of car goods, groceries, fast food, and other fast-moving consumer goods through the network of its own filling stations.

The Company was founded in 1995 when the first filling station was opened in Aizkraukle. The founders of the Company were three citizens of Latvia, and two have been with the Company since the beginning. As of 2021, the Company's shareholders are five private persons who are citizens of Latvia. By 2005, the Group was already operating 24 filling stations. In 2014, the Group was present in all regions in Latvia, with the fastest growth of stations occurring between 2013 and 2014 (13 new filling stations opened). Currently, the Group is operating 63 stations having the most presence in the Vidzeme region, followed by Riga, Latgale, Kurzeme and Zemgale. In the year of establishment, the Group employed 15 people, but along the business growth, employee count until 2005 grew to 180 and reached an average of 599 employees in H1 2021.

In April 2021, Virši announced the decision to raise capital via an IPO and admit its shares for trading on Nasdaq Riga alternative market First North in the second half of this year. The Company intends to raise up to EUR 7m that will be invested into geographical expansion, expansion of alternative fuel accessibility, and the development of a new business segment offering electricity and natural gas to B2B and later for B2C. The Company is currently developing its shareholders' benefits programme, which is seen to serve as an additional way to increase the number of customers and nurture customer loyalty.

Shareholder Structure

Virši is a Latvian capital company, furthermore, two out of three founders (Jānis Riekstiņš and Jānis Rušmanis) of the Company are still present since 1995. The Company is directly held by five persons.

The Council

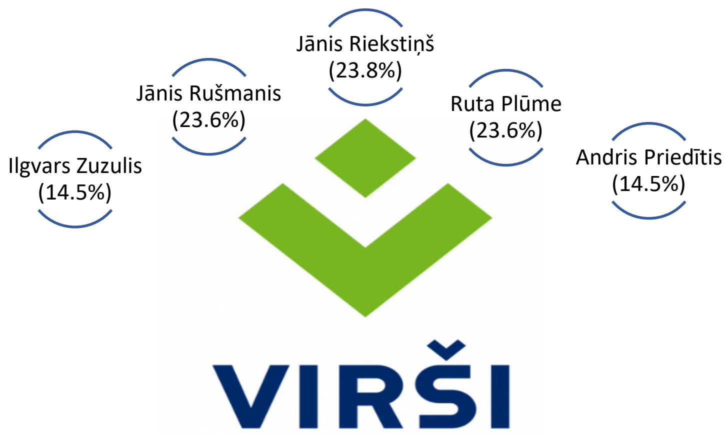
According to the Articles of association of Virši, the Council consists of six members elected by the shareholders. The Council is entitled to adopt decisions if more than one-half of the members of the Council are present at its meeting. The Council can adopt its decisions by a simple majority vote of the members present. In the event of a tied vote, the vote of the chairperson of the Council shall prevail. Four out of six members of the Council are shareholders, and one is an independent Council member:

- Jānis Riekstiņš (Chairman of the Council and the largest shareholder)
- Jānis Rušmanis (Deputy Chairman of the Council and shareholder)
- Andris Priedītis (Member of the Council and shareholder)
- Ilgvars Zuzulis (Member of the Council and shareholder)
- Silva Skudra (Member of the Council)
- Ivars Blumbergs (Independent member of the Council)

Management Board

Following the statutes of Virši, the Management Board ('Board') consists of three members – the Chairman of the Board and two members of the Board. Each member can represent the Company individually with limitations, meaning that decisive decisions at certain values have to be approved by the Council. The Board consists of:

Shareholder structure as of 9th of October 2021



Source: Virši

- Jānis Vība - Chairman of the Management Board, CEO

Has been with the Company since 2017. More than 15 years of experience in the financial sector. Previous experiences include the head of the finance division of AS Citadele Banka and CFO and member of the management board of AS GE Money Bank.

- Vita Čirjevska - Member of the Management Board, CFO

Has been with the Company since 2019. More than ten years of experience in the financial sector. Previous experiences include the head of business service organisation and head of controllership of SIA SCHWENK Latvija (previous name SIA Cemex), as well as a finance director and business outsourcing director of AS BDO Latvia. Ms Čirjevska has worked for over six years in the consultancy sector at SIA Ernst & Young Baltic.

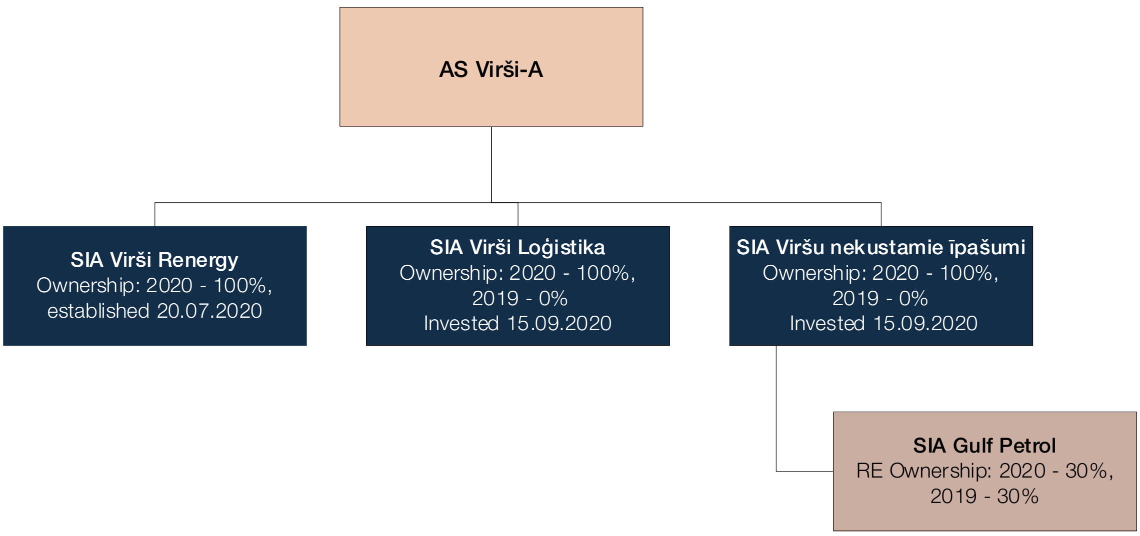
- Linda Prūse - Member of the Management Board, Retail Manager

Ms Prūse has been with the Company since 2014. Prior to becoming the retail manager in 2019, she was the regional head of retail for five years. She has 25 years of experience as a manager at three fuel industry companies. Previous experiences include working for such fuel industry companies as SIA Latvija Statoil and SIA Sumata.

The Group's Structure

In February 2021, the Group's reorganisation was completed. As part of the reorganisation in 2020 and 2021, equity of two subsidiaries, SIA Viršu nekustamie īpašumi and SIA Virši loģistika, was contributed to the Company, and a new company was founded, SIA Virši Renergy:

- AS Virši-A operates the filling stations excluding the gas station real estate management and manages the franchising agreements.
- SIA VIRŠI Renergy (100% owned by AS Virši-A) was founded to act as the trader of natural gas and electricity.
- SIA Virši loģistika (100% owned by AS Virši-A), formerly known as SIA AKA is providing fuel logistics services in the station network from January 2021.
- SIA Viršu nekustamie īpašumi manages the real estate properties of the Group.
  - » SIA Gulf Petrol RE was formed by a partnership deal. SIA Gulf Petrol RE owns filling station's property located in Mārupe.



Source: Virši

Business Overview

Fuel Retail

The fuel retail market is the dominating market for the Group in terms of litres sold and revenue. Conventional fuels constitute the major share of retail sales, that is, diesel, petrol, and liquified petroleum gas (LPG). However, with rather rapidly changing policy and emerging consumer trends, Virši is offering alternative sources of fuel energy as compressed natural gas (CNG) and renewable fuel energy as electric charging. Furthermore, in the following years, Virši is planning to offer biomethane and currently researching the option of hydrogen fuel implementation into its stations. Currently, Group has maintained the status of the leading alternative fuel supplier in Latvia. The Company opened its first CNG station in Latvia in 2019, currently holding seven CNG filling points and five electric charging points. The Company plans to expand to ten CNG and seven electric charging points by mid 2022.

Fuel Wholesale

The Group engages in wholesale by providing fuel mainly to the agriculture, forestry sector and Virši franchisees, while a small part is constituted by heating fuel. The Company has its own fuel storage facility and effective logistics system in place; thus, delivery of fuel can be provided in the next working day. The ability to react fast is crucial in the wholesale market; for instance, farms have very limited time to conduct harvesting or sowing; thus, it is expected to have fast and reliable delivery.

Convenience Stores

The filling stations comprise fuel filling points and convenience stores. The main product groups demanded in convenience stores are food, coffee, other drinks, and tobacco. Other products include car goods (motor oil, car care products, etc.), electronics, and magazines etc.

Over the last few years, Virši had significantly expanded its food and drink assortment and complemented it even more by November 2020 when the first new interior design concept store was opened.

At the beginning of 2016, the Company entered into a cooperation agreement with SIA King Coffee Service for the provision of freshly roasted coffee for the entire station network. Thus, Virši became the first and only gas station in Latvia to offer freshly roasted coffee to its customers at gas stations.

Convenience stores of Virši offer a wide range of fast-food products like burgers, kebabs, snacks, sandwiches, burritos, muffins etc.; furthermore, there are options for people who prefer low-calory diets (salads) or even vegan-friendly snacks.

Other Products/Services

Virši has integrated a full range of products and services that constitute a small part of the business; however, it makes great customer experience which directly supports the main product business.

For instance, at various locations, Virši offers parking for freight transport and offers a 100% discount if a client has filled 5000l of fuel on a monthly basis, furthermore Virši offer dischargeable windshield fluid, DPD shipment points, dischargeable AdBlue, replacement of household gas cylinders, vignettes, fishing permits etc.

Since June 2021, Virši Renergy has offered electricity to B2B clients – Virši has developed the product slowly at the test phase. Since October 2021, the Company also provided electricity to B2C clients, also for testing purposes to have a process set up. Virši Renergy is a natural gas supplier as well – here, all the gas provided is consumed within the Group.

Client Cards

As for many sectors, customer attraction and loyalty depends on the treatment and bonuses available. A common practice is to establish client cards that offer special pricing for the goods. Virši offers client cards for natural and legal persons with a variety of card types and the access to INFO system, which provides an overview of completed transactions, thus making it easier to analyse the spending and form a budget.

For natural persons, Virši offers client cards with prepaid budgets or without. Depending on the card, bonuses include individual discounts for fuel, goods available in a convenience store and discounts for car wash; furthermore, client cards offer discounts at the partner gas stations like Dinaz, Rietumu Nafta, Pit Stop etc. (the main market leaders are not in the partnership list).

For businesses, Virši offer credit (non-interest), debit client cards which offer individual discounts for fuel, car wash and traffic goods. A special card is offered to farmers for agro diesel purchases that supports access to databases for quota checks. For clients that operate internationally, “BP+Aral Routex” card owners can pay in 29 European countries, at more than 18,000 petrol stations, as well as make payments for toll roads in the European Union and, if necessary, pay for technical assistance services anywhere in Europe.

Station Network

The Group, in total, operates through 63 stations covering all Latvia regions (Kurzeme, Zemgale, Latgale Vidzeme, Riga). Most stations are located in Vidzeme (22 stations) followed by Riga (12 stations, +2 compared to 2016), Latgale (9 stations), Kurzeme (9 stations, +3 compared to 2016), and Zemgale (11 stations). CNG tanks are currently located at seven stations (Broceni, Olaine, Krustpils, Liepaja and 2 in Riga) and plan to expand the number to 10 (+2 in the Riga region, and +1 in Daugavpils). Virši charging points are located at five stations (Karsava, Ugale, Adazi, Aizkraukle, Valka). Virši plans to initially locate charging points in their top positions and expand as demand grows. The idea is for electric vehicle ('EV') owners that travel around the country, tourists visiting Latvia or crossing it, or busy city-based charging necessities are done at stations where there is a wide range of products and convenience available while charging.

In case of a successful IPO, the Company has set a target to reach more than 80 stations (including franchises) by the end of 2024.

ESG Spectrum

The Group has identified five key areas in line with the UN Sustainable Development Goals (SDG), where the Group has the most significant input potential (SDG´s 7, 8, 9, 12, 13).

One of the main SDG for the Group is Affordable and Clean Energy and Climate Action. To promote the use of environmentally friendly energy and road transport, the Group continues to create the future market for the energy supply to electric vehicles by established charging points and opening new ones promoting their wider availability to the population. Being aware of the transition period on the way to climate-neutral road transport, the Group already has opened Latvia´s first CNG filling station in 2019 and is the only one that operates publicly available CNG stations. The Group is continuing to rapidly develop the network of CNG stations and other sustainable transport energy sources to encourage companies and individuals to switch to a more environmentally friendly and economically more beneficial fleet, meaning that Group plans to initiate supply of renewable energy sources such as biomethane and and researching the possibility to offer hydrogen fuel.

The Group is also pursuing SDG Decent Work and Economic Growth by continuously showing convincing financial growth and providing a prosperous and growth-friendly work environment that is reflected in employee satisfaction surveys.

Virši Station Network

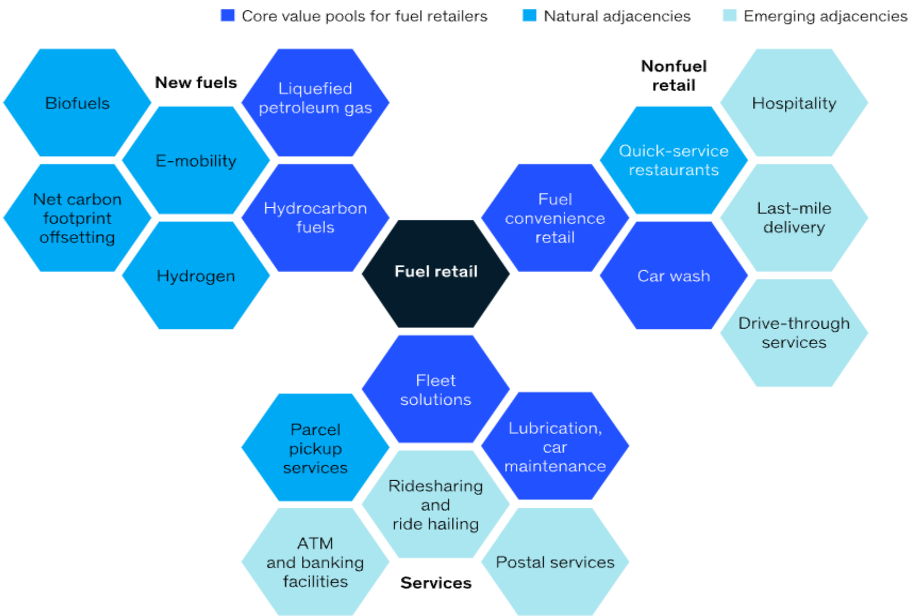
Source: Virši

Sector Overview

According to McKinsey & Company, over the past decade, fuel retail has been one of the most resilient segments in the oil and gas industry. The growth of both out-of-home consumption and small-format retail has enabled forecourts to capture significant incremental value from convenience retail and other non-fuel retail business. Innovative fuel retailers can use non-fuel retail to unlock additional value from their real estate; furthermore, sustainability awareness is changing the fuel types demanded in the market.

McKinsey & Company has compiled the core, natural and emerging adjacencies of value pools for fuel retailers. Currently, the core value pools for fuel retailers are traditional fossil fuels and convenience shops; however, alternative fuels are slowly picking up the demand, such as EV charging, hydrogen, and various biofuels. Quick-service restaurants are becoming a normal appearance as there is a demand for quick but healthier quality food at trip stops. Due to advanced logistics management tools, fuel retailers are able to implement parcel pickup services at their locations. Generally, over the last few years, fuel retailers have substantially diversified their value pools and introduced new ones which complement each other and create customer attraction and increases competitiveness of fuel retailers.

Considering Virši's value pools, it can be observed that the Company has core value pools completely covered and has a strong presence of natural adjacencies; however, emerging adjacencies are covered only by postal services (DPD). Virši's filling stations provide customers with a wide range of fuel, non-fuel retail products and services that were drivers for strong and convincing growth in total turnover from 2016 until 2020 (CAGR of 10.8%) and active customer base (fuel 14%, merchandise 61% since 2020).



McKinsey&Company

Fuel Demand

The fuel market has shown strong resilience and steady growth over the last decade as it is a substantial component to ensure operations in various sectors and in our daily lives as such. In Latvia, the fuel demand experienced a slight decline due to two main factors - the increase in excise duty at the beginning of the year and restrictions imposed due to the COVID-19 pandemic, which reduced population movement and put many sectors on pause.

Demand for fuel shrank only by 5% y-o-y. During the first half of 2020, the market experienced an 8% decrease y-o-y in fuel demand due to severe lockdowns and increased excise tax; however, in the second half, with loosened restrictions, demand recovered, ending the second half at just 2% lower on a y-o-y basis.

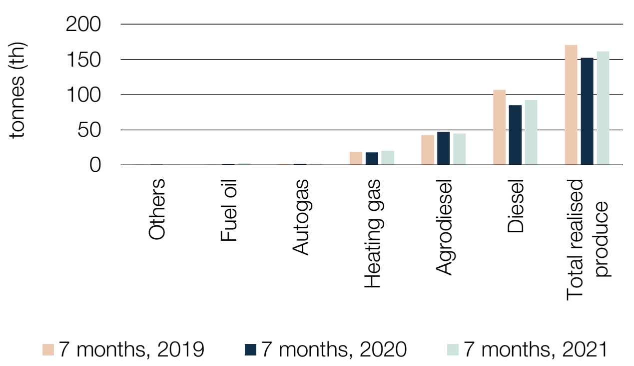
By analysing VID data for seven months in 2021, total realised fuel volumes show a 5% increase compared to 2020; furthermore, this year total realised fuel volumes are getting closer to pre-pandemic volumes showing 3% decrease compared to a 7% decrease for last year's 7 months.

The retail segment constitutes the largest share of the fuel market in 2021, amounting to 75% of volumes sold, followed by the wholesale segment 22%, while 3% is labelled diesel and provided own consumption.

The sector recovery was mostly driven by the retail segment as it showed better resilience to the pandemic compared to the wholesale segment. Retail volumes for seven months of 2021 have increased by 5% y-o-y and have almost reached the 2019 level (only 1% less). The recovery to the 2019 level was almost fully driven by the increased demand for diesel, as almost all other fuel types experienced a noticeable decrease. Although y-o-y increase in diesel has not skyrocketed (7%), having most of the retail proportion, little changes in diesel demand leave a noticeable impact on total fuel demand. In 2021 (7 months), diesel (including agro-diesel) constitutes 79% of retail consumption, followed by gasoline (including biogasoline) with 17% and autogas with 4% retail consumption share.

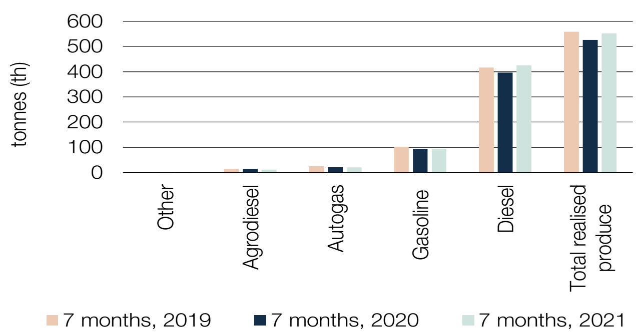
On the wholesale side, diesel, agro-diesel, and heating gas together constitute 98% of the total demand, with 57%, 28% and 13% share, respectively. The wholesale market has been impacted by the pandemic almost twice compared to the retail market in terms of y-o-y decline. In 2020 (7 months), wholesale decreased approximately by 11% y-o-y compared to the retail market decline of 6% y-o-y. This could be explained by the restrictions for businesses to operate; however, the furlough support kept households spending. Furthermore, the increase in diesel excise tax negatively impacted demand from transit trucks as they chose to refill fuel in neighbouring countries. In 2021 (7 months), the wholesale market has grown by 6% y-o-y but still has 5% lower volumes compared to 2019 (7 months).

Realised fuel produce in wholesale



Source: VID (State Revenue Service of Republic of Latvia)

Realised fuel produce in retail



Source: VID (State Revenue Service of Republic of Latvia)

The main fuel wholesale market recovery drivers were diesel and heating gas, showing increased y-o-y demand of 9% and 14%, respectively.

Particulars	2019	2020	Change, %
1H Total realized fuel produce (t)	638,810	588,399	(8)
2H Total realized fuel produce (t)	686,929	672,093	(2)
Total realized fuel produce (t)	1,325,739	1,260,492	(5)

Source: VID (State Revenue Service of Republic of Latvia)

Particulars	7 months 2019	7 months 2020	7 months 2021	% Change % 2021/2019	% Change 2021/2020
Total realized fuel produce (t)	760,207	705,100	740,010	(3)	5

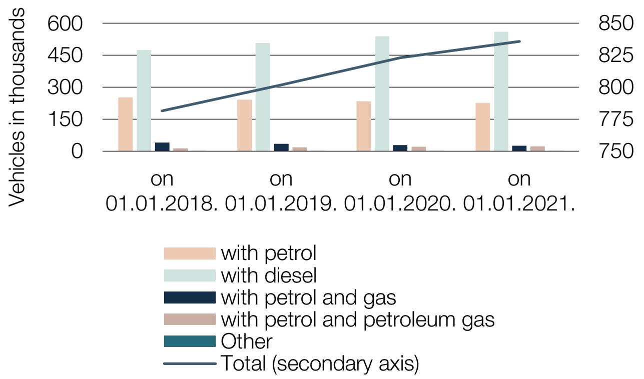
Source: VID (State Revenue Service of Republic of Latvia)

As of 1st January 2021, Road Traffic Safety Directorate (CSDD) data shows that the engine types of registered vehicles in Latvia are dominated by diesel engines (67%), followed by petrol (27%), petrol and gas (3%), and petrol and petroleum gas (3%). Over the last three years, vehicle count has increased by 7%, within that time period diesel engine type vehicles have grown their share by 6pp, however petrol engines decreased by 5pp, petrol and gas down 2pp.

Over the past three years, registered Electric vehicles (EV) have grown with a CAGR of 56%. Nonetheless, as of 1st January 2021, EVs still constitute a tiny share of total vehicles registered (0.15%) and 0.2% of all registered cars. Furthermore, in 2019, the diesel and petrol vehicles have constituted 99% of newly registered cars, by sharing almost 50/50 share. Following the trend of newly registered cars, gasoline type engines have evened out the proportions from 70/30 to 50/50 over the decade, which is attributed to increasing diesel price and policy and car producer efforts to eradicate diesel engines due to their high pollution rate.

As of January 2021, in Latvia, there were only 436 vehicles registered that use CNG solely or in conjunction with other fuels (hybrids). Currently, the use of CNG in road transport implies two benefits compared to fossil fuels. Firstly, it is cost-efficient, as the total cost of ownership of CNG cars is currently the lowest in both the passenger car and truck and bus segments. Secondly, it is a more environmentally friendly mode of transport than petrol, diesel or LPG cars. It is important to highlight four aspects where CNG has significant environmental benefits: 10-30% reduction in CO_2, 90% reduction in nitrogen compounds, almost complete elimination of fine dust, and reduced noise pollution due to quieter CNG engines. At present, the cost of 100 km with a CNG car is about 20% lower than with a fossil fuel car. Importantly, CNG road transport is not a transitional solution that will be eliminated as environmental demands increase; CNG in vehicles can be partially or fully replaced by biomethane, which is also a sustainable solution in Europe´s 2050 climate neutrality.

Number of vehicles registred by type of engine



Source: CSDD

The low rate of alternative fuel vehicles in Latvia can be attributed to the lack of infrastructure and relatively fewer support programmes; however, with the guidance of the Green Deal, the support programmes are expected to pick up speed (set out in the "Regulatory Framework" section).

According to European Commission research, electric vehicles (battery) would see faster growth beyond 2020, in particular in the segment of light-duty vehicles, driven by the CO_2 emission performance standards, supported by the rolling-out of recharging infrastructure. The share of electric vehicles (battery) in the total share of passenger cars would reach around 11% by 2030 and 33% by 2050. The share of low and zero-emissions cars (including battery-electric, fuel cells and plug-in hybrids) is projected to go up to 17% by 2030 and 54% by 2050. For the light commercial vehicles segment, the share of electric powertrains (battery) is projected at 4% by 2030 and 25% by 2050. Electric buses are projected to represent around 11% of the total vehicle share by 2030, driven by the implementation of the Clean Vehicles Directive and air quality concerns in many cities banning combustion engine buses, while the uptake of electric and fuel cell heavy goods vehicles is projected to be more limited - 3% of the total vehicle share by 2050.

Natural Gas (LNG, CNG) is projected to represent around 3.3% of the energy use in transport by 2030 and 8.2% by 2050, driven by the implementation of alternative fuel policies. The share of natural gas use in heavy goods vehicles energy demand is projected to increase to 9% by 2030 (16% by 2050).

Oil products would still represent about 87% of the EU transport sector needs in 2030 and 75% in 2050, despite the current renewables policies, CO2 emission performance standards for new light-duty and heavy goods vehicles, and the deployment of alternative fuels infrastructure, which support some substitution effects towards alternative fuels such as biofuels and biomethane, electricity, hydrogen and natural gas.

Macroeconomic Outlook

The macroeconomic outlook indicates that in this and the next year, the sector will recover and will see growth compared to the 2019 level. This is linked to several factors, one being real GDP growth, more particularly to a rapid increase in private consumption. According to the Central Bank of Latvia, the real GDP is forecasted to grow by 5.3% in 2021 and 5.1% in 2022. Regarding private consumption, it is forecasted to grow by 5.9% in 2021 and 8.9% in 2022.

Nominal wage growth will drive fuel consumption and purchases in convenience stores. According to Latvia Central Bank data, real wage (net) in 2021 Q2 has increased by 7.9% y-o-y and expects nominal wage growth of 6.9% in 2021 and 5.7% in 2022.

The unemployment level has not increased dramatically and is set to decrease close to the pre-pandemic level in 2022. A positive current forecast comes from Latvia Central Bank; namely, the unemployment rate in July 2021 has decreased to 7.1% compared to 8.6% in 2020.

However, considering the resilience of the fuel market, the growth is not expected to be similar to GDP or private consumption growth. Rather it is an assurance of stable recovery; thus, we conservatively predict steady market volumes of no more than 2%, but there is a potential upside to our forecast.

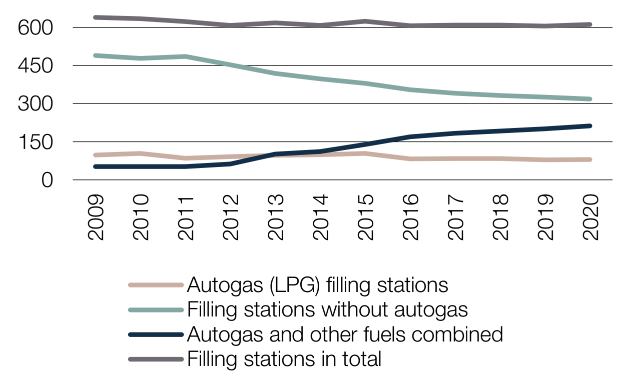
Fuel Supply

According to the Latvian Fuel Traders Association, the filling station level throughout the decade has been stable with a slight decrease (612 filling stations in 2020). The changes can be observed in filling stations that provide fuel, excluding autogas (LPG) and filling stations that provide both; namely, filling stations are starting to provide both options with the increased demand from the market.

Regarding EV charging, there is no compiled data of the total amount of charging points available in Latvia; however, in the light of Directive 2014/94/EU CSDD, with the support of the European Regional Development Fund (ERDF), 112 fast-charging stations have been established of which six are located in Neste filling stations. Electricity and gas trader Elektrum has 19 charging stations, Virši has five; however, Circle K and Viada are not offering EV charging. Thus, at this point state's initiative in EV charging infrastructure is most substantial.

It is unclear whether the natural owners of the business would be original equipment manufacturers (OEMs), oil and gas companies, power companies, independent private equity-backed firms, or other players.

Retail filling stations



Source: CSDD

People tend to have a charging station at home, which considerably reduces the EV charging outside the home. Considering the Virši latest venture in energy trading, it could be a good foundation for having EV charging as a value pool for the Company outside fuel stations. Fuel stations have a competitive advantage over the CSDD, and Elektrum established charging points considering the available convenience stores while charging is conducted.

Currently, there are only seven publicly available CNG filling stations in Latvia which are operated by Virši, the rest are private. However, fuel retailers are actively monitoring the readiness of companies and individuals to switch to CNG cars. As per Latvijas Gāze (LG), there are already a number of large orders for CNG cars. Therefore, LG predicts that in the coming year, the number of CNG stations in Latvia is likely to triple.

Regulatory Framework

Green Deal is Leading the Way

The analysis of the regulatory framework for EU industries now has to be viewed in light of the Green Deal. The alarming pollution rate and nature degradation have drawn attention to policymakers as never before. European Green Deal strives to transform the EU into a modern, resource-efficient, and competitive economy, ensuring no net emissions of greenhouse gases by 2050 and economic growth decoupled from non-renewable resource use. Within the Green Deal, there are several strategies that take upon the industries that significantly contribute to the pollution and degradation of nature by transforming, restricting, guiding, and supporting better alternatives.

Considering that transportation causes approximately one-third of greenhouse gases ('GHG') emissions in the EU, the sector is set to transform in the coming years. The strategy in place for a fundamental transport transformation is called "Mobility Strategy". The strategy with an action plan of 82 initiatives will guide policymakers for the next three years. This strategy lays the foundation for how the EU transport system can achieve its green and digital transformation and become more resilient to future crises. As outlined in the European Green Deal, the result will be a 90% cut in emissions by 2050, delivered by a smart, competitive, safe, accessible, and affordable transport system. This, in turn, will change the fuel types that transports are using and change the fuel retail value pools.

Mobility Strategy

The legal consequences of the Mobility Strategy will be observed in this and the next years as actions within the strategy are planned to be taken until 2024; however, some relatable milestones are set:

- By 2030:
  - » at least 30 million zero-emission cars will be in operation on European roads
  - » scheduled collective travel for journeys under 500 km should be carbon neutral
  - » high-speed rail traffic will double across Europe
- By 2050:
  - » nearly all cars, vans, buses as well as new heavy-duty vehicles will be zero-emission

» rail freight traffic will double.

Latvian National Energy and Climate Plan

At the national level, the Latvian National Energy and Climate Plan (2021-2030) lists the main measures for transportation:

- Reduce the use of private vehicles by optimising the movement of public transport and other modes of transport:
  - » promoting the development of bicycle traffic and bicycle infrastructure,
  - » promoting the improvement of pedestrian infrastructure, and
  - » reducing the need of the society to move.
- Promote the use of alternative energy sources:
  - » creating alternative fuels infrastructure,
  - » promoting the purchase of low-carbon and zero-emission vehicles, and promoting biomethane production, and
  - » promoting the development of infrastructure for biomethane and promoting its consumption in public transport and commercial transport.

EU Directive 2019/1161

This directive sets the minimum proportion requirements of 'clean vehicles' (electric, low emission hybrids or other alternative fuels that do not degrade the nature in obtaining process) for public procurements:

- Cars
  - » Starting from 2021 – 22%
- Buses
  - » Starting from 2021 – 35%
  - » Starting from 2026 – 50%
- Trucks
  - » Starting from 2021 – 8%
  - » Starting from 2026 – 9%

Transport Energy Law

Currently being in the project phase, Latvian Transport Energy Law envisages promoting the safe circulation of transport energy for human health and the environment, as well as ensuring the development of alternative fuel infrastructure and public awareness of available and usable types of transport energy to promote sustainable economic development and reduce greenhouse gases. Some of the main measures include:

- The state will ensure that charging points are installed in the core network of the Trans-European Transport Network (TEN-T) in large cities and counties, as well as in other densely populated areas.
- As part of the construction of new filling stations and the reconstruction or renovation of filling stations, at least one alternative refuelling point should be provided.
- At the construction of new residential or public buildings and in the process of reconstruction or renovation of residential or public buildings, if the said buildings have more than ten parking spaces inside the building or adjacent buildings, at least one charging point has to be provided.

Subsidies for EV and Hybrid Purchases

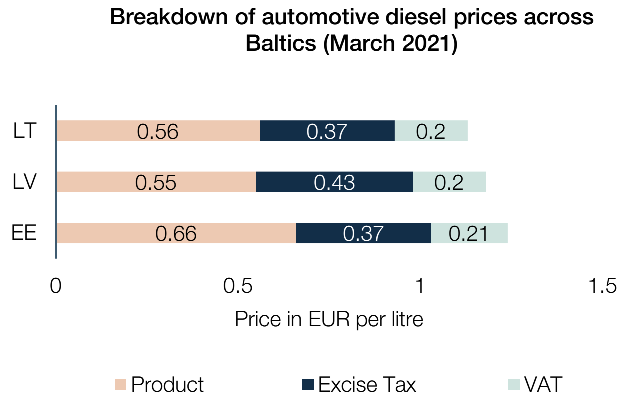
Following the example of Lithuania, Estonia, and other European Union countries, Latvia plans to issue a subsidy of EUR 4,500 for every purchase of new electric cars and EUR 2,250 for the purchase of used electric cars and plug-in hybrid cars. The total support budget is planned to be EUR 10m.

Oil product type	as of 1st Jan 2018	as of 1st Jan 2020	as of 1st Feb 2021	as of 1st July 2021
		(EUR)		
Unleaded petrol (per 1000 l)	476	509	509	509
Unleaded petrol, ethyl alcohol added (70- 85%) (per 1000 l)	142.8	152.7	360	360
Diesel fuel (per 1000 l)	372	414	414	414
Marked fuel (per 1000 l)	56.91	56.91	56.91	60
Diesel fuel (per 1000 l) agricultural use	55.80 as of 01.07.2018	62.1	62.1	62.1
Marked biodiesel/paraffinic diesel (per 1000 l)	-	-	-	21
Petroleum gases and other gaseous hydrocarbons (per 1000 kg)	244	285	285	285

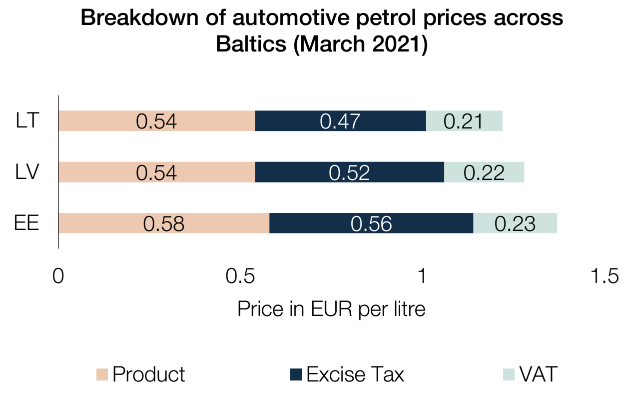
Source: VID

Purpose	Until 31st December 2020	1st January 2021	1st January 2026
For use as transportation fuel (per MWh in EUR)	9.64	1.91	10

Source: VID



Source: FuelsEurope



Source: FuelsEurope

Furthermore, besides planned purchase subsidies, EVs currently have a 100% discount on public parking and are exempt from road tax.

Taxes

By analysing the excise tax rates, it can be seen that oil products only see the excise tax increase, although, in the last two years, the rates have been stable. Considering the previously mentioned strategies, the excise tax on oil products is one of the instruments how to promote the transition to alternative fuels; for instance, the excise tax on natural gas has been decreased by 80% until 2026. However, fossil fuels are not going to disappear in the short or mid-term or even long-term; thus, states have to be competitive with their rates in order to protect their own fuel retail market. At the beginning of 2020 in Latvia, excise tax rates for diesel and gasoline were higher than in Estonia and Lithuania, and experts assert that it harmed Latvia´s fuel market as transit trucks and people close to borders chose to fill up in neighbouring countries.

Generally, the tax burden often constitutes half or the majority share of fuel price. As of March 2021, the tax burden on diesel price was 46% in Estonia (EE), 54% in Latvia (LV), and 50% in Lithuania (LT); however, for gasoline tax burden on price was 58% in EE and LV, 56% in LT.

It is obvious that policy is targeted to reduce fossil fuels and GHG emissions; thus, fuel retailers will have to operatively implement alternative fuel options. The test phase projects and slow transition to alternative fuels are likely to provide Virši with a first-mover advantage. However, the policy targets also include the reduction of necessity to move incentives such as building bicycle traffic infrastructure and promote travel and freight on the railway, which will reduce the market for fuel retailers but might be an opportunity for wholesale.

Convenience Store Market

There is no compiled data regarding convenience store player positioning in the Latvian market; however, it is reasonable to believe that leading convenience stores in Latvia are Narvesen (228 convenience stores), Circle K (81), Virši (63), and Viada (90). Regarding the market performance, it is reasonable to connect the performance of this market to general macroeconomic indicators. As mentioned in the Fuel Demand section, Latvia´s Central Bank forecasts real GDP to grow by 5.3% y-o-y in 2021 and 5.1% y-o-y in 2022. Regarding private consumption, it is forecasted to grow by 5.9% in 2021 and 8.9% in 2022. Real wage (net) in 2021 Q2 has increased by 7.9% y-o-y and expects nominal wage growth of 6.9% in 2021 and 5.7% in 2022. The unemployment level has not increased dramatically and is set to decrease close to the pre-pandemic level in 2022. Thus, we consider the convenience store market to have a stable growth of around 4%.

Competition

In our analysis, the main comparatives regarding the competition will be filling station networks, products offered, and other features.

Comparing the station networks for major competitors in Latvia, it can be seen that all of the main Virši competitors have wider station networks as they have a much larger presence in the capital city; however, throughout other regions station network is similar. Viada is the leader in the station network; however, approximately one-third of stations have limited working hours, meaning that refuelling and convenience stores are not available at night-time. As for Virši, 52 out of 63 are operating 24/7; however, all of Circle K and Neste stations are operating 24/7, but most Neste partner convenience stores and fast-food restaurants are closed at night.

Having a strong station network within and outside Latvia can bring various B2B opportunities; for example, Circle K has a partnership with car-sharing companies Carguru and Citybee. Considering that with Citybee, customers can travel within the Baltics, it is only reasonable to have one filling station partner who has a strong presence in all three states. An outside payment system with client card at fuel pumps play an important role as well as it is more convenient for car-sharing companies to implement it to car-sharing application systems.

Innovative features are important for customer convenience, customer turnover, and attraction. For example, Virši has implemented outside payment systems for 11 fuel pumps, and in the next six to nine months, it plans to implement payment applications for the whole network. However, competition - Circle K and Neste already have fully implemented outside payment systems at their fuel pumps and have an application through which stations can be located, and payments can be made. Another great client bonus example is the possibility to connect Neste client card with one of Latvia's most known grocery shop – Rimi client card which will give bonus money to your Rimi card whenever there is a payment for fuel at Neste.

Comparing the convenience stores and products available, the product range is rather very similar, and it is hard to distinguish in the market. While all others have their own brand convenience stores, Neste has partnerships with Narvesen (convenience store chain) and Hesburger (fast-food chain), which are often located next to Neste filling stations.

The competition in fuel retail is very intense, with limited possibilities to differentiate. The main sources for client attraction are station network range, customer experience (convenience), and different client bonuses.

Summary

Innovative fuel retailers are capable of using non-fuel retail to unlock additional value from their real estate, which in turn create customer attraction and increases the competitiveness of fuel retailers. Furthermore, sustainability awareness is changing the fuel types demanded in the market. Currently, Virši is covering all core value pools - the majority of natural adjacencies and little of emerging value pools, that has supported the strong growth of the Company and its client base.

The fuel market has shown strong resilience and steady growth over the last decade as it is a substantial component to ensure operations in various sectors and our daily lives as such. So far, fuel demand has almost rebounded to the 2019 demand level and considering macroeconomic indicators, it is set to continue to recover fully. Diesel and petrol are substantially dominating the fuel market; however, considering the latest policy trends, they both are set to slowly lose their share. According to European Commission research, despite the current renewables policies, oil products would still represent about 87% of the EU transport sector needs in 2030 and 75% in 2050.

Virši is the leading alternative fuel provider in Latvia; thus, it holds the potential to have a future competitive advantage as the first mover. Currently, there are only seven publicly available CNG filling stations in Latvia that are operated by Virši; the rest of CNG filling stations operated by others are private, located in private territories. It is unclear whether the natural owners of the business would be OEMs, oil and gas companies, power companies, independent private equity-backed firms, or other players. Considering the Virši latest venture in energy trading, it could be a good foundation for having EV charging as a value pool for the Company outside fuel stations.

Regulators are taking several actions to promote alternative fuel use in transportation, starting with imposing obligations and issuing support for alternative fuel infrastructure, securing infrastructure for alternative transportation methods and ending with setting minimum procurement requirements for alternative fuel vehicles and subsidising EV purchases. Tax is one of the instruments which can promote or restrict the use of certain fuels; however, states have to keep competitive rates to promote the domestic fuel retail market; furthermore, taxes often constitute at least half of fuel price.

The fuel retail segment is highly competitive due to the difficulty to distinguish products. Fuel retailers are seeking a competitive advantage in station network range, customer experience, and client bonuses. Although Virši is slightly falling behind Latvia´s leading fuel retailers in terms of station network in the capital city and innovative payment solutions, it is set for rapid station network expansion and implementing innovative payment solutions.

Station Network

	Virši	Viada	Neste	Circle K
Total	**63**	**98**	**76**	**86**
Riga	12	33	27	39
Kurzeme	9	11	10	8
Zemgale	11	12	14	14
Vidzeme	22	23	20	20
Latgale	9	19	5	5

Source: LHV research

Financials

In this section of the report, we are discussing the Group's financial drivers in greater detail, providing an overview of the key elements in its volumes, revenues, and expenses dynamics, as well as those affecting the Group's capital expenditures, financial position, and dividend policy. In order to assess the Group's potential performance, we have prepared projections for its balance sheet, income statement, and cash-flow statements for the 2021-2026 period, based on our assumptions for the key operational and financial indicators. The Group has announced its plan to arrange an initial public offering (IPO) of its shares, followed by the listing of the shares on the Nasdaq Baltic First North alternative market. According to the indications from the management, Virši aims to attract about EUR 7m of additional equity capital to be used mainly for a continuous expansion of its network of fuel stations accompanied by modern convenient stores, digitalisation of its operations as well as potential other investments, including the development of biomethane production and electric charging stations.

Keeping in mind the operational guidance, indications from the management of Virši and the expected upcoming IPO, we have prepared the financial projections and the valuation for the Group based on the following principal assumptions:

a. We assume that Latvia's macroeconomic background remains generally positive and supportive for overall economic development in the country as well as for the retail and transportation sectors.

b. Our projections assume that, in the IPO process, the Group manages to attract new equity in the amount of at least EUR 7.0m.

c. Following the IPO process and the listing of the shares on the Nasdaq Riga First North, the Group has sufficient capital base to implement its development strategy, envisaging a gradual expansion of its fuel station network and other development projects.

d. Our financial projections and equity valuation of Virši are prepared on a post-money basis, including the above-mentioned expected proceeds from the IPO, which enables the Group to strengthen its financial position and manage the funding structure more flexibly, leading to increasing dividend payments in the medium term.

We would like to notify that the Group started to prepare its fully consolidated financial statements according to IFRS only from 2020, including unaudited comparable 2019 figures in the latest annual report. Therefore, all financial statements available prior to 2019 are presented as non-consolidated statements in accordance with the Latvian GAAP and are not fully comparable. Also, please note that the Group completed the restructuring process of two of its subsidiaries, SIA Viršu Logistika and SIA Viršu nekustamie iašumi, only in September 2020, bringing them legally under the full ownership of the parent company, AS Virši-A. These two companies had the same ownership structure as the parent company, and the legal restructuring was completed in a way that the shares of the two companies were used as a payment in kind for the new shares issued by AS Virši-A. Considering the common control nature of all these companies and integrated business operations prior to the merger, the Group prepared its comparable 2019 and 2020 statements according to the IFRS as if the Group had been formed prior to 1 January 2019.

Management's Strategic Targets

In connection with the planned IPO, the Group has revealed some of its strategic targets set to be achieved by the end of 2024, including some goals regarding its operating activities as well as financial metrics. After careful consideration, we decided to use the management's strategic targets and guidance as a broad indicative basis for our base case projections for the Group up until 2024, although we have taken generally a bit more conservative approach with respect to the financial targets presented by the management. Virši has recorded a solid performance and growth track record since the establishment of the parent company back in 1995. By 2005, the Group had already operated a network of 24 filling stations all over Latvia. Given its continued growth and development plans, Virši has entered the next stage of development, envisaging a continued rapid expansion of its network of fuel stations and convenience stores, accompanied by the planned development of several alternative fuel segments, such as CNG, LNG, electric charging stations, and biomethane production. In order to support the strategic development plans, the Group decided to arrange an IPO and listing of the shares on the Nasdaq Riga First North. With the anticipated additional equity financing from the IPO, Virši aims to strengthen its position as the largest domestic fuel trader in Latvia, with a significant presence

Management's Guidance Indicator	2020 actual	2024 target
EBITDA (EURm)	7.8	15.4
Net profit (EURm)	4.2	9.0
Nr of fuel stations (incl. franchise)	63	>80
Nr 1 position in alternative fuel segment	CNG/E	CNG/CBG/LNG/E
Portion of non-fuel gross profit	>40%	>50%
Business diversification	fuel/convenience stores	fuel/convenience stores/energy services

Source: Virši

in the convenience store segment across the country. Following the IPO, Virši plans to launch a special loyalty programme for new shareholders of the Group, which shall include a number of benefits and special offers in its station network. The management's strategic targets until 2024 are summarised in the table.

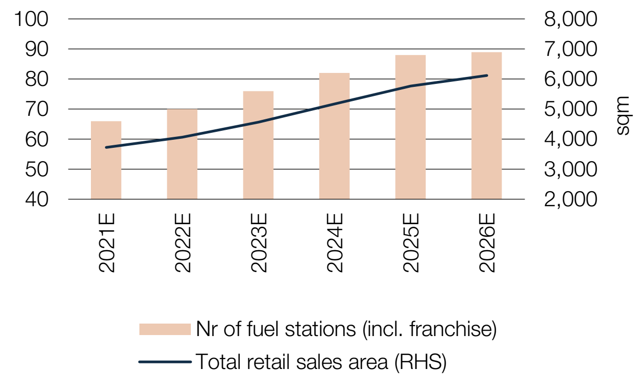
Fuel Stations and Capex

The Group's nationwide network of fuel stations with convenience stores is a major determinant of its growth strategy and market position going forward. Taking into account that the total retail market volume of traditional fuels is expected to remain quite steady throughout our forecast period, Virši's retail fuel sales and the respective market share is substantially influenced by the number of fuel stations, their location, and a wide selection of additional services offered at the stations. In addition to the expanding fuel stations network, Virši aims to attract new customers with modern convenience stores, comprising fast-food and cafeteria services, an attractive customer loyalty programme, and a rising selection of alternative fuel offers. A widening service network enables the Group to enhance benefits attached to its customer loyalty card, driven partly by the economies of scale, at the same time expanding the selection of services covered by the loyalty programme across its service range.

Following three years of relatively steady operations in terms of the station network in the period 2016-2018, Virši continued with the more active expansion of its network from 2019. Currently, the Group has a total of 63 fuel stations, including four operating under franchise agreements. According to the management, partly financed by the expected proceeds from the upcoming IPO, the Group aims to direct substantial investments for the expansion of its network in the coming years. Based on the strategic targets presented by the Group, the total number of fuel stations should exceed 80 by the end of 2024. In our projections, we estimated the period of a rapid network expansion to last until the end of 2025, with the number of fuel stations reaching 88 by that time, of which 85 would be operated directly by Virši. We are not expecting the number of franchise stations to change during our forecast period.

Virši has continuously developed its convenience store and station concept in recent years, increasing and modernising the sales area of stores, with a growing emphasis on sales of other goods and food products. Currently, the average size of the sales area of Virši stores is about 60 sqm. However, the advanced concept envisages a larger sales area, and the Group plans to build new stations comprising retail space of around 100 sqm on average. Therefore, we assumed the average retail sales area of 100 sqm for all new stations to be built over the forecast period. Such average sales area of new stations would increase the total average sales area of Virši stores to approximately 72 sqm per store by 2026. During the same period, the total sales area of Virši stores is projected to rise to over 6,100 sqm.

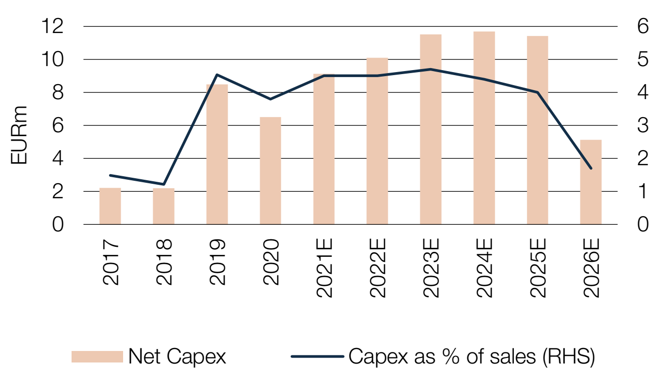
Nr of stations and retail sales area



Source: LHV for estimates

Considering the expected average sales area of new convenience stores with revised sales concept and indications from the management, the average construction cost of a new station, including the equipment and interior, is projected to be approximately EUR 1.6m. The cost of land plots for new stations may fluctuate in a wide range, depending on the exact location and size of the property, potentially ranging from EUR 0.05m to EUR 0.40m. We have assumed the average cost of land to be around EUR 0.2m per station. Accordingly, the total average Capex required for every new station is estimated at c.a. EUR 1.8m, excluding any potential working capital investments. The expected Capex for the new stations is the primary driver for our total Capex projection for the Group in the coming years. In addition to the expanding chain of fuel stations, our Capex estimates include maintenance Capex required for upgrading and repairs of existing properties and equipment. We also predicted restatement of depreciation of the right-of-use (ROU) assets, i.e. leased properties and equipment in the amount of around EUR 0.7m a year, which corresponds to the actual lease payments for the respective properties each year. Overall, mostly driven by the planned fuel station network

CAPEX in EURm and as % of sales



Source: Virši, LHV for estimates

and other development projects primarily related to alternative fuels, we anticipate the total Capex volumes to remain at a relatively high level over the next five years, both in absolute numbers and as a percentage of revenues.

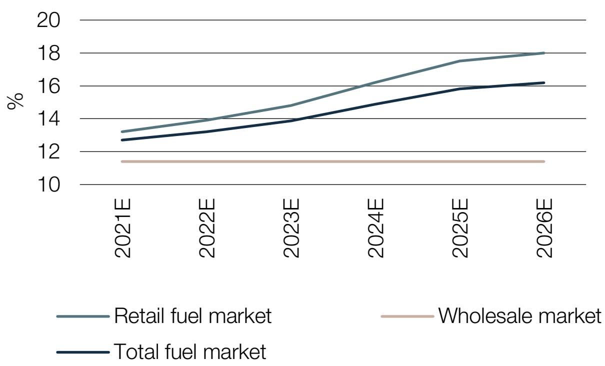
Fuel Trade

Retail and wholesale of traditional motor fuels has been historically the core business line for Virši and it is expected to remain a dominant operating segment for the Group in terms of revenues. However, please note that this segment is very much volume-driven with relatively low gross margins along with stiff competition, being therefore sensitive to fluctuations in the market prices of fuels and efficient inventory management. The retail fuel market can be generally described as highly saturated and competitive, while this environment pushes market participants to continuously develop their services and add new innovative solutions. In our analysis and projections for the Group, we are focusing primarily on the expected dynamics of the retail and wholesale quantities of Virši's fuel trade operations along with the gross margins by fuel trade segments. The respective gross margins are measured and forecasted as gross profits in euro cents per litre of fuel. Accordingly, our financial projections for the Group are built in a way that the gross profits of the fuel trade segment are not dependant on the fluctuations in the nominal fuel prices but are primarily driven by the sales quantities and the changes in the gross margins in euro cents per litre by market segments.

In the period from 2016 untill 2020, the total Latvian fuel market volumes ranged between c.a. 1.55-1.71bn litres. Like other countries, the Latvian market faced a decline in fuel demand in 2020, mostly related to the COVID-19 pandemic, causing different movement and travel restrictions, stay at home policies initiated by the government and lower need for daily commuting. The drop was steeper in the first half of last year, but the market started to recover in the second half of 2020. Based on the latest market indications, fuel consumption is returning to pre-crisis levels during 2021. According to the Group, in 2020, the total fuel market volume in Latvia amounted to c.a. 1.6bn litres, of which approximately 1.15bn litres was attributed to the retail market through fuel stations and about 0.45bn litres to the wholesale segment. The wholesale segment is primarily comprised of customers from the agricultural sector, forest industry, and clients using fuel for heat generation. Considering the expected dynamics of the total fuel market in Latvia, following the indications from the Group, we have taken a relatively conservative approach, projecting the total quantities to gradually recover in 2021 and 2022 but to remain broadly steady thereafter. In sum, during our forecast period, we anticipate the total Latvian fuel market volume to fluctuate in the range of 1.60-1.65bn litres a year, of which about 27-28% is formed by the wholesale volumes.

Based on our understanding, Virši has managed to expand its fuel sale quantities ahead of the market over the past several years, gradually increasing its market share. Despite the decline witnessed in the total market volumes last year due to the pandemic, Virši still succeeded to slightly expand its sales quantities, strengthening its market position. Looking forward, in our view, the Group's market position in the Latvian retail fuel market is going to be primarily driven by the expansion rate of its station network at good locations and the average fuel sales quantities per station. As the total retail market of traditional motor fuels is predicted to remain relatively steady in the medium term, we assume the Group is capable of increasing its market share in terms of retail volumes, mostly winning it from the smaller market players. Taking into consideration the projected expansion of the Group's station network and assuming broadly steady fuel sale quantities per station, we have made certain estimates for the Virši's market share dynamics during our forecast period. We projected Virši to expand its retail market share to over 16% by 2024 and further to c.a. 18% by 2026. Assuming conservatively that the Virši market position would not change considerably in the wholesale market during the same period, the Group's total market share in the Latvian fuel market is forecasted to rise to approximately 16% by 2026.

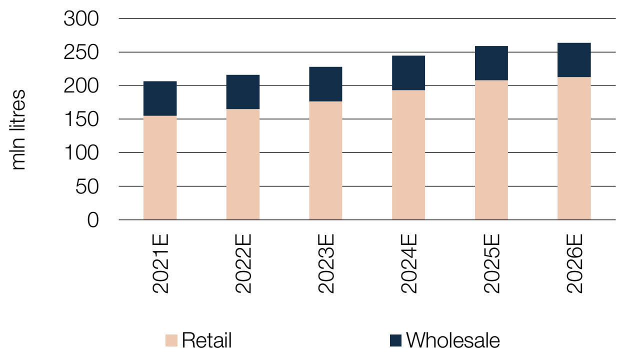
Virši market shares by fuel market segment



Source: LHV for estimates

Influenced primarily by the competitive situation and market positioning considerations, like other fuel sale companies, Virši has different pricing strategies, mark-ups, and gross margins per litre of fuel for different market and customer segments. Understandably, the margins per litre in monetary terms are the smallest in the wholesale segment. In terms of the retail market, there are substantial deviations between the margins for B2B and B2C customer segments, with the highest average gross margins regularly earned from private customers, while business clients normally enjoy larger volume-driven discounts. As mentioned earlier in the report, we assume the Group generally aims to maintain a certain average gross mark-up for each customer segment, and the total gross profit of its fuel trade operations is therefore mostly dependent on the respective sales volumes by client segments. As such, the gross profitability is not significantly affected by the nominal prices per litre at any given time, although the fluctuations in the global fuel prices and nominal retail prices may somewhat influence the overall fuel consumption volume. Based on our estimates, the average gross mark-ups for the wholesale segment are rather small, remaining below 1 cent per litre. For the B2B segment, the average mark-ups are normally above 6 cents per litre, while the respective gross margin for the B2C segment regularly exceeds 10 cents per litre.

Fuel sales of Virši by market segment

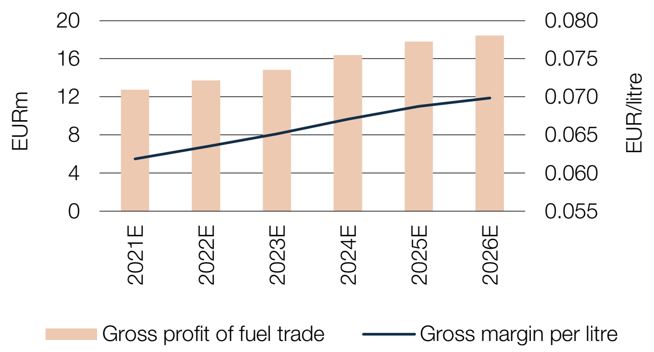


Source: LHV for estimates

Regarding the split of Virši's retail fuel sales between B2B and B2C customer segments, the former currently accounts for nearly two-thirds of the total volume, as indicated by the management, but the portion of the B2C segment is expected to gradually increase in the coming years, supported by the continuous expansion and upgrade of the station network and service range. During our forecast period, we anticipate the portion of the B2C segment to increase gradually and reach nearly 50% by 2026. In our financial projections for the Group, considering the estimated average gross margin levels per litre and the current indicative split between the customer groups within the retail segment, we decided to use a weighted average gross margin of 8.0 euro cents per litre for 2021 when estimating the gross profits of the retail fuel trade. However, taking into account the expected changes in the retail fuel sale split by customer segments in the coming years, we expect the respective gross margin to rise by c.a. 0.1 cents a year during our forecast period to reach 8.5 cents per litre by 2026. At the same time, we took a conservative approach regarding the wholesale segment mark-ups and estimated a steady margin of 0.7 cents per litre throughout our forecast period. The mentioned gross margins per litre do not comprise transportation and other logistics related expenses, which, according to our estimates, may reach 0.4-0.5 cents per litre on average, consequently reducing the fuel trade gross profitability.

We acknowledge that the Group has started to offer several types of less common alternative fuels at its stations, and there are further development plans in different fuel segments in the future. The expanding service offering of alternative fuels includes compressed natural gas (CNG), liquified petroleum gas (LPG), and electric charging stations. In addition, since 2020, the Group started to offer energy services to B2B customers, including electricity and natural gas sales. However, as these fuel types and other activities currently form only a small portion of the total sales and their future sales dynamics is complicated to predict and quantify at this stage, we decided to leave them out from our fuel trade segment forecast for the time being, although they are likely to present a notable potential upside to the Group's future revenues and profits in a long-term perspective.

Gross profits and margins of fuel trade



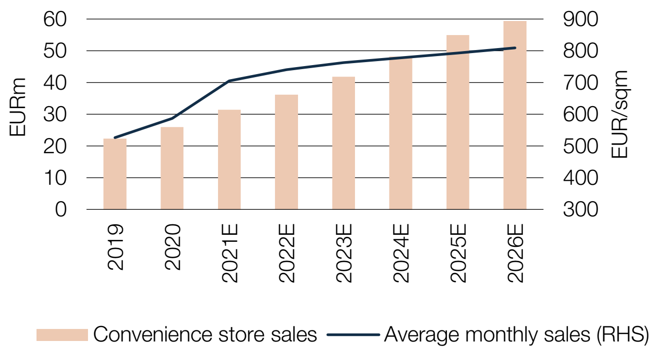
Source: Virši, LHV for estimates

Convenience Stores

Over the years, Virši has continuously developed and upgraded its convenience store concept, expanding the selection of other goods, beverages, and fast-food products. As a result, the convenience store operations have become an increasingly important part of the Group's business model and already form a substantial portion of the total gross profits. Virši claims that it is currently the second-largest convenience store operator in Latvia, accounting for about one-fourth of the respective retail market segment. We find it a bit complicated to analyse the total size of the convenience store market, as many competitors are operating convenience stores as part of their broader fuel trade or other retail business models and a more detailed breakdown of their revenue streams are not available publicly. As discussed in the earlier sections of this report, the Group is entering into the new development phase, planning to considerably expand its network of fuel stations along with convenience stores, with the total number of stations exceeding 80 by the end of 2024. We projected the Group's number of stations to near 90 at the end of our forecast period in 2026. It was also discussed that as part of the upgraded store concept, the new stores are, on average, larger in terms of the sales area than the current average store area. We assumed the new stores comprise the average sales area of at least 100 sqm. Accordingly, the projected expansion of the station network would increase the total retail sales area of the Group to over 6,100 sqm by the end of 2026.

We decided to analyse the performance of Virši's convenience store operations as a function of the sales area, the average sales per sqm of retail space, and the expected gross margins of the respective sales. Looking at the financial data from the previous years and other indications from the Group, we believe Virši has managed to establish relatively efficient convenience store operations, and this operating segment has solid gross margins. The Group claims it has doubled the total revenues of the segment over the past five years, while the segment's gross margins exceeded 32% in 2020, with the respective gross profits accounting for over 40% of the total consolidated figure. Our calculations show that Virši has relatively high average sales per sqm of retail area in comparison with traditional retail and supermarket chains. Further, the Group has managed to notably increase its sales figures per sqm over the past five years, gradually improving the efficiency and profitability of its store operations. We believe the main factors positively influencing the sales per sqm include the following: a continuous improvement of the selection of goods and fast-food products, a compact setup and efficient use of store space (no need for large space between the shelves), generally higher average price level and mark-ups of goods offered in Virši stores compared to traditional supermarkets, higher inventory turnover rate related to the specific selection of products. Our data shows that the average monthly convenience store net sales per sqm reached nearly EUR 590 in 2020, up c.a. 12% y-o-y and more than 60% compared to 2016 numbers. The numbers available for H1 2021 indicate a notable further increase in the respective figure this year, with average net monthly sales per sqm expected to exceed EUR 700 for the full 2021, which would mark a solid y-o-y growth of c.a. 20%. Over the period from 2021 untill 2026, we projected the average net monthly sales to expand at a CAGR of 5.5% to pass EUR 800 level per sqm by 2026. Combined with the anticipated nearly 9% CAGR in terms of the total sales area during the same period, total revenues of the convenience store segment are estimated to reach nearly EUR 60m by 2026, growing at a CAGR of close to 15%.

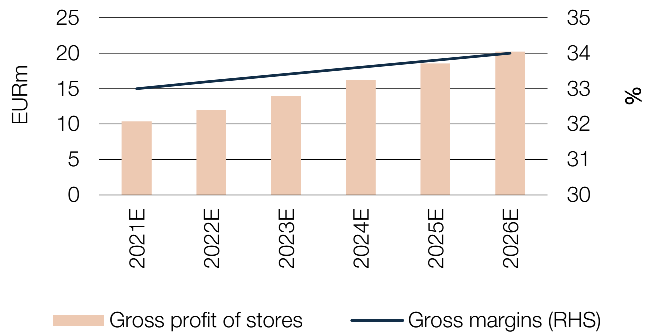
Virši convenience stores total sales and monthly sales per sqm



Source: Virši, LHV for estimates

Based on our estimates, we believe the Group already generates relatively strong gross margins from its convenience stores segment, but there is room for further improvement in the respective profitability going forward, driven by a more efficient selection of goods, advanced inventory management and wider selection of additional services. In our estimates, we have assumed the segment's gross margin to reach 33% in 2021, also recording a slow continuous improvement thereafter to c.a. 34% by 2026. Such development would mean that, along with the faster revenue growth of the segment compared to fuel trade operations, the segment's portion in the total gross profits would rise from c.a. 40% in 2020 to exceed 50% by 2025, thus becoming a major profit driver for the Group thereafter.

Convenience stores gross profit and gross margins

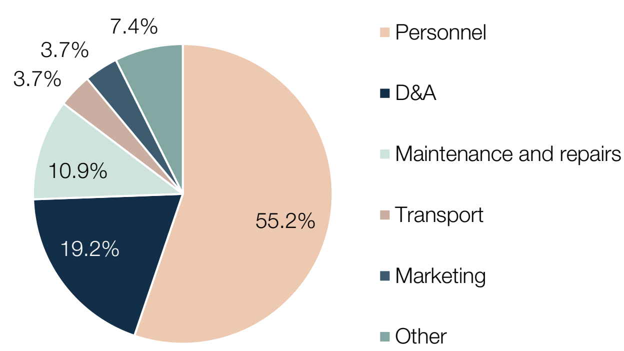


Source: LHV for estimates

Operating Expenses

Apart from the cost of goods sold, the largest cost group of Virši is selling expenses, mostly comprising the costs related to the operations and maintenance of its extensive network of fuel stations and stores. General and administrative expenses form a relatively small portion of the total cost base, their size as a percentage of revenues normally fluctuating around 1%. Both selling and administrative costs are dominated by staff expenses, including salaries and social taxes. In 2020, Virši managed to keep its combined selling and marketing expenses stable at EUR 16.0m compared to 2019, despite a continued upward pressure in salaries and overall cost inflation. Personnel costs accounted for over 55% of the total operating expenses of the Group in 2020, totalling EUR 8.9m and rising just 3.8% y-o-y. In our view, the staff costs were kept nicely under control last year, taking into account that the Group's average number of employees grew 6% y-o-y in 2020 to 552 people. In general, higher maintenance and

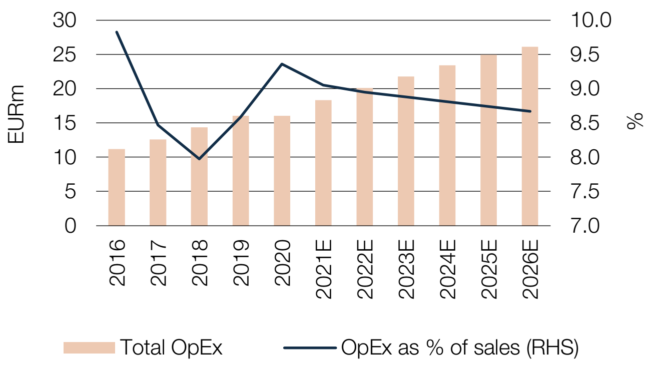
Virši operating cost structure 2020



Source: Virši

repair costs of properties and equipment, as well as rising transportation costs, were offset by lower D&A, marketing, and other expenses.

Total OPEX and OPEX as % of sales



Source: Virši, LHV for estimates

Measuring the total selling and administrative expenses (OpEx) as a percentage of total sales, their relative size increased in 2020 compared to the previous three years, partly due to a setback in total revenues driven by lower average fuel prices in nominal terms, although the volume of fuel sales even slightly climbed. Looking forward, we projected the total OpEx as a percentage of sales to remain broadly steady, with a marginal decline during our forecast period, mostly driven by some positive effects coming from larger economies of scale. The larger stations, in our view, can be operated on average more efficiently in terms of operating costs per sqm, while the average revenues per sqm of sales area are predicted to gradually expand in the coming years.

Debt Position

As at the end of 2020, the Group had a total of EUR 20.7m of debt and finance lease obligations outstanding, including EUR 10.5m from credit institutions, EUR 7.6m as shareholder loans, and EUR 2.1m as finance lease liabilities, with the latter being mostly related to IFRS16 implementation since the beginning of 2019. The total amount of debt liabilities stood broadly stable during 2020, after the number grew considerably during the previous year, rising from EUR 9.9m at the end of 2018 to EUR 20.3m by the end of 2019.

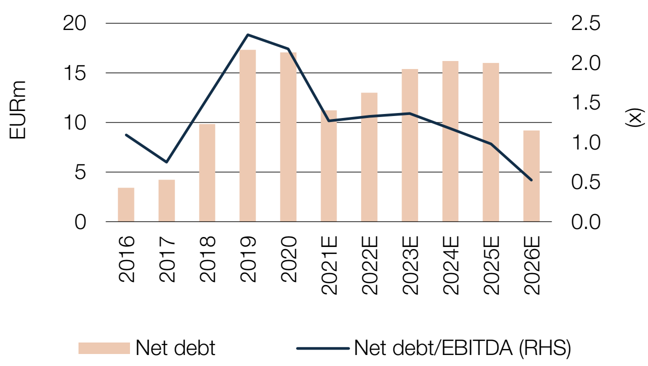
Major banking partners of Virši are SEB and Citadele Bank. The latest notable loan agreement was signed in March 2020 for EUR 5m to be used for the expansion and modernisation of the network of fuel stations, including CNG stations. The first portion of EUR 2m was withdrawn immediately, and the remaining EUR 3m was received in Q1 2021. All bank loans have maturities of up to five years and carry floating interest rates comprising of 3M or 6M Euribor + interest margin of 1.67-1.80%. In addition to used bank credit lines, Virši holds an unutilised credit facility with a limit of EUR 2m that is normally prolonged on an annual basis. All bank loans of the Group are secured with mortgages on underlying real estate properties of the fuel stations, including all equipment, a commercial pledge, as well as a financial pledge and guarantees from the subsidiaries and shareholders. Considering the current financial position, the existing loan covenants are quite relaxed and easily met. In terms of financial ratios, Virši is required to keep its DSCR above 1.2x, while Net Debt/EBITDA should not exceed 3.0x.

The balance of other loans among Virši's debt liabilities represent loans from shareholders, standing at EUR 7.3m as of H1 2021, down from EUR 7.6m at the end of 2020. The shareholders' loans are booked at amortised cost using the discounted cash flow method to determine the difference between the nominal and fair value upon initial recognition that is recognised under Other reserves as part of equity capital. All shareholder loans are unsecured and interest-free, but their carrying values are calculated using the effective interest rate of about 2.8% and the respective interest expenses are included in the financial expenses of the Group. As at the end of H1 2021, the total nominal value of shareholder loans was EUR 8.5m. Payment terms of these loans are calculated according to the budgeted cash flows, also depending on some covenants mentioned in the loan agreements with banks. Please note that the number of shareholders' loans increased considerably in 2019 when the shareholders decided to distribute a total dividend of nearly EUR 8m but transferred the dividends directly to Virši as shareholders' loans. The only cash outflow from Virši in relation to these dividends was the income tax paid based on the tax rate of 10%. In our view, this restructuring of the capital was partly incentivised by the changed corporate taxation regulations in Latvia since 2018. According to the annual report of 2020, the current payment schedule envisages repayments of EUR 0.75m each year during the next five years.

Finance lease liabilities are based on IFRS 16 and arise from the right-of-use (ROU) assets, while the net book value of ROU assets stood at EUR 2.3m as at the end of 2020, down from EUR 2.4m a year earlier. The lease liabilities are calculated as the present value of future lease payments using the effective interest rate applicable to the specific property or equipment. As of 2020, the average effective interest rate was 2.38%.

Net debt/EBITDA ratio stood at 2.2x at the end of 2020, down from 2.4x a year earlier, well below the limit of 3.0x set by the loan covenants, especially considering that shareholders loans are considered as subordinated equity in terms of the covenants. Although the management has indicated its plans to keep the respective ratio around 2.0x in the near to medium term, assuming the successful completion of the planned IPO process, our projections show that the ratio may decline to below 1.5x by the end of this year and fluctuate in the range of 1.2-1.5x over the next three years. We believe such a scenario gives the Group sufficient flexibility to accelerate its targeted expansion of the fuel station network or adjust its dividend policy to increase payments to shareholders.

Net debt and Net debt/EBITDA ratios



Source: Virši, LHV for estimates

Equity Capital and Dividend Policy

At the end of 2020, Virši had total equity of EUR 36.6m, with the equity ratio reaching comfortably 50%. However, as the Group plans to enter the next development phase and considerably expand its fuel station network, also envisaging investments into different alternative fuel segments, Virši aims to strengthen its capital base by arranging an IPO, followed by the listing of the shares on the Nasdaq Riga First North alternative market. Virši has declared that it plans to attract about EUR 7m of additional equity to finance its growth ambitions. In our projections, we assumed the Group manages to collect at least EUR 7m of equity capital from the IPO, which, together with the estimated profits for this year, could lift the total equity to over EUR 48m by the end of 2021.

When assessing the changes in the consolidated equity capital of Virši over the past two years, some irregular aspects should be kept in mind. First, the large dividend payment of nearly EUR 8m booked in 2019 was directly transferred back to Virši as shareholder loans, carried at fair values using the discounted cash flow method. The difference between the nominal and fair value upon initial recognition in the amount of EUR 1.4m was recognised under Other reserves. Second, the Group completed the formal restructuring process of two of its subsidiaries, SIA Viršu Logistika and SIA Viršu nekustamie iašumi, in September 2020, bringing them legally under the full ownership of the parent company, AS Virši-A. These two companies had the same ownership structure as the parent company, and the legal restructuring was completed in a way that the shares of the two companies were used as a payment in kind for the new shares issued by AS Virši-A. Due to the fact that the Group prepared its comparable 2019 and 2020 statements according to the IFRS as if the Group had been formed prior to 1 January 2019, upon the completion of the legal restructuring, the increase of the share capital and a corresponding decrease to Other reserves in the amount of EUR 5.8m was recorded in September 2020. As a result, as at the end of 2020, the share capital amounted to EUR 6.7m, while the net sum of Other reserves was negative by EUR 4.2m. Third, Virši has notable Long-term revaluation reserves booked under its equity, reflecting several revaluation gains in the fair value of land, buildings, and engineering structures. The latest revaluation of fixed assets was performed by the certified real estate appraiser SIA Arco Real Estate in September 2019 and resulted in revaluation gains of EUR 8.5m booked through other comprehensive income. At the end of 2020, the total long-term revaluation reserve stood at EUR 20.7m, but the respective amount is periodically adjusted by the reclassification to the retained earnings and revaluations of asset retirement obligations.

According to the approved dividend policy, Virši aims to distribute to the shareholders up to 20% of the previous year's net profit each year in the form of dividends. However, assuming the successful IPO process, we believe the Group should achieve a relatively strong financial position, which enables it to consider adjusting its profit distributions and increase the pay-out ratios during our forecast period.

Valuation

In this section, we discuss our assumptions and approach in deriving the fair equity value range of the Group. We have approached the valuation of Virši using a combination of the income and market approaches. For the income approach, we used the Discounted Cash Flow model. For the market approach, we used a peer group valuation, which considers several peer group trading multiples for 2021-2023E and applies the peer group median valuation multiples to the respective financials for the Group. In terms of the peer group, we used four different market multiples for comparison, including EV/EBITDA, EV/Sales, P/E, and P/BV. Please note that our valuation for Virši is calculated on a post-money basis as at the end of 2021, assuming the successful completion of the planned IPO and including the expected proceeds in the financial projections.

Discounted Cash Flow

The free cash flow to the firm ('FCFF') is calculated as the tax-adjusted operating profit, adjusted for Capex, working capital investments, and depreciation and amortisation. Considering Virši as a company with substantial expansion plans for its network of fuel stations and convenience stores, foreseeing a relatively strong growth profile during our forecast period, we decided to use a three-step DCF model, which includes a five-year forecast period, followed by a three-year transition period, when all elements of the Group's cash flows gradually approach those applied for the terminal period. Main assumptions for the cost of capital calculations used in our DCF model, such as the normalised long term risk-free rate, sector betas, and equity risk premium, are sourced from the "2017 Valuation Handbook – International Industry Cost of Capital" published by Duff & Phelps. The country risk premium is based on a ratings-based default spread sourced from the Damodaran database. Also, the additional company-specific risk premium is applied to capture operational risks. Below are the main assumptions used for the DCF:

DCF Assumptions:	
Risk free rate	2.50%
Market risk premium	5.10%
Levered Beta	0.88
Country Risk Premium	1.16%
Add.comp.risk premium	4.00%
Cost of equity	**12.15%**
Share of debt	25.0%
Cost of debt	2.50%
WACC	**9.74%**
Terminal sales growth	2.0%
Terminal EBIT margin	3.5%

Source: LHV

- DCF model – a three-step DCF model, which includes a five-year forecast period, followed by a three-year transition period and terminal value calculations.
- Risk-Free Rate - we used a risk-free rate of 2.5% based on a normalised long-term forecast.
- Market Risk Premium - we considered a long-term normalised equity risk premium of 5.1% in our calculations.
- Levered Beta - we used a peer group median unlevered Vasicek Adjusted five-year beta of 0.65 to calculate levered beta of 0.88 for Virši, based on an average debt-to-equity ratio of 0.35x and a tax rate of 0%.
- Country Risk Premium – we decided to base our country risk premium on where the revenues are generated. As all of the Group's activities are performed in Latvia, we used that country's default spread of 1.16% as the Group's country risk premium.
- Company-Specific Risk Premium - considering the relatively small size of the company, non-existent liquidity of its shares prior to the IPO, and highly competitive operating environment involving strong pressure from the larger market players, we applied a company-specific risk premium of 4.0%.
- Tax rate - starting from 2018, Latvian corporate taxation has been changed and, instead of earned profits, only distributions (such as dividends) are taxed. Therefore, interest expenses do not provide any tax shield, and we applied an effective tax rate of 0% for the cost of capital calculations. For the free cash flows, we calculated expected tax costs based on forecasted dividends during the forecast period.
- Cost of Debt – an estimated long-term average of 2.5% was used as an effective interest rate.

Based on these assumptions, we calculated a DCF-based value of the Group's total equity of EUR 83m.

DCF valuation, EURm	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Term
EBIT	5.9	7.2	9.3	11.5	12.5	12.6	12.5	12.3	12.0
Taxes	(0.2)	(0.4)	(0.5)	(0.8)	(1.0)	(1.1)	(1.3)	(1.4)	(1.4)
Non-cash charges	3.8	4.0	4.5	4.9	5.1	5.3	5.5	5.7	5.8
Capex	(10.2)	(11.6)	(11.8)	(11.6)	(5.3)	(5.6)	(5.8)	(6.0)	(6.2)
Change in NWC	0.3	0.3	0.0	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
FCFF	**(0.4)**	**(0.4)**	**1.5**	**4.0**	**11.2**	**11.1**	**10.9**	**10.6**	**10.2**
Discounted FCFF	(0.4)	(0.4)	1.2	2.9	7.4	6.7	6.0	5.3	65.5
Enterprise Value									94.0
Net debt									(11.2)
Equity value									**82.8**

Source: LHV

Peer Valuation

For the peer valuation, we compiled a list of different companies operating in fuel retail, convenience stores, and fast-food sectors. The selected companies are of very different sizes, but most of them are considerably larger in comparison with Virši and normally have much more complicated and diversified business models. Due to the small number of comparable listed companies available from Europe, we also included several global names, which operate across the world, including the US, Canada, Japan, and other major markets. We fully acknowledge that there could be significant deviations between average trading multiples of different global regions, but we assume that a broader selection of peers helps to create sufficient market diversification. Considering the business models of the selected peers, probably the closest operational peer to Virši is the parent company of the global network of Circle-K fuel stations and convenience stores, Alimentation Couche-Tard Inc, with the primary listing in Toronto, Canada. Although this company is enormous compared to Virši, with a very different size and scale of operations, we believe it could still provide a valid indication for the global valuation of the same operating model. Many other peers in our selected list are more focused on the convenience store segment and may have little or no connection to the fuel retail business. We decided to use the peer group median values as a basis for the comparative analysis of Virši, but we are applying an additional company size and liquidity discount of 20% to all peer group derived market multiples. In order to have a reasonably wide selection of market multiples for broader comparison, we focused on four different multiples, including EV/EBITDA, EV/Sales, P/E, and P/BV. We are also excluding outliers from the median calculations to reduce the probability of larger statistical errors. Taking into account the anticipated relatively strong expansion rates of the Group's operating volumes and profits in the coming years, we decided to apply different time weightings to the implied equity values derived from the peer group data, giving only 20% weight to 2021 and 40% to both 2022 and 2023 estimated values. Looking at 2021-2023E data, the implied equity value of Virši ranges widely between EUR 45-147m.

Valuation Summary

Finally, in valuing the total equity of Virši, we have used the weighted average of values derived from the DCF and the peer group data (including four market multiple comparisons), applying different weights to each method. Given the more attractive longer-term growth characteristics of the Group as well as a limited number of fully comparable listed peers, we see the income approach as more suited for the valuation of Virši and assigned a 60% weight to DCF-based income approach valuation in the total value, leaving the peer valuation weight at 40%, including a 10% weight for each of the peer multiples. Overall, based on our current projections for Virši and other assumptions, we decided to set our fair value range (FVR) for the Group's total equity at EUR 78-92m. Using the mid-point of our FVR and our forecasts for 2022, the Group would be valued at the following 2022E multiples: P/E – 16.1x, P/B – 1.6x, and EV/EBITDA – 9.8x, with the respective ratios declining to 13.2x, 1.5x, and 8.5x by 2023E.

Being the largest domestic fuel trader with a strong market position in the convenience store segment, Virši is set to take another step forward and considerably expand its network of fuel stations and stores. In our view, assuming the growth ambition is executed in a reasonably balanced and efficient way, the Group has a good chance to expand its market share in the Latvia fuel market by c.a. one-third or 4% over the five-year horizon. We believe that the core attractions of the investment case of Virši are its strategic aim to focus on growth, a possibility to benefit more from its image as a leading domestic fuel trader with a clear focus on the Latvian market and local customers, its proven track record to profitably develop the convenience store concept, as well as active development of sales channels of alternative fuels. The expected additional equity from the IPO would sufficiently strengthen the capital base, giving more flexibility to manage its Capex flows and search for the best locations for the stations, including better options to use additional debt capital when needed. The expected stronger focus and faster growth of the convenience store segment compared to fuel trade business is predicted to improve overall profit margins of the Group and increase dividend payments in the medium term. Considering

Company	Bloomberg ticker	Market Cap	EV/EBITDA (x)			EV/Sales (x)			P/E (x)		
		EURm	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
ALIMENTATION COUCHE-TARD INC	ATD/A CN Equity	35,386	9.7	9.5	9.4	1.1	0.8	0.8	16.4	16.0	15.2
SEVEN & I HOLDINGS CO LTD	3382 JP Equity	34,107	6.7	5.4	4.7	0.7	0.5	0.4	27.8	20.8	14.7
LAWSON INC	2651 JP Equity	4,219	4.2	3.7	3.6	0.7	0.7	0.7	60.6	30.2	23.7
RUBIS	RUI FP Equity	3,121	7.1	6.7	6.3	0.8	0.8	0.8	10.8	9.8	9.3
AUTOGRILL SPA	ATGSF US Equity	2,901	12.0	8.2	7.2	2.1	1.4	1.2	n.a.	n.a.	n.a.
BGF RETAIL CO LTD	282330 KS Equity	2,153	4.8	4.5	4.3	0.4	0.3	0.3	18.7	15.8	14.4
TAIWAN FAMILYMART CO LTD	5903 TT Equity	1,790	8.0	7.3	8.3	0.9	0.9	0.8	34.1	25.8	21.0
AMREST HOLDINGS SE	EAT SM Equity	1,487	8.8	7.7	6.7	1.5	1.4	1.3	n.a.	n.a.	338.8
VALORA HOLDING AG-REG	VALN SW Equity	750	8.1	6.9	6.3	1.2	1.1	1.0	121.3	20.8	15.0
7-ELEVEN MALAYSIA HOLDINGS B	SEM MK Equity	356	9.9	8.4	8.0	1.0	0.9	0.9	40.3	24.7	22.5
EUROCASH SA	EUR PW Equity	348	6.2	5.6	5.6	0.2	0.2	0.2	n.a.	19.2	15.3
Median (Excluding outliers)			8.1	7.1	6.5	0.9	0.8	0.8	27.8	20.8	15.1
Average (Excluding outliers)			7.8	6.7	6.4	0.9	0.8	0.8	29.8	20.3	16.8
Quartile 1			6.5	5.5	5.2	0.7	0.6	0.6	18.1	16.0	14.8
Quartile 3			9.3	8.0	7.6	1.1	1.0	0.9	45.4	24.7	22.1
Company size and liquidity discount applied		20%									
Adjusted Median Multiples			6.4	5.7	5.2	0.8	0.7	0.6	22.2	16.7	12.1
Respective financial result of VIRŠI (EURm)			8.8	9.8	11.3	202.7	224.4	245.0	4.8	5.3	6.4
Implied equity value based on Median (EURm)			45.7	44.7	47.6	141.8	139.9	147.3	105.5	87.8	77.7

Source: Bloomberg, LHV

Company...continued	Bloomberg ticker	Market Cap	P/B (x)		
		EURm	2021E	2022E	2023E
ALIMENTATION COUCHE-TARD INC	ATD/A CN Equity	35,386	3.6	3.3	3.2
SEVEN & I HOLDINGS CO LTD	3382 JP Equity	34,107	1.6	1.6	1.5
LAWSON INC	2651 JP Equity	4,219	2.0	2.0	2.0
RUBIS	RUI FP Equity	3,121	1.2	1.1	1.1
AUTOGRILL SPA	ATGSF US Equity	2,901	n.a.	n.a.	n.a.
BGF RETAIL CO LTD	282330 KS Equity	2,153	3.6	3.1	2.7
TAIWAN FAMILYMART CO LTD	5903 TT Equity	1,790	8.4	7.4	6.7
AMREST HOLDINGS SE	EAT SM Equity	1,487	n.a.	n.a.	n.a.
VALORA HOLDING AG-REG	VALN SW Equity	750	1.1	1.1	1.0
7-ELEVEN MALAYSIA HOLDINGS B	SEM MK Equity	356	19.9	21.0	18.4
EUROCASH SA	EUR PW Equity	348	1.7	1.6	1.7
Median (Excluding outliers)			1.8	1.8	1.7
Average (Excluding outliers)			2.1	2.0	1.9
Quartile 1			1.6	1.6	1.5
Quartile 3			3.6	3.3	3.2
Company size and liquidity discount applied		20%			
Adjusted Median Multiples			1.5	1.4	1.4
Respective financial result of VIRŠI (EURm)			48.4	52.7	57.6
Implied equity value based on Median (EURm)			71.3	75.8	79.1

Source: Bloomberg, LHV

the growing number of Virši's loyalty programme clients and bonus cards, in our view, Virši has a good opportunity to attract domestic retail investors during the IPO process. The key risk factors to our valuation include a deterioration of Latvia's macroeconomic environment, slower than a projected expansion of the station network and revenues, and weaker than anticipated margins for its core operating segments.

Weighted Value, EURm	Period weights			Period weighted value	Weights	Contribution to value
	2021E	2022E	2023E			
Method	**20%**	**40%**	**40%**			
EV/EBITDA	45.7	44.7	47.6	46.0	10%	4.6
EV/Sales	141.8	139.9	147.3	143.2	10%	14.3
P/E	105.5	87.8	77.7	87.3	10%	8.7
P/BV	71.3	75.8	79.1	76.2	10%	7.6
DCF				82.8	60%	49.7
Total weighted value					100%	85.0

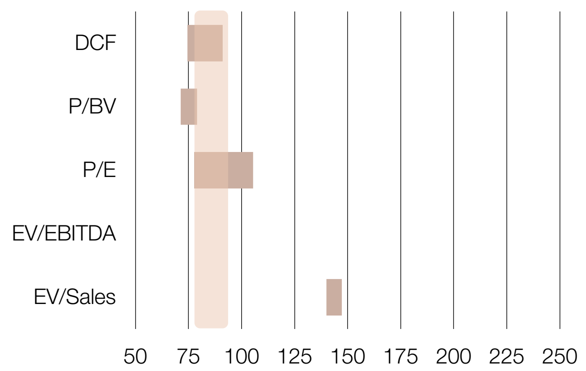
Source: LHV

Sensitivity of mid-point of FVR to main assumptions (EURm)

Terminal growth rate	Cost of Equity 8.2%	8.7%	9.2%	9.7%	10.2%	10.7%	11.2%
1.1%	93.3	88.3	84.0	80.1	76.7	73.7	70.9
1.4%	95.7	90.4	85.7	81.6	78.0	74.8	71.9
1.7%	98.3	92.5	87.6	83.2	79.4	76.0	73.0
2.0%	101.1	94.9	89.6	85.0	80.9	77.3	74.1
2.3%	104.2	97.5	91.8	86.8	82.5	78.7	75.4
2.6%	107.6	100.3	94.2	88.8	84.2	80.2	76.6
2.9%	111.5	103.5	96.8	91.0	86.1	81.8	78.0

Source: LHV

LHV Fair Value Range: EUR 78-92m*



* As of 10th Oct 2021

Financial Tables

Income Statement (EURm)	2016*	2017*	2018*	2019	2020	2021E	2022E	2023E	2024E	2025E
Net turnover	113.60	148.44	180.30	187.02	171.43	202.72	224.39	245.01	265.59	285.23
Cost of sales	(100.43)	(131.90)	(161.80)	(166.86)	(150.09)	(178.95)	(198.14)	(215.76)	(232.60)	(248.55)
Gross profit	**13.17**	**16.53**	**18.50**	**20.16**	**21.34**	**23.77**	**26.25**	**29.25**	**32.99**	**36.68**
Selling expense	(10.00)	(11.27)	(12.78)	(14.27)	(14.15)	(16.22)	(17.84)	(19.36)	(20.85)	(22.25)
Administrative expense	(1.16)	(1.31)	(1.60)	(1.78)	(1.90)	(2.13)	(2.24)	(2.40)	(2.55)	(2.68)
Other operating income	0.12	0.25	0.10	0.05	0.19	0.10	0.11	0.12	0.13	0.14
Other operating expense	(0.69)	(0.69)	(0.36)	(0.34)	(0.80)	(0.30)	(0.34)	(0.37)	(0.40)	(0.43)
Operating profit	**1.44**	**3.52**	**3.86**	**3.82**	**4.67**	**5.22**	**5.94**	**7.25**	**9.33**	**11.46**
Profit before tax	**1.35**	**3.42**	**3.80**	**3.56**	**4.19**	**4.75**	**5.51**	**6.84**	**8.92**	**11.06**
Corporate income tax (incl. deferred)	(0.11)	(0.40)	-	(0.00)	(0.00)	-	(0.24)	(0.40)	(0.48)	(0.84)
Net profit for the period	**1.07**	**3.11**	**3.80**	**3.55**	**4.19**	**4.75**	**5.27**	**6.44**	**8.44**	**10.21**
D&A	(1.70)	(2.11)	(2.47)	(3.54)	(3.17)	(3.61)	(3.85)	(4.05)	(4.48)	(4.89)
EBITDA	**3.14**	**5.63**	**6.33**	**7.36**	**7.84**	**8.83**	**9.79**	**11.30**	**13.81**	**16.35**

Source: The Company for historicals, LHV for estimates *Note: All P&L and CF data until 2018 (BS data until 2017) is presented based on Latvian GAAP, from 2019 (BS data from end-2018) based on IFRS.

Balance Sheet (EURm)	2016*	2017*	2018*	2019	2020	2021E	2022E	2023E	2024E	2025E
Intangible assets	0.04	0.05	0.05	0.05	0.14	0.15	0.16	0.17	0.18	0.20
Property, plant and equipment	23.91	24.91	34.33	48.05	51.60	57.15	63.38	70.82	78.04	84.64
Right-of-use assets	-	-	2.84	2.43	2.32	2.38	2.50	2.64	2.75	2.80
Other non-current assets	0.31	-	0.41	0.38	0.36	0.34	0.32	0.29	0.27	0.25
Total non-current assets	**24.25**	**24.96**	**37.62**	**50.90**	**54.42**	**60.02**	**66.36**	**73.93**	**81.24**	**87.89**
Inventories	3.62	4.42	4.80	5.95	5.44	6.37	6.79	7.09	7.65	8.17
Trade receivables	8.09	9.88	10.34	11.75	8.87	11.11	12.30	13.43	14.55	15.63
Deferred expenses	0.03	0.06	0.06	0.08	0.11	0.09	0.10	0.11	0.12	0.12
Accrued income	0.01	0.02	0.03	0.06	0.11	0.10	0.11	0.12	0.13	0.14
Other receivables	0.24	0.23	0.36	0.28	0.20	0.36	0.40	0.42	0.45	0.47
Cash and cash equivalents	1.08	2.09	2.88	2.95	3.68	8.07	4.89	2.26	2.25	2.42
Total current assets	**13.07**	**16.71**	**18.46**	**21.09**	**18.40**	**26.11**	**24.58**	**23.43**	**25.14**	**26.96**
Total Assets	**37.32**	**41.67**	**56.09**	**71.99**	**72.83**	**86.13**	**90.94**	**97.36**	**106.39**	**114.85**
Share capital and reserves	11.75	12.94	15.22	24.07	23.19	30.19	30.19	30.19	30.19	30.19
Retained earnings	6.14	5.15	7.90	4.92	9.25	13.43	17.24	20.93	25.44	30.50
Profit for the reporting year	1.07	3.11	4.13	3.55	4.19	4.75	5.27	6.44	8.44	10.21
Total equity	**18.95**	**21.20**	**27.25**	**32.55**	**36.62**	**48.37**	**52.69**	**57.56**	**64.06**	**70.90**
Loans from credit insitutions	3.07	2.69	4.09	7.83	8.83	7.83	6.63	6.13	5.63	6.63
Other borrowings	0.20	2.34	2.48	7.39	6.62	5.87	5.12	4.37	3.62	2.87
Finance lease liabilities	-	-	2.17	1.79	1.61	1.62	1.63	1.64	1.65	1.66
Asset retirement obligation	-	-	0.50	0.67	0.79	0.80	0.86	0.92	1.01	1.10
Deferred tax liabilities	2.25	-	-	-	-	-	-	-	-	-
Total non-current liabilities	**5.52**	**5.03**	**9.24**	**17.68**	**17.85**	**16.13**	**14.24**	**13.07**	**11.92**	**12.27**
Loans from credit insitutions	0.93	0.99	2.37	1.83	2.14	2.64	3.14	4.14	6.14	5.84
Other borrowings	0.32	0.30	1.00	0.94	1.00	0.75	0.75	0.75	0.75	0.75
Finance lease liabilities	-	-	0.59	0.48	0.53	0.58	0.60	0.62	0.64	0.66

Balance Sheet (EURm)...continued	2016*	2017*	2018*	2019	2020	2021E	2022E	2023E	2024E	2025E
Trade payables	9.45	10.25	12.17	14.11	9.59	12.43	13.75	14.97	16.13	17.23
Deferred income	0.10	0.18	0.01	0.01	0.00	0.02	0.02	0.02	0.03	0.03
Taxes payable	1.08	2.18	2.30	2.77	3.41	3.55	3.93	4.28	4.61	4.92
Accrued liabilities	0.97	1.55	1.14	1.62	1.67	1.65	1.81	1.96	2.11	2.24
Total current liabilities	**12.85**	**15.45**	**19.59**	**21.76**	**18.35**	**21.63**	**24.00**	**26.74**	**30.40**	**31.68**
Total liabilities	**18.37**	**20.47**	**28.83**	**39.44**	**36.21**	**37.75**	**38.24**	**39.80**	**42.32**	**43.95**
Total Equity and Liabilities	**37.32**	**41.67**	**56.09**	**71.99**	**72.83**	**86.13**	**90.94**	**97.36**	**106.39**	**114.85**

Source: The Company for historicals, LHV for estimates *Note: All P&L and CF data until 2018 (BS data until 2017) is presented based on Latvian GAAP, from 2019 (BS data from end-2018) based on IFRS.

Cash Flow Statement (EURm)	2016*	2017*	2018*	2019	2020	2021E	2022E	2023E	2024E	2025E
Profit before tax	1.35	3.42	3.80	3.56	4.19	4.75	5.51	6.84	8.92	11.06
Adjustments for:										
- Amortisation and depreciation	1.70	2.11	2.47	3.54	3.17	3.61	3.85	4.05	4.48	4.89
- Change in receivables	(2.97)	(1.74)	(0.68)	(1.39)	2.83	(2.24)	(1.19)	(1.13)	(1.13)	(1.08)
- Change in inventories	(0.26)	(0.80)	(0.37)	(1.16)	0.51	(0.93)	(0.41)	(0.31)	(0.55)	(0.52)
- Change in payables and accrued liabilties	4.90	1.78	1.77	2.89	(3.82)	2.99	1.91	1.78	1.74	1.64
- Other adjustments	(0.28)	(0.42)	(0.57)	0.36	0.75	0.33	0.38	0.37	0.36	0.37
Cash generated from operations, gross	**4.46**	**4.35**	**6.41**	**7.80**	**7.63**	**8.51**	**10.05**	**11.60**	**13.83**	**16.35**
Interest paid	(0.08)	(0.10)	(0.07)	(0.14)	(0.23)	(0.47)	(0.43)	(0.41)	(0.41)	(0.41)
Corporate income tax paid	(0.21)	(0.08)	(0.32)	0.00	0.06	-	(0.24)	(0.40)	(0.48)	(0.84)
Net cash flows from operating activities	**4.16**	**4.17**	**6.02**	**7.66**	**7.45**	**8.03**	**9.38**	**10.79**	**12.94**	**15.10**
Purchase of intangible assets and PPE, net	(3.94)	(2.21)	(2.19)	(8.47)	(6.50)	(9.22)	(10.21)	(11.64)	(11.82)	(11.55)
Other Investments, net	(0.31)	0.31	(0.70)	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Net cash flows from investing activities	**(4.25)**	**(1.90)**	**(2.89)**	**(8.45)**	**(6.48)**	**(9.20)**	**(10.19)**	**(11.62)**	**(11.80)**	**(11.53)**
Dividends paid	-	(0.25)	(0.50)	(0.80)	-	-	(0.95)	(1.58)	(1.93)	(3.38)
Changes in Equity	-	-	-	-	-	7.00	-	-	-	-
Loans repaid & received, net	0.48	(0.98)	(2.06)	1.66	(0.25)	(1.44)	(1.42)	(0.22)	0.78	(0.02)
Net cash flows from financing activities	**0.48**	**(1.23)**	**(2.56)**	**0.87**	**(0.25)**	**5.56**	**(2.37)**	**(1.80)**	**(1.15)**	**(3.40)**
Change in cash and cash equivalents for the year	0.39	1.04	0.58	0.08	0.72	4.39	(3.18)	(2.63)	(0.01)	0.17
Cash and cash equivalents at the beginning of the year	0.27	1.08	2.09	2.88	2.95	3.68	8.07	4.89	2.26	2.25
Cash and cash equivalents at the end of the year	**0.66**	**2.09**	**2.68**	**2.95**	**3.68**	**8.07**	**4.89**	**2.26**	**2.25**	**2.42**

Source: The Company for historicals, LHV for estimates *Note: All P&L and CF data until 2018 (BS data until 2017) is presented based on Latvian GAAP, from 2019 (BS data from end-2018) based on IFRS.

Main Ratios	2016*	2017*	2018*	2019	2020	2021E	2022E	2023E	2024E	2025E
Growth										
Revenues (%)	6.5	30.7	21.5	3.7	(8.3)	18.3	10.7	9.2	8.4	7.4
Gross profit (%)	12.6	25.6	11.9	9.0	5.8	11.4	10.4	11.4	12.8	11.2
EBITDA (%)	115.0	79.3	12.4	16.3	6.5	12.6	10.9	15.4	22.3	18.4
Pre-tax profit (%)	(1.3)	152.3	11.0	(6.3)	17.8	13.4	15.9	24.1	30.5	23.9
Net profit (%)	(14.5)	191.6	22.1	(6.4)	17.8	13.5	10.9	22.2	31.0	21.0
Profitability										
Gross profit margin (%)	11.6	11.1	10.3	10.8	12.4	11.7	11.7	11.9	12.4	12.9
EBITDA margin (%)	2.8	3.8	3.5	3.9	4.6	4.4	4.4	4.6	5.2	5.7
EBIT margin (%)	1.3	2.4	2.1	2.0	2.7	2.6	2.6	3.0	3.5	4.0
PBT margin	1.2	2.3	2.1	1.9	2.4	2.3	2.5	2.8	3.4	3.9
Net profit margin (%)	0.9	2.1	2.1	1.9	2.4	2.3	2.3	2.6	3.2	3.6
Return										
Capital employed (EURm)	23.5	27.5	40.0	52.8	57.4	67.7	70.6	75.2	82.5	89.3
ROCE (%)	6.8	13.8	11.4	8.2	8.5	8.4	8.6	9.9	11.8	13.3
ROE (%)	6.3	15.5	15.7	11.9	12.1	11.2	10.4	11.7	13.9	15.1
ROA (%)	3.3	7.9	7.8	5.5	5.8	6.0	6.0	6.8	8.3	9.2
Leverage										
Net debt	3.44	4.22	9.83	17.32	17.06	11.23	12.99	15.40	16.19	16.00
Net gearing (x)	0.2	0.2	0.4	0.5	0.5	0.2	0.2	0.3	0.3	0.2
Debt/Equity ratio (x)	0.2	0.3	0.5	0.6	0.6	0.4	0.3	0.3	0.3	0.3
Net Debt/EBITDA (x)	1.1	0.7	1.6	2.4	2.2	1.3	1.3	1.4	1.2	1.0
Valuation										
Mkt.Cap. (EURm)						85.0	85.0	85.0	85.0	85.0
Enterprise value (EURm)						96.2	96.2	96.2	96.2	96.2
Dividend yield (%)						-	1.1	1.9	2.3	4.0
EV/Revenue (x)						0.5	0.4	0.4	0.4	0.3
EV/EBITDA (x)						10.9	9.8	8.5	7.0	5.9
P/E (x)						17.9	16.1	13.2	10.1	8.3
P/BV (x)						1.8	1.6	1.5	1.3	1.2

Source: The Company for historicals, LHV for estimates
The valuation multiples are calculated using the mid-range of post-money equity valuation (EUR 78-92m).
*Note: All P&L and CF data until 2018 (BS data until 2017) is presented based on Latvian GAAP, from 2019 (BS data from end-2018) based on IFRS.

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