# Company Presentation

NOVEMBER 2021

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The target market assessment by the product manufacturer Signet Bank AS has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties, professional clients, and retail clients, each as defined in Directive 2014/65/EU (MIFID II); (ii) all channels for distribution of the Bonds to eligible counterparties, professional clients and retail clients are appropriate.

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# Agenda

**Longo at a glance**

Business overview

Market opportunity

Financial highlights
and inventory analysis

Transaction overview

# Key highlights

Longo is the largest and fastest growing used car retailer in Baltic States, transforming the market segment and delivering highest customer standards

Largest [1] used car dealer in terms of units sold (more than 2x closest competitor) in the Baltics

**>7000**
Cars sourced and imported in-house since start of operations

**360K**
Monthly total web site visits

**526K EUR**
Consolidated EBITDA in Q3 2021

**92%**
Equity ratio

[1] Source: Registry offices in Estonia, Latvia and Lithuania; Longo market analysis on available public intelligence

# Executive summary

## BUSINESS OVERVIEW

- Rapidly growing used car retail business
- Technology driven and focused on digital first approach

## LARGE SCALE

- 7000+ cars sold since inception
- 50K+ registered customer leads
- 90+ employees
- 300+ international sourcing partners

## SIZABLE MARKET OPPORTUNITY

- Total market size in Baltics estimated 2.6B EUR
- Fragmented market with fragmented competitition

## HIGHLY EXPERIENCED MANAGEMENT TEAM

- Extensive international Management Consulting, Finance, Retail and IT experience

## SOLID FINANCIAL PERFORMANCE AND POSITION

**526K EUR**
EBITDA in Q3 2021

**92%** equity ratio

**5.9M** consolidated inventory at cost and 2.8m cash balance as of 30 Sept 2021

| **Key P&L figures KEUR** | **2020 12M** | 2021 Q1 | 2021 Q2 | 2021 Q3 | **2021 9M** |
|---|---|---|---|---|---|
| Revenue | **14 996** | 4 089 | 7 721 | 10 523 | **22 334** |
| EBITDA | **(1 387)** | (267) | 62 | 526 | **321** |
| Net profit/(loss) | **(1 729)** | (376) | (14) | 452 | **62** |
| EBITDA margin | **(9.3%)** | (6.5%) | 0.8% | 5.0% | **1.4%** |

# Longo mission is to deliver 3 customer promises

## Wide assortment
Largest and widest competitively priced assortment of popular used car models in the Baltics

## Convenient and safe
Most convenient and safest used car shopping experience end-to-end, both digital and on-site

## Highest standards
Only quality cars with guaranteed mileage, full available history and freshly serviced and cleaned

# Longo controls each step of the business from buying and transporting cars to preparing and selling them

## 01. Sourcing (Car Purchasing) Operations

Longo has established a network in Western Europe, where it reviews, inspects and buys cars

## 02. Preparation Operations

Longo transports cars to Panevežys, **Lithuania,** where all cars are serviced, repaired, cleaned and photographed

## 03. Sales Operations

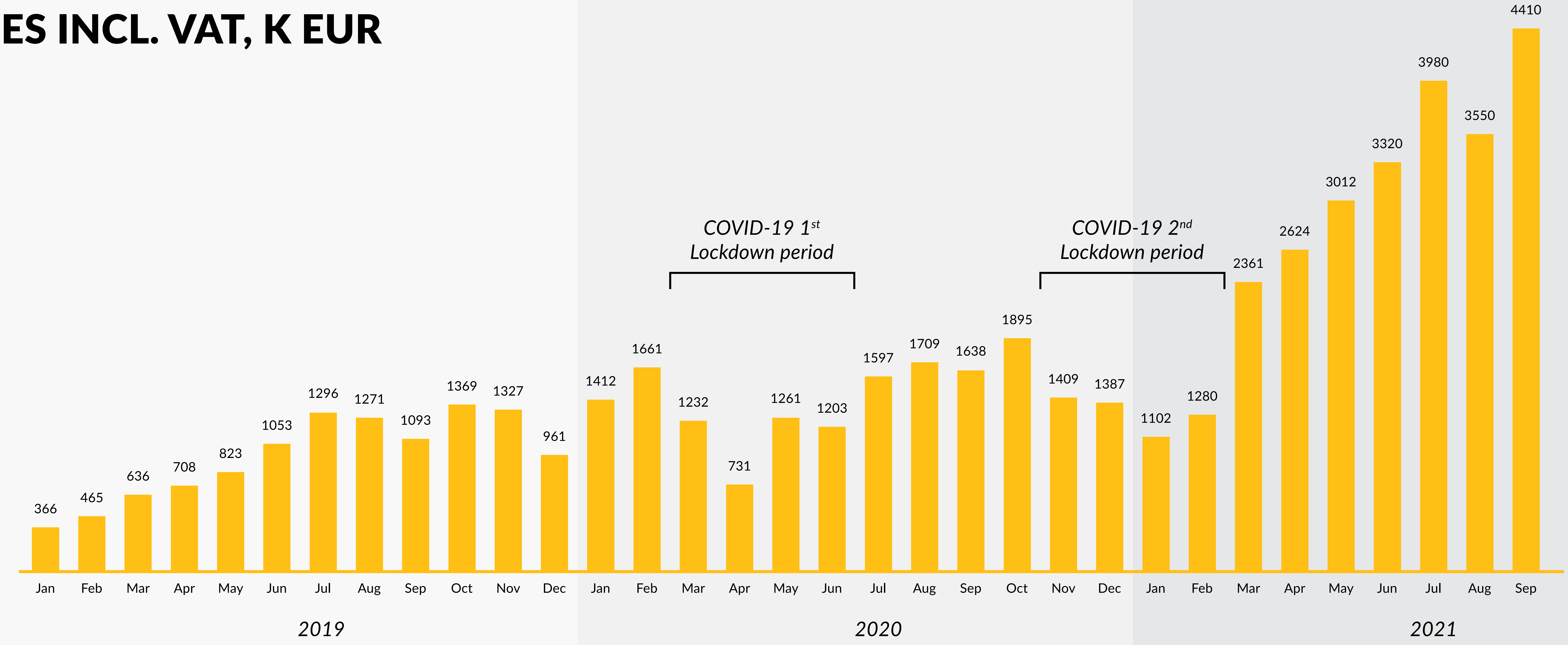
Longo stores, markets and sells cars in **Tallinn, Riga and Vilnius**

## 04. Aftersales

Longo also provides aftersales warranty and reengages customers for next purchase

# Longo is on continuous path of increasing revenues

## SALES INCL. VAT, K EUR




Source: Longo Group AS Business Intelligence system

# Potential Covid-19 impact on Longo Group is being mitigated

## High vaccination rate

- 85 of 90 employees of Longo Group are either immune (vaccinated or natural immunity) or have committed to vaccination.
- Continuity is ensured in all critical departments - sales, preparation and sourcing.

## Minimized impact on results

- During lockdown all Longo branches can continue to sell cars.
- Digital first approach ensure that most parts of the business are not being affected.
- Due to achieved scale Longo Group can endure up to 35% sales decrease and still be break even

## Strong financial position

- Group has equity ratio of 92% with no external debt
- Strategic investors who are ready to provide extra short term financing if needed

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# Longo is designed to transform the used car market in Baltics

## Management

- International management team able to plan and deliver Longo profitable growth strategy
- Key positions in sourcing and preparation staffed only with professionals

## Vertically integrated

- Brick & mortar sourcing operations in west-EU
- Experienced team and integrated pricing processes
- High capacity in-house end-to-end car preparation center

## Digital first, asset light sales approach

- Best in class digital experience focused on convenience
- Standardized sales processes focused on delivering a safe and hassle-free user experience

## IT infrastructure

- Proprietary integrated back-office IT system linking all elements of the business together
- Heavy and continuous investment in front- and back-end IT development

# Experienced management to deliver our ambitious business plan

## EDGARS CĒRPS
Chief Executive Officer

Experience

NOKIA Uber

• Finance, IT and Operations experience on 4 continents
• Development and implementation of ERP, IT and finance syste

BAIN & COMPANY

• Strategy Consulting and Private Equity Focus on strategy in retail and FMCG
• Commercial due diligences
• IT and digitalization projects

Education

INSEAD The Business School for the World®

Stockholm School of Economics – SSE RIGA

## JACOB W. HOOGENBOOM
Chief Operating Officer

Experience

BAIN & COMPANY

• Strategy Consulting at Bain & Co.
• Sr. consultant in Strategy Practice
• Focus on Strategy and Ops in FS, Ops improvement implementation, Customer experience excellence

Intertrust MeesPierson

• Sales and management experience in major bank across multiple countries
• Head of representative office (Sales operations, Financial engineering)

Education

INSEAD The Business School for the World®

LSF Luxembourg School of Finance

VU University Amsterdam

## DĀRTA KERŠULE
Head of Finance

Experience

Eleving Group

• Regional CFO at Eleving Group, responsible for Baltics, Georgia and Armenia- non-bank leasing and consumer lending solutions

BALTA

• Head of Finance at Balta part of PZU (previously part of RSA)- non life insurance market leader in Latvia at the time

EY

• Audit experience at E&Y assurance department

Education

RBS Riga Business School – Riga Technical University

University at Buffalo – The State University of New York

## KRISTĪNE KALĒJA
Head of Marketing

Experience

220.lv

• Digital marketing and E-commerce experience at a 220.lv ( no. 1 e-shop in Latvia - part of MCI.TechVentures 1.0 Group)
• In 3 years achieved brand aided awareness 99% among internet users in Latvia

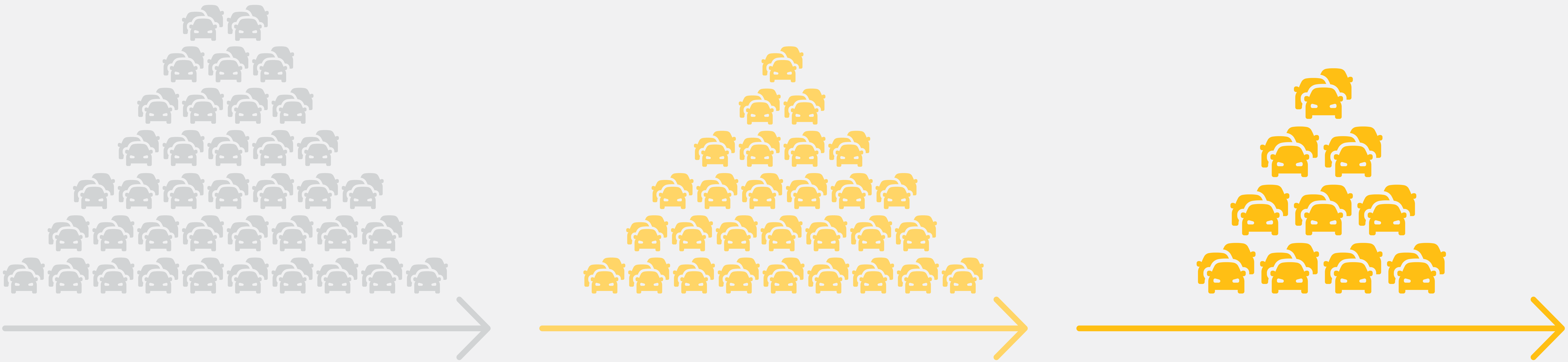
Grosauto AlisCo

• Marketing and sales experience in automotive retail and manufacturing industry

Education

University of Latvia

# Sourcing & pricing is competitive advantage of Longo



## Access to 10 000+ B2B cars per week

Longo is locally present in its core sourcing countries and has built up a network of hundreds of sourcing partners

## 1 000+ cars shortlisted & priced

Through a disciplined process of elimination, Longo selects only the most suitable vehicles that meet strict quality standards in every way

## 100+ Longo cars purchased

As a consequence, all purchased Longo cars are a perfect match in both quality and price

# Longo has built an in-house preparation center to handle large sourcing volumes

## OBJECTIVES OF PREPARATION CENTRE:

### DRAMATICALLY REDUCE TIME TO MARKET

- Reduce dependencies on external service capacity
- Enable serious economies of scale
- Focused team of 45 employees, smooth processes

### UNIFORM HIGH LEVELS OF PREPARATION

- Full diagnosis of every car by qualified mechanic
- Proper in-house cleaning and polishing of every car
- Reduce fraud possibilities

### UNLOCK COMPETITIVE ADVANTAGE

- 3D photostudio – unique in Baltics
- Unbeatable cost levels through scale
- “50-point checklist” as unique part of customer value proposition

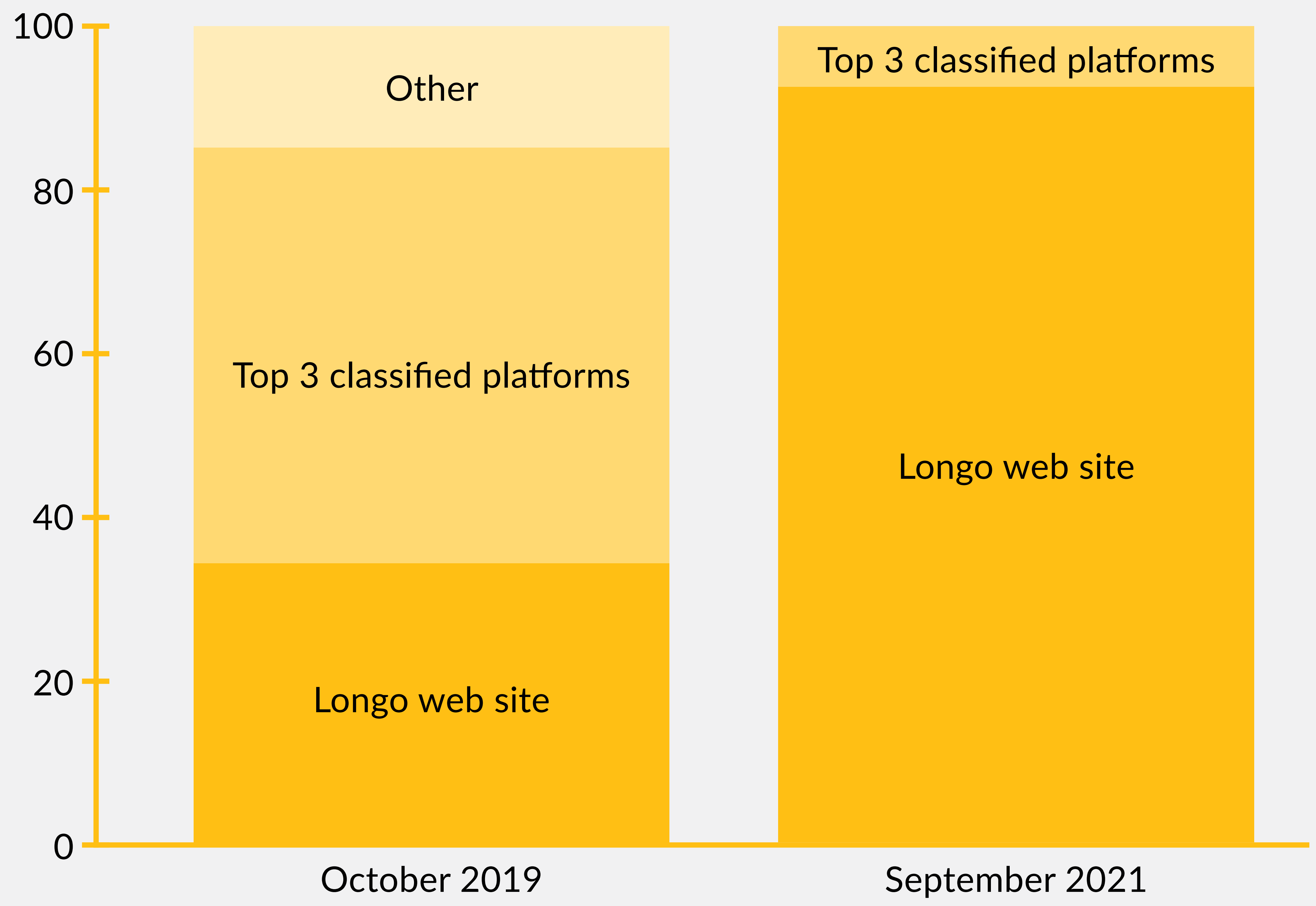
Current output
**85-100 CARS PER WEEK**

Further mid-term increase can be achieved to
**150-180 CARS PER WEEK**

**5200+**
cars prepared since opening

# Longo generates almost all leads from proprietary channels

## Successful sales by origin (%)




**Longo has invested significantly in front end, including supporting operations and digital marketing capabilities.**

The company is leveraging its high sourcing and preparation standards into a marketing advantage, including:

- Longo Certified program
- Service checklist & highlight
- Basic warranty on every car

# Longo has built best in class web site - digital first approach

**80 - 90K**

TOTAL WEB SITE VISITORS WEEKLY

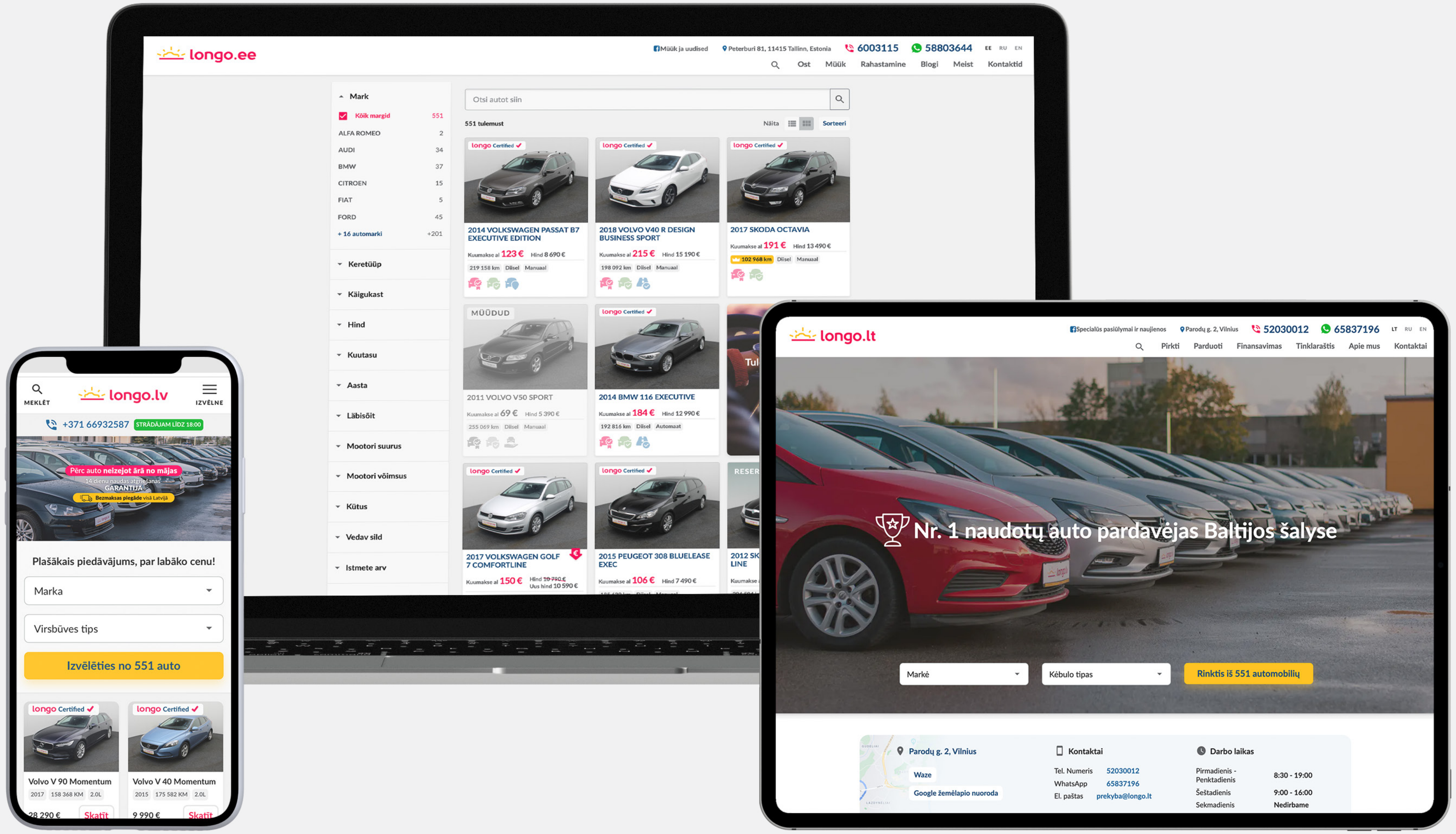
**35%** new visitors

**65%** returning visitors

**70%** MOBILE TRAFFIC

**<35%** BOUNCE RATE

Average session duration: **3 min 30 sec**



# Longo is the only company in the Baltics to offer zoomable 360˚ exterior and interior car photos


- 8 available perspectives for each angle
- HD zoom available for every shot
- 360˚ interior spinner
- Works great on mobile and tablet
- Full screen mode

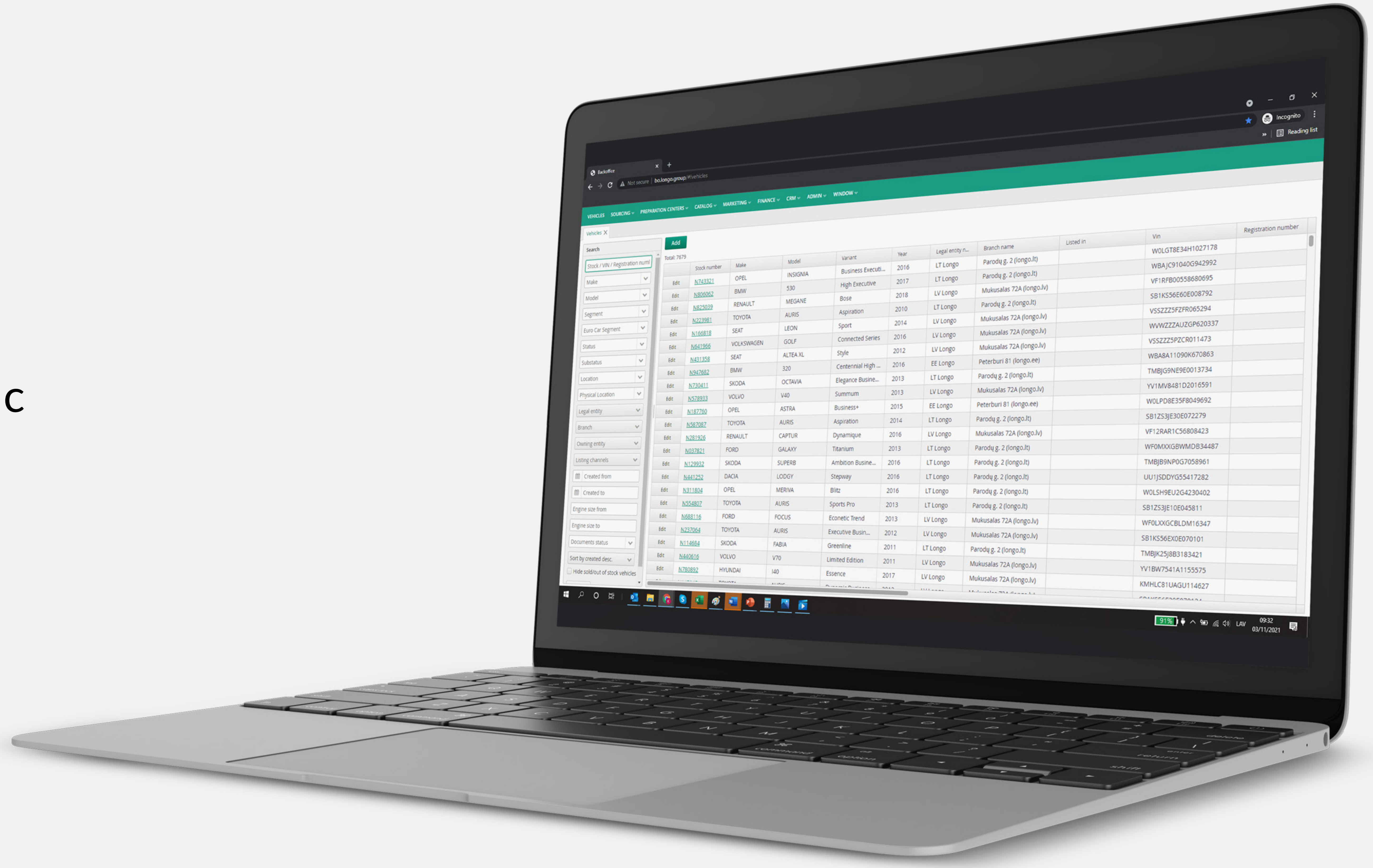


# Longo has built a fully integrated IT system

One of the main competitive advantages of Longo is the **custom-made integrated IT system** to fit its specific business needs.

Each step of lifecycle of vehicle is being traced via integrated modules:

- Sourcing & Logistics
- Preparation
- CRM
- Sales & marketing
- Finance



Integration between systems and processes

Automation of process

Track record and financial data of each vehicle

Access to real time data

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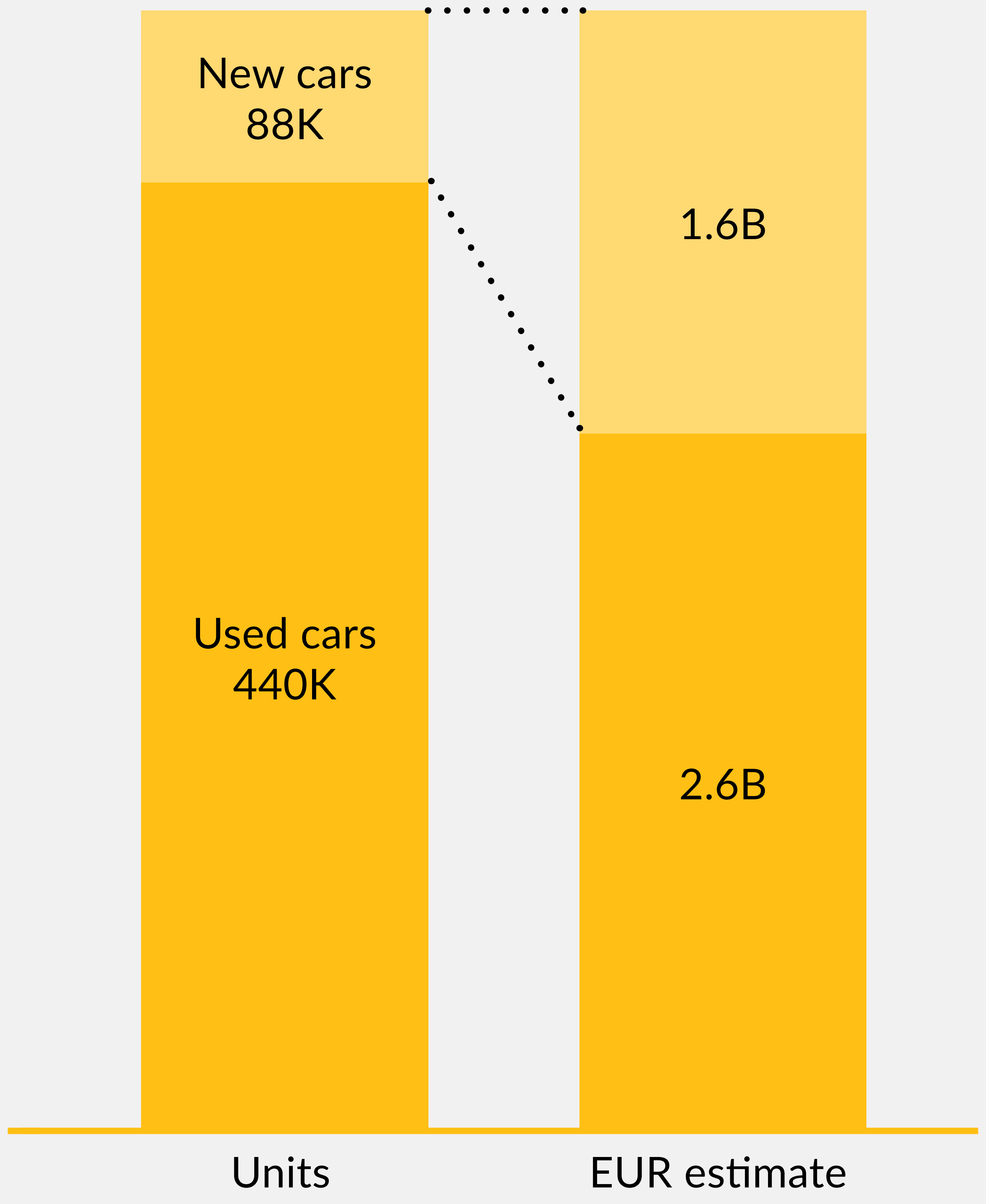
# Used car market in Baltics is large and underdeveloped

## Passenger car sales, Baltics 2020 (estimate)




**USED CAR RETAIL INDUSTRY IS UNDERGOING TRANSFORMATION**

- Tax authorities more actively prevent VAT fraud schemes and other tax evasion activities that used to be the norm
- Customers get more educated: odometer manipulations, hidden history and retailer reference are easier detectable

**USED CAR MARKET IS FRAGMENTED AND INEFFICIENT**

- Very fragmented market with over 700 registered retailers just in Latvia and substantial peer-to-peer sales channel
- No other pan-Baltic used car dealer other than Longo

Note: Preliminary analysis. Average used car price estimated at 6K EUR for a used car and 20K EUR for a first registration car.
We estimate only the local consumer market, besides substantial volumes of further vehicle export
Source: CSDD, Statistics Bureau, company registry, desktop search

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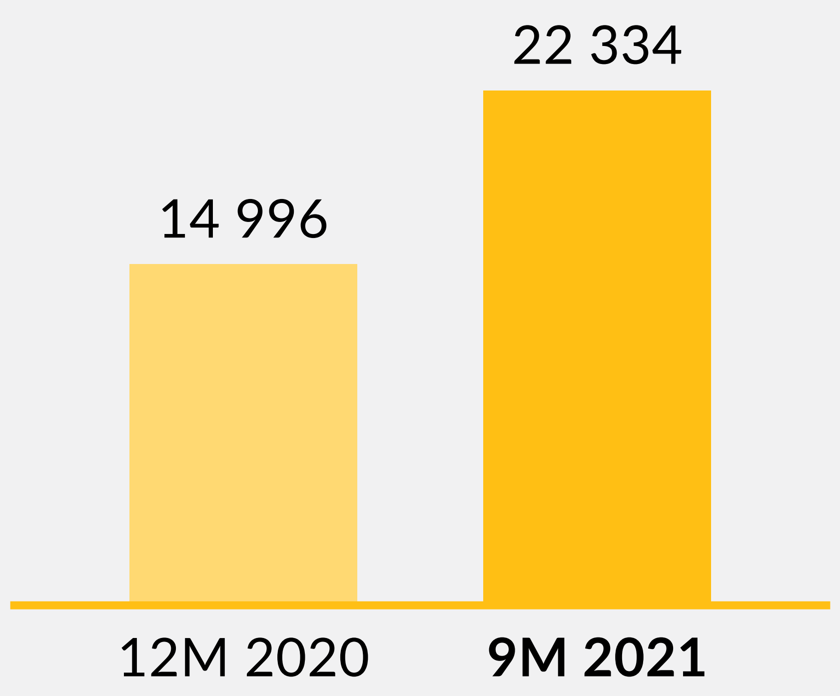
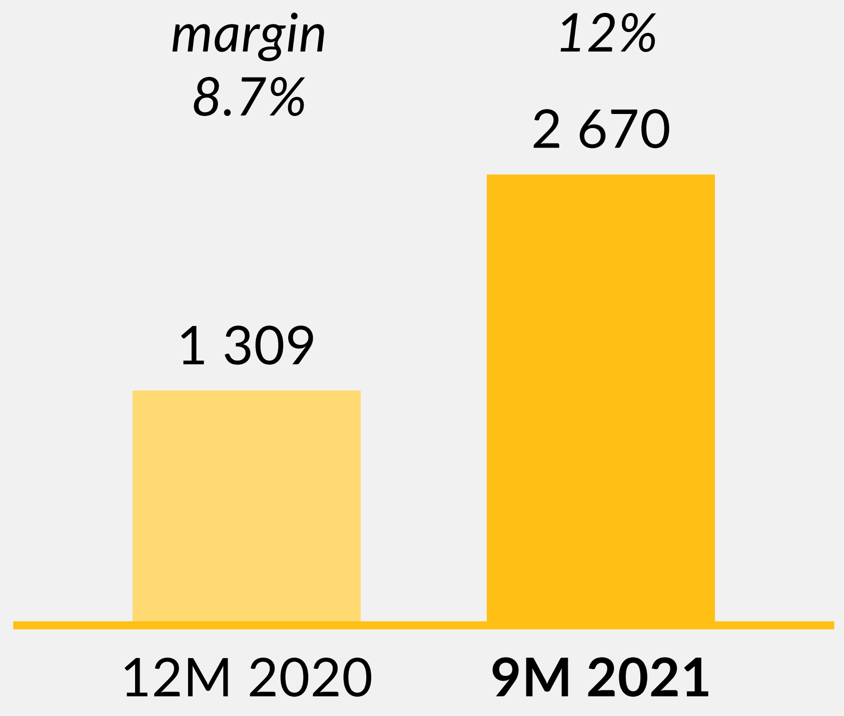
# Key financial indicators demonstrate a strong progress

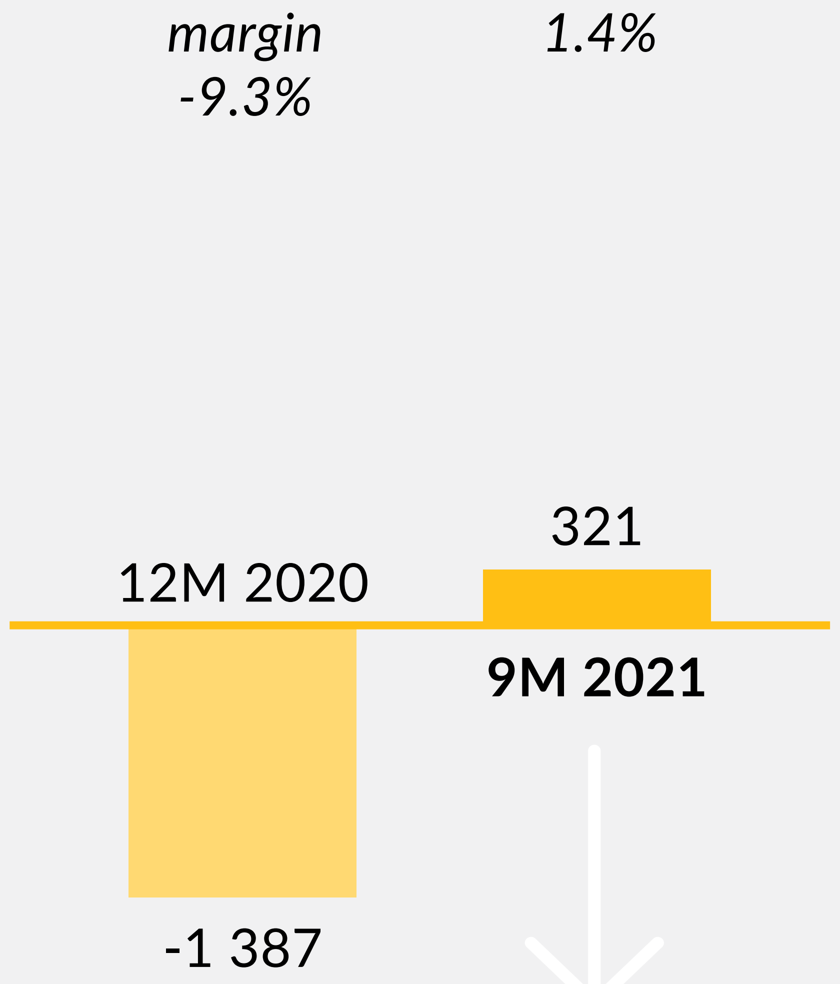
**Revenues, K EUR**



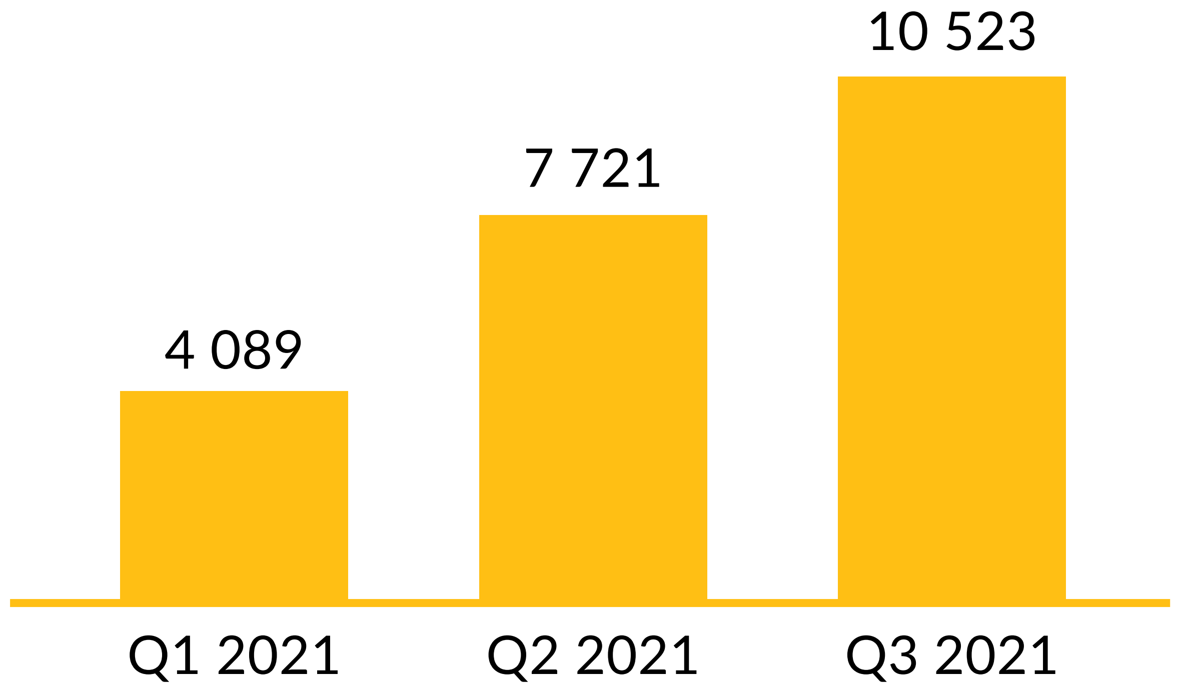

**Gross profit, K EUR**



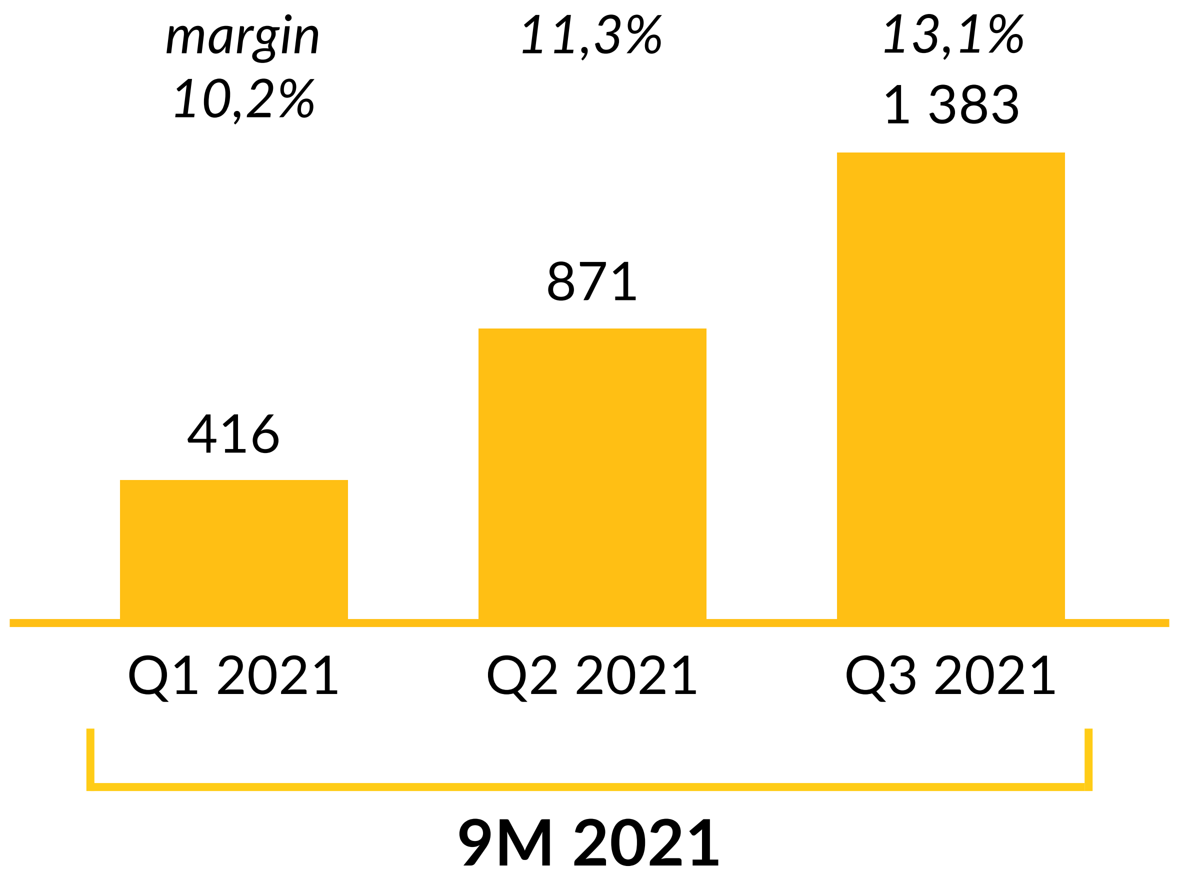

**EBITDA(1), K EUR**



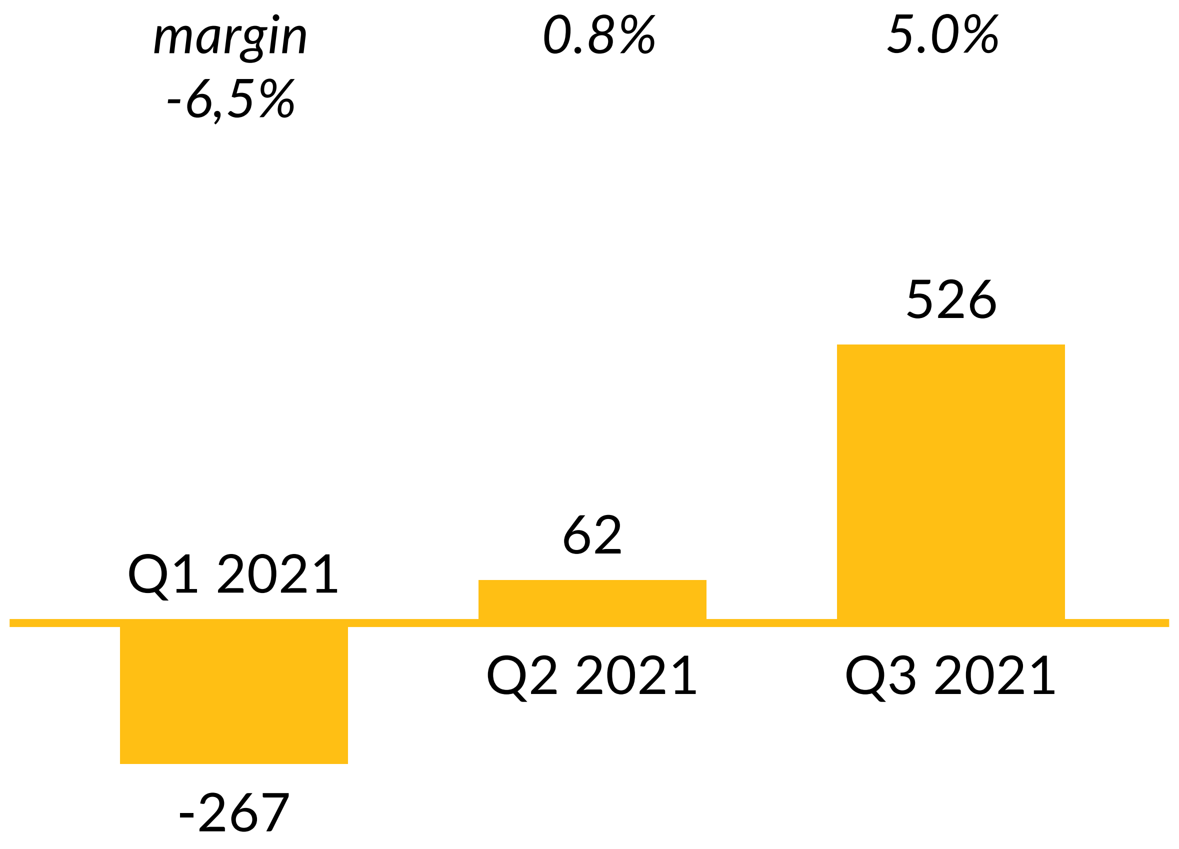

**Quarterly revenue**
**9M 2021, K EUR**




**Quarterly gross profit**
**9M 2021, K EUR**




**Quarterly EBITDA(2)**
**9M 2021, K EUR**



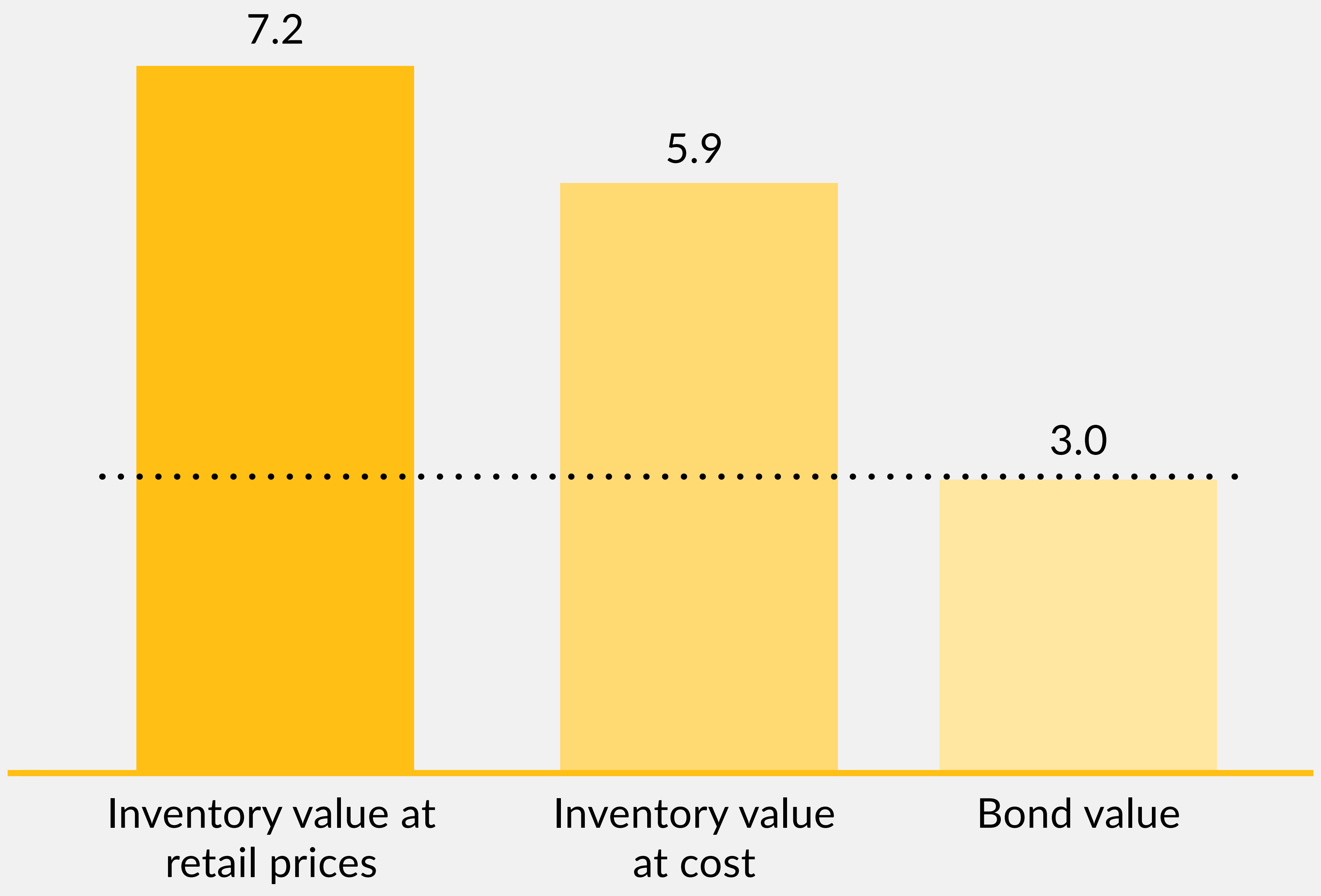

Source: 12M 2020- Longo Group AS consolidated audited financial data,
9M 2021- Longo Group AS consolidated unaudited financial data

(1) EBITDA in 2020 was negative due to business ramp up mostly, as well as Covid-19 restrictions
(2) EBITDA in Q1 2021 was negative due to Covid-19 restrictions

# Longo current inventory substantially exceeds the size of the planned bond issue

## LONGO INVENTORY VALUE, IN M EUR

*As of 30 Sept 2021*




- Pledged inventory [1] [2] comfortably covers the planned bond issue. Inventory coverage ratio [3] would be 2.0, if calculated as of 30 Sept 2021 with bond issue of 3.0M EUR

- Total inventory value at retail prices exceeds the size of the planned bond issue more than 2 times

- Proceeds from bond issue will be used to further increase inventory and hence the value of the bond security will increase further

- Besides, Longo has cash and cash equivalents of 2.8M EUR as of 30 Sept 2021

[1] Inventory of Longo Latvia AS (1.3M EUR) and Longo LT UAB (2.0M EUR) will be pledged to secure planned bond issue
[2] Longo Group has obtained KPMG verification of its inventory as of 30 Sept 2021
[3] Inventory coverage ratio = (Pledged Inventory + Cash) / Secured Financial indebtedness
Source: 12M 2020- Longo Group AS consolidated audited financial data,
9M 2021- Longo Group AS consolidated unaudited financial data

# Income Statement

**Longo Group has delivered strong results in terms of revenue growth and profitability in 9M 2021:**

- Record breaking performance in the third quarter with sales volumes of 10 523 K EUR and EBITDA of 526 K EUR

- The Gross margin has gradually increased from 8.7% in 2020 to 13,1% in Q3 2021. This is mainly driven by decrease of sales time of cars. Majority of cars are now being sold within 2 months from moment of purchase

| K EUR | Audited 12M Period ended 31 Dec 2020 | Unaudited 9M Period ended 30 Sep 2021 |
|---|---|---|
| Revenue | 14 996 | 22 334 |
| Cost of goods sold | (13 686) | (19 664) |
| **Gross profit** | **1 310** | **2 669** |
| Commission income form lease issuance | 459 | 457 |
| Selling expense | (228) | (373) |
| Administrative expense | (2 852) | (2 406) |
| Other operating income | 206 | 1 |
| Other operating expense | (282) | (27) |
| **EBITDA** | **(1 387)** | **321** |
| Interest expense | (242) | (114) |
| Depreciation & Amortization | (166) | (145) |
| Change in DCIT | 66 | (1) |
| **Profit (loss) for the period** | **(1 729)** | **62** |
| Gross margin % | 8.7% | 12.0% |
| EBITDA % | (9.3%) | 1.4% |

Note: Other income and expenses of 12M period ended 31 Dec 2020 include COVID government subsidies of 93 KEUR and HQ office agreement termination penalty
Source: 12M 2020- Longo Group AS consolidated audited financial data,
9M 2021- Longo Group AS consolidated unaudited financial data

# Statement of financial position

- Decrease in Inventory balance as there is improvement in efficiency in all major parts of business- sourcing, preparation and sales. This drives faster inventory turnover and practically no old stock- thus lower amount of cars in inventory

- Share capital of the Group was strengthened by capitalizing outstanding shareholder loan in May 2021

- Long Term Borrowing from Shareholders will be converted to subordinated bonds which will be subordinated to the Bonds of the planned bond issue

| K EUR | Audited 12M As of 31 Dec 2020 | Unaudited 9M As of 30 Sep 2021 |
|---|---|---|
| Property and equipment | 446 | 452 |
| Intangible assets | 282 | 385 |
| | | |
| **Total non current assets** | **728** | **836** |
| | | |
| Inventory and raw materials | 6 599 | 5 947 |
| Deferred Tax asset and other tax receivables | 478 | 760 |
| Customer and leasing company receivables | 10 | 374 |
| Other receivables | **168** | **366** |
| Cash and cash equivalents | 1 482 | 2 778 |
| | | |
| **Total current assets** | **8 737** | **10 224** |
| | | |
| **TOTAL ASSETS** | **9 465** | **11 060** |
| | | |
| Share capital | 6 997 | 13 220 |
| Retained earnings/ (losses) | (3 349) | (5 078) |
| Current year profit/ (loss) | (1 729) | 62 |
| | | |
| **TOTAL EQUITY** | **1 920** | **8 205** |
| | | |
| Long Term Borrowings from Shareholders | 6 042 | 2 000 |
| Loans and borrowings | 500 | - |
| Trade and other payables | 459 | 452 |
| Taxes payable | 264 | 92 |
| Accrued liabilities | 280 | 311 |
| | | |
| **Total liabilities** | **7 545** | **2 856** |
| **TOTAL EQUITY AND LIABILITIES** | **9 465** | **11 060** |

Source: 12M 2020- Longo Group AS consolidated audited financial data,
9M 2021- Longo Group AS consolidated unaudited financial data

# Strategic vision of Longo - profitable growth and transformation of Baltic used car market

### Become undisputed leader in used car sales in Baltics

- Institutionalize Longo retail concept for rapid roll out to new locations in Baltics
- Become top used car sales e-commerce platform in Baltics

### Growth with focus on profitability

- Continue driving profitability through economies of scale
- Enhance supplementary offer to increase profitability further

### Highest standards and excellent customer experience

- Brand, Data, IT and Culture are key to long term success
- Continuously invest in digital capabilities, delivery and online marketing to capture market opportunity and changing consumer trends

# Longo presents well balanced investment opportunity

## FINANCIAL POSITION

### Secured transaction

- Over 2 times inventory coverage of investment
- Liquid assets in high demand
- Profitable business operations

### Solid financial performance

- 92% Equity Ratio of the Group
- Achieved EBITDA of 526k EUR in Q3 2021
- KPMG audited financials - Y2021

## MANAGERIAL & STRATEGIC CRITERIA

### Brand and IT

- Largest high quality used car retailer in Baltics
- ~800 cars in stock
- Proprietary in-house integrated IT system

### Experienced team and strategic advisors

- Well proven management team
- Substantial investor experience

### Efficient Operations

- 30-40 days sales time from car publishing
- ~400 cars sold per month and growing

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# Indicative term sheet

- Longo Group plans its debut bond issue to support its further profitable growth in the Baltics

- Proceeds from the bond issue will be used to increase the working capital of the company (increase the total number of cars for sale) to achieve further economies of scale gains

| ISSUER | AS LONGO GROUP |
|---|---|
| Type of Bonds | Senior secured bonds |
| Collateral | • Commercial pledge on assets of AS Longo Latvia<br>• Commercial pledge on assets of UAB Longo LT |
| Guarantors | Corporate guarantees from Longo Latvia AS, Longo LT UAB, Longo Estonia OÜ, Longo Netherlands B.V. |
| Issue size | **Up to EUR 3'000'000** |
| Coupon rate | **6%**, monthly |
| Maturity | **3 years**, bullet |
| Call Option | @101% after 1st year, @100% last 3 months before maturity |
| Put Option | @100% after 2nd year (6-month notice period) |
| Financial Covenants | • To maintain consolidated Interest coverage ratio[1] of at least 2x<br>• To maintain consolidated Equity ratio[2] of at least 30%<br>• To maintain Inventory Coverage ratio[3] of at least 1.5x |
| Type of Placement | Private placement with EUR 100,000 minimum subscription |
| Listing | Nasdaq Baltic First North within 12 months after the Issue Date |
| Arranger | Signet Bank AS |
| Collateral agent | ZAB Vilgerts SIA |
| **Proposed timeline** | |
| Roadshow | 08.11.- 19.11.2021 |
| Subscription period | 22.11.- 26.11.2021 |
| Issue date | 30.11.2021 |

[1] Interest coverage ratio = EBITDA / Interest expense, calculated for a period of trailing 12 months,
[2] Equity ratio = (Equity + Subordinated debt) / Total Assets,
[3] Inventory coverage ratio = (Pledged Inventory + Cash) / Secured Financial indebtedness

# Risk factors

BELOW IS A DESCRIPTION OF THE RISK FACTORS THAT ARE MATERIAL FOR THE ASSESSMENT OF THE MARKET RISK ASSOCIATED WITH THE NOTES AND RISK FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE NOTES. SHOULD ONE OR MORE OF THE RISKS DESCRIBED BELOW MATERIALISE, THIS MAY HAVE A MATERIAL ADVERSE EFFECT ON THE CASH FLOWS, RESULTS OF OPERATIONS, AND FINANCIAL CONDITION OF THE ISSUER AND THE GROUP. MOREOVER, IF ANY OF THESE RISKS MATERIALISE, THE MARKET VALUE OF THE NOTES AND THE LIKELIHOOD THAT THE ISSUER WILL BE IN A POSITION TO FULFIL ITS PAYMENT OBLIGATIONS UNDER THE NOTES MAY DECREASE, IN WHICH CASE THE PROSPECTIVE INVESTORS COULD LOSE ALL OR PART OF THEIR INVESTMENTS.

BEFORE DECIDING TO PURCHASE THE NOTES, PROSPECTIVE INVESTORS SHOULD CAREFULLY REVIEW AND CONSIDER THE FOLLOWING RISK FACTORS, IN ADDITION TO ALL OTHER INFORMATION PRESENTED IN THE TERMS OF NOTES ISSUE, AND CONSULT WITH THEIR OWN PROFESSIONAL ADVISORS IF NECESSARY. MOREOVER, PROSPECTIVE INVESTORS SHOULD BEAR IN MIND THAT SEVERAL OF THE DESCRIBED RISK FACTORS CAN OCCUR SIMULTANEOUSLY AND TOGETHER WITH OTHER CIRCUMSTANCES COULD HAVE A POTENTIALLY STRONGER IMPACT ON THE ISSUER OR THE GROUP. THIS IS NOT AN EXCLUSIVE LIST OF RISK FACTORS, AND ADDITIONAL RISKS, OF WHICH THE ISSUER IS NOT PRESENTLY AWARE, COULD ALSO HAVE A MATERIAL ADVERSE EFFECT ON THE ISSUER AND THE GROUP.

**1. RISK FACTORS**

**1.1. Important note**
The risks indicated in this section, if some or all of them materialize, may reduce Issuer's ability to fulfil its obligations or cause its insolvency or restructuring in the worst-case scenario.

This section may not feature all the potential risks, which may affect the Issuer.

**1.2. Risks related to the economic and regulatory environment**

1.2.1. Macroeconomic risk

The Group's main business is sale of used cars. The activities of business are cantered in Latvia, Lithuania and Estonia. The business, to a certain extent, dependent on the general economic environment in Europe – because of the geographical focus of their activities – particularly in Baltic, as the general economic development has a major effect on spending propensity of customers and, in turn, on the demand for mobility services.

During phases of economic weakness, demand for mobility services may fall as a result of cost-saving measures by private households and companies. A downturn in the overall economy could therefore adversely affect demand for used cars which could have a material adverse effect on the business, financial condition, results of operations and cash flows of the Group. Lithuania is the Group's main market with 48 % turnover of the Group's total turnover in 9M 2021, the turnover of Latvian market was 33% and the turnover on the Estonian market made up 19% of the total turnover. The Group is thus particularly sensitive to economic situation in the Baltic region.

The Baltics, however, are not immune to regional and global macroeconomic fluctuations. Baltic economies are closely linked with the economies of the EU and the euro area. A slowdown in the EU may negatively affect the economies of the Baltic states, causing an adverse effect on the Group's business operations.

The global economy and most industries have seen strong headwinds since the first quarter of 2020, driven by the outbreak of the novel coronavirus COVID-19. Although the Baltic countries also experienced an economic downturn as a result of the COVID-19 pandemic, the recession in Lithuania, Latvia and Estonia was among the lowest in the EU. In 2020, Lithuania, Estonia, and Latvia showed real GDP contraction of 0.8%, 3.0%, and 3.6%, respectively.

| | Latvia | | | Estonia | | | Lithuania | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021F | 2022F | 2020 | 2021F | 2022F | 2020 | 2021F | 2022F |
| **Real GDP (% yoy)** | -3.6 | 3.8 | 5.1 | -3.0 | 6.5 | 4.5 | -0.8 | 4.4 | 4.0 |
| **CPI (% yoy)** | 0.1 | 2.0 | 2.5 | -0.6 | 2.5 | 2.5 | 1.1 | 2.6 | 2.4 |
| **Unemployment (%)** | 8.2 | 8.1 | 7.5 | 6.8 | - | - | 8.9 | - | - |

*Source: Bloomberg consensus*

While the Baltic economies have demonstrated faster than expected recovery during 2021 and economists generally expect solid economic performance in 2022 as well, overall uncertainty in light of the COVID-19 pandemic remains elevated and actual economic growth rates could turn out to be significantly lower and/or inflation could become higher, resulting in lower than expected demand for the Group's products and/or higher cost base, and thus lower business and financial performance of the Group.

1.2.2. The ongoing global pandemic risk

The COVID-19 pandemic has materially adversely impacted and disrupted and may continue to materially adversely impact and cause disruption to the Group's business and financial performance.

The pandemic poses a risk to the Group's employees, customers, suppliers, and communities in which the Group operates. Lockdown measures and other similar restrictions have resulted in decrease in sales and delayed its profitability.

The Group is mitigating pandemic risk. 85 of 90 employees of Longo Group are either immune (vaccinated or natural immunity) or have committed to vaccination which means that continuity is ensured in all critical departments- sales, preparation and sourcing. During lockdown all Longo branches can continue to sell cars, digital first approach of the Group ensures that most parts of the business are not being affected. Due to achieved scale Longo Group can endure up to 35% sales decrease from September volume and still be break even.

During first and second wave of pandemic The Group was forced to significantly reduce its cost base while working on process and system improvements as sales activity was lower. As a result, it has successfully emerged from the COVID-19 caused disruption, its monthly revenues growth rate was 250% from pre pandemic level (measured from February 2020 to September 2021). It has reached first break-even quarter in Q2 2021 and profitability for all period ended 30 September 2021.

The vaccination rates in the Baltics, especially in Latvia, have been among the lowest in the European Union and, thus, the current or next waves of the COVID-19 pandemic may hit the region disproportionately harder. Therefore, the likelihood of future lockdowns or severe restrictive measures may not be ruled out. Thus, any further restrictions as a result of government actions, could have an adverse effect on the Group's financial position and cash flows, and may affect its ability to meet the financial obligations.

1.2.3. Regulatory risk

The Group is subject to Latvian, Lithuanian, Estonian, Dutch, Belgian and German national and EU laws and regulations that regulate the industry generally, consumer rights protection, personal data processing, prevention of money laundering and terrorism and proliferation financing or govern the industry in which the Group operates. Any uncertainty as to regulatory trends or changes in policies in relation to the Group's industry may delay or prevent the achievement of the strategic plans or increase the cost of implementing such plans. The sale of the Group's products and the provision of services are subject to a high level of regulation and oversight applicable to the consumer sector.

The Group complies with all legislative requirements and other regulations as at the date of the Terms of Issue. Legislation and other regulations may change however, and the Management cannot guarantee that in such cases it would be able to comply immediately, without material measures, with the requirements of changed legislation or other regulations. Adapting the Group's operations to any of the changes described above may incur costs for the Group that are difficult to anticipate, which in turn may have a material adverse effect on the Issue's business, results of operations, and financial condition.

1.2.4. Taxation risk

The Group currently operates in six countries (Latvia, Lithuania, Estonia, the Netherlands, Belgium, and Germany) with different sets of tax regimes. Changes to local tax regimes or challenges to the current tax structures of the Group's business could have a material adverse effect on its business, financial condition, or results of operations. Additionally, certain tax positions taken by the Group require the judgement of Management and, thus, could turn out to be inefficient or challenged by tax authorities due to the possible erroneous interpretation of tax legislation.

1.2.5. Relations with key vendors and supply chain risk

The Group imports its products from third-party suppliers, mainly in the Netherlands, Belgium and Germany. In total, the Group has around 900 different partners. In 2020 approximately 39 % of Group's supply by value was delivered by 18 suppliers. The Group also relies on arrangements with third-party logistics companies for the delivery of its products.

Accordingly, the Group relies on third parties to transport its products over large geographical distances. Any disruption to the supply chain caused by issues with the Group's suppliers can have an adverse effect on its inventory levels, assortment of products, revenues, financial condition and the Group's competitive position.

Delays in shipment of the Group's products or interruption of delivery of the products due to the unavailability of product, personnel, transportation, work stoppages, delays in customs inspections, political instability, security requirements or other factors beyond the Group's control, and costs and delays associated with transitioning between suppliers, could adversely impact the Group's ability to meet consumer demand and may result in fewer sales. Any of these risks could have a material adverse effect on the Group's business, results of operations and financial condition.

1.2.6. Inventory management risk

The Group maintains a certain level of inventory in order to ensure the optimal flow of the inventory and the ability to satisfy customer demands. The Group's inventory level as of 30 September 2021 was EUR 5.9 m, constituting around 54% of the Group's total assets.

Insufficient levels of inventory can leave a significantly negative impact on the Group's revenue. However, in the event of high levels of unsold stock, the Group could be required to sell some of its products at lower prices, which could negatively affect the Group's operating profits and have a materially adverse impact on its business and financial condition.

Alternatively, the Group may underestimate the demand of one product compared to another and acquire stock inadequately as a result. To be responsive to shifting customer demand, the Group must manage its product selection and inventory levels closely. If the Group misjudges, fails to identify or fails to react swiftly to changes in consumer preferences, its sales could decrease, and the Group could see a significant increase in its inventories. Conversely, if the Group underestimates consumer interest in its products, it may experience inventory shortages and lower revenue and profitability than the Group could otherwise have achieved. Therefore, it is important for the Group to optimize the inventory levels accordingly.

1.2.7. Inhouse preparation center risk

The Group's business is to some extent dependent on the Group's ability to prepare used cars for sale in its inhouse preparation centre. Currently the Group's inhouse preparation centre output capacity is around 85-100 cars per week with further possible mid-term increase to 150-180 cars per week. Giving the increase in volumes there could be continued need to recruit more technicians to meet the demand (please refer to the risk factor "Key employee dependency").

1.2.8. Warranties risk

The Group has warranty obligations to its customers. There is a risk that the assumptions made on the current administrations of those commitments proves not to be adequate. If materialized, there is a risk that it will cause a negative impact on Group's earnings and financial position.

1.2.9. Financial leverage risk

Historically, the operations of the Group have mainly been financed through shareholder funds. Nevertheless, while the equity as of 30 September 2021 was 92%, the financial leverage of the Group will increase as a result of the Notes issue and could increase further due to potential additional external financing in the future, which could result in negative consequences for the business and operations. Such consequences would include but are not limited to: requiring the Group to dedicate a substantial portion of its cash flow to payments on the debt, increasing vulnerability to a downturn in business or general economic conditions, placing the Group at a competitive disadvantage relative to competitors with lower leverage, limiting flexibility in reacting to competition or changes in the business or industry.

Any of these or other consequences or events could have a material adverse effect on the Group's ability to satisfy its obligations on Financial Indebtedness.

1.2.10. Key employee dependency

Retention of senior management is important in the Group's business due to the limited availability of experienced and talented retail executives. If the Group were to lose the services of members of its senior management team and be unable to employ suitable replacements in a timely manner, its business, results of operations and financial condition could be materially and adversely affected.

In the future, the Group's activities will be affected by its ability to attract, preserve, and motivate highly qualified and experienced personnel. There is relatively high competition for personnel with the relevant skills and experience in the Baltics. To retain and motivate its employees, the Group has introduced employee stock options to its key senior management personnel.

1.2.11. Employee risk

As of 30 September 2021, the Group operates with 90 full-time employees, of whom 26 are in the Republic of Latvia, 55 in the Republic of Lithuania, 5 in Estonia, and 4 in the Netherlands. The Group's employees are a significant part of the overall customer experience and brand image of the Group. Therefore, it is of high importance for the Group to have a professional and highly skilled team of employees with low employee turnover rate. To retain and motivate its personnel, the Group has a performance bonus scheme in place.

Additionally, in the future the Group may be unable to attract enough skilled employees that would fit the needs and the corporate culture of the Group. Training of the new employees also takes time and resources. Any difficulties in attracting new employees could have an adverse effect on the Group's service quality and reputation, business, results of operations and financial condition.

1.2.12. Operational risks

Operational risk is a possibility of experiencing losses due to insufficient or unsuccessful internal processes, personnel management, systems, or external circumstances. Thorough personnel selection is carried out, accurate descriptions of job duties are compiled, division of duties is coordinated, which allows the Group and management to reduce operational risks.

1.2.13. Competition risk

The overall competition in the Baltic used car market is very fragmented. Large part the used car sales are happening among private individuals, but that is slowly changing and following the course of other European countries. Overall government regulations of used vehicle sales in each of Baltic countries are being rapidly enhanced and updated, bringing new potential administrative hurdles. There is a risk that new notable market players not yet present in the Baltics could enter the market, thus creating additional competition for the local market players. It also faces a variety of competitive challenges including anticipating and responding to changing trends and consumer demands, securing the most appropriate stock, diversifying its sales channels, and improving its e-commerce platform.

1.2.14. Corporate governance and policy-related risk

Group's success is dependent on the good reputation and image of its brand. To this end, the Group must earn customers' confidence by providing products and services that meet customer demand and appeal to customers' preferences, including with respect to sustainability, innovation, quality, reliability, and value (total cost of ownership). This requires the management to make the right strategic decisions and invest in technologies, products and services that continue to meet customers' requirements. Within the Group, this requires the sharing of knowledge and information through appropriate management structures and processes. Furthermore, suitable policies, guidelines, trainings, and advice need to be implemented. If the Group fails to implement the correct processes and management structures, the Group may be unable to anticipate customer demand which could materially affect Group's brand and financial results.

Furthermore, the Group operates in an industry where efficiency improvements and cost savings are crucial in order to maintain competitiveness and profitability. The Group's ability to achieve the targets is also dependent on assumptions relating to several external factors, including development of the market for sale of used cars, political, legal, fiscal, market and economic conditions, regulatory developments and wage increases, all of which are difficult to predict and are beyond the Group's control. These assumptions may prove to be inaccurate. If the Group fails this may have a material adverse effect on its business, results of operation and financial condition.

1.2.15. IT system and process risk

The Group's ability to manage business-critical operations highly depends effectively and securely on its IT systems, including the IT infrastructure, and processes working well and without interruptions. There is a risk, that these systems will be disrupted by, for example, software failures, computer viruses, hacking, ransomware, sabotage and physical damage, and the high pace of change in the overall IT environment introduces increases risk of data breaches. For the performance of all the Group's internal communication and the possibility to conduct all forms of work within the Group, and for the maintenance of all external communication and customer relations, the everyday functionality of the IT system is of vital importance.

For the everyday performance of selling used cars the functionality of the IT systems and processes is essential. A malfunction within these areas therefore constitutes a risk that would severely impair the performance of the Group and of the services offered towards the customer. There is also a risk that such a failure, or major disruption or difficulties in maintaining, upgrading and integrating these systems, may lead to a worsened reputation for Group among its customers. Any intrusion into the Group's IT systems, for example, from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, result in the disclosure of confidential information and/or create significant financial and/or legal exposure and the risk for damage to the Group's reputation and/or brand. The degree to which IT failure and the materialization of any IT risk may affect the Group is uncertain and presents a significant risk to the Group's operations.

1.2.16. E-commerce risk

The Group offers its customers online based catalogue shopping experience – that allows to start purchasing by checking all cars online on their local websites: more than 550 cars with full technical information, certification, high quality pictures incl. 360 interior, exterior tours, created in unique 3D photo studio in Baltics managed by Group. As of 30 September 2021 26%, of the Group's sales were result of online leads.

There is a need to keep up to date with rapid technological, legal and behaviour changes and according to that, implement new functionalities on the Group's websites, which creates a risk of unexpected costs being incurred. There are the inherent risk customers will find the Group's websites difficult to use and use them less than expected.

Furthermore, the Group bears liability for online content published on its websites.

Failure to respond accordingly to these risks and uncertainties could reduce revenue generated by online leads, as well as have a detrimental effect on the brands, reputation and prospects.

1.2.17. Risk of natural disasters and other business disruption

The Group's operations are vulnerable to damage or interruption from various natural disasters and business disruptions, such as fire, flood, power losses, telecommunication failures, terrorist attacks, acts of war, human error, and other events. A significant natural disaster could have a material adverse impact on the Group's ability to conduct its business, and insurance coverage may be insufficient to compensate losses that may occur. Although the Group has implemented business continuity plans, acts of terrorism, war, civil unrest, violence or human error could cause disruptions to the Group's business or the economy as a whole. Any of these occurrences may have a material adverse effect on the Group's business, financial condition, results of operations and cash flows.

**1.3. Risks related to Notes**

1.3.1. Notes repayment risk

The Notes will rank pari-passu with other senior Secured Financial Indebtedness of the Issuer. Directly after the Notes issue, the Group's only Secured Financial Indebtedness will be the Notes; however, the Group is not prohibited from taking on additional Secured Financial Indebtedness and pledging assets in favor of other creditors in the future if the Covenants set forth in Clause Clause 5 of these Terms of the Issue are met.

In the case of the Group's insolvency, Noteholders have the same right to receive their investment as other creditors of the relevant group in accordance with applicable local regulatory enactments. There are no contracts or other transaction documents, which would subordinate the claims of Noteholders to other secured obligations of the Group.

The Issuer may not have the ability to repay or refinance these obligations. If the maturity date or date when put option is exercised occurs at a time when other arrangements prohibit the Issuer from repaying the Notes, it could try to obtain waivers of such prohibitions from the lenders and Noteholders under those arrangements, or the Issuer could attempt to refinance the borrowings that contain the restrictions. If the Issuer fails to obtain the waivers or refinance these borrowings, it would be unable to repay the Notes.

1.3.2. Liquidity risk

Neither the Group nor any other person guarantees the minimum liquidity of the Notes. Thus, the Investors should consider the fact that they may not be able to sell or may face difficulties in selling their Notes on the secondary market at their fair market value or at all.

1.3.3. Delisting risk

After registration of the Notes the Issuer plans to request admission to trading of the Notes on the Multilateral Trading Facility (MTF) First North operated by Nasdaq Riga. There is a risk that Nasdaq Riga will not accept the Notes to be admitted to trading on First North or order that the Notes are delisted from First North before maturity after admission to trading has taken place due to changes in legal acts, including Nasdaq Riga regulations, or recommendations by the FCMC.

1.3.4. Price risk

The development of market prices of the Notes depends on various factors, such as changes of interest rates, central bank policies, overall economic development, or demand for the Notes.

The Notes bear a fixed interest rate. Thus, Investors who seek to sell the Notes before their final maturity are exposed to interest rate risk: if the market interest rate increases, the price of fixed rate Notes typically declines.

Neither the Issuer, nor any other person undertakes to maintain a certain price level of the Notes. The Investors are thus exposed to the risk of unfavorable price development of their Notes if they sell the Notes prior to final maturity. If an Investor decides to hold the Notes until maturity, the Notes will be redeemed at their Nominal Value.

1.3.5. Early redemption risk

According to the Terms of Issue, the Notes may be redeemed prematurely at the initiative of the Issuer. If the early redemption right is exercised by the Issuer, the rate of return from the investment into the Notes may be lower than initially expected, as the Investor might not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on such Notes being redeemed. The Group's redemption right may also adversely impact the Investor's ability to sell such Notes.

1.3.6. Tax risk

Tax rates and tax payment procedure applicable at the moment of purchase of Notes to the tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate the increase in taxes to Investors, therefore Investors may receive smaller payments related to Notes.

1.3.7. Resolutions of Investors risk

The majority resolution of the Investors is binding on all Investors. Thus, an Investor is subject to the risk of being outvoted by a majority resolution of the other Investors. As such, certain rights of such Investor against the Issuer may be amended or reduced, or even cancelled, without its consent.

**1.4. Risks related to Collateral and Guarantees**

1.4.1. Risks associated with the Collateral Agent Agreement

The Noteholders are represented by the Collateral Agent in all matters relating to the Collateral. There is a risk the Collateral Agent, or anyone appointed by it, does not properly fulfil its obligations in terms of perfecting, maintaining, enforcing or taking other necessary actions in relation to the Collateral. Subject to the terms of the Collateral Agent Agreement, the Collateral Agent is entitled to enter into agreements with a third-party or take any other actions necessary for the purpose of maintaining, releasing or enforcing the Collateral or for the purpose of settling, among others, the Noteholders rights to the Collateral.

1.4.2. Risks associated with the value of the Collateral

The value of the Collateral is not fixed and is subject to changes in several factors, primarily, primarily supply and demand conditions for used cars, which at times can be unpredictable and are out of the Group's control. Thus, the value of the Collateral might decline if unfavourable market conditions in the used car segment would result in decline in prices of used cars. Additionally, if a sudden necessity to sell the Collateral were to arise, the Group might be forced to sell the Collateral at a discount to its market value and derive less value than expected from it.

Moreover, the Collateral structure could change over time due to changes in the Group's inventory and overall asset structure. Additionally, the Collateral is subject to damage defects, and the risk of theft. The cars can get damaged which could affect the resale value, if such a necessity were to arise. Any of these risks related to the Collateral can negatively affect the value of the Collateral and the Group's ability to meet its obligations under the Notes.

Considering the Collateral Agent does not supervise the quality of the Collateral during the duration of the Issuer's obligations and the Collateral Agent has no liability to the Noteholders in this regard, there is a risk the Collateral may be taken over, but the realisation of the Collateral may be insufficient to fully satisfy the Noteholders' claims.

1.4.3. The Collateral and the Guarantees will be subject to certain limitation on enforcement and may be limited by the applicable law or subject to certain defences that may limit its validity and enforceability

The Collateral and the Guarantees provide the Collateral Agent, acting for the benefit of the Noteholders, with a claim against the relevant Collateral Provider and the Guarantor. However, the Collateral and the Guarantees will be limited to the maximum amount that can be guaranteed by the relevant Collateral Provider without rendering the relevant Collateral and Guarantee voidable or otherwise ineffective under applicable law, and enforcement of each Collateral and Guarantee would be subject to certain generally available defences.

Enforcement of any of the Collateral and the Guarantees against any Collateral Provider will be subject to certain defences available to Collateral Providers in the relevant jurisdiction. Although laws differ among jurisdictions, laws and defences generally include those that relate to corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalization, capital maintenance or similar laws, regulations or defences affecting the rights of creditors generally. If one or more of these laws and defences are applicable, a Collateral Provider may have no liability or decreased liability under its Collateral and Guarantee depending on the amounts of its other obligations and applicable law.

There is a possibility the entire Guarantee or Collateral may be set aside, in which case the entire liability may be extinguished. If a court decided a Guarantee or Collateral was a preference, fraudulent transfer or conveyance and voids such Guarantee or Collateral, or holds it unenforceable for any other reason, the Noteholder may cease to have any claim in respect of the relevant Guarantor or Collateral Provider and would be a creditor solely of the Issuer and, if applicable, of any other Guarantor or Collateral Provider under the relevant Guarantee or Collateral which has not been declared void or held unenforceable.

The Notes will be guaranteed by the Guarantors, which are organised or incorporated under the laws of four jurisdictions. In the event of a bankruptcy, insolvency or similar event of a Guarantor, bankruptcy, insolvency or similar proceedings could be initiated against that Guarantor in any of the relevant jurisdictions. The rights of Noteholders under the Guarantees will thus be subject to the laws of a number of jurisdictions, and it may be difficult to enforce such rights in several bankruptcy, insolvency and other similar proceedings.

Moreover, such multi-jurisdictional proceedings are typically complex and costly for the creditors. In addition, the bankruptcy, insolvency, administration and other laws of the jurisdiction of organisation of the Issuer or the Guarantors may be materially different from, or in conflict with, one another, including in relation to the creditor's rights, the priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over laws of which jurisdiction(s) should apply and could adversely affect the ability to realise any recovery under the Notes and the Guarantees.

1.4.4. The enforcement of the Guarantee and the Collateral will be subject to the procedures and limitations set out in the Collateral Agent Agreement and theses Terms of the Notes Issue

Even when the Collateral is enforceable, the enforcement is subject to the procedures and limitations agreed in the Collateral Agent Agreement and the Terms of the Notes Issue. There can be no assurance as to the ability of the Noteholders to instruct the Collateral Agent to initiate any enforcement procedures. Furthermore, any enforcement of security may be delayed due to the provisions of the Collateral Agent Agreement and these Terms of the Notes Issue.

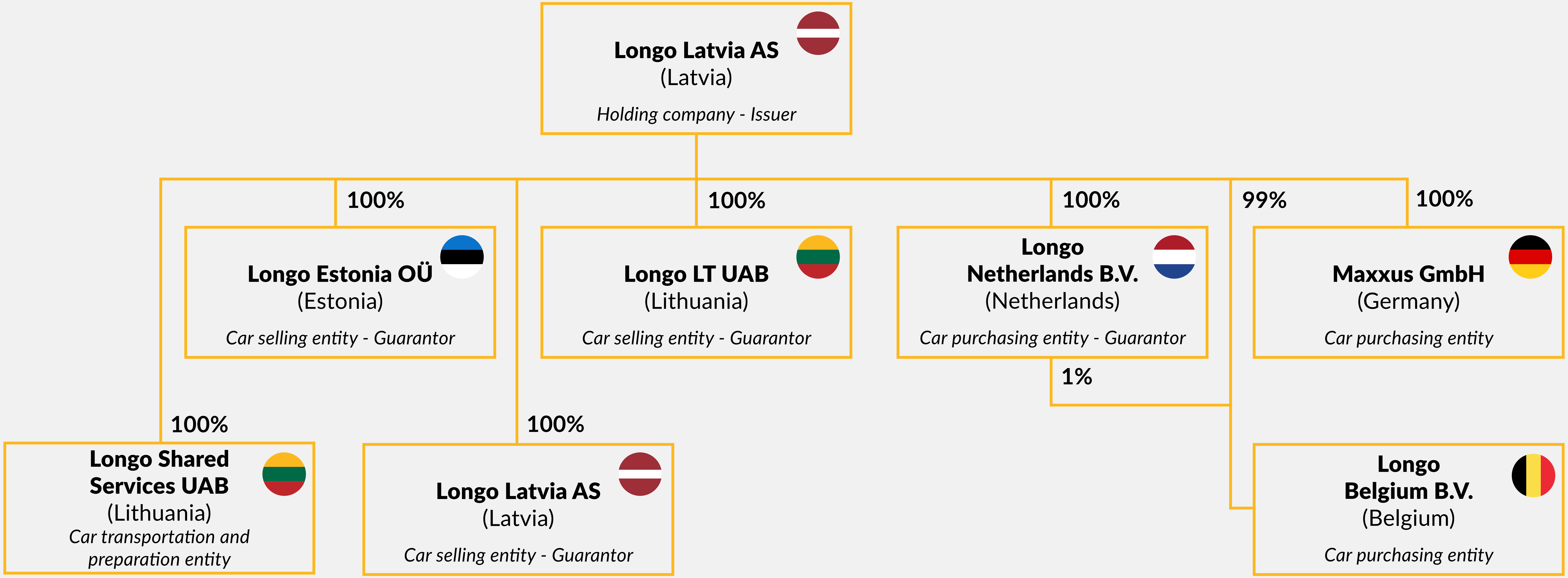
1.4.5. The rights of the Noteholders depend on the Collateral Agent's actions and financial standing

By subscribing for, or accepting the assignment of, any Note, each Noteholder will accept the appointment of the Collateral Agent as the agent and representative of the Noteholders, to represent and act for such secured creditors, i.e., Noteholders, in relation to the Collateral.

Only the Collateral Agent is entitled to exercise the rights under the Collateral and enforce the same. Any failure by an agent to perform its duties and obligations properly, or at all, may adversely affect the enforcement of the rights of the Noteholders due to, for example, inability to enforce the security and/or receive any or all amounts payable from the security in a timely and effective manner.

# Appendix

# Legal structure of AS Longo Group




longo.lv | longo.ee | longo.lt