

Arsenal Industrial bond issue



Opportunity to invest in senior secured EUR 4.5m bonds with 12-12.5% coupon

About Arsenal Industrial

- Arsenal is a top 6 Baltic construction equipment rental and sales company. Founded in 2014, the Group currently has c. 70 employees.
- The Group offers a diverse range of construction equipment for renting and purchasing, including lifts, road construction equipment, tools, compaction and concrete machinery, all falling under the 10-ton category. Arsenal's transportation fleet is capable of delivering equipment of all sizes, from compact machines to sizable excavators.
- Arsenal's key equipment brands include Sunward, JCB, Komatsu, Gehl, Manitou, Bosch, Husqvarna, Geda, Swepac, Baumax, Karcher and more.
- The Group is guided by a seasoned management team, led by the CEO and majority shareholder Gints Vanags (51%), who brings experience from various rental companies and has been with Arsenal since its inception. KS FlyCap Investment Fund I AIF holds the minority share (49%).

Business overview

- In FY 2022, Arsenal's revenue composition was as follows: 54% from rental services, including both self-owned machinery and re-rental using partner equipment to meet high customer demand; 35% from equipment sales; and 11% from technical and transport services.
- Operating across all three Baltic states, Arsenal achieved 42% of its revenue in Latvia, 29% in Estonia, and 29% in Lithuania during FY 2022. With a current 7% market share in Latvia, the Group anticipates growth in the construction market and aims to expand its market share across all three Baltic countries.
- The machinery fleet comprises over 2,700 units, with acquisition value of EUR 10.2m and book value of EUR 6.8m reflecting a conservative depreciation policy.
- The Group maintains a diverse client base, with more than 3,500 active customers in the previous year, mainly consisting of B2B construction firms. The largest client contributed only 2% of total revenue, and Arsenal handles 23,000 rental contracts annually (average of 75 contracts per day).
- Arsenal emphasizes e-channels and leading IT solutions for customer acquisition, communication, service delivery, and retention. The Group offers the convenience of remote rental contract signing.
- The Group distinguishes itself through swift service, flexibility, and high-quality solutions. With 24/7 support, Arsenal provides various options, incl. machinery replacements, short-term and seasonal rental financing, equipment testing, re-rental, buy-back contracts, and more.
- Arsenal's business model exhibits resilience to market downturns by combining equipment rental and sales strategies, offering a diversified approach rather than relying solely on one segment. Large share of re-rent fleet provides option to downsize amount of equipment fleet while maintaining high utilization of own fleet resulting in high profitability.

Financial highlights

- Arsenal's revenue growth has primarily been fueled by the expansion of its construction machinery fleet. In FY 2022, revenue reached EUR 9.2m, (+6% Y/Y), and EUR 7.8m (+12% Y/Y) during 9M'23.
- Historically, a substantial portion of Arsenal's revenue has come from re-rental, which is less profitable due to a significant portion of that revenue being shared with external equipment owners. However, Arsenal plans to reduce the reliance on re-rental revenue in the future, aiming to utilize more of their own assets to enhance profitability.
- The Group generated EBITDA of EUR 1.9m (+32% Y/Y) in FY 2022 and EUR 1.2m (-17% Y/Y) in 9M'23 – the decrease in EBITDA in 9M'23 can be explained by higher COGS and a relatively high share of revenue from equipment sales, which have lower margins. Nevertheless, Arsenal has consistently improved its EBITDA margins over the past few years, reaching 21% in FY 2022 compared to 13% in FY 2020. The EBITDA margins are anticipated to stabilize around current levels.
- Arsenal, just as the construction industry experiences strong seasonality, with better results typically occurring in the second half of the year when construction activity picks up during the autumn season.
- The total borrowings as of 9M'23 include a bond issue of EUR 5.2m held by a Polish mezzanine fund (CVI), which will be refinanced by the new bond issue. Additionally, the borrowings include supplier leases of EUR 2.0m as of 9M'23.
- Arsenal is strategically positioned for future growth, benefiting from collaborations with top construction machinery producers and ongoing investments in expanding the Group's machinery fleet.

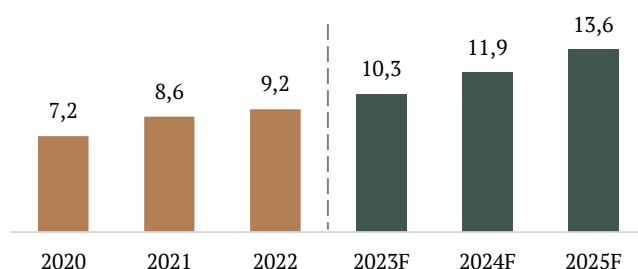


Financial highlights, EUR m

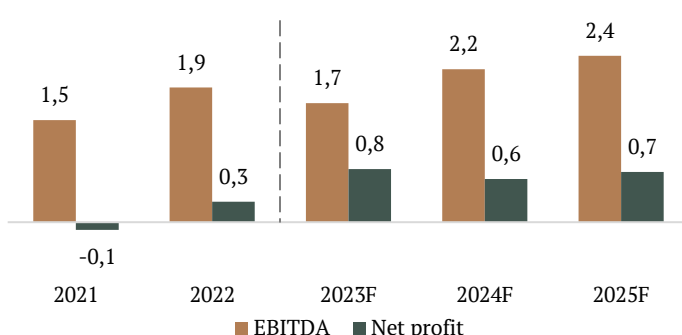
	FY 2021	FY 2022	FY 2023F
Revenue	8.6	9.2	10.3
EBITDA	1.5	1.9	1.7
Net profit	-0.1	0.3	0.8
Total assets	8.1	9.8	9.2
PPE	5.8	7.5	6.7
Cash	0.4	0.3	0.4
Adjusted Equity¹	0.4	0.8	1.4
Total borrowings	6.7	7.7	6.5
Adjusted Equity ratio	5%	8%	16%
Net Debt / EBITDA	4.3x	3.9x	3.6x
EBITDA / Interest expense	2.0x	2.4x	2.0x

¹Equity + Subordinated loan

Revenue, EUR m



EBITDA and Net profit, EUR m



Arsenal Industrial key brands and partners



Arsenal Industrial bond issue



Term Sheet

Issuer	SIA Arsenal Industrial
Security type	Senior secured bonds
Use of proceeds	Refinancing of CVI bonds
Collateral	Commercial pledge on: <ul style="list-style-type: none"> • Assets of the Issuer; • Assets of Arsenal Industrial OU; • Assets of Arsenal Industrial UAB; • 51% shares of the Issuer
Corporate guarantee	Corporate guarantees from: <ul style="list-style-type: none"> • Arsenal Industrial OU; • Arsenal Industrial UAB
Issue size	EUR 4 500 000
Coupon rate	12-12.5%
Coupon frequency	Monthly
Maturity	2.5 years
Principal repayment	Maturity date, bullet
Call Option	@102% after 1 st year @100% 3 months before maturity
Put Option	In case of Change of Control ¹ @101%
Nominal value	EUR 1 000
Minimum subscription	EUR 100 000
Listing	<ul style="list-style-type: none"> • Nasdaq Baltic First North within 6 months after the Issue Date
Covenants²	<ul style="list-style-type: none"> • Interest coverage ratio of min 1.75x until Q4'2024; and 2.0x from Q1'2025 • Adjusted Equity ratio of min 15% until Q4'2024; and 20% from Q1'2025 • Net Debt / EBITDA of max 4.0x until Q4'2024; and 3.5x from Q1'2025; and 3.0x from Q3'2025 • Collateral Coverage Ratio³ of min 1.25x
Arranger	Signet Bank AS
Legal Advisor and Collateral agent	ZAB Vilgerts SIA

¹ Including FlyCap exit scenario

² Full list of covenants can be found in the Issue Terms

³ Notes Collateral / Net Notes Debt

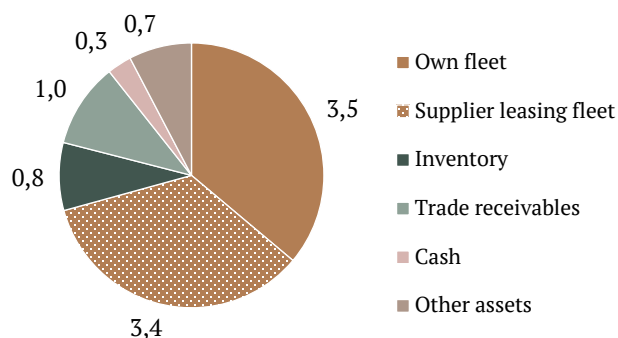
Arsenal Industrial machinery and equipment



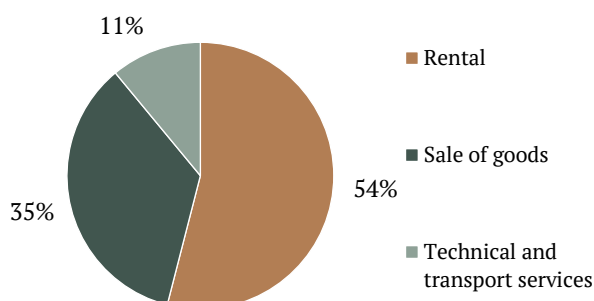
Secured bond issue

- Arsenal has launched its senior secured bond issue to refinance the existing bonds of Polish mezzanine fund (CVI). The goal is to extend and optimize the Group's debt maturity profile, strengthen the capital structure and focus on future growth.
- The bond issue is secured by commercial pledge on the assets of the Issuer and its Baltic subsidiaries and include construction machine park, new equipment for sale and accounts receivable, therefore, covering the bond issue with a comfortable reserve. Additionally, the bonds will have 51% shares of the Issuer as collateral.
- Corporate guarantees will be provided by Arsenal Industrial OU and Arsenal Industrial UAB.
- The Group's leverage has been decreasing during the past 3 years due to growing EBITDA, improving business results and steady repayment of supplier leases. Net Debt / EBITDA is expected to decrease below 3x during FY 2024, as the Group boosts its operational performance and continues repaying its supplier leases.
- The decreased leverage would open up wider financing opportunities in the future, including bank financing.
- The Group has a shareholder loan from FlyCap in the amount of EUR 0.7m, loan principal will be subordinated to the new bonds.
- Arsenal's construction machinery is valued once per year by an independent appraiser and the Group conducts its own stock-taking on a frequent basis. The Group's machinery was valued at EUR 6.9m according to the latest valuation in December 2022.

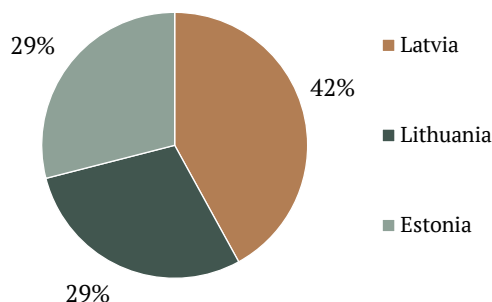
Asset breakdown, EUR m (FY 2022)



Revenue split by segment (FY 2022)



Revenue split by countries (FY 2022)



Source: Arsenal Industrial presentation and financial reports

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When investing funds in bonds, investors undertake the following risks related to debt securities: Notes repayment risk, liquidity risk, delisting risk, price risk, early redemption risk, tax risk, resolutions of Noteholders risk, risk that some Noteholders might have more preferential terms than others, risks associated with the collateral agent agreement, Collateral risk, Risks associated with Parallel Debt, The enforcement of the Collateral will be subject to the procedures and limitations set out in the Collateral Agent Agreement and these Terms of the Notes Issue, The rights of the Noteholders depend on the Collateral Agent's actions and financial standing.

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