iCotton bond issue

Opportunity to invest in secured bonds of one of the largest manufacturers of hygiene products in Eastern Europe

About the Group

- Founded in 2012 in Liepāja, Latvia, iCotton is an international manufacturer of high-quality cotton and personal care products.
- The Group manufactures a wide range of products, including cotton pads, cotton buds, underpads, wet wipes, and sanitary pads. The Group's main brands are Cleanic, Kindii (baby products), and Presto (household cleaning products), which are very well recognized among Polish customers.
- In 2017 iCotton acquired a majority stake in the Polish manufacturer Harper Hygienics SA, listed on Warsaw stock exchange, thus, becoming the leading producer of hygiene products in the Baltics and Poland.
- The Group has production and warehouse facilities both in Latvia and Poland and employs more than 650 people.
- The Group's sole shareholder is its Chairman of the Supervisory Board, Maralbek Gabdsattarov (Kazakhstan) who founded the business in 2012.

Business overview

- Since 2012, the Group has expanded its operations both organically, as well as through acquisitions. As a result of acquisition of Harper Hygienics, the Group has production facilities in both Liepāja, Latvia, with total production area of 9 000 m^2 and 11 production lines, and near Warsaw, Poland with total production area of 13 200 m^2 and 44 production lines.
- The Group sells finished products under its own brands (55% of consolidated revenue) and private label products (32%), as well as semi-finished products (non-woven fabric, 13%)*. Going forward, through the introduction of the new organic product lines, the Group plans to increase the share of its own brands relative to private labels and, thus, also profitability.
- The Group pays significant attention to sustainability and is leading the development of new eco, organic, and biodegradable products globally. In 2022, it also introduced innovative environmentally friendly product lines made of hemp and linen fiber.
- The Group exports a significant part of its production with home markets (Poland and the Baltics) taking up 45% of 2022 revenue, while exports to the EU and other 40 countries take up 55%.
- In 2023, the Group acquired the US based Hempress Hygienics Inc, a trailblazer in hemp fiber technology and sustainable feminine care products, which will allow expansion to the North American market, where the Group sees a significant growth potential.

Financial highlights

- Since Q4 2022 the Group has been firmly on a recovery path from the previous 2-3 years of different unexpected challenges - from Covid-19, which resulted in production and supply chain disruptions, as well as delays in capacity expansion and new product development, to war in Ukraine, which resulted in a surge in raw material and energy prices, the need to make supply chain adjustments and reshuffle the Group's export markets. Since the start of the war, the Group has stopped new exports to Russia and Belarus and has been successful in replacing these markets with others. To illustrate, the share of exports to CIS customs zone markets has declined from 48% in 2021 to 14% in 1H 2023, with Ukraine being the main market in this category (with ca. 50% share).
- The shift towards new markets and the strengthening of its presence in existing markets, combined with the stabilization of raw material prices, has enabled the Group to significantly improve its financial results – the revenue for last twelve months as of end 9M 2023 reached EUR 70.8m (+1% y/y) and EBITDA reached EUR 9.6m (+20% y/y compared to adjusted normalized EBITDA), while EBITDA margin increased to 13.5%, reaching the level of previous years (compared to adjusted normalized EBITDA margin).
- The Group is well positioned to benefit from market recovery, exceeding pre-Covid revenue and EBITDA levels without the need for new significant capital expenditure, thanks to previous investments in new product lines (e.g., launch of feminine hygiene in 2022) and capacity expansion over the previous years.
- As a result of improvements in profitability, the Group's leverage also declined, with Net Debt / Adjusted normalized EBITDA ratio of 2.7x as of end 9M 2023. As most of the proceeds from the bond issue will be used for refinancing of existing debt, the Group's leverage should not change as a result of the transaction.
- The Group has a healthy equity base with an Equity ratio of 36% as of end 9M 2023, as the Group's earnings have been reinvested in the Group's development over the years.

** For the period from 2022 to 6M 2023*
Source: Financial reports and information provided by the management

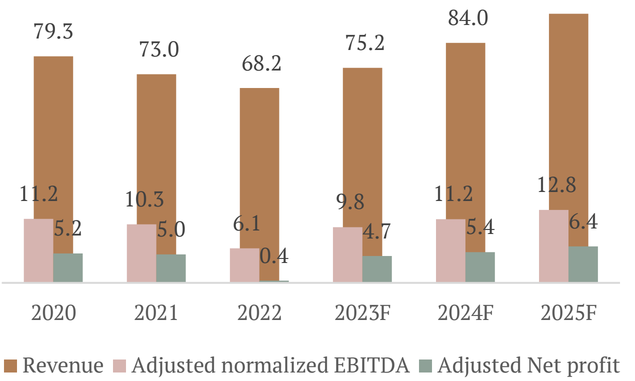
Financial highlights, EUR m

	FY 2020	FY 2021	FY 2022	LTM 9M 2022	LTM 9M 2023
Revenue	79.3	73.0	68.2	70.2	70.8
EBITDA	11.2	8.6	2.4	2.2	9.2
Adjusted norm. EBITDA[1]	11.2	10.3	6.1	8.0	9.6
Adjusted norm. EBITDA Margin	14.1%	14.1%	8.9%	11.4%	13.5%
Net profit	5.2	5.0	-5.3	-5.3	5.7
Total assets	72.3	89.5	89.7	87.7	87.6
Property, plant and equipment	53.3	54.3	53.4	52.5	51.0
Cash	0.1	0.4	0.9	0.9	2.5
Total equity	32.2	35.2	29.6	26.5	31.9
Net Debt	24.2	26.7	27.6	27.8	27.2
Equity ratio[2]	45%	39%	33%	30%	36%
Net Debt / Adjusted norm. EBITDA[3]	2.2x	2.6x	4.5x	3.5x	2.7x

[1] Adjustments made that are composed of war/COVID-19 impact
[2] Total equity / Assets
[3] EBITDA for last twelve months

Revenue split for 9M 2023

Group's financial results and projections, EUR m



iCotton bond issue

Term Sheet

Issuer	**SIA iCotton (Latvia)**
Security type	**Senior secured bonds**
Offer type	Private placement
Use of proceeds	Refinancing and working capital financing
Collateral	• Mortgage on real estate in Poland and Latvia • Commercial pledge on fixed assets in Poland and Latvia • Commercial pledge on inventories in Poland • Commercial pledge on trademarks • Commercial pledge on the shares of SIA iCotton Senior to pledges in Latvia and *pari passu* with ALTUM AIF in Poland
Guarantees	Corporate guarantee from Harper Hygienics S.A. (Poland)
Issue size	**EUR 15 – 20 million**
Coupon rate	**5.5% -6.5% + 3M EURIBOR**
Coupon frequency	Quarterly
Maturity	**3.5 years**
Principal repayment	Maturity date, *bullet*
Call Option	@102% after 1^{st} year, @101% after 2^{nd} year, @100% 3 months before maturity
Nominal value	EUR 1 000
Minimum subscription	**EUR 100 000**
Listing	Nasdaq Baltic First North within 6 months after the Issue Date
Covenants[1]	• Equity ratio min 25% • Net Debt / EBITDA max 3.5x • DSCR ratio min 1.2x • Change of control (Put option)
Arranger	Signet Bank AS
Legal Advisor/ Collateral Agent	TGS Baltic SIA
Targeted issue date	November 2023

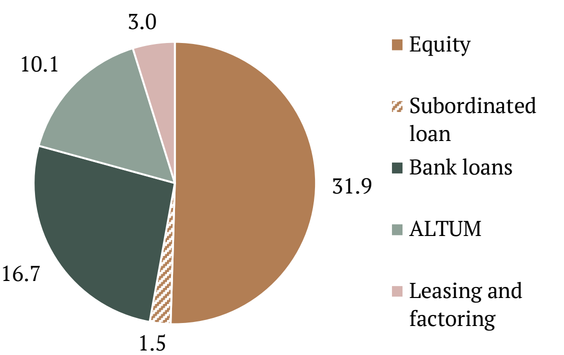
Key investment highlights

1. **The largest manufacturer of hygiene products in the Baltics and Poland.**
2. **Secured transaction – collateral value covers the Group's secured borrowings more than 3x.**
3. **Well-positioned for future growth thanks to strong brand, previous investments in new production capacities and new product development for different consumer categories.**
4. **Global leader in the development of innovative, eco-friendly and sustainable product lines.**

Funding profile and the bond issue

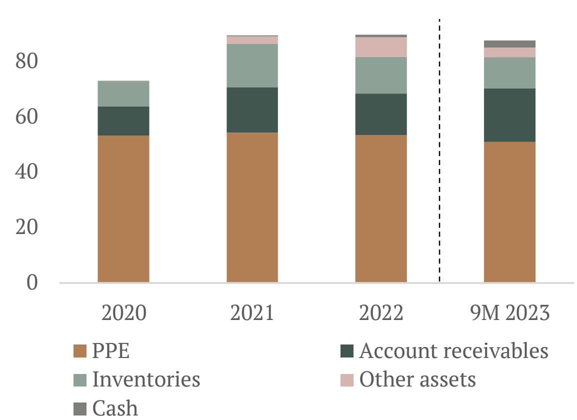
- With the bond issue the Group plans to refinance its bank loans in order to simplify its financing structure and free up additional cash flow for working capital needs.
- As of end of 9M 2023 the Group had borrowings in the amount of EUR 29.8m. Loans from BluOr Bank and mBank constituted EUR 16.7m, while loan from ALTUM AIF – EUR 10.1m (bullet, maturity in Oct 2026), with the remaining EUR 3.0m made up of leasing and factoring. After the bond issue, the Group's borrowings will consist of bonds, loan from ALTUM AIF, and leasing.
- The bonds will be secured with pledges on the Group's assets in Poland and Latvia that will be partly shared with ALTUM AIF (Senior to Altum AIF in Latvia and *pari passu* with ALTUM AIF in Poland)
- Total collateral value is estimated in excess of EUR 95 million (70% of the collateral based in Poland), significantly exceeding the Group's overall secured borrowings.

Funding structure as of 9M 2023, EUR m



Selection of Group's products

Group's assets, EUR m



[1] *Full list of covenants can be found in the Terms of the Issue.*
Source: Financial reports and information provided by the management

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Risk factors

When making an investment in bonds, investors undertake certain financial risks. The main risk factors that influence SIA iCotton are: The Group is exposed to changes in macroeconomic and political conditions, Global pandemic could have an adverse impact on the Group’s operations, The Group’s business could be adversely affected by the changes in regulatory environment, The local tax regime may change, Increasing competition could have an adverse effect on the Group’s operations, Supply interruptions of raw materials could have an adverse effect on the Group’s operations, Manufacturing disruption could have an adverse effect on the Group’s operations, Unsuccessful product and geographical expansion could have an adverse effect on the Group’s operations, Damage to the reputation of the Group could have an adverse effect on the Group’s operations, The Group is exposed to IT system and process risk, The Group is exposed to counterparty credit risk, The Group is exposed to inventory management risk, The Group’s financial leverage might increase in the future, The loss of key personnel members of the Group could have an adverse effect on its business, The Group may not be able to attract and retain appropriately skilled employees which may have an adverse effect on the Group’s operations, The Group is exposed to operational risks, The Group is exposed to product liability claims risks, The Group is exposed to sanctions risk.

When investing funds in bonds, investors undertake the following risks related to debt securities: repayment risk, no limitation on issuing additional debt risk, liquidity risk, delisting risk, price risk, early redemption risk, tax risk, resolutions of investors risk, risk that some investors might have more preferential terms than others, risks associated with the Collaterals.

The risks indicated in this section may reduce SIA iCotton ability to fulfil its obligations and cause its insolvency in the worst-case scenario. This section may not feature all the potential risks, which may affect SIA iCotton.