Presentation on ABB Offerings (re: Íslandsbanki)

November 2022

STJ ADVISORS

The STJ – ISFI Advisory Team

Unmatched Independent Equity Advisory & Strategic Research Expertise

Presenting team members

SIMON NORTH
Co-founder and CFO

- 34 years of experience working in Equity Capital Markets executing and advising on share offerings
- Lead partner on Íslandsbanki IPO and ABB offerings
- Lead partner on Marel re-IPO and engagement
- Qualified as a solicitor of the Supreme Court of England and Wales (1989)
- LLB (Honours), London School of Economics and Political Science (1986)

BRUCE HILLAND*
Partner

- 38 years of experience working in Equity Capital Markets executing and advising on share offerings
- Lead partner on NN Group, Royal Mail
- MBA (Honours), University of Toronto (1984)
- Bachelor of Commerce (Honours), University of British Columbia (1983)
- Adjunct Professor, Applied Financial Markets, UBC Sauder Business School

** Bruce is a Canadian with Icelandic roots; his granafather was awarded Knight cf the Order cf the Falcon in 1962*

Additional senior members of the STJ – ISFI advisory team

Marcus Le Grice, *Deputy CEO*

- 30 years of experience
- Lead advisor on over 50 transactions for companies and governments
- Held Senior ECM positions at Deutsche Bank, Nomura
- Barrister and Solicitor of the High Court of New Zealand
- LLM (Cambridge University), LLB (Canterbury)

Myra Bou Habib, *Head of Nordics & Benelux*

- 12 years of experience, at STJ since inception
- Myra has been involved in the execution of the vast majority of STJ's offerings
- MSc Financial Economics, University of Oxford
- BA Economics & Political Studies, American University of Beirut

- STJ Advisors is pleased to have served as an independent financial advisor to Bankasýsla ríkisins ("ISFI") on the Íslandsbanki IPO in June 2021 and on the sale of shares via ABB in March 2022.
- STJ Advisors has a proven track record of successful ABB offerings, having advised on 58 offerings totalling over €14bn (see Appendix)

Executive Summary

Icelandic Government Objectives

Statement by the Minister of Finance and Economic Affairs Due to the continuation of the sale of the state's shares in Íslandsbanki (Feb. 2022):

- to reduce the state's risk of such a large holding in the financial system;
- to promote effective competition in the financial market;
- to maximize the Treasury's recovery of ownership and sale of shares;
- to promote diverse, healthy and diversified long-term ownership;
- to increase investment opportunities for domestic individuals and institutional investors; and last but not least
- to reduce indebtedness or increase the state's scope for socially profitable investments.

Further objectives contained within the state budget for 2022:

- The year 2022 looks set to be possible sell about half of the state's outstanding shares at a value that was close to the market value m.v. current exchange rate, or about 75 b.kr.
  - ISK53bn raised in this transaction
  - Reduction in holdings in Íslandsbanki ordinary share capital of 22.5% (remaining stake now 42.5%)
  - The successful outcome of the share sale provides a strong basis for subsequent sell downs, to ensure the fiscal objective for 2022 can be achieved and likely surpassed

STJ's Assessment of the March 2022 ABB sale

- It is our professional opinion that pricing of ISK117 was optimal to achieve the stated objectives, based on the market conditions at the time and the dynamic process inherent in the execution of an ABB offering
- We note the ABB was timed to occur just after the dividend record date, providing both additional proceeds in terms of the dividend receipt and in terms of the reference share price which declined less than the dividend amount
- We had all the relevant and required information on the potential demand available to us at the time the pricing decision was made. We believe that attempts to price above ISK117 could have had a negative impact on the success of the offering as well as the aftermarket trading, stemming from a likely reduction in demand, in quantum and quality of investor

The ABB Offering Process

Overview of an Accelerated Book Build Offering

Dynamic process to maximise price/size and have a positive aftermarket

- An Accelerated Bookbuild ("ABB") share sale is an overnight offering which is launched after the close of the stock market(s) where the company is listed, with all investor engagement, order solicitation and confirmation, deal pricing and sizing, share allocations and order confirmations to every investor completed before the market opens for trading the next morning

- The vast majority of large share sales are done using an ABB offer structure

  - The quick-to-market nature of the transaction importantly limits market exposure, with decision to launch after market close and pricing and allocation of shares done on the same day (often late into the evening)

  - This form of sale process generally has a smaller syndicate of banks to better co-ordinate the accelerated execution process (the Íslandsbanki ABB used a relatively large 8-bank syndicate, to broaden domestic coverage of smaller institutions / qualified investors to align with the stated aims of the overall privatisation programme)

- Unlike in an IPO, almost all communication with regards to investor demand indications, price, and transaction sizing is transmitted orally within a compressed time period – rarely longer than 4-5 hours due to the need to complete allocation confirmations before market opening

  - This allows the offering to be priced and sized overnight with shares allocated to investors before the market opens the next morning

  - This mitigates market exposure, especially at times of heightened volatility

Overview of an Accelerated Book Build Offering

Dynamic process to maximise price/size and have a positive aftermarket

- Wall crossing is an established process to de-risk the offering, whereby selected institutional investors are confidentially contacted to gain demand visibility prior to launch. Wall crossing occurs while the shares are trading and so must be done confidentially and expeditiously to avoid any information leakage and downward pressure on the share price
- During periods of high market volatility and low new issue activity, such as 2022, wall crossing has been essential in order to ensure there will be sufficient demand for a successful offering
- An ABB offering is launched as soon as possible following the stock market close, as soon as a press release has been issued announcing the proposed offering
- The lead bank(s) manage the overall order book to advise on decisions regarding pricing indications, messaging to interested investors as to the expected price and size of the offering, and timing for when books should close
- Institutional investors drive the pricing decision, in particular those that have been wall crossed or major investors (such as pension funds) who have done work on the offering and can be relied upon to have submitted genuine orders
  - Lower quality institutional investors (e.g. deal-playing or momentum-driven funds and trading-driven accounts) and private investors collectively cannot be relied upon to set pricing
- The banks first try to build volume of demand, without any pricing indications, to maximise the total potential volume of orders, which provides leverage for then working to get the best price and achieve other objectives of the selling shareholder
- Institutional accounts will usually give an order in terms of size and price – and may stagger the order with lower size at higher prices
- Price messaging will be done at various points during the book building process, and is usually refined and narrowed towards a final price point as the book building period draws to a conclusion

Overview of an Accelerated Book Build Offering

Dynamic process to maximise price/size and have a positive aftermarket

- Once the order book closes, the process begins of scrubbing out duplicate orders (i.e. orders submitted by the same account through multiple syndicate members) and confirming the final book of demand
  - The syndicate banks and selling shareholder then have to determine each investor allocation (fill vs order size) to best achieve a successful placement and positive aftermarket
  - In cases where the selling shareholder continues to hold a material percentage of issued share capital after the transaction, a positive aftermarket is critical to avoid a loss on the holdings and to enable future successful transactions
- It is important to note that there is no certainty that the investor will be willing to take shares at a specified price until that figure has been confirmed
  - This is a challenging aspect of pricing an ABB. For example, if a major shareholder / top quality institutional investor has an order with a ISK100 price limit, there is no assurance that they would agree to pay ISK101
  - After a certain point in the evening, the risk arises that investors cease to be available to confirm their orders (including final price)
- Banks must also interpret what amount of shares the investor really wants or what is the maximum price they will pay, as accounts often inflate orders or show a higher price than what they are in practice willing or expecting to pay, to get a higher allocation
  - This is a common practice in ABB offerings, particularly with deal-playing or momentum-driven investors

Overview of an Accelerated Book Build Offering

Dynamic process to maximise price/size and have a positive aftermarket

- The term "allocable demand" refers to what the banks believe to be the true demand for shares, or the amount of shares that can be placed without creating selling pressure once the market opens the following morning
- All of the book building investor interactions generally occur over a time period of 4 to 5 hours, closing mid to late-evening to give the syndicate banks sufficient time to 'scrub' the order book, agree on the optimal allocation to each investor (done on a prioritised basis favouring long term shareholders), and inform each investor of their allocation before the market opens the next morning
- The allocation framework used for ABB offerings consists of a tiering of investors by their assessed quality as follows:
  - Top tier Long Only investors – the largest allocations relative to order sizes
  - Second tier Long Only / fundamental investors – lower allocations relative to order sizes but a lower percentage
  - Third tier Long Only and momentum-driven investors – the lowest allocations relative to order sizes
- The average percentage for each tier is a function of demand and supply, including the overall quality of the investors in the order book. Investors that do not qualify for the third tier will generally not be allocated any shares
- Within each tier, there may be a high degree of variability on an account-by-account basis based on the quality and background of each order in relation to the specific transaction
- While every ABB situation is unique and pricing / sizing / allocation decisions must be based on the specific circumstances and prevailing market conditions, the lead syndicate banks will generally want to price/size an ABB so that the demand is not less than two times (2x) the total offer size at the final agreed price
  - A slightly lower coverage level can be contemplated where the book of demand is of higher quality
  - Generally, the higher the oversubscription rate and the higher the quality of investors in the order book, the better the shares will trade post-offering
- Pension funds and other high quality institutional investors are relied upon to determine the ultimate offer price and size, given the high quality of these accounts and their reliability to support the share price in the after market

Íslandsbanki ABB Summary

Market Context

- A successful ABB balances the objectives of setting the price and size of the offering, within the context of prevailing market conditions, and the quality of the order book
  - Pricing and share allocations are optimised to deliver a positive aftermarket and supportive shareholder base
- The ultimate pricing level of the offering was extremely successful especially given market conditions, with heightened market volatility since the invasion of Ukraine and a sharp reduction in new issue volumes
  - Only 3 ABBs above €100m completed during the 3 weeks prior to launch with European ABB volumes down 66% during Q1 2022 vs the prior year
  - As measured by the VIX Index, volatility was well above 25 throughout the period from the launch of the Russian invasion; levels at which equity offerings become extremely challenging / impossible
  - Since the offering, the Government of Ireland sold down a much smaller stake in AIB (4.95% vs 22.5%) on June 27, 2022. Despite the much smaller size (49 days Average Daily (Trading) Volume ("ADV") vs c. 300 days), the deviation from closing price was c. 50% wider (6.6% vs 4.1%) and shares came under selling pressure the following morning, dropping below the offer price
- Our experience would suggest that had we attempted to price above ISK117, we risked losing a meaningful portion of orders, including those from key, high quality investors and existing hareholders
  - It is always a judgment call as to how investors may respond to any price increases attempted during book building, and to the possible loss of support of the offering / reduced orders from key institutional investors
  - This also applies to qualified investors, which totalled a large proportion of the final order book and showed the largest increase in size once the deal was fully subscribed
- The international investor base was important to the success of the transaction, in the context of the stated aims of the privatisation process
  - The offering facilitated more international investment into Iceland, attracting c. $230m of demand at the final agreed price from international investors

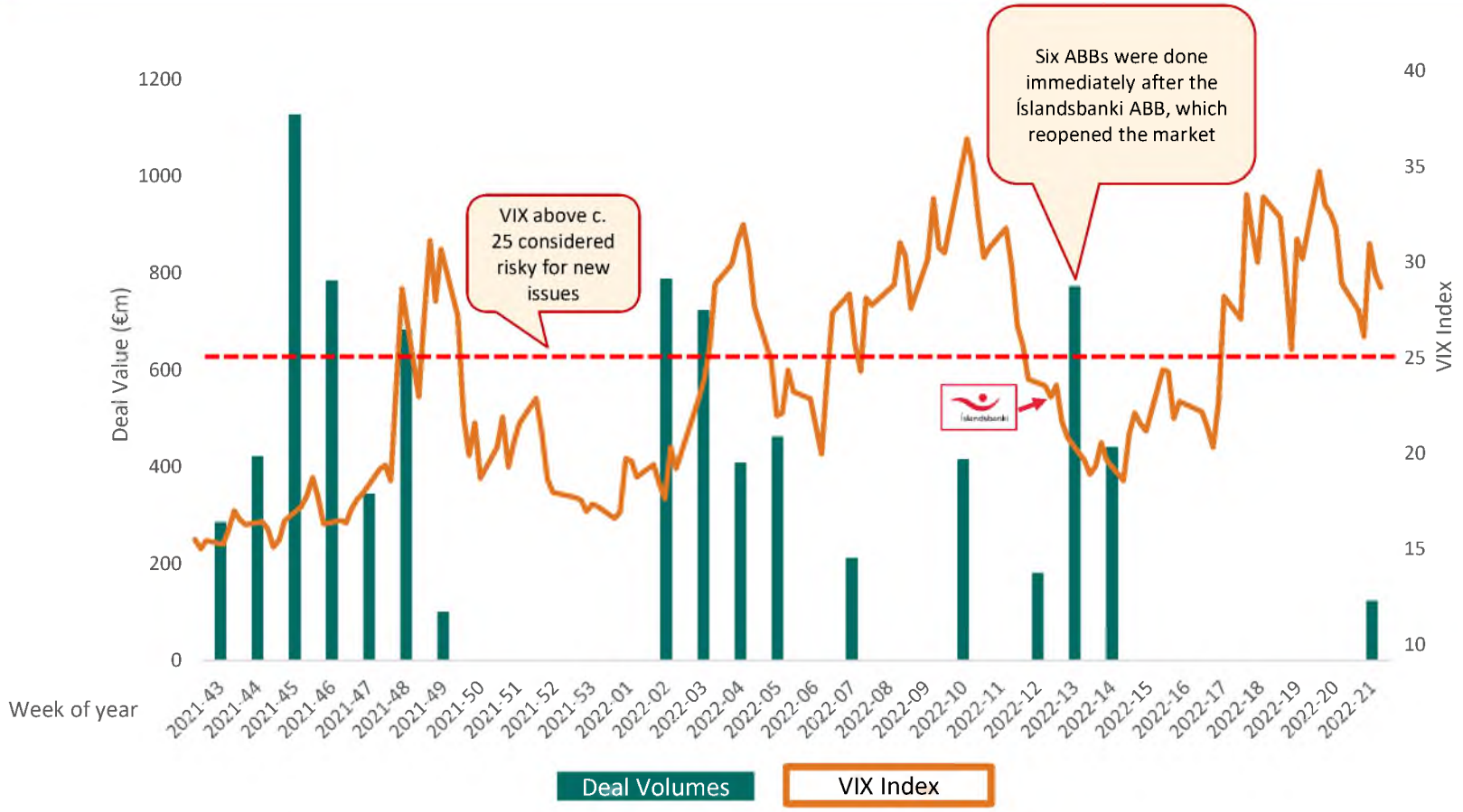
Market Context

- This ABB offering was a significant landmark for Icelandic Capital Markets given its large size, execution structure and timing as the first major Secondary ABB in Europe since the Russian invasion of Ukraine
- This was the first ever wall crossing for an ABB in Iceland, completed over 2 days and, critically, was carried out without any information leaks[1]
- The transaction was the largest relative size of a European Secondary ABB (by Average Daily Trading Volume "ADTV") since September 2021
  - The c. 300 days' ADTV (average daily trading value) was far larger than the EMEA average of c. 40 days
  - The transaction represented more than 10 days trading volume of the entire Nasdaq Iceland stock market
- The transaction achieved the tightest deviation from closing price for an ABB over 200 days ADTV since 2019, in spite of being upsized from 15% of issued share capital at commencement of domestic wall crossing to the final size of 22.5% - an increase of 50% which is large by market standards
- The deviation achieved also compares favourably when taken in the context of the challenging prevailing markets at the time of the offering – the 4.1% deviation was less than half the European average deviation for Secondary ABBs since the beginning of the Russian invasion of Ukraine

[1] The €1.8bn ABB sale of Nordea shares by Sampo on Apr. 29 was done at a 1.8% deviation to the closing price. However, the share price declined by 4.85% during trading on April 28 while wall crossing was underway, so the effective deviation is likely in excess of 6% on this clean-up trade

Typically Lower Issuance Volumes During Heightened Market Volatility

Weekly (32 weeks to June 2022) European Secondary ABB Volumes (€m) vs. the VIX Index



Source: Bloomberg, Dealogic for transactions €100-500m deal value

Appendix

- STJ Track Record of Highly Successful ABB Offerings
- Summary Comparison – Íslandsbanki vs. AIB Group ABBs

STJ has a Proven Track Record of Highly Successful ABB Offerings

Demonstrated ECM expertise to optimise an offering

- **ABB Expertise:** 58 offerings advised to date totalling over €14bn
- **Better Pricing:** Average deviation of 4.1% - lower than market average
- **Larger Size:** c. 110 days of Average Daily Trading Volume - larger than market average)

Selected STJ-advised ABB offerings	
HAFNIA Member of BW Group	**US$185m ABB sale for Oaktree** *(September 2022)*
Íslandsbanki	**US$408m ABB sale for the Government of Iceland** *(March 2022)*
IG	**£121m Clean up trade of TCV's shareholding in IG Group** *(January 2022)*
FLUIDRA	**€1.3bn raised for Rhône Capital, at increasingly higher prices** • €356m ABB *(Sept. 2021)* • €300m ABB *(May 2021)* • €425m ABB *(January 2021)* • €200m ABB (*November 2020)*
Munters	**$430m raised for Nordic Capital, at increasingly higher prices** • SEK1.3bn / $136m ABB *(February 2020)* • SEK1.7bn / US$181m (*November 2019)* • SEK1.1bn / US$117m *(June 2019)*
WIZZ	**£500m ABB for Indigo partners** (*February 2020)*

Summary Comparison – Íslandsbanki vs. AIB Group ABBs

	Islandsbanki	AIB Group
Date	22nd March 2022	27th June 2022
Deal sizing:		
Deal size ($m)	408	322
% Co sold	22.50%	4.95%
# days ADTV (3-month)	c. 300	49
Pricing		
Previous close	ISK 122	€2.44
Offer price	ISK 117	€2.28
Deviation	-4.1%	-6.6%
Previous high	ISK 130.80	€2.60
ABB price % vs. previous high	-6.0% (Including dividend)	-12.3%
Performance		
Day 1 close	ISK 124.6	€2.364
Gain vs. prior close	2.1%	-3.1%
Trading volumes		
Offer size (shares)	450,000,000	133,700,000
Day 1 trading volume (main exchange) / % offer	460,406,281 / 102.3%	142,355,542 / 106.5%
Day 1 volume (net of ABB volume) / % offer	10,406,281 / 2.3%	11,655,542 / 8.7%
Day 1 trading (other venues) / % offer	n/a	156,341,517 / 116.9%

The table to the left compares Íslandsbanki's ABB with the June 27th sale of AIB Group by ABB by the Government of Ireland. The AIB Group ABB was for a much smaller % of the bank (4.95% vs. 22.5%) and % of free float (16.3% vs. 64.3%). Despite a much smaller relative size in terms of days' trading volume (49 days vs c. 300 days), the AIB Group ABB priced at a deviation from closing price that was more than 50% wider than the Íslandsbanki ABB (-6.6% vs. -4.1%). The AIB Group share price also failed to recover to the prior close on the first day of trading, closing down 3.1% whereas the Íslandsbanki share price closed 2.1% higher than the previous day's close on the first day of trading.

The first day of trading for the AIB Group ABB saw high volumes off-exchange. A total of 156m shares traded on venues other than the main Dublin listing (as reported by Bloomberg), with total trading in excess of the offer size. By contrast, day 1 trading for the Íslandsbanki ABB totaled only 2.3% of the offer size, demonstrating the quality of the book of demand and allocations for the Íslandsbanki ABB.

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