

Magnatas Portfolio: Investment Prospectus

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Business Description

Magnatas Portfolio is the investment portfolio managed by Magnatas.lt, the largest domaining agency in Lithuania. At the end of 2010, Magnatas Portfolio consisted of 373 .lt domains, which made it one of the major yet compact premium domain portfolios in the Lithuanian domaining market.

The main commercial activity is acquiring and selling vocabulary .lt domains. Most new domains are acquired using our own domain backordering system. The remaining part is acquired from other portfolio managers experiencing liquidity issues and fire-selling premium domains. Magnatas Portfolio performs the acquisitions that allow high margin sales, we do not buy well standing domains that are sold at a market value. This limits the capital needed, provides us with higher margin and improved liquidity.

The side activity is acquiring the domains related to registered brands and protecting them under our portfolio. We perform this to later ease the domain acquisitions by their respective brand holders and increase transparency in the after-market domain sales. This is performed as social business, i.e. we sell such domains at cost. Such social business increases our credibility in the market, provides us with more positive testimonials from the well-known clients and increases the internal resources utilization.

Business Risks

There are two sources of business risks: .lt registry policy changes and demand changes. First, changes in the domain registration procedures may have an impact on domain acquisitions through backordering, which would limit future acquisitions. Second, domain renewal price changes may increase the portfolio maintenance costs. However, during the recent years the policy has been becoming more open and the prices have been decreasing, and there are no signs for the tendency to revert. Therefore, we consider policy changes risks to be low.

The demand of certain domain groups is affected by economic conditions in the market. However, the portfolio is well diversified among several domain groups; they have different client segments, so turbulence in a specific market does not significantly affect the overall portfolio performance. During the 2008-2009 economic recession orders and their values from small businesses dropped considerably. However, our total profitability increased due to the orders from global corporations, for which the Lithuanian domains values are still too low to consider the acquisition as strategic and plan it accounting the financial standing.

To cope with business risks Magnatas Portfolio keeps a cash reserve enough to cover maintenance costs for at least 1 year. Additionally, we have a few long standing limit-order buy offers for high value domains, acceptance of which would cover maintenance costs for more than 2 years. Therefore, the portfolio is liquid enough to overcome unforeseen circumstances without fire-selling. High liquidity guarantees stable performance and provides us with additional opportunities, i.e. we may use the reserves for unplanned acquisitions when the market conditions are favourable for buying.

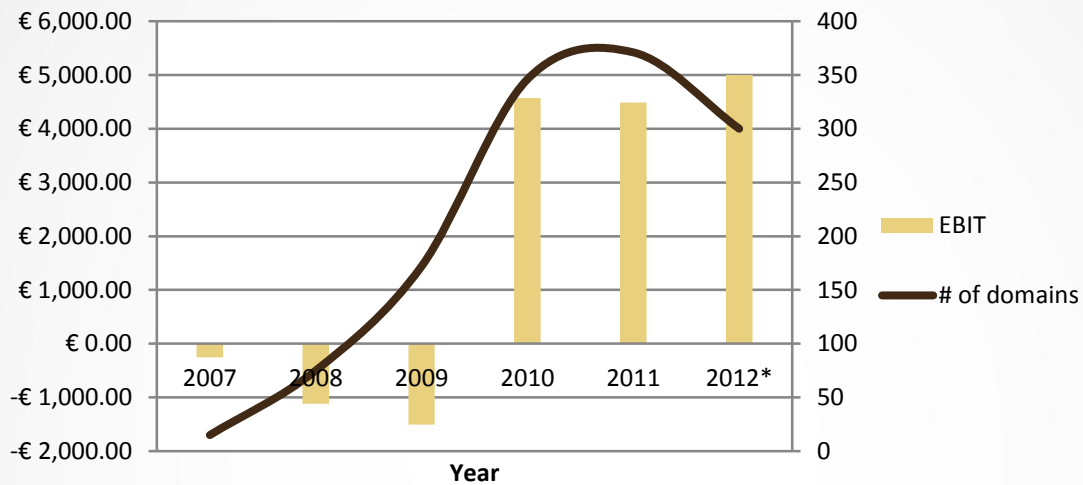
Business Organisation

Magnatas Portfolio is managed by Virtuali erdvė, UAB. Major investors in the portfolio are Virtuali erdvė, UAB, Lithuanian Domainers' Association and GCSB. They directly hold domain registrant rights to most of their domains. No external capital is invested in the Portfolio as debt nor equity.

Currently the portfolio manager is Mantas Pakamorė, the managing director of Virtuali erdvė, UAB. This position can be taken over by any other experienced domainer with no impact on the business concept and organisation. All technical services are standardised and outsourced to Tera.lt; Magnatas Portfolio only performs financial analysis and makes acquisition/sale deals.

Financial Performance

The portfolio has been making sales since the first years of operations, but income was too low to cover large investments in the beginning. In 2010 the portfolio broke even. Last year EBIT was 4,486.20EUR. To sustain liquidity and high margin last year we reduced the portfolio by 64 domains (33 sold and 31 cancelled). Due to the focus on liquidating toxic domains we had more transactions (the portfolio turnover increased from 0.03 to 0.09), but their values were lower. The total contribution remained the same as in 2010.



This year we will continue selling off or cancelling 127 lowest value domains (<300.00EUR) and retain only the middle value (>300.00EUR) and high value (>1,500.00EUR) domains. The middle class domain sales (<1,500.00EUR) are expected to stay stable at about 10-15 domains a year, which would continue to provide the portfolio with the **extractable EBIT of 4-5 thousand EUR**. This assumes keeping the last year costs constant, i.e. reinvesting the same amount to prevent the portfolio from deterioration. Recent years sales were mostly of the low and middle class domains, the highest value domains are still in the portfolio, so there are no reasons for the sales or margin to drop. Additionally we have continuous income from domain lease and advertisements (Google AdSense), which fully covers all administration and system development costs.

From the next year the business is expected to slowly approach its mature phase. As for a stable profitable non-cyclical investment business we consider its costs of capital to be around 12%. Therefore, we continuously inflate domain prices using 1% compounded monthly rate. This adjusts our cash inflows to the present value automatically. Therefore, looking at the horizon of 10 years we assume the **portfolio value to be 40-50 thousand EUR**.

Capital Needed

Virtuali erdvė, UAB is an online ventures company which constantly keeps launching new B2B projects. We run on our own venture capital and use it for start-up seed funding. We divest when the venture turns profitable and can accept external investors. From now on Magnatas Portfolio is approaching its mature phase, so we are interested in transferring our capital to higher risk and higher potential start-ups (see: <http://www.virtualierdve.lt/en/>).

Thus this year we want to divest up to 50% of our equity capital by increasing leverage, i.e. we offer investors to invest in Magnatas Portfolio as debt. The total debt value to be raised is 20,000.00EUR, lots are available in the range of 3,000.00-10,000.00EUR with a compounded interest rate of 6-8%, duration 2-4 years. After 2-4 years the portfolio is expected to enter its stable mature phase, at that time debt conversion into equity or full buy-out at current market value will be possible. We provide specific highest value domains as collateral and the parent company guarantees the loan with all its assets under all ventures.

If you are interested in this debt investment opportunity, please contact Virtuali erdvė, UAB. We will arrange a meeting in our office in Vilnius to explain more about the debt investment and its procedures.

- Principal: 3,000.00-10,000.00EUR
- Interest rate: 6-8% compounded
- Duration: 2-4 years
- Collateral: chosen domain or/and parent company assets
- Guarantee: parent company
- Options: convert into equity at market value at maturity