

US – UA INVESTMENT BULLETIN

WEEKLY STRATEGIC BRIEFING FOR UKRAINIAN COMPANIES SEEKING FOREIGN PRIVATE INVESTMENT

Issue No. 4

March 15, 2026

Page | 1

COMPETITIVE ADVANTAGES ARE BORN WHEN CAPITAL STANDS READY TO GIVE THEM LIFE.

GETTING READY TO RECEIVE FOREIGN INVESTMENT IS BEING PREPARED TO SURVIVE AND TO WIN IN OPEN MARKETS.

From the Editor

The responses to the Issue No. 3 of the US-UA Investment Bulletin from the members of the Association seem to have gained momentum among the regional members and the Board. Just like the questions submitted earlier, the new questions reflect considerable thoughtfulness of context and precision of language. Respondents continue to request a greater degree of concretization in our responses.

For this reason, we shall focus this issue, and perhaps one or more successor issues, of the Bulletin on the fundamentals of international deal-making. In that respect, we hope that the information we share will shed light on valuation and other related, yet distinct and independent, activities of the investment enablement process.

In this introduction, we reemphasize certain postulates. Concrete information, particularly in matters of financial investments, are inherently time-, conditions-, and situation-dependent. The dynamics of multiple factors play a critical role. Swings in financial market behavior, changes in country-specific and global macroeconomic conditions, rearrangements in microeconomic structures of local and global industries, shifts in world order and in local political climates, revisions in legal codes and regulatory environments, recalibration of investors' risk perceptions, priorities, and sentiments – all these exogenous factors have fundamental time-specific impacts on investment preferences and valuations.

This, however, is not a full ensemble of facts that have time-specific effects on valuations and capital availability. A myriad of endogenous factors also have profound temporal influences on values and on the terms and conditions of foreign investments. Among these are the financial condition and financial prospects of companies, management experience, pipeline of new products, intellectual property, production capacities, labor force qualification, etc. Accordingly, it is not practical to discuss concreteness without any concrete data on the one hand and without any concrete financial analysis of all relevant facts, on the other. In the absence thereof, any concreteness is likely to be misleading and would benefit neither members nor potential investors.

Moreover, as noted previously, disclosing even an approximate value outside the context of a strictly defined valuation engagement is not merely imprudent, but often impermissible under the standards of ethical practice of virtually all professional organizations that certify valuation experts. Nor is it ethically permissible for a valuation expert to accept any engagement for which the expert's compensation by any method is based on the valuation-related results. Certifying a statement of value for which he is paid in equity in the subject of the valuation engagement is the cause for revocation of the expert's certification and may lead to legal liabilities. In future issues of the Bulletin, we will examine in greater detail the ethics standards of American valuation organizations and discuss the world-wide regard of certified valuations by American experts as truly unbiased and independent opinions of value.

Michael A. Shwartsman

Advisor to the President, Association of Taxpayers of Ukraine,
President, American Business Valuation Group

COMPETITIVE ADVANTAGES ARE BORN WHEN CAPITAL STANDS READY TO GIVE THEM LIFE.

GETTING READY TO RECEIVE FOREIGN INVESTMENT IS BEING PREPARED TO SURVIVE AND TO WIN IN OPEN MARKETS.

QUESTIONS AND ANSWERS

What are the terms and conditions of American Investors?

Based on the types of questions received from our audience, we have concluded that many respondents are somewhat unclear as to what typical activities and what typical actors get involved in consummating international investment deals. This is quite understandable. Most of taxpayers who own their companies have established such firms from scratch. Most managers whom such owners hire to manage operating activities of these companies are likely to have no experience of buying or selling companies or investing in somebody else's enterprises. We know this to be true in the United States. And we believe that it also must be true and in Ukraine.

For these reasons, we now begin a new series of exposés on critical activities and actors for attracting and securing international investments. These exposés will provide answers to many questions that are on the minds of the Association members.

Let us first address a typical concern of many respondents: what exactly would an American investor want for investing his cash in a Ukrainian company? But even before answering this question, let us discuss what size of a Ukrainian company an American investor would consider to invest his money in.

In order to answer this question, let us assume that an "average" investor would have reasonably modest investment funds of, say, \$3 million. Well, in reality, an investor with available capital of \$3 million will have, probably, only \$2.5 million in cash to invest in a Ukrainian company. This is because the investor is likely to budget about \$0.5 million to be spent on advisors, attorneys, business development and other finance, accounting, and tax professionals that would help him with the Ukrainian investment. So, what size of a company would be attractive to an American with \$2.5 million net investment funds?

The only answer that can be given to this question is ... "It depends". There is no arithmetic rule that says that \$2.5 million can buy a specific percentage, $x\%$, of interest in the equity of a company whose enterprise value is $\frac{2.5}{x} \times 100$ million US dollars. The only predictive certainty that there can be is that there is **NO** certainty at all what size of a company will attract \$2.5 million investment. Individual investor's preferences for the types of investments, his risk aversion attitudes, his individual expectations of returns, his assessment of security of the invested capital, his estimation of the investment's liquidity and marketability, his personal judgement as to the legal restrictiveness of dividend and capital repatriation, and many-many other endogenous and exogenous factors figure into investor's decisions that a particular company is worth to be receive his money.

Having said all of that, we can only estimate that everything else being reasonably neutral, a modest typical investor would seek a target company whose enterprise pre-money valuation might be in the range of \$5 million to \$25 million.

What would an investor want to receive in return for his investment? Again, the answers depend on the particular preferences of a particular investor. We can only state with high degree of likelihood that he would

COMPETITIVE ADVANTAGES ARE BORN WHEN CAPITAL STANDS READY TO GIVE THEM LIFE.

GETTING READY TO RECEIVE FOREIGN INVESTMENT IS BEING PREPARED TO SURVIVE AND TO WIN IN OPEN MARKETS.

want to be very well compensated for giving up his cash and for absorbing risk and uncertainty of investing in a foreign country. In our experience in international deal-making, we have seen that American investors demanded greater than normal share of interest in the foreign company common equity (versus domestic company), more voting power, non-dilution covenants, his personal shareholder agreements, seats on the board of directors for himself and his finance or legal associates, a preferred convertible equity with specific dividend requirements rather than common equity, or / and many other forms of financial compensation and legal protections.

In view of what we have just discussed, there are two critical facts of international investments that must be recognized:

- (a) there are no “standard” terms and conditions of investments in foreign companies; everything, and we mean absolutely everything (other than the structures of international contracts), is subject to specific negotiations between an investee and an investor under particular circumstances and external conditions;
- (b) all terms and conditions of private investments are typically subject to nondisclosure clauses of investment contracts, shareholder agreements, investment memoranda and prospectuses, and other legal and financial investment documents.

These two facts make it impossible to present to Association members a set of statistical distributions of invested amounts, equity values, company sizes, and terms and conditions of international deals. But what we can do instead is to discuss with you that, if your companies need and want foreign investments, what it would take to get it. However, it would be your own assessments whether or not your firm should expand time, money, and effort to get foreign investments.

Who are the Key Actors who Get Involved International Investment Projects?

Besides the investor and the investee, there are other critical actors that play very important roles in attracting and consummating international investment deals. Some of the actors are the respective agents of the investor and the investee. Some actors are independent entities that provide services to one or the other parties in the investment deal. Below, we present to you a list of such actors and briefly describe the key activities that they engage in.

Opportunity Brokers

- Opportunity/Deal Brokers are the key actors involved in putting a deal together from the very beginning. The broker knows people. He knows people who have money to invest and who have developed preferences for investing in risky ventures. He also knows people that own opportunities and that need funds to realize them. So, the deal broker identifies potential investors and potential investees, and perform his magic in matching an investor with an investment opportunity.

US – UA INVESTMENT BULLETIN

WEEKLY STRATEGIC BRIEFING FOR UKRAINIAN COMPANIES SEEKING FOREIGN PRIVATE INVESTMENT

Issue No. 4

March 15, 2026

Page | 4

COMPETITIVE ADVANTAGES ARE BORN WHEN CAPITAL STANDS READY TO GIVE THEM LIFE.

GETTING READY TO RECEIVE FOREIGN INVESTMENT IS BEING PREPARED TO SURVIVE AND TO WIN IN OPEN MARKETS.

- The magic of the deal broker is not only in matchmaking. The deal broker works closely with the opportunity owner on preparing deal memoranda for privately placed deals or on prospectuses for large open market deals. Both of these documents, in essence, are high-impact marketing brochures that present the investment opportunity in order to raise interest among potential investors. An important section in the private placement memorandum (“PPM”) and in the Investment Prospectus is the section on pricing of an investment. We will discuss the contents of these documents in greater detail in the next issue of the Bulletin.
- Opportunity Brokers are compensated for their services either by the Investee, or by the Investor, or by both.

Investment Valuation Experts

- The section in the PPMs and Investment Prospectuses dealing with pricing of investments relies on valuation of these investment opportunities. Normally, the firm seeking investment hires an independent valuator who develops an unbiased estimate of the value, which then is used as the basis for establishing an offer price of the investment. In international investment projects, credibility of the valuation service providers is of the great significance because the value estimates must be reliable as to avoid any potential legal challenges due to material misrepresentation.
- Frequently investees hire the services of valuation experts as value enhancement advisors. The value advisors perform two related functions. They assist managers of investee companies on establishing value drivers as key performance indicators. They also guide the process of implementing value enhancement measures for the entire operational chains. These activities aim to increase attractiveness of the company as an investment target as well as to reduce costs to the present shareholders for the expected concessions to investor demands.

Independent Accounting Auditors

- Commonly, international PPMs contain financial statements that are developed by the recognized American or International Generally Acceptable Accounting Standards (“GAAP”). Investment Prospectuses not only contain detail financial reports, but also certification letters of independent auditors.

Legal Advisors

- Both the private placement memoranda and investment prospectuses contain legally required statements, significant company policies, descriptions of key executives, etc. It is thus common that the legal team of the investee participates in the entire process from attracting investments, to review of legal materials, negotiations with the investors, preparing investment-related contracts, shareholder agreements, company policies, etc.

US – UA INVESTMENT BULLETIN

WEEKLY STRATEGIC BRIEFING FOR UKRAINIAN COMPANIES SEEKING FOREIGN PRIVATE INVESTMENT

Issue No. 4

March 15, 2026

Page | 5

COMPETITIVE ADVANTAGES ARE BORN WHEN CAPITAL STANDS READY TO GIVE THEM LIFE.

GETTING READY TO RECEIVE FOREIGN INVESTMENT IS BEING PREPARED TO SURVIVE AND TO WIN IN OPEN MARKETS.

The team of an American investor often comprises the following actors:

- International Business Development (“IBD”) Executive

This actor can be an investor himself. Usually, this individual is responsible for working with the opportunity broker on reviewing and selecting opportunities, of managing the entire investment engagement process and personnel.

- Corporate Finance Analysts usually build and run financial models of the target company’s business scenarios
- Operational advisors who help the investor or IBD executive to ascertain efficiencies and effectiveness of operating activities.
- Accountants review and examine the accuracy and trustworthiness of financial statements of the investee. They also reconstruct and normalize investee’s financial statements in the foreign GAAP and create financial statements under the US GAAP
- Domestic and Foreign Attorneys who specialize in US investment and general business contracts as well as in the law, regulations, business transactions, and investments of the investee’s home country. The legal team often also gets involved in negotiating the details of investment agreements and auxiliary contracts.

In the next issue we will discuss some of the specifics topics that are required to appear in the Private Placement Memoranda and in Investment Prospectuses.