



## Frequently Asked Questions

### ESR To Acquire ARA Asset Management (including LOGOS)

*Creating APAC's Largest Real Asset Fund Management Platform Powered by Logistics and Data Centers ("New Economy")*

#### 1. What is the Proposed Transaction?

ESR has entered into the Acquisition Agreement pursuant to which ESR will acquire 100% of the share capital of ARA for US\$5.2 billion. The Proposed Transaction is subject to ESR's shareholders' approval at an extraordinary general meeting which will be convened in due course, and is subject to customary closing conditions including, amongst others, regulatory approvals.

Executive founders of ESR, Oxford Properties / OMERS and Jingdong (which collectively represent all the shareholders who have directors on the ESR board) with an aggregate shareholding of 46% have provided irrevocable undertakings to vote in favour of the Proposed Transaction.

#### 2. What are the proposed terms of the Proposed Transaction?

ESR will acquire 100% of the share capital of ARA via a 90/10 stock/cash transaction, which comprises:

- **Stock (90%)<sup>1,2</sup>:** US\$4.7 billion in new ESR shares ("Consideration Shares") and Vendor Loan Notes<sup>3</sup> ("VLN"); and
- **Cash (10%):** US\$519 million in cash funded by US\$250 million share placement<sup>4</sup> to SMBC and US\$269 million debt / internal resources.

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<sup>1</sup> ESR has the option to fund up to an additional US\$1,038 million of the transaction consideration with cash by way of an issuance of new shares, thereby reducing the number of Consideration Shares and VLNs to be issued to the sellers under the Acquisition Agreement.

<sup>2</sup> Consideration Shares and VLN to be issued at price of HK\$27.00 per share representing a premium / (discount) of (2.5%), 1.9% and 5.7% to last close on 4 August 2021, average closing price from 5 July 2021 to 4 August 2021 and average closing price from 5 February 2021 to 4 August 2021, respectively.

<sup>3</sup> VLN are non-voting, perpetual, zero-coupon, convertible to new ESR shares upon satisfaction of certain conditions, including the condition that no mandatory general offer is triggered for ESR.

<sup>4</sup> Strategic partner, SMBC, will subscribe to a US\$250 million placement of new ESR shares at an issue price of HK\$25.35 per share to reinforce its commitment to the Enlarged Group.

### 3. What are the benefits arising from the Proposed Transaction?

The Proposed Transaction will create the largest real estate and real asset manager in Asia Pacific with a combined AUM of US\$129 billion which will be powered by the leading New Economy platform that generates over 80% of the Enlarged Group's 2020 EBITDA.

The Proposed Transaction brings numerous benefits including:

- **APAC's largest real asset manager:** The Proposed Transaction creates APAC's largest real asset manager with a total AUM of US\$129 billion, which is more than 2x the next largest manager in APAC, and amongst the top three largest listed global real estate investment managers. ESR expects that the increased scale will attract new investors to ESR (including ARA's 59 capital partners that are new to ESR) as global capital partners are seeking to deploy more capital with fewer managers.
- **Driven by a New Economy powerhouse:** Addition of LOGOS, the 2<sup>nd</sup> largest pure play New Economy real estate platform in APAC, creates a New Economy powerhouse with over US\$50 billion of combined AUM, 29mm sqm of projects in operation and under development, the largest logistics pipeline of 7.7 million sqm, market leading (#1 or 2) positions across 10 markets in the region (that represents over 95% of GDP) and a total data center pipeline that represents over 1,200 MW of capacity across the region. Additionally, over 80% of the Enlarged Group's EBITDA will be from the New Economy platform.
- **Enhanced income resilience:** Over 60% revenue contribution from fund management and over 50% of AUM in perpetual and core funds, contributing to greater earnings visibility. This, combined with potential synergies, enhance the ability to pay a dividend post closing of the Proposed Transaction.
- **Capitalize on fast growth and asset light trajectory:** Fastest AUM growth among listed real estate asset managers globally, while accelerating ESR's asset light trajectory.
- **Best in class management with leading strategic shareholders and capital partners:** Brings together world-class management teams, to extend their leading position in APAC. Through ARA, ESR will also cement relationships with 59 new capital partners and the combined entity will have the support of nine of the top 20 global real estate LPs, which represents over 40% of global capital deployment in real estate allocation.

### 4. Will there be a change in corporate strategy post this Transaction? How should we think about capital allocation for the Enlarged Group?

We believe the Proposed Transaction only reinforces ESR's vision and strategy to build the leading APAC real asset manager powered by New Economy real estate. The addition of LOGOS, ARA's captive logistics and data center specialist, further cements the Enlarged Group's position as the largest "New Economy" real estate platform in APAC with over US\$50 billion of AUM, 7.7 million sqm and >1,200 MW logistics and data center pipeline capacity across Asia Pacific.

In terms of capital allocation, ESR will remain very focused on funding the robust enlarged pipeline of logistics and data centers given its core strategic importance and foundation to the Enlarged Group. The benefit of ARA's REIT and private funds business is that it is very cash flow generative and requires minimal capital investment on an ongoing basis. This allows the Enlarged Group to benefit from the perpetual capital / core vehicle recurring and highly visible fee streams to fund those growth initiatives while also putting the Enlarged Group in a position to return capital back to shareholders going forward.

**5. What are the key financial attributes of the combined entity that make the Proposed Transaction attractive?**

The Proposed Transaction not only deepens ESR's New Economy vision but also expands upon its fund management vision. The Enlarged Group will pursue the same strategy as ESR does now, with over 80% of EBITDA from New Economy segments, while benefitting from increased scale.

The Enlarged Group will:

- Have a combined AUM of US\$129 billion
- Have a significantly enlarged New Economy platform with a 49% increase in AUM, 44% increase in portfolio GFA, 34% increase in 2020 development starts, and 89% increase in "dry powder" for its private logistics funds. Over 80% of the Enlarged Group's 2020 EBITDA would have been contributed by New Economy real estate
- Further enhance the continued asset-light transition of ESR as ARA (and by extension LOGOS) is a very asset light business with market leading returns
- The combined balance sheet will lower the Enlarged Group's cost of debt and further accelerate growth
- Strengthened and broadened network of quality blue-chip tenant and capital partner networks

**6. What synergies will be derived from the Proposed Transaction of ESR and ARA?**

The following potential synergies can be expected from the Proposed Transaction:

- **Revenue**
  - Increased size and scale, particularly across New Economy offerings. The new offerings will include new types of funds (discretionary vs non-discretionary, core plus / value add, pan-Asia vs single country, solar / renewable to support the data center offering, dedicated data center vehicles, etc)
  - Wider geographical coverage of APAC – ability to cover 10 markets in a more efficient and focused manner
  - The Enlarged Group will have over 80% of its EBITDA coming from New Economy (logistics and data centers)
- **Cost of capital**
  - Significant borrowing cost advantages with increased balance sheet and scale; ARA's latest US\$1 billion five-year unsecured loan was financed at a cost of just 1.7%
  - Ability to leverage ARA's deep capital market relationships
- **Capital Partners**
  - Substantially expanded investor base; over 59 new capital partner relationships
  - Ability to capture more wallet share of some of the largest global capital partners
  - Cover >40% of the top 20 global real estate investors by AUM

- **Cost**
  - Reduce and streamline back-office infrastructure costs
  - Leverage ARA's deep asset management capability
  - More cost effective procurement with the enlarged platform

We expect the first three sources to be the most material, with the revenue, cost of capital and capital partner synergies being most immediate.

**7. What can we expect from the dividend policy of ESR post-Transaction?**

The addition of ARA, with its perpetual / core capital and asset-light / high ROE approach, will enhance ESR's earnings resilience and ability to pay dividends post completion of the Proposed Transaction. As previously announced, ESR's long-term objective is to deliver returns to shareholders that are sustainable and in line with the long-term growth of ESR. The ESR Board will review the dividend policy upon completion of the Proposed Transaction, including the merits and timing of future dividend payments.

**8. What has been done to ensure the interests of ESR's non-interested shareholders?**

An Independent Financial Advisor ("IFA") will be appointed to advise ESR's independent directors and the Shareholders on the terms of the Proposed Transaction. The letter of advice of the IFA as well as a letter from the Independent Board Committee will be included in the shareholder's circular which is expected to be dispatched to ESR shareholders on or before 30 September 2021.

**9. Is the Proposed Transaction subject to approvals from shareholders and/or other authorities or regulatory bodies? When will the Proposed Transaction be completed if the necessary approvals are obtained?**

The Proposed Transaction is a major transaction and connected transaction for ESR under the Hong Kong Stock Exchange listing rules. It is subject to a simple majority approval of the ESR shareholders who attend and vote in person or by proxy at the extraordinary general meeting of ESR shareholders ("EGM") to be convened. At the EGM, ESR shareholders will be asked to consider, and if thought fit, approve the Proposed Transaction (including the transactions contemplated thereunder) and the grant of the specific mandate to issue the Consideration Shares, shares on conversion of the VLNs and the shares to be issued to SMBC.

Executive founders of ESR, Oxford Properties / OMERS and Jingdong (which collectively represent all the shareholders who have directors on the ESR board) with an aggregate shareholding of 46% have provided irrevocable undertakings to vote in favor of the Proposed Transaction at the EGM.

The EGM is expected to be held on or about October 2021. The Proposed Transaction is expected to be completed in end-2021 or by the first quarter of 2022.

**10. What is the shareholding breakdown of the strategic shareholders post-completion?**

Post-completion, the co-founders of ESR and ARA will hold approximately 22% of ESR's enlarged share capital, thereby continuing their strong alignment with minority shareholders' interests. The strategic shareholders<sup>5</sup> from both ESR and ARA will hold approximately 38.4% of ESR's enlarged share capital with Warburg Pincus holding approximately 12.3%.

**11. How will the integration process with ARA and LOGOS be conducted?**

ESR has completed multiple large M&A transactions in the past (including the merger that created ESR between e-Shang and Redwood in 2016), thus we are very familiar with the importance of a clear integration plan with robust post deal execution.

We have always prioritised three key aspects of an integration, namely: (i) management reporting lines, (ii) aligning vision and strategy and (iii) streamlining decision making, processes and procedures across the Enlarged Group.

For this Proposed Transaction, we expect the integration to be quite straightforward given the established track record of ARA's REITs and private funds business as well as LOGOS.

The ARA REITs and private funds businesses will be immediately integrated into the Enlarged ESR group with Moses Song, the current Group CEO of ARA Group, reporting to the ESR Group co-CEOs. We think there will be positive revenue synergies, with the growing trend of institutional investors wanting to rebalance their real estate portfolios and reallocate their existing commercial real estate holdings. The ARA REITs and private funds provide a broader platform for the institutional investors to divest to ARA's REITs and private funds, whereby they can then channel the proceeds into new economy real estate funds sponsored by ESR and LOGOS in a closed loop ecosystem. At the same, there will be cost synergies as both companies have a robust corporate infrastructure which can be further streamlined.

For LOGOS, a full integration is planned for the longer term as we intend to fully capitalise on today's "land grab" phase of the logistics and data center sectors and execute on the deep pipeline of projects that LOGOS has on hand. In the meantime, we would still integrate certain aspects of the business which the parties feel would be additive to the execution plan of both LOGOS and the Enlarged ESR Group.

**12. How will the composition of Enlarged Group's management and overall governance change post completion?**

As this is a control transaction for ESR, we do not expect any material changes to the management and to the overall governance of company. Our co-CEOs, Stuart Gibson and Jeffrey Shen, will continue to lead the day-to-day operations of the Enlarged Group's business, along with key ESR Group executives. The senior management of ARA and LOGOS will also join the Enlarged Group to drive its next phase of growth.

Moses Song, who is currently the Group CEO of ARA Group, will continue to lead ARA's REITs and private funds business, and will report to the ESR Group's co-CEOs. The LOGOS co-founders

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<sup>5</sup> The strategic shareholders refer to existing substantial shareholders in ESR, namely Oxford Properties/OMERS and JD Logistics, as well as strategic shareholders from ARA, namely Straits Trading, SMBC and Ivanhoe Cambridge.

will continue to lead LOGOS' business on a day-to-day basis until the business is fully integrated with the Enlarged Group down the road.

From the ESR Board perspective, three new directors will be appointed to the ESR Board, which will be expanded to 14 members. The new directors are John Lim, ARA co-founder and Deputy Chairman, and a representative each from CK Asset Holdings and Sumitomo Mitsui Banking Corporation.

**13. How have the capital partners reacted to the Proposed Transaction?**

We have been overwhelmed by the incredibly positive reaction by our existing capital partners (including those from ARA and Logos) as well as those who are active prospects of the Group.

Global capital partners are increasingly looking to allocate more and more capital to fewer fund managers and we are uniquely positioned to help them deploy more capital across a wider range of product offering than we have previously been able to.

Through ARA, ESR will also cement relationships with 59 new capital partners and the combined entity will have the support of 9 of the top 20 global real estate LPs, which represents over 40% of global capital deployment in real estate. ESR would also be able to build relationships with the many high-calibre intuitional investors from ARA, and this will place us in a better position to raise discretionary capital vehicles, as well as different risk/reward and country-specific/regional fund vehicles that we do not have today.

**14. How have the existing or potential financing sources reacted to the Proposed Transaction?**

Our existing and new potential financing sources have also reacted very favourably to the Proposed Transaction. Given that the Proposed Transaction will be funded with 90/10 stock/cash and SMBC will also subscribe to a US\$250mm share placement, ESR will have a substantially enlarged equity base. Additionally, the financing sources appreciate ARA's perpetual and core capital vehicles, as well as the established operating track record of ARA and LOGOS. In fact, as a part of the Proposed Transaction, ARA has secured a US\$1 billion five-year unsecured loan facility at an all-in cost of 1.7%.

Over time, the Enlarged Group would be able to materially reduce its financing costs.

**15. Does ESR intend to divest any non-core assets post completion of the Proposed Transaction?**

Firstly, ARA is a very asset light business which bears a strong ethos to ESR, and is something that we strongly believe in. We believe that the Enlarged Group will benefit from the suite of perpetual and core capital vehicles as well as the transformational impact that comes with acquiring LOGOS, the 2nd largest "pure play" New Economy real estate platform in Asia Pacific.

The ESR Board and senior management of ESR (including ARA Group's Group CEO Moses Song) will work together to evaluate all aspects of ARA's business to ensure we prioritise and grow the key parts of the business that are most relevant to ESR's vision and strategy while seeking to divest any non-core / non long-term value enhancing aspects of it.

**For further information, please refer to ESR's [announcement](#) and [investor presentation](#) which are available on ESR's website.**