

## **ESR Group delivers strong growth in Fund Management EBITDA propelled by its New Economy focus and asset light strategy**

### **Key Highlights:**

- *Total AUM<sup>1,2</sup> increased 9% year-on-year, propelled by New Economy AUM<sup>1,2</sup> which delivered 13% growth to reach US\$69 billion*
- *Fund Management EBITDA grew 14% year-on-year with a higher margin based on higher fee revenue, strong cost discipline and continued economies of scale; now constitutes over 50% of total Group EBITDA for the first time*
- *Stabilised Group New Economy occupancy remains at 98%<sup>3</sup> ex-China with robust leasing of 2.1<sup>3</sup> million sqm across the portfolio and record weighted average rental reversions of 10.4%<sup>3,4</sup>*
- *Largest New Economy development workbook in APAC, reaching US\$13.0 billion with accelerating development starts of US\$3.8 billion in the first half (on track for another record year) to capitalise on strong customer demand and low vacancies in key markets*
- *Strong balance sheet with a healthy gearing of 27.6%<sup>5</sup> on the back of a continued asset light trajectory with a record over US\$2.5 billion of balance sheet divestments over the past 18 months*
- *Continuing to return value to shareholders with an Interim dividend of HK\$12.5 cents per share (1.6 US cents), implying a 2.2%<sup>6</sup> dividend yield*

**HONG KONG, 23 August 2023** – ESR Group Limited (“ESR” or the “Company”, together with its subsidiaries as the “Group”; SEHK Stock Code: 1821), APAC’s largest real asset manager powered by the New Economy, today announced its results for the six months ended 30 June 2023 (“1H2023”).

The Group delivered resilient financial and operational results against a challenging macroeconomic backdrop. The Group continues to grow its AUM<sup>1,2</sup> which increased 9% year-on-year to US\$147 billion, propelled by 13% growth in New Economy AUM<sup>1,2</sup> to US\$69 billion. Notably, the Group’s Fund Management EBITDA grew by 14% to US\$329 million with a record-high Fund Management EBITDA margin of 82% (up from 78% in 1H2022) supported by higher fee revenue, disciplined cost management and broader economies of scale. Excluding the impact of promotes, Fund Management EBITDA was up by 19% year-on-year. Most importantly, the Group continues to successfully execute on its asset-light transformation as evidenced in the growth of its fund management EBITDA, which was up 14% year-on-year and now represents 55% of its total segment EBITDA (compared to less than 25% at the time of the IPO). Given that the Group reports in US dollars, FX translation continues to experience headwinds with sustained weakness in the Yen, RMB and other key Asian currencies.

Overall revenue increased by 5% from US\$432 million in 1H2022 to US\$455 million in 1H2023, while EBITDA<sup>7</sup> and PATMI<sup>8</sup> were US\$550 million and US\$304 million, respectively. Total EBITDA and PATMI were down year-on-year mainly driven by lower fair value gains in the New Economy Investment and Development segments and the absence of one-off income and gains experienced in 1H2022 as several of the contracted capital recycling events are expected to close in the second half of the year. Additionally, PATMI was impacted by higher interest expense as a result of an increase in base rates.

	1H 2023	1H 2022	Variance (%)
<b>AUM<sup>1,2</sup></b> <b>(US\$ billion)</b>	147	135	9%
<b>Fee Related AUM<sup>9</sup></b> <b>(US\$ billion)</b>	78	71	10%
<b>Revenue</b> <b>(US\$ million)</b>	455	432	5%
<b>Fund Management EBITDA</b> <b>(US\$ million)</b>	329	288	14%
<b>EBITDA<sup>7</sup></b> <b>(US\$ million)</b>	550	670	(18%)
<b>PATMI<sup>8</sup></b> <b>(US\$ million)</b>	304	412	(26%)

Jeffrey Perlman, Chairman of ESR, said: “Despite a very challenging macro environment with continued uncertainty around long-term rates, the Group has positioned itself well to capitalise on this changing environment. We have made real progress in growing our core Fund Management segment on the back of our leading New Economy business and are increasingly realising the economies of scale of our enlarged platform. Our Fund Management EBITDA now constitutes more than half of the Group’s total EBITDA, achieving a major milestone for the Group. When we listed ESR nearly four years ago, we were an asset heavy business with our fund management segment contributing less than 25% of our total EBITDA. Our strong fund track record and best-in-class management team across our key verticals have earned the trust of global capital partners and this continues to propel our fund management segment to new heights.”

Jeffrey Shen and Stuart Gibson, ESR Group Co-founders and Co-CEOs, said: “Our core New Economy business continues to perform very well. On the back of near-zero vacancies and robust leasing across our existing portfolio, we have continued to accelerate our development starts in the first half and are on-track to deliver another record year. Our development workbook (the largest in APAC) hit another record high while our development margins continue to remain healthy. Today, with the substantial change in rates, we are underwriting projects at the most attractive returns we have seen in a long time.

We also continue to accelerate our asset-light trajectory with over US\$2.5 billion of contracted divestments made over the past 18 months including reducing our balance sheet exposure in China. As part of our asset light focus, we recently announced the formation of ESR’s largest-ever RMB Income Fund in China with a total investment capacity of RMB ¥ 10 billion to be seeded with RMB ¥ 2.3 billion of assets from ESR’s balance sheet. We are also in the last stage of regulatory approval to list our inaugural China REIT seeded by a high quality portfolio of balance sheet assets. Since January 2022, we have sold down US\$1.1 billion of China balance sheet exposure and expect to realise an additional US\$0.8 billion by end 2023.

Most importantly, our balance sheet remains well-capitalised with strong liquidity and we are optimistic that the Group is well-positioned in this environment to take advantage of opportunities to further scale up ESR’s business under our three core growth pillars of New Economy, Alternatives and REITs.”

## **Focussed on delivering sustainable value to shareholders**

In line with ESR's goal of a sustainable dividend policy that was established in 1H2022, the Board of ESR recommended the declaration of the third interim dividend of HK\$12.5 cents per share (approximately 1.6 US cents per share) (which implies a 2.2%<sup>6</sup> yield) for the financial year ending 31 December 2023, amounting to approximately US\$70 million which will be paid to Shareholders on 29 September 2023.

In addition, the Group share repurchases totalled US\$71 million (or 1% of market capitalisation) in the first half of the year, translating to a Net Asset Value uplift of US\$0.02 per share.

## **Double-digit growth in fund management earnings and higher margins**

ESR Group's Fund Management segment continued to record strong performance given the deep support from capital partners. Fee-related AUM<sup>9</sup> grew 10% year-on-year to US\$78 billion. Fund Management EBITDA increased by 14% to US\$329 million, reflecting higher recurring fee revenue from growth in fee generating AUM, development starts, promotes and disciplined cost management.

The Group continues to see strong capital flows from global institutional investors who are seeking to strategically rebalance their portfolios into New Economy sectors. The Group raised US\$2.0 billion (approximately 80% is New Economy focussed) through 15 new or upsized funds and mandates in the year-to-date. The Group remains well-positioned to achieve an acceleration in fundraising over the next six months as rates start to stabilise.

Key capital raising commitments in 1H2023 included a further upsize of US\$300 million for the ESR Data Centre Fund (ESR DC Fund 1), seeded by eight projects comprising 560MW of development projects and a sizeable pipeline of additional projects. ESR also entered into a strategic partnership with Indonesia Investment Authority and MC Urban Development Indonesia for development projects in Indonesia.

The Group has US\$19.3 billion of dry powder capital to deploy into new investments of which two thirds is in New Economy.

## **Doubling down on New Economy is paying off with strong underlying operational performance**

ESR leased 2.1 million sqm<sup>3</sup> of space, putting the Group on par to exceed its record year in 2022, with record weighted average rental reversions of over 10%<sup>3,4</sup> for 1H2023 across the portfolio. The leasing momentum for North Asia continues to be very strong with nearly 1 million sqm of new leases and renewals for 1H 2023.

The New Economy segment, spurred by e-commerce growth in APAC, continues to fuel demand for large-scale modern logistics space, representing 72% of new leases signed in 1H2023.

Among the Group's top 10 tenants by income, nine out of 10 tenants are e-commerce or 3PL related.

In 1H2023, the Group achieved an overall occupancy rate of 92%<sup>3</sup>. Excluding China, the Group achieved occupancy rate of 98%<sup>3</sup>, with close to full occupancies in Australia/ New Zealand, India, Japan and South Korea. Although China's post-COVID recovery has been slower than expected, the Group has been very selective with the portfolio in China, with nearly 85% of the assets located in Tier 1 and 1.5 cities where there is long-term growth potential. Demand is still strong in major economic hubs areas in the Yangtze River Delta and the Greater Bay Area, driven by the strong activity in renewable energy industries and cross-border e-commerce respectively.

The Group's weighted average lease expiry ("WALE") (by income) currently sits at 4.7 years<sup>3</sup> and with relatively subdued supply and elevated inflation in many of the markets where it operates, the Group is positioned to capture outsized rental growth with 29% of leases due in the next 18 months.

### **Our large New Economy development workbook underpins continued organic AUM growth**

ESR had over 27.4 million sqm of GFA in development pipeline across its portfolio including a sizeable landbank of over 6.4 million sqm for future development as of 30 June 2023.

The Group achieved a record US\$3.8 billion of development starts in 1H 2023, up 9% year-on-year and US\$6.8 billion on a last-twelve-months basis. The Group accelerated US\$2.2 billion in completions in 1H 2023 and US\$5.7 billion on a last-twelve-months basis demonstrating its ability to deliver at scale. To date, ESR has a development work-in-progress ("WIP") of US\$13.0 billion, making it the largest development workbook in APAC. This provides clear visibility on future fee income for the Group. More than 90% of the development workbook is focussed in Tier 1 gateway cities in ESR's key markets and over 70% of WIP is planned for completion between 2024 to 2026.

Beyond logistics, in 1H2023, nearly 20% of the starts were in data centres and for the full year the Group expects to start up to US\$1.5 billion of data centre projects across key gateway markets, including Tokyo, Osaka and Seoul.

In addition, ESR's strong development pipeline includes a number of landmark projects that are set to create new benchmarks in the market and drive future fees and development profit:

- In Japan, the Group is developing a US\$1.5 billion multi-phase logistics park, ESR Kawanishi Distribution and Techno Park on a 505,281 sqm site located in Greater Osaka, unveiling one of the largest and most significant urban rezoning developments to accommodate Japan's ongoing expansion in e-commerce driven New Economy real estate.
- In South Korea, the Group is developing a US\$800 million logistics park, Busan New Port on a 685,475 sqm land site (which is being reclaimed) located in Greater Busan, the country's largest container terminal and the world's sixth largest port by volume.
- The Group has also started ramping up data centre developments with two data centres totalling 155MW in Japan and South Korea, which are seeded into the ESR Data Centre Fund.
- The LOGOS Consortium is currently developing Australia's largest intermodal logistics precinct, the Moorebank Intermodal Precinct (MIP) in south-western Sydney, into a high quality industrial property and infrastructure including initial approval for 850,000 sqm of warehouse opportunities directly adjacent to key rail intermodal facilities. When fully developed, MIP will have an estimated value of A\$4.2 billion.
- LOGOS has partnered with Amazon Australia and AustralianSuper to develop a second Amazon Robotics fulfilment centre in Melbourne, Australia at the AustralianSuper owned Craigieburn Logistics Estate. The facility, which is estimated to be completed in 2025, will span >209,000sqm across four levels, making it the largest warehouse ever built in Australia, powered by advanced robotics technology. These two deals cement ESR and its subsidiary LOGOS as the "Developer of Choice" in Australia.

In 1H2023, key development starts included ESR's 253,000 sqm Asia Industrial Estate Suvarnabhumi which marks ESR's maiden entry into Thailand, and the 50MW Keihanna data centre in Osaka, Japan. In the same period, the Group completed large-scale landmark logistics assets which included the second phase of ESR Yokohama Sachiura Distribution Centre and ESR Higashi Ogishima Distribution Centre in Greater Tokyo, Pyeongtaek Logistics Park in South Korea, as well as Chengdu Qingbaijiang Cold Chain Industrial Park and Shenyang Hualong Logistics Park in China.

## **Robust balance sheet and strong liquidity to capitalise on New Economy opportunities**

ESR had healthy gearing of 27.6% and a strong balance sheet with US\$3.0 billion in liquidity in cash, loan capacity of committed and undrawn debt facilities, which is sufficient to cover aggregate loan repayments for the next three years without any additional capital recycling. With the contracted divestments announced post 30 June 2023, the Group's gearing will reduce by 170 basis points to 25.9%. The Group also has US\$19.3 billion of dry powder in its active funds of which US\$12.7 billion is from New Economy vehicles.

In addition, given the rising interest rates, the Group has expanded and diversified its funding and capital structure which is crucial for fuelling the Group's long-term growth.

- ESR received an investment grade first-time 'AA-' rating with a stable outlook from the Japan Credit Rating Agency, Ltd in March 2023.
- In June 2023, ESR launched two series of Japanese Yen denominated fixed rate bonds, (i) JPY20 billion 1.163% fixed rate notes due 2026; and (ii) JPY 10 billion 1.682% fixed rate notes due 2030, under its US\$2 billion Multicurrency Debt Issuance Programme.

The Group continues to recycle assets with over US\$2.5 billion of divestments since Jan 2022, achieving three times its annual historical target with a specific focus on crystallising gains from selected China balance sheet assets. The Group is focussed and on track to deliver more than US\$1 billion of divestments in YTD 2023.

In addition, the Group remains very focussed on its asset-light strategy with a 7.4% average co-investment as of 30 June 2023, which meaningfully enhances the Group's tangible return on equity while maintaining sufficient funding capacity across the Group.

## **Laser-focussed on business transformation and simplification anchored by three key pillars of growth**

In driving business transformation and simplification across the Group to deliver long-term shareholder value, the Group has achieved the following:

- US\$25 million of cost savings from the integration of ARA and LOGOS has been substantially completed. The Group expects to create additional synergies as it further integrates various aspects of LOGOS through 2024.
- The Group has engaged in multiple discussions with parties to streamline businesses that have previously been identified as non-core. Up to US\$750 million of non-core divestments have been identified with the plan to redeploy the capital back into core areas of growth. The Group will update the market as these discussions progress.
- As stated above, the Group is on track to divest over US\$1 billion of balance sheet assets in 2023 with greater upside expected if a successful listing of the China REIT is completed this year.
- The Group's development undertaken on its balance sheet has now been materially reduced to 4% at the end of 1H2023 leaving more financial flexibility for the Group going forward.

Centring on the New Economy growth pillar, the ESR Data Centre Fund was recently upsized to US\$1.3 billion with another large global investor, and the Group has cemented its position in Vietnam with a strategic stake in BW Industrial, a growing development platform where ESR also earns fees as it provides best-in-class development, leasing and other fund management services to the venture. The Group has also continued to progress on its first life sciences vehicle.

## **Accelerating positive impact for a sustainable future**

The Group recently unveiled its ESG 2030 Roadmap, built on the foundation and significant progress achieved under its 2025 Roadmap launched in November 2020. The Roadmap reaffirms its commitment

to accelerate long-term sustainable growth across the three key pillars with established targets under the ESG Framework — Creating a *Human Centric* environment that is safe, supportive and inclusive for internal and external stakeholders; Developing and maintaining a sustainable and efficient *Property Portfolio*; and Delivering outstanding *Corporate Performance* for sustained and balanced growth.

Under the social domain, the Group continues to enhance diversity, equity, and inclusion in the workplace, uphold employee health and safety, and enhance community development. As of June 2023, female representation is approximately 45% and the Group has had zero ESR workforce fatalities. To contribute positively to the local communities, volunteer leave was also implemented for all employees to support the Group's community development efforts.

On the environmental front, the Group remains committed to environmental stewardship by developing and maintaining sustainable and efficient buildings, some of which are equipped with EV charging stations. An additional 15MW of rooftop solar power capacity has been installed as planned and the Group is expected to significantly increase its on-site renewable energy generation this year. This will be further accelerated with more rooftop space from its selected assets under the RMB income fund, which will contribute to the overall 1,000MW target by 2030. In addition, approximately 39% of its portfolio of completed directly managed assets has obtained sustainable building certifications and ratings such as LEED, WELL and NABERS. As part of its commitment and transition to a low-carbon organisation, the Group is on track to develop a net zero strategy and decarbonisation roadmap.

The Group strives to maintain the highest standards of corporate governance to ensure accountability, transparency, fairness and integrity. As a signatory to the United Nations-supported Principles of Responsible Investment (UN PRI), the Group has closed a total of seven sustainability-linked loans with approximately US\$4 billion as of August 2023, strengthening its leadership in sustainable financing. The Group also continues to be recognised for its robust and exemplary ESG disclosure practices with outstanding rankings across various ESG benchmarks and global ratings such as GRESB, MSCI and Sustainalytics.

As the Group leads the way forward in the transition to a more inclusive, low-carbon and climate resilient future, its ESG 2030 Roadmap and enhanced Group ESG Policies will sharpen its focus in driving ESG efforts forward as an enlarged Group.

### **Looking ahead**

The Group remains steadfast in its pursuit of its core New Economy focus which also underpins the growth of its Alternatives and REITs' business. The Company is geared towards key long-term macro trends of the New Economy: e-commerce and artificial intelligence for logistics and data centres; the growth of biotech and biopharma for life sciences; and decarbonisation for infrastructure / renewables. These are areas capital partners have un-met demand, particularly across the Asia Pacific region.

Jeffrey Shen and Stuart Gibson, continued: "The Group is navigating a challenging external environment with strong execution, continuing our asset-light trajectory and prudent capital management in our unwavering focus to deliver resilient, long-term earnings growth. This starts on the ground with well-located, high quality projects and assets which support attractive development yields on cost, high occupancies and long-term rental growth, providing attractive returns to our capital partners. Supporting existing and new REITs will continue to be part of our strategy for diversifying capital partnerships, supported by REIT legislation that will continue to open new markets and opportunities across the APAC region.

Although we have leading market share across many of the regions in which we operate, we are still at a very early stage of realising the full potential of our enlarged platform and the economies of scale it provides. With the recent promotions of Josh Daitch to CIO and Matthew Lawson to COO, we are making tangible progress towards our business simplification and transformation goals. We are

delivering on cost savings, we are reducing its on balance sheet exposure and although the environment has not been overly conducive, we are engaging in multiple discussions with parties on several of the non-core assets, but to preserve value, we will not rush these deals.

We continue to remain excited by the future. Although a lot of capital remains on the sidelines, the Group is seeing some of the most exciting underwritten returns we have seen in a while on new deals. ESR's diversified and integrated development and fund management platform underpinned by its experienced in-country teams is well-positioned to take advantage of the opportunities to deliver long-term returns for our capital partners and investors."

## Notes

<sup>1</sup> Based on FX rates as at 30 June 2023.

<sup>2</sup> Includes the reported AUM of the Associates and assumed the value of the uncalled capital commitments in the private funds on a levered basis.

<sup>3</sup> Stabilised New Economy Assets only. Excludes listed REITs and Associates.

<sup>4</sup> Weighted by AUM of each respective country.

<sup>5</sup> Net debt/Total assets.

<sup>6</sup> Based on closing share price of HK\$11.50 on 22 August 2023; on an annualised basis.

<sup>7</sup> Refers to EBITDA, which excluded share-based compensation expense, and in 2022 also excluded transaction costs related to the ARA acquisition.

<sup>8</sup> Refers to PATMI, which excluded the amortisation of intangible assets attributable to the ARA acquisition (net of tax), share-based compensation expense related to ARA, and in 2022 also excluded transaction costs related to the ARA acquisition.

<sup>9</sup> Fee-related AUM excludes AUM from Associates and levered uncalled capital.

## About ESR

ESR is APAC's largest real asset manager powered by the New Economy and the third largest listed real estate investment manager globally. With approximately US\$150 billion in total assets under management (AUM), our fully integrated development and investment management platform extends across key APAC markets, including China, Japan, South Korea, Australia, Singapore, India, New Zealand and Southeast Asia, representing over 95% of GDP in APAC, and also includes an expanding presence in Europe and the U.S. We provide a diverse range of real asset investment solutions and New Economy real estate development opportunities across our private funds business, which allow capital partners and customers to capitalise on the most significant secular trends in APAC. ESR is the largest sponsor and manager of REITs in APAC with a total AUM of US\$46 billion. Our purpose – Space and Investment Solutions for a Sustainable Future – drives us to manage sustainably and impactfully and we consider the environment and the communities in which we operate as key stakeholders of our business. Listed on the Main Board of The Stock Exchange of Hong Kong, ESR is a constituent of the FTSE Global Equity Index Series (Large Cap), Hang Seng Composite Index and MSCI Hong Kong Index. For more information on ESR, please visit [www.esr.com](http://www.esr.com)

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