Embassy REIT

Embassy TechVillage Acquisition – Management Call

November 17, 2020

CORPORATE PARTICIPANTS

Michael Holland - Chief Executive Officer (CEO)

Sachin Shah – Chief Investment Officer (CIO)

Ritwik Bhattacharjee – Head of Capital Markets and Investor Relations

MANAGEMENT DISCUSSION SECTION

Operator: Good evening everyone. A very warm welcome to all for Embassy REIT's Conference Call. Currently, all participants are in a listen-only mode. Our speakers will address your questions at the end of the presentation during the question-and-answer session. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference - Mr. Ritwik Bhattacharjee, Head of Capital Markets and Investor Relations for Embassy REIT. Sir, you may begin.

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Ritwik Bhattacharjee

Head of Capital Markets and Investor Relations

Thank you, operator and good evening everyone.

Thank you for joining us to discuss the transaction Embassy REIT announced earlier today.

Embassy REIT is pleased to announce the proposed acquisition of Embassy TechVillage ('**ETV**') – a 9.2 msf integrated office park located on Outer Ring Road in Bengaluru, India's best-performing office sub-market. Embassy REIT is purchasing Embassy TechVillage asset for a total enterprise value of ₹97.8 billion or $1.3 billion. We will discuss the acquisition in detail a little later on this call.

You may wish to refer to the Acquisition Deck, the Press Release, the Extraordinary Meeting ('**EM**') Notice and also the Transaction Document relating to today's announcement; we have placed these relevant documents on our specially created microsite you can access at http://ir.embassyofficeparks.com.

As always, we'd like to inform you that management may make certain comments on this call that you could deem forward looking statements. Please be advised that the REIT's actual results or actual outcome of the proposed acquisitions may differ from these statements. Embassy REIT does not guarantee these statements or results and is not obligated to update them at any time. Further, there are significant risks and uncertainties related to the scope, severity and duration of the ongoing COVID-19 pandemic, the actions taken to contain and mitigate the pandemic and the direct and indirect economic effects of the pandemic and containment measures on Embassy REIT and on our occupiers.

Joining me on the call today are Michael Holland, our Chief Executive Officer and Sachin Shah, our Chief Investment Officer. They will run you through the proposed acquisition and financing plan after which we will open the floor to questions.

Over to you, Mike.

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Michael Holland

Chief Executive Officer (CEO)

Thank you Ritwik.

When Embassy REIT listed in April 2019, the appeal of the REIT to investors was the large scale, high quality, diversified office portfolio – a predictable and growing net operating income generated from 160+ blue-chip, largely international occupiers, and organic growth coming from contracted rental escalations, embedded mark-to-market on re-leases and accretive on-campus development.

Embassy REIT has performed strongly on all these organic growth levers – since listing, we have leased 2.7 msf area, achieved a 45% mark-to-market spread on 1.4 msf of re-leases, delivered 1.4 msf on-campus development with 60% already pre-committed and launched a further 2.7 msf of new development. During this period, we have distributed ₹27.6 billion or $372 million to our Unitholders and consequently we have delivered a total return of 25% as of November 9, 2020, outperforming key global and domestic benchmark indices.

In addition to our organic growth levers, we had also identified the potential for accretive growth through inorganic acquisitions supported by our strong balance sheet and existing low leverage. Outside the existing REIT portfolio, we had highlighted the potential 43.2 msf Right of First Offer (‘**ROFO**’) pipeline from Embassy Sponsor. And, we had highlighted the potential for additional third-party acquisition opportunities.

As some of you may recall, in November 2019, we received a ROFO invitation from Embassy Sponsor with respect to Embassy TechVillage or ETV, a large scale, high quality campus-style business park in a key sub-market in Bengaluru. Given the uncertain environment earlier in the year due to the pandemic, we had paused our assessment on this potential acquisition in order to reach a level of comfort against a number of additional criteria such as impact on occupier businesses, occupier and leasing sentiment, rental collections, direction of the pandemic, market conditions, among other factors.

We have now reached a level of confidence against these criteria, and we have concluded our analysis of the ETV opportunity.

Earlier today, the Independent Directors of the Investment & Audit Committees of the Board as well as the Board of the Manager to Embassy REIT approved the ETV acquisition subject to requisite Unitholder and other approvals.

Acquisition Rationale

We view the ETV acquisition as a very compelling opportunity for the following reasons:

First, the asset is a best-in-class infrastructure-like office park with a marquee international occupier base, stable long term cash flows and strong embedded growth.

ETV comprises 6.1 msf of completed and income producing offices, 97.3% leased, with 3.1 msf of under-construction on-campus development, 36% already pre-leased, and proposed development of 518-key dual branded Hilton and Hilton Garden Inn hotels. It also has the benefit of a planned metro station at the park entrance.

ETV is an integrated office park spread over 84 acres with robust infrastructure in terms of power, safety and security, numerous employee amenities including creche, multiple sports facilities and food courts, coworking facilities, medical centre, and so on. At the heart of the park are landscaped open spaces and breakout zones for over 45,000 employees of the 40+ occupiers who work from the park today.

At an asset level, ETV has a diversified occupier base and derives 88% of its Gross Rentals from multinational occupiers and 48% of its Gross Rentals from Fortune 500 companies. Existing occupiers at ETV include Cisco and Software AG from the technology sector, Great West Financial and JP Morgan from the financial services sector, Flipkart and Swiggy from e-commerce, and numerous other globally recognized companies such as Sony, Eli Lilly, Telstra and Moody's. The leases have a 9.7year WALE, contracted rental escalations of generally 15% every 3 years and a mark-to-market on expiry averaging 34%. Notably, throughout the pandemic and as testament to the quality of this trophy asset, rental collections at ETV were a resilient 99%, matching the performance of REIT's robust rental collections.

This occupier base, and the lease terms, reinforce the quality and increase the diversity of Embassy REIT's occupier profile particularly in the financial services and e-commerce segments. The acquisition will also result in a reduction in the contribution to the Gross Rentals by the Top 10 occupiers from the current 42% to 37%, with no single occupier contributing to more than 10% of the portfolio Gross Rentals.

Second, the acquisition will strengthen Embassy REIT's presence in India's leading office market.

Bengaluru is the largest and strongest office market in India accounting for 25% or 165 msf of the pan-India Grade A stock while representing 30% of pan-India absorption, i.e.,14.2 msf per annum over the past six years. Notwithstanding COVID-19 induced delays in decision making this year, Bengaluru has seen 7.1 msf absorption YTD, 29% of pan-India YTD absorption.

This asset will deepen our strategic presence in Bengaluru and will provide us with a unique presence in a third and Bengaluru's largest sub-market, ORR, highly complementary to our existing presence in North and CBD sub-markets.

This ORR sub-market is home to Global Captive Centres for corporations such as Goldman Sachs, Northern Trust, Intel, Adobe, Oracle, Google, Microsoft, Amazon, and many more, with over 650,000 people working in this sub-market.

ORR is the largest office sub-market in India with a 54 msf office stock. In fact, over the past seven years ORR sub-market has absorbed more office space than any one of cities like Shanghai, New York, Hong Kong or London. It is a sub-market which has witnessed an 8.8% CAGR in rentals since 2014 and given its continuing appeal to marquee occupiers, this sub-market is currently running at a 2% vacancy. The opportunity to add new product in such a supply constrained sub-market gives ETV further competitive advantage for the mid-term.

Multiple estimates by leading property consultants indicate that occupier demand will continue over the coming years. We plan to cater to that resilient demand and further grow the asset's operating income and distributions through the addition of 3.1 msf of on-campus development at ETV, 36% of which is already pre-leased to JP Morgan on a built-to-suit basis.

So, in one of the most active office markets in the world, India, this asset is located in the largest and most active office market, Bengaluru, and the top performing sub-market in the city, ORR.

Third, the acquisition will enhance Embassy REIT's scale and strengthens its position as the largest commercial REIT by area in Asia Pacific.

The ETV acquisition will add 9.2 msf of leasable area to the REIT's existing 33.3 msf to bring the total leasable area to nearly 42.4 msf, reinforcing Embassy REIT's position as one of the largest commercial REITs in Asia Pacific by area. Further, this acquisition positions Embassy REIT well for the anticipated post-pandemic resurgence in demand for safe, people friendly, high quality office space in India, with 32.3 msf of completed area and 10.2 msf of future campus development.

The asset is wholly complementary to our existing portfolio and will add another large scale campus-style development in India's leading sub-market.

And very importantly, the acquisition is accretive across all key financial metrics including NOI, DPU and NAV per unit.

Let me now ask Sachin, our CIO, to run you through the key metrics of the proposed deal.

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Sachin Shah

Chief Investment Officer (CIO)

Thank you, Mike.

We are excited to be announcing this unique transaction today. Embassy REIT is exercising its right under the ROFO agreement it entered to with Embassy Sponsor to acquire Embassy TechVillage. Embassy REIT is acquiring ETV on a trailing NOI yield of 7.5%, compared to the REIT's trading cap rate of 7.2%. On a pro-forma basis, for the six-month period ending September 2020, the transaction is accretive across key metrics, including:

- Growth in NOI by 28% and NDCF by 27%;
- Increase in NAV per unit by 3.0%; and
- Accretion of 4.2% to DPU.

Let me now take you through the details of the transaction – including the key components, pricing, our financing plan and finally next steps and timelines.

First, let me cover the transaction components

Embassy TechVillage is being acquired from three selling shareholders – Embassy and Blackstone entities and an existing third-party shareholder. The ETV Acquisition comprises (i) c.6.1 msf of completed area; (ii) c.3.1 msf of under-construction area, of which 36% is pre-leased to JP Morgan; (iii) proposed 518 dual-branded Hilton hotel keys within the ETV campus; and (iv) the common area maintenance contract business associated with the completed area and the area pre-leased to JPMorgan.

The pricing considerations and financing plan are as follows:

Total enterprise value for the ETV transaction is ₹97.8 billion or $1.3 billion. Of this, ₹87 billion relates to the first component comprising the 8.1 msf total leasable area and the balance ₹10.8 billion relates to the 1.1 msf built-to-suit area.

We propose to finance this acquisition through an equity issuance of c.₹60 billion ($812 million) in the following manner:

- c.₹23 billion ($312 million) through a preferential allotment of units; and
- c.₹37 billion ($500 million) through an institutional placement of units.

The proposed equity issuance will significantly increase the REIT's public float from the current 38.4% to 42.6%, excluding the preferential allotment units, enhancing liquidity and potentially facilitating inclusion into select benchmark global equity indices.

We may also refinance a portion of in-place ETV debt of up to c.₹36 billion ($492 million) through coupon bearing instruments, which may be a combination of REIT level and SPV level debt. We have the flexibility to do so given the strength of our balance sheet and our current conservative leverage levels. Based on the above indicative financing plan, post-acquisition, our Gross debt to GAV ratio increases to 22%. We will continue to maintain conservative leverage ratios post the ETV acquisition, thereby providing flexibility for future growth, with an additional proforma ₹14 billion debt headroom.

We continue to actively monitor and analyze our cost of capital to adopt prudent financing options and believe that the proforma capital structure maintains a strong balance sheet and presents an attractive opportunity for existing and new Unitholders.

Lastly, our Governance framework is in-line with leading global practices

Given this Acquisition qualifies as a Related Party Transaction under SEBI's regulations, Embassy REIT would like to highlight that the transaction meets all the Related Party safeguards and is line with leading global standards. Most notably:

- Embassy REIT is purchasing ETV at a discount of 4.6% to average of the two independent valuations, required to be obtained as per the REIT regulations.
- The Independent directors of the Manager approved the proposed ETV Acquisition and have recommended it to public Unitholders.
- HSBC Securities delivered a Fairness Opinion on the value of the proposed ETV Acquisition to the independent directors of the Manager to the Embassy REIT, and opined that, from a financial point of view, the transaction is fair to the public unitholders of the REIT.
- There is no acquisition fee payable to the Manager for the proposed ETV Acquisition.
- The transaction will require the approval of simple majority of unrelated Unitholders for undertaking the acquisition, and the approval of at least 60% of the Unitholders for both Preferential Allotment to Third-Party shareholders and the Institutional Placement. Embassy Sponsor and Blackstone Sponsor Group will abstain from voting on the ETV acquisition resolution.

We have conducted extensive financial, tax, legal, title and technical diligence, as is customary for a transaction of this size and scale. Our advisors for this transaction included Morgan Stanley, Kotak Investment Bank, Ernst and Young, S&R Associates and Clifford Chance LLP, amongst others.

Next steps and timelines

As next steps, we will shortly seek Unitholder approval for the proposed acquisition and related financing. For this, a virtual extraordinary meeting of Unitholders is being scheduled for December 10, 2020.

Subject to applicable regulatory approvals, closing actions, Unitholder approval and a successful fundraise, we are targeting to complete the transaction on or before Jan-end 2021.

In conclusion, we believe ETV is a difficult to replicate asset with significant scale and high quality. The ETV transaction is accretive for existing unitholders across key metrics and we believe that the acquisition presents a compelling opportunity for Embassy REIT.

Let's move to Q&A please – we will also be joined by Vikaash Khdloya, our deputy CEO and COO and Aravind Maiya, our CFO.

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Q&A

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Michael Holland

Chief Executive Officer (CEO)

Thank you very much for joining today's call and for these great questions.

I am sure that the rationale and the appeal of the proposed Embassy TechVillage acquisition is now clear. We believe that ETV offers an unparalleled location, scale and quality. It is an asset which perfectly complements our existing portfolio and reinforces the REIT's competitive position in India's strongest office market, Bengaluru. Like our existing portfolio, it has, high occupancy and stable cashflows with embedded rental growth from multinational tenants with strong credit quality, and accretive on-campus development with 36% pre-leased to a blue-chip tenant. And of course, the appeal of an asset which is immediately accretive for the REIT, in NAV as well as DPU, and which enhances liquidity for the REIT, we believe, will be appreciated by our existing and new investors.

Thank you for your interest in Embassy REIT and for your time today. Good evening.

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