STENPROP LIMITED
(Incorporated in Bermuda)
(Registration number 47031)
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("Stenprop" or "the company")

ACQUISITION OF A SIGNIFICANT MULTI-LET INDUSTRIAL PORTFOLIO AND STRATEGIC MANAGEMENT PLATFORM POSITIONS STENPROP FOR GROWTH

## 1. INTRODUCTION

Shareholders are advised that Stenprop has reached agreement to acquire a portfolio of multi-let industrial properties (the "MLI Portfolio") as well as the management business that has built up and managed the portfolio, C2 Capital Limited (the "C2 Management Platform") for a combined consideration that values the two businesses at £130.5 million (collectively, the "acquisitions").

The MLI Portfolio is made up of 25 separate multi-let industrial estates situated in or near densely populated nodes across the United Kingdom. The portfolio, which is operated under the brand industrials.co.uk, has a gross lettable area of approximately 2 million square feet (200,000m$^2$) and a diversified base of over 400 tenants. Further details of the MLI portfolio are set out in paragraph 4 below.

The C2 Management Platform, founded in 2009 by Julian Carey, specialises in the acquisition and active management of multi-let industrial estates across the UK.

## 2. RATIONALE

Stenprop's objective is to deliver sustainable growing income to its investors. One of the ways Stenprop seeks to achieve this is through active recycling of assets into opportunities with better earnings growth potential. The acquisition of the MLI Portfolio and the C2 Management Platform is in line with this strategy. It will provide the company with a strategic platform in the multi let industrial estates (MLI) sector that it is confident will, on a sustainable basis, deliver increased earnings growth.

The ability to achieve higher growth by investing in the MLI sector is underpinned by a number of positive fundamentals:

- MLI assets are attractively priced, generally trading at yields which are higher than other property classes in the UK. This is primarily because MLI assets are management intensive and require economies of scale and management expertise to deliver consistent returns.
- The MLI occupational market currently benefits from a favourable structural demand/supply imbalance which Stenprop believes is likely to translate into higher rents over time. The supply of MLI properties is constrained as a result of a number of factors:
  - Build costs have gone up by approximately 70% over the last 10 years whilst industrial rents have remained largely unchanged. As a result most MLI properties are currently trading well below their replacement cost. The purchase price reflects a cost of c. £65 per square foot, which is less than the replacement cost of the assets.
  - The combination of rising costs and stable rents has meant it is challenging to profitably build multi let estates at current rental levels.
  - The small amount of available land in urban areas has been assigned to higher value uses in recent times (such as residential or larger distribution warehouses).
- In this environment of constrained supply, occupier demand for MLI space is growing as the impact of technology and the internet drives changes in the way people work, shop and interact. The range of occupiers of MLI space is expanding from traditional industrial occupiers through to last mile distributors, e-retailers and other technology orientated businesses such as 3D printing. On top of this, decentralisation in working practices is driving demand for more localised space.

- As a result of these supply constraints, coupled with the growing list of uses for MLIs and the relatively low absolute rents payable per tenant, well managed MLIs are beginning to experience rental growth in excess of current inflation rates. Stenprop believes this is an early stage trend which will continue for a number of years.
- A focus on MLI results in exposure to small to medium size businesses, a sector which has grown in number by over 50% since 2000. Typically, these tenants are focused on providing services to the c. 60m people living in the UK, rather than being exposed to international markets and global trade.
- Alternative higher value uses such as residential will continue to underpin the future value of the MLI properties acquired by Stenprop due to a focus on buying properties in or near densely populated areas.

In addition to these positive fundamentals, there is substantial scope to add value through proactive asset management. MLI units are simple and versatile with low obsolescence and capital expenditure requirements. Shorter lease terms of between three and five years allow for active management. The aggregation of costs across a portfolio of assets drives down average costs. The acquisition of the C2 Management Platform provides Stenprop with the necessary in-house skills and expertise to provide this specialised asset management; complements the skills and expertise of Stenprop's existing management team; and is a key factor in providing Stenprop with the platform on which to build a much larger MLI platform over time.

Stenprop is confident that, in addition to delivering organic growth through ongoing asset management of the MLI portfolio, it will be able to add further MLI properties onto the platform through earnings enhancing acquisitions. Individual MLI properties tend to trade at higher yields than large portfolios as, on their own, they lack the diversification and necessary economies of scale to be efficiently operated. The opportunity to acquire individual MLI properties at higher yields and operate them efficiently through the C2 Management Platform should also contribute to overall growth. To achieve this, Stenprop intends to pursue further acquisition opportunities within the MLI sector with the objective of integrating additional properties and portfolios into its newly acquired industrials.co.uk platform, with the intention of establishing itself as a leading player in the UK MLI space.

3. TERMS OF THE ACQUISITIONS

The MLI Portfolio is owned by Industrials UK LP which is in turn owned by Industrials Investment Unit Trust ("IIUT") and Industrials UK GP LLC ("GP"). Stenprop will, through two wholly owned subsidiaries, acquire all of the units in IIUT and all of the shares in GP from Rebano Holdings BV and C2 Industrials LLP for an effective aggregate purchase price of £58m (£127m less the £69m of debt in Industrials UK LC provided by the Royal Bank of Scotland) (the "purchase price"), being the net asset value of IIUTand GP. The purchase price is subject to a further adjustment to take account of any working capital in the structure at the time of completion.

The MLI portfolio is being acquired with effect from the date of completion of the transaction, which is expected to be on 30 June 2017. The purchase price is payable in cash, with a £6,350,000 deposit having been paid on exchange of contracts on 6 June 2017 and the balance of the purchase price payable on completion, with a subsequent adjustment for working capital.

There are no outstanding conditions to completion and the sellers have provided normal warranties and indemnities for a transaction of this nature. These have been underwritten with warranty and indemnity insurance.

The purchase consideration will be ultimately funded out of the proceeds from the sale of the Nova Eventis shopping centre, which is scheduled to complete on 22 June 2017, and from the sale of certain of the properties in Stenprop's Swiss portfolio that are in the process of being sold. To ensure that it has the cash available to settle the purchase price on completion, Stenprop has secured a twelve month bridging finance facility of €31 million, which attracts an arrangement fee of 1% and interest at 7% per annum. The loan is subject to a group loan to value covenant of 65%. A further twelve month facility of €8 million has been secured at an interest rate of 7% per annum.

Stenprop will acquire the shares in C2 Capital Limited from Julian Carey for £3.5 million, to be settled by the issue of 3,270,500 Stenprop shares (the "consideration shares"), adjusted upward or downward in cash for working capital.

The consideration shares are subject to restrictions on sale for three years after completion, with no shares capable of being sold in the first year, up to one third being capable of being sold in the second year and a further third in the third year. Normal warranties and indemnities for a deal of this nature have been provided, including restrictive covenants that will (subject to limited exceptions) prevent Julian Carey from engaging in any business relating to multi-let industrial properties for three years. It is expected that Julian Carey will join the board of Stenprop as an executive director in due course.

4. PROPERTY SPECIFIC INFORMATION

| | Property name | Geographic location (UK) | Sector | GLA (sq.ft) | Weighted average rental per square foot* (£ psf) |
|---|---|---|---|---|---|
| 1 | Compass Industrial Park | North | Multi-let Industrial | 365,955 | 3.42 |
| 2 | Dana Trading Estate | South East | Multi-let Industrial | 225,676 | 5.52 |
| 3 | Anniesland Business Park | Scotland | Multi-let Industrial | 182,050 | 6.13 |
| 4 | Redbrook Business Park | North | Multi-let Industrial | 164,301 | 3.01 |
| 5 | Lea Green Business Park | North | Multi-let Industrial | 152,624 | 4.35 |
| 6 | Capital Business Park | Wales | Multi-let Industrial | 95,211 | 6.36 |
| 7 | Caldene Industrial Estate | North | Multi-let Industrial | 81,975 | 5.98 |
| 8 | Greenway Business Park | South East | Multi-let Industrial | 64,898 | 4.43 |
| 9 | Shire Court Network Centre | North | Multi-let Industrial | 62,909 | 3.85 |
| 10 | Lion Business Park | South East | Multi-let Industrial | 61,716 | 7.09 |
| 11 | Davey Close Trade Park | Midlands | Multi-let Industrial | 54,268 | 5.67 |
| 12 | Sovereign Business Park | Midlands | Multi-let Industrial | 53,947 | 4.73 |
| 13 | Sherwood Network Centre | North | Multi-let Industrial | 53,385 | 4.18 |
| 14 | Imex Business Centre | Scotland | Multi-let Industrial | 49,735 | 7.70 |
| 15 | Eurolink 31 | North | Multi-let Industrial | 49,225 | 4.70 |
| 16 | Boaler Street Industrial Estate | North | Multi-let Industrial | 48,217 | 3.97 |
| 17 | Poulton Close Industrial Estate | South East | Multi-let Industrial | 47,246 | 5.45 |
| 18 | Wholesale District & Trade Park | South East | Multi-let Industrial | 35,808 | 6.05 |
| 19 | Croft Business Park | North | Multi-let Industrial | 33,359 | 6.59 |
| 20 | Rawdon Network Centre | Midlands | Multi-let Industrial | 32,381 | 4.67 |
| 21 | Rivermead Business Park | South East | Multi-let Industrial | 27,201 | 7.64 |
| 22 | Wharton Street Industrial Estate | Midlands | Multi-let Industrial | 22,642 | 4.52 |
| 23 | Wainright Street Industrial Estate | Midlands | Multi-let Industrial | 18,789 | 4.60 |
| 24 | Argyle Business Centre | Midlands | Multi-let Industrial | 8,031 | 7.61 |
| 25 | Cuckoo Trade Park | Midlands | Multi-let Industrial | 6,080 | 7.71 |
| Total | | | | 1,997,629 | 4.94 |

The aggregate acquisition costs payable for the acquisitions are £1.8 million. The purchase price payable for the MLI Portfolio is considered to be its fair market value, as determined by the directors of the company. The directors of the company are not independent and are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act, No.47 of 2000.

The average capital cost of the portfolio equates to approximately £65 per square foot. The average passing rent equates to approximately £4.94 per square foot, or £5.15 per square foot on contractual uplifts. The average space occupied per tenant is approximately 5,000 square foot with an average annual rent of approximately £25,000.

5. FINANCIAL INFORMATION

Set out below are the forecast revenue, operational net income, and net profit after tax of the acquisition of the MLI portfolio ("the forecast") for the 9 months ending 31 March 2018 and the 12 months ending 31 March 2019 ("**the forecast period**").

The forecast has been prepared on the assumption that the acquisition of the MLI Portfolio will be implemented on 30 June 2017 and on the basis that the forecast includes forecast results for the duration of the forecast period. The forecast does not include the acquisition of the C2 Management Platform as the information relating to this acquisition has been included in this announcement on a voluntary basis.

The forecast, including the assumptions on which it is based and the financial information from which it has been prepared, is the responsibility of the directors of the company. The forecast has not been reviewed or reported on by independent reporting accountants.

The forecast presented in the table below has been prepared in accordance with the company's accounting policies, which are in compliance with International Financial Reporting Standards.

| | Forecast for the 9 months ending 31 March 2018 £'000 | Forecast for the 12 months ending 31 March 2019 £'000 |
|---|---|---|
| Rental income | 6,477 | 9,176 |
| Non recoverable property operating expenses | (658) | (803) |
| **Net rental income** | **5,819** | **8,373** |
| Administrative expenses | (188) | (250) |
| **Net operating income** | **5,632** | **8,124** |
| MLI Portfolio financing costs | (1,636) | (2,181) |
| **Profit before tax** | **3,996** | **5,943** |
| Taxation | (368) | (549) |
| **Net profit available for distribution** | **3,628** | **5,394** |

The forecast incorporates the following material assumptions in respect of revenue and expenses:

1. The forecast is based on information derived from the management accounts, budgets, and rental contracts provided by the sellers.
2. Rental income is derived from the forecasts provided to the company by the sellers.
3. Net rental income includes the effects of straight lining rental income.
4. Total comprehensive profit includes the effects of finance costs.
5. Contracted revenue is based on existing lease agreements including stipulated increases, all of which are valid and enforceable.
6. Leases expiring during the forecast period have been assumed to be re-let at current market rates after a 6 month void period unless the lessee has indicated its intention to renew the lease.
7. On all new leases the company has assumed a 3 month rent free period
8. Of the rental income for the 9 months ending 31 March 2018, 91% relates to contracted rental income and 9% relates to uncontracted rental income.
9. Of the rental income for the 12 months ending 31 March 2019, 73% relates to contracted rental income and 27% relates to uncontracted rental income.
10. Non recoverable property operating expenses have been forecast by the responsible property manager on a property by property basis based on service charge budgets, capex budgets and forecast vacancy rates.
11. Stenprop intends to maintain its historic pay-out ratio of approximately 85% of profit available for distribution as dividends.
12. No fair value adjustment is recognised.
13. There will be no unforeseen economic factors that will affect the lessee's ability to meet their commitments in terms of existing lease agreements.

## 6. CATEGORISATION OF THE ACQUISITION

The acquisition of the MLI Portfolio is classified as a category 2 transaction in terms of the JSE Listings Requirements. Accordingly, it is not subject to approval by shareholders.

The acquisition of the C2 Management Platform is not a categorised transaction in terms of the JSE Listings Requirements and the information provided in this announcement is provided on a voluntary basis.

As IIUT and GP will become subsidiaries of the company, the company will ensure that there are no provisions in their bye-laws that may frustrate or relieve the company from compliance with the JSE Listings Requirements.

Stenprop has a primary listing on the Main Board of the JSE and a secondary listing on the BSX.

7 June 2017

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