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## First REIT “2.0 Growth Strategy” Unveiled; Takes First Steps with Transformational Acquisition of 12 Japan Nursing Homes

- First REIT has stabilised post restructuring, **delivering total unitholder returns of 51% in 2021YTD**
- New strategy provides clear path to **value creation anchored on strong commitment from Sponsor**
- Executing new growth strategy:
  - Maiden entry into the Japan nursing home market through **acquisition of 12 Japan Nursing Homes with agreed purchase price for the Japan Nursing Homes of JPY 24.2 billion**; Strong Sponsor support enables a **DPU accretive transaction on a pro forma basis**<sup>1</sup>
  - Proposal to receive approximately S\$30.6 million settlement for terminated development works agreement

**Singapore, 8 December 2021** – Following the completion of its [restructuring](#), First REIT Management Limited, as manager (the “**Manager**”) of First Real Estate Investment Trust (“**First REIT**” or the “**Trust**”), today unveiled the First REIT 2.0 Growth Strategy, as it progresses from stabilising to growing the Trust.

**Mr Christopher Williams, Chairman of the Board of the Manager**, said, “*With the support of our Unitholders and strong commitment from our Sponsor, we have been able to act decisively to address recent challenges. Following its restructuring, First REIT has delivered total unitholder returns of 51% with a 36% increase in unit price from January to November this year. First REIT is now ready to embark on its 2.0 Growth Strategy. Today’s announcements mark the inflexion point as we work towards creating value for our investors in the long term.*”

### First REIT 2.0 Growth Strategy



**1. Diversify into developed markets** including Japan, Europe, UK and Australia to reduce concentration risk; Target to reduce Indonesia assets to <50% of portfolio in 3-5 years



**2. Strengthen capital structure** through the diversification of funding sources to continue to optimise financial position



**3. Reshape portfolio for capital efficient growth** by recycling non-core, non-healthcare assets



**4. Pivot to ride megatrends**, in particular Environment Social Governance (ESG), ageing population demographics and other growth drivers

In line with the **First REIT 2.0 Growth Strategy**, the Manager today announced two transactions<sup>2</sup>:

<sup>1</sup> For the pro forma financial effects of the Proposed Acquisition, please refer to paragraph 8 of the announcement “*PROPOSED ACQUISITION OF 12 NURSING HOMES LOCATED IN JAPAN AND THE PROPOSED SETTLEMENT IN RESPECT OF THE TERMINATED DEVELOPMENT WORKS ADJACENT TO SILOAM HOSPITALS SURABAYA*” dated 8 December 2021

<sup>2</sup> For more information, please refer to the announcement “*PROPOSED ACQUISITION OF 12 NURSING HOMES LOCATED IN JAPAN AND THE PROPOSED SETTLEMENT IN RESPECT OF THE TERMINATED DEVELOPMENT WORKS ADJACENT TO SILOAM HOSPITALS SURABAYA*” dated 8 December 2021

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- I. Maiden entry into the Japan nursing home market through a proposed DPU-accretive acquisition of a portfolio of 12 Japan Nursing Homes from its Sponsor, OUE Lippo Healthcare Limited (“**OUELH**”), with an agreed purchase price for the Japan Nursing Homes of JPY 24.2 billion
- II. Proposed full and final settlement of all claims relevant to the terminated development works adjacent to Siloam Hospital Surabaya<sup>3</sup> (the “**Proposed Settlement**”), amounting to approximately S\$30.6 million

**Mr Victor Tan, Chief Executive Officer of the Manager**, said, “*We are excited to be in a position to create value for Unitholders by executing on the first steps of our new First REIT 2.0 Growth Strategy with a proposed DPU accretive acquisition. Buying a portfolio of nursing homes in Japan will give us strategic entry into a nursing home market with strong growth potential as we capitalise on ageing demographic trends, while simultaneously diversifying our asset and geographical risk.*”

## **I. PROPOSED ACQUISITION OF 12 JAPAN NURSING HOMES**

The Manager of First REIT is pleased to announce that Perpetual (Asia) Limited, as trustee of First REIT (the “**Trustee**”), has entered into a sale and purchase agreement with OUELH for the proposed acquisition from OUELH by the Trustee of 100.0% of the issued and paid-up share capital of OUELH Japan Medical Facilities Pte. Ltd. (“**JMF**”), which owns a 100.0% interest in 12 nursing homes located in Japan (the “**Japan Nursing Homes**”) (the “**Proposed JMF Acquisition**”).

The agreed purchase price for the Japan Nursing Homes is JPY24,213 million (the “**Agreed Purchase Price for the Japan Nursing Homes**”) and is at a discount of 2.9% to the aggregate of the averages of the two independent valuations of each Japan Nursing Home of JPY24,926 million as at 29 October 2021. The aggregate purchase consideration for the Proposed JMF Acquisition is estimated to be approximately S\$163.2 million (subject to post-completion adjustments) (the “**JMF Purchase Consideration**”) based on the adjusted net asset value (“**NAV**”) of JMF as at completion of the Proposed JMF Acquisition, taking into account the Agreed Purchase Price for the Japan Nursing Homes.

In addition, the Trustee has also entered into a sale and purchase agreement with OUELH for the proposed acquisition from OUELH by the Trustee of 100.0% of the issued and paid-up share capital of OUELH Japan Medical Assets Pte. Ltd. (“**JMA**”) (the “**Proposed JMA Acquisition**”, and together with the Proposed JMF Acquisition, the “**Proposed Acquisition**”). The purchase consideration for the Proposed JMA Acquisition is estimated to be approximately S\$0.3 million (subject to post-completion adjustments) (the “**JMA Purchase Consideration**”, and together with the JMF Purchase Consideration, the “**Purchase Consideration**”) based on the adjusted NAV of JMA as at completion of the Proposed JMA Acquisition.

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<sup>3</sup> As announced on 29 June 2020

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RATIONALE

**A Consistent with First REIT 2.0 Growth Strategy**

The Proposed Acquisition is consistent with the First REIT 2.0 Growth Strategy, specifically the strategic pillars to:

- Diversify into developed markets
- Pivot to ride megatrends, capitalising on ageing population demographics

**B Strategic Entry into Attractive Japan Nursing Home Market**

If the Proposed Acquisition is completed, First REIT will be well-poised to benefit from the **growing Japan healthcare market that is backed by strong fundamental growth drivers**:

- Japan is poised to become **the first “super-aged” nation in the world**: By 2040, approximately 35.3% of population will be over the age of 65 with an 85-year average life expectancy
- **Japanese society has come to welcome the availability and use of elderly support facilities**: Driven by factors including long-term care insurance introduced by the Japanese government and shrinking household sizes in Japan
- **Inadequate supply to support the surge in demand**: Senior housing supply in Japan has not been able to keep pace with demand, partly due to labour shortage and restrictions on building more facilities
- Nursing homes have proven to be **defensive and quality assets throughout the COVID-19 pandemic**: nursing home market has seen limited impact from the COVID-19 pandemic

**C Enlarged and Diversified Portfolio Positioned for Long-Term Growth**

The Proposed Acquisition will improve the Trust's portfolio diversification and reduce its risk profile:

- **High-quality defensive portfolio backed by strong operators**: 12 freehold assets with a combined gross floor area (“GFA”) of approximately 90,989 square metres and 1,451 rooms, which are 100% master-leased to tenants who are well-established and experienced independent local nursing home operators
- **Will reduce concentration risk, enhance 3<sup>rd</sup>-party tenant diversification, and increase proportion of freehold assets**:
  - Will increase exposure to developed markets, from **3.6% of its asset value** as at 1H2021, to **27.1% post-completion** on a pro forma basis
  - **From a rental income perspective**, exposure to markets outside of Indonesia will increase from 5.3% of rental income as at 1H2021, to **22.3% post-completion** on a pro forma basis
  - Will **increase rental income derived by the Trust from 3<sup>rd</sup> parties** from **7.9%** as at 1H2021, to **24.4% post-completion** on a pro forma basis
  - Weighted average lease expiry by GFA **will improve from approximately 12 years to approximately 14 years** as at 1H2021 on a pro forma basis

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- **Enlarged scale with total assets growing by 29.1%** from S\$1,016.5 million as at 30 June 2021, to S\$1,312.1 million

**D DPU Accretive Acquisition on a Pro Forma Basis**

The Proposed Acquisition is expected to be **DPU accretive** to Unitholders on a Pro Forma Basis.

- DPU is expected to increase from 1.30 Singapore cents to **1.31 Singapore cents or by approximately 0.8% on a 1H2021 pro forma basis**

**E Aligned with Unitholder Interests**

The Proposed Acquisition with three pillars of support from the Sponsor, as laid out below, is a strong testament to the Sponsor's commitment to the First REIT 2.0 Strategy:

- **Agreed Purchase Price Discount:** 2.9% (JPY0.7bn) and 3.8% (JPY1.0bn) discount to the aggregate of the averages and the higher of the two independent valuations of each Japan Nursing Home respectively
- **Equity Issuance at a Premium to Market Price:** Approximately 78.3% of the Purchase Consideration or S\$131.5 million will be funded by the issuance of approximately 431 million new First REIT units at a 9.3% premium to First REIT's 3-month volume weighted average price of S\$0.279; and
- **Waiver of Acquisition Fees:** The Manager has elected to voluntarily waive the acquisition fee which would have been payable to the Manager for the Proposed Acquisition pursuant to the Trust Deed, which fee would otherwise have been approximately S\$3.0 million.

Following the completion of the Proposed Acquisition, First REIT's leverage will be approximately 36.4% on a 1H2021 pro forma basis and will have a debt headroom of up to S\$358.0 million, based on a leverage of 50.0%, to fund acquisition growth. It will also see cost of debt reduced from 4.2% as at 1H2021 to 3.4% on a 1H2021 pro forma basis.

**F Positions the Trust Competitively to Peer**

The Proposed Acquisition is an attractive opportunity for investors to gain access to exposure to unique healthcare sector with First REIT being one of only two healthcare REITs listed in Singapore:

- **Attractive annualised 1H2021 pro forma DPU yield of 8.9%**<sup>4</sup> which represents an implied yield spread of approximately 4.3% spread over its blended risk-free rate of approximately 4.6%<sup>5</sup> on a 1H2021 pro forma basis after the completion of the Proposed Acquisition

<sup>4</sup> Computed based on First REIT's closing price of S\$0.295 as at 6 December 2021

<sup>5</sup> Computed based on the blended 10-year government bond yields by geographical mix of asset value as at 1H21

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## **II. PROPOSED SETTLEMENT OF THE TERMINATED DEVELOPMENT WORKS ADJACENT TO SILOAM HOSPITALS SURABAYA**

In June 2020, First REIT served a termination notice in respect of the development of a hospital in Surabaya after road subsidence had a serious impact on the development works. As part of the Proposed Settlement with PT Saputra Karya, an indirect wholly-owned subsidiary of PT Lippo Karawaci Tbk, First REIT today proposed to receive an aggregate settlement amount of **approximately S\$30.6 million** comprising (i) S\$27.0 million in progress payments, (ii) S\$2.7 million in interest; and (iii) S\$0.9 million in project expenses incurred.

The Proposed Settlement immediately strengthens First REIT's financial position and is consistent with the First REIT 2.0 Strategy.

**Mr Victor Tan, Chief Executive Officer of the Manager**, said, *"We are glad for our Sponsor's show of its strong commitment to the First REIT 2.0 Strategy. Our Sponsor has provided three pillars of support through (i) agreeing to divest the Japan assets at a discount; (ii) funding the acquisition through a placement to our Sponsor at a premium to the current market and 3-month VWAP and (iii) waiving the entire acquisition fee that Manager is entitled to. 2021 has been a transformative year for First REIT. We started the year with a bold restructuring which we successfully executed with Unitholders' support. This allowed us to stabilise First REIT and now, this continued support will allow us to focus on delivering growth to all stakeholders in First REIT's journey to becoming Asia's premier healthcare Trust."*

## **EXTRAORDINARY GENERAL MEETING WILL BE CONVENED FOR UNITHOLDERS**

The Proposed Acquisition and Proposed Settlement comprise interested person transactions that require Unitholders' approval at an extraordinary general meeting ("**EGM**"), and the Board has appointed Stirling Coleman Capital Limited as the Independent Financial Adviser to evaluate the transactions. Separately, the Manager has appointed BofA Securities as its Sole Financial Adviser for the Proposed Transactions.

A Unitholders' Circular in relation to, among others, the Proposed Acquisition and the Proposed Settlement, together with a notice of the EGM to be convened, will be despatched to Unitholders in due course. Unitholders are advised to wait for and to consider the full details in the Circular relating to the Proposed Transactions that will follow before taking any action in relation to their Units.

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**AT A GLANCE: KEY BENEFITS OF THE PROPOSED ACQUISITION OF JAPAN NURSING HOMES**

Key Benefits	1H2021 Pro Forma before the Proposed Acquisition	1H2021 Pro Forma including the Proposed Acquisition
Distribution Per Unit ("DPU") Accretion <sup>6</sup>	1.30 cents	1.31 cents
Total Assets	S\$1,016.5 million	S\$1,312.1 million <sup>7</sup>
Rental Income	S\$38.5 million	S\$46.9 million
Net Property Income	S\$37.6 million	S\$45.2 million <sup>3</sup>
Geographical Diversification of Assets (by Asset Value)	96.4% in Asset Value (Indonesia) 3.6% in Asset Value (Outside Indonesia)	72.9% in Asset Value (Indonesia) 27.1% in Asset Value (Outside Indonesia)
Diversification of Rental Income	92.1% in Rental Income (Related parties <sup>8</sup> ) 7.9% in Rental Income (Third parties <sup>9</sup> )	75.6% in Rental Income (Related parties <sup>6</sup> ) 24.4% in Rental Income (Third parties)

**(END)**

**For enquiries, please contact**

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<sup>6</sup> Based on 1H 2021 pro forma performance

<sup>7</sup> The average and closing exchange rates for JPY:SGD used for translating the 1H2021 income statement and the financial positions of the Japan Nursing Homes as at 30 June 2021 are 80.86 and 82.60 respectively

<sup>8</sup> Related parties include PT Lippo Karawaci Tbk and its subsidiaries and PT Siloam International Hospitals Tbk and its subsidiaries

<sup>9</sup> Third parties include tenants that are not related parties

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**About First REIT**

First REIT is Singapore's first healthcare real estate investment trust, and one of Asia's largest healthcare-focused REITs by total assets managed. It is focused on investing in diverse yield-accretive healthcare and healthcare-related real estate assets throughout Asia.

As at 31 December 2020, the Trust has a portfolio of 20 properties<sup>10</sup> across Asia, including hospitals, nursing homes and elderly care facilities, with a total asset value of S\$939.7 million. In Indonesia, its healthcare properties are operated by PT Siloam International Hospitals Tbk ("Siloam"), a subsidiary of PT Lippo Karawaci Tbk ("Lippo Karawaci"). The Imperial Aryaduta Hotel & Country Club and Hotel Aryaduta Manado are operated by The Aryaduta Hotel and Resort Group. The Lippo Plaza Kupang and Lippo Plaza Buton are managed by PT Lippo Malls Indonesia. In Singapore, the nursing homes at Bukit Merah and Bukit Panjang are operated by Pacific Healthcare Nursing Home Pte. Ltd. and Pacific Eldercare and Nursing Pte. Ltd., respectively. The Lentor Residence is operated by The Lentor Residence Pte. Ltd.

**Important Notice**

The value of units in First REIT ("Units") and the income derived from them may fall as well as rise. The Units are not obligations of, deposits in, or guaranteed by, the Manager or any of its affiliates. An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request the Manager to redeem their Units while the Units are listed. It is intended that Unitholders of First REIT may only deal in their Units through trading on Singapore Exchange Securities Trading Limited (the "SGX-ST"). Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

This document is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Units. The past performance of First REIT is not necessarily indicative of the future performance of First REIT. This document may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of property rental income, changes in operating expenses (including employee wages, benefits and training costs), property expenses and governmental and public policy changes. Investors are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's view of future events.

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<sup>10</sup> As announced by the Manager on 19 July 2021, First REIT's wholly-owned subsidiaries had entered into conditional sale and purchase agreements in relation to the sale by First REIT's indirect wholly-owned subsidiary, Kalmore (Korea) Limited ("**Kalmore Korea**"), of the property known as "Sarang Hospital" and the sale by First REIT's direct wholly-owned subsidiary, Kalmore Investments Pte. Ltd., of all of the shares of Kalmore Korea (the "**Sarang Hospital Divestment**"). As announced by the Manager on 31 August 2021, the Sarang Hospital Divestment had been completed on 31 August 2021.