

Urban Exposure PLC - Restructuring proposal by R20 Advisory Limited

Robert Tchenguiz's R20 Advisory Limited ("R20") has written to the board of Urban Exposure PLC ("UE") with a restructuring proposal.

The proposal follows R20 having built a stake of 12.62% in UE over the last six months and is focused on restructuring UE's business to restore shareholder value and improve liquidity in the shares. UE's share price, which was at its lowest point this year in September trading at 40% discount to its NAV, currently trades at 25% discount to its net asset value. R20's view is that UE's underperformance is driven in a large part by the current structure of the company including high management costs which sit on the company's bottom line. R20 believes UE is more suited to a listed debt fund structure. Today UE's share price compares unfavourably with other similar publicly traded debt funds such as Starwood European Finance, RECI Real Estate Credit Investments and Honeycomb, all of which trade very close to their NAV.

To facilitate the restructuring of UE into a publicly traded debt fund R20 is proposing a carve out of the management company from UE thereby saving annual costs estimated to be between £12m and £13m and the issue of a 30p/share dividend. After the carve-out the management company will be majority owned and controlled by UE. At the same time R20 proposes they should issue another 100m shares at 35p giving existing shareholders an opportunity to participate first.

As part of the proposal, R20 itself will underwrite the maximum it is permitted to acquire, being 57% of the proposed share issuance, and is confident it can identify a broker to underwrite the balance. R20 and its related associates will not as a result of this proposal own more than 29.9% of the share capital of UE, and therefore a waiver of Rule 9 of the Takeover Code would not be required.



Rishi Bhuchar
Jefferies International Limited
Vintner Place
68 Upper Thames Street
London, EC4V 3BJ

4 November 2019

Dear Rishi,

Re: UE PLC Restructure

The purpose of this letter is to indicate R20 Advisory Limited's ("**R20**") interest in restructuring Urban Exposure PLC (the "**Possible Transaction**"). The Possible Transaction could provide that: (a) Urban Exposure PLC has a more efficient and appropriate structure to create more shareholder value and (b) this Possible Transaction could also result in further liquidity in the stock of Urban Exposure PLC ("**UE PLC**").

Robert Tchenguiz, a director of R20, has economic interests in 20,002,000 shares which is equivalent to 12.62% of the current share capital of UE PLC.

UE PLC incurs an estimated centralised head office cost of *circa* £12mn-£13.5mn and has given guidance to pay *circa* £8mn-£9.5m in dividends. This cost burden has had a detrimental effect on the valuation of UE PLC, and this has been reflected in the share price. Furthermore, the lack of liquidity in the stock has not helped the share price.

Proposal

Our proposal is as follows:

Value

1. Subject to the conditions herein, and the fact that the proposal is contingent on all conditions being met, we are prepared to offer the following consideration:
 - 1.1. **£47,548,239** in cash paid by UE PLC as a special £0.30p dividend to the current shareholders of UE (the "**Dividend**"); and
 - 1.2. At the same time as the Dividend, UE PLC will issue one hundred million (100,000,000) shares, at a nominal value of 35 pence (£35,000,000) in UE PLC, where the current shareholders of UE PLC will have a first right to subscribe in UE PLC *pro rata* (the "**Issue**").
 - 1.3. R20 (and its associates), will underwrite 57,546,238 shares of the Issue for an underwriting fee payable to R20 of 1.5%. R20 would agree to take ownership of the shares which are not purchased by other parties in the Issue so that R20 (and its associates) may only hold up to 29.9% of the shares of UE PLC.

1.4. In the event that there are more than 57,546,238 shares in the Issue outstanding, R20 has identified an independent broker that will underwrite the remaining 42,453,762 shares for an underwriting fee of 1.5%.

1.5. Therefore, after the Issue, there will be 258,494,130 shares outstanding in UE PLC.

Structure

2. The management company is to be carved out from UE PLC (the "**Management Company**"). The majority of the Management Company is going to be owned by the management of UE PLC and R20 will have a minority interest in the Management Company for its continued support.
3. Therefore, the costs of *circa* £12.5mn of the Management Company will be excluded from the liability to the UE PLC.
4. After the carve-out, the UE PLC will have minimal overhead costs to support their daily business as usual costs.

Strategy

5. **The strategy for this proposal is for UE PLC to mirror a publicly traded debt fund and will continue to be listed on AIM. There are three such funds currently trading include Starwood European Finance, RECI Real Estate Credit Investments and Honeycomb comparable to UE PLC that are currently trading very close to NAV.**
6. **R20 will consider doing a 10:1 exchange of the share capital of UE PLC with the effect that the total number of voting rights in UE PLC would be 25,849,413 shares.**

Conditions

7. Enter into an agreement between the Management Company and the UE PLC, to mirror the same fee structure that exists currently between the UE PLC and other investors such as Kohlberg Kravis Roberts & Co. (KKR).
8. UE PLC will commit its existing funds exclusively to the management of the Management Company.
9. UE PLC will provide on commercial terms the Management Company with a loan facility of up to £10mn to be repaid out of future profits as and when they receive management fees from all of their clients (the "**Management Loan**").
10. No new loans will be created after the fifth (5th) anniversary of the completion of the Possible Transaction unless otherwise agreed with the shareholders.
11. Unless otherwise agreed with the shareholders, UE PLC will be wound down on the eighth (8th) anniversary of the completion of the Possible Transaction and the proceeds will be distributed to the shareholders of UE PLC.
12. A 1.5 pence dividend per share will be payable by UE PLC until the fifth (5th) anniversary of completion of the Possible Transaction.

Financials

13. After the implementation of the Possible Transaction we believe the tangible net asset value would be equal to £120mn, of which £35mn is in cash, which would be equivalent to a price per share of 45p post Dividend (30p per share).

Management

14. UE PLC will appoint a board of Non-Executive Directors which will include at least one (1) director from R20.

Pre-Conditions to announcement

15. There are no pre-conditions for R20 to the announcement of this indicative proposal. R20 believes there is an obligation on UE PLC to announce details of this Possible Transaction on receipt via their Regulatory Information Service provider. UE PLC may share the details of this letter with shareholders and share details on the UE PLC website.

Approvals

16. R20 has obtained all necessary approvals to submit this indicative proposal for a Possible Transaction.

Due diligence

17. We would expect to carry out further due diligence, including, receipt of an update to the net asset value figure (certified by an accountant) with the assumption that the current business plan is maintained.
18. At this stage we do not require any financial, accounting or legal advisors in connection with this Possible Transaction in addition to the in-house team at R20.

Timing

19. We would expect that the board of UE PLC, after having discussed with the shareholders, shall respond to this letter by 25 November 2019
20. Assuming a completion of the Possible Transaction on 31 December 2019, R20 envisages the following possible timetable:

No.	Date	Action
1.	1 December 2019	Carve-out of the Management Company from UE PLC
2.	31 December 2019	Payment of Dividend
3.	31 December 2019	Completion of Issue
4.	31 December 2024	Fifth anniversary of the Possible Transaction. No new loans to be created by UE PLC after this date
5.	31 December 2024	Fifth anniversary of the Possible Transaction. Suspension of £1.5p dividend for UE PLC
6.	31 December 2028	Eighth anniversary of the Possible Transaction. Winding up of UE PLC.

Further information

21. In connection with this Possible Transaction, you should contact:

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This letter should not be construed as a firm intention of making an offer.

We hope this letter adequately conveys our enthusiasm for this opportunity and we look forward to hearing from you in due course.

Yours faithfully,



Robert Tchenguiz

cc: Nicole Martin