

ICAMAP Investments
5, rue Jean Monnet
L-2180 Luxembourg
Grand Duchy of Luxembourg
2nd September 2019

Atrium European Real Estate Limited

Attn: The Board of Atrium: Mr. C. Katzman (Non-executive director and Chairman) and Board of Independent Directors: Mr. S. Radford (Non-executive director), Mr. A. Wignall (Non-executive director), Mr. M. Erichetti (Non-executive director), Mr. N. Flanzraich (Non-executive director) and Ms. L. Lilley (Non-executive director)
4th Floor, Channel House
Green Street
St. Helier, Jersey, JE2 4UH
Channel Islands

Dear Board of Directors,

On the 23rd July 2019, Atrium European Real Estate Limited ("**Atrium**" or the "**Company**") announced that the Independent Committee of the Board of Directors had reached an agreement with Nb (2019) B.V. ("**Bidco**"), an indirect wholly-owned subsidiary of Gazit-Globe Ltd ("**Gazit**"), on the terms and conditions of a recommended all cash acquisition of the entire issued ordinary share capital of Atrium. On the 29th August 2019, the advisers to the independent committee of the Board of Directors of Atrium confirmed that "potential buyers remain actively engaged in the Go-Shop process".

ICAMAP Investments S.à.r.l. ("**ICAMAP**"), holding 1.38% of Atrium's ordinary share capital as per the date of this letter, has taken notice of both announcements and has actively studied the recommended offer. However, ICAMAP believes the proposed transaction is unfair and unacceptable to minority shareholders. It significantly undervalues the Company: based on multiple valuation criteria, ICAMAP estimates a fair value range between €4.75 and €5.25 per share versus €3.75 per share offered, which even excludes the two expected quarterly dividends for the remainder of the year. In addition, ICAMAP strongly believes that the agreed Go-Shop provision is a completely inadequate measure. Indeed, studies show that clauses like these may serve as an excuse for low-premium opening offers¹. ICAMAP demands that the board of Atrium fulfil its obligation towards minority shareholders to seek the best present value reasonably available to shareholders. ICAMAP advises the board of Atrium to withdraw its recommendation for the proposal of Gazit and, as it is obliged to on the basis of its fiduciary duties towards the minority shareholders, create a level playing field and renegotiate the terms of the recommendation. The current recommendation is heavily in favour of Gazit and at the expense of minority shareholders.

1. The offer significantly undervalues Atrium European Real Estate, as it represents:

- A large discount of 25.7% to the H1 2019 reported EPRA Net Asset Value (NAV) per share of €5.05. NAV is a key valuation metric for real estate companies and is based on real estate appraisals carried out by independent respected valuers (Cushman & Wakefield and CBRE Group) and further underpinned by the recent disposals of secondary assets for €298 million at 3% premium to 31st March 2019 book value.
- A large discount of 17.1% to the H1 2019 Gross Asset Value (GAV), implying an EPRA net initial yield (NIY) of 7.4% (ICAMAP estimates). This would further imply an EPRA NIY for the Polish portfolio of 6.5% while prime shopping centre yields in Poland are generally at yields of 4.5% currently².
- An even larger discount to H1 2019 NAV of 28.4%, 18.9% discount to GAV and EPRA NIY of 7.5% for the total portfolio and 6.7% for the Polish portfolio, if adjusted for two quarterly dividends which will not be paid anymore.

- **A significant discount to its ‘peer group’**: for example, as of 23rd July, CPI Property Group traded at +45% premium to NAV, NEPI-Rockcastle +19% and Echo Polska Properties (EPP) -6%³. **Assuming a 6% discount to NAV (the lowest of the peer group), the value of Atrium would be €4.75 per share.**
2. **The market recognizes that Gazit is acquiring Atrium at a bargain**
- **Gazit’s market capitalisation immediately stepped up by 11.7%** (from ILS 5.3bn to 5.9bn) as a direct result of the announcement⁴.
 - **This share price appreciation materialised a €154 million value creation for Gazit⁵**, in our view implying a capital gain of €1.5 per share on the potential 28% Atrium shares to be acquired (the c. 40% of remaining un-owned shares less the 12% that Gazit have pre-agreed with Menora Mivtachim Insurance Ltd to sell on or shortly after 2nd January 2020), **indicating a fair value of €5.25 per share for Atrium.**
3. **In practice there is little or no evidence that Go-Shop clauses result in significant higher premiums for shareholders⁶**. On the contrary, consistent with the ‘window dressing theory’ and agency-conflict, clauses like these may serve as an excuse for low-premium opening offers¹, and may allow management to favour a hand-selected bidder for personal reasons such as retention, yet appear to be open for other bids. ICAMAP therefore has no reason to a priori assume that the agreed Go-Shop clause will bring the minority shareholders of the Company any benefits.


Indeed, the specific 7 week Go-Shop window put in place to solicit alternative offers from third parties is clearly and completely inadequate. The period of 7 weeks is short and there is no equal level playing field for third parties that contemplate making an offer. Gazit – through its two board nominees an insider with more access to information in general – was allowed more than seven months to complete a full due diligence investigation, make an indicative offer and negotiate the terms for the recommendation by the board. There is no reason for interested outsiders, who are contemplating making an offer, to believe that their efforts to complete all those steps in seven weeks will result in a successful offer based on the same level of information.

Gazit’s confirmation that “it will consider any superior proposal in good faith” provides no comfort at all to potential third-party bidders when considering performing a high level of due diligence (and costs) and making a potential bid. The board should have demanded that Gazit will either top superior bids or sell its stake to such bidders.

4. **All the Company’s loyal shareholders have assisted Atrium during its re-positioning, and after years of transformation the bulk of the results will be reaped by Gazit only**
- **The Group’s portfolio is now focused towards prime shopping centres in Poland and the Czech Republic** that offer higher quality cash flow growth. Since 2014, the number of assets in the portfolio has condensed from 153 in 7 countries to 33 in 4 countries. Currently, of the total portfolio market value, Poland represents 68.9%, Czech Republic 13.5%, Slovakia 6.4% and Russia 11.2%⁷.
 - **Solid operational results**, with 1H 2019 EPRA like-for-like (LFL) net rental income (NRI) up +0.5% overall and +1.5% excl. Russia (whilst we understand it is showing signs of stabilisation). Additionally, EPRA occupancy rate is high at 95.2% and EPRA cost ratio is low at 14.7%.
 - **Sound balance sheet and pro-forma loan-to-value (LTV) ratio of 34% gives plenty of headroom for further expansion of c. €270 million** to reach an LTV of 39% (in line with half year 2019 results) and/or distribution of a **special dividend** as previously done in the past (€0.14 per share on 29th March 2018, €0.14 per share on the 30th June 2017).
 - **Strong management team** with a strong track record and deep expertise across the full real estate value chain.
 - **Atrium could re-position the company further so it would enter the EPRA Developed Europe Index in the future**, a widely used investment benchmark.

To conclude: even on the basis of the limited information made available to date, it is clear that the current proposal is unfair and the Go-Shop provision is inadequate. Potential bidders should be given more comfort that their efforts (and investment) would have a fair chance of success. ICAMAP therefore advises the board of Atrium to withdraw or renegotiate its recommendation for the proposal of Gazit.

Kind regards,



Harm Meijer
Managing Director ICAMAP Advisory
Acting as Investment Advisor of ICAMAP S.à.r.l., the fund manager of ICAMAP Investors SLP-SIF and its subsidiary, ICAMAP Investments S.à.r.l.

¹ <https://www.ft.com/content/2c5e28f4-2754-11e5-9c4e-a775d2b173ca>

² Cushman & Wakefield, Poland Retail Snapshot Q2 2019

³ FactSet as of 2^{3rd} July 2019, based on company FY18 reported NAV

⁴ Bloomberg, Gazit-Globe Ltd (GZT:IT)

⁵ Based on the difference between the initial and resulting market capitalisations of Gazit-Globe Ltd of 5.25 bn ILS and 5.87 bn ILS respectively, at an exchange rate of 1 ILS : 0.25 EUR as of 23rd July 2019.

⁶ <https://www.reuters.com/article/us-dealtalk-goshop/go-shops-often-fail-to-uncover-new-bids-idUSTRE62N4XS20100324>.

⁷ Total portfolio excluding investment in Joint Ventures