

FAQ – Basecamp Acquisition



What is the structure of the Basecamp transaction currently, in a nutshell?

The Basecamp transaction is a single transaction in which Xior committed to buy 10 top tier student housing assets (8 up and running and 2 projects) as well as the operational platform (brand, general management, finance structures, operational teams, development teams, etc) related to these properties. Important (and the cause of some of this complexity) is that Xior did not commit to buy all of the properties being developed and operated by this platform. Some of those assets and projects remain with the original owners.

Due to the rules applicable to Xior as a B-REIT (specifically, the so-called 10% condition, see below), this caused us not to be able to execute this entire transaction in one go, but forced us to take a two-step approach:

1. The acquisition of the assets (which closed successfully on 15 September 2022)
2. The acquisition of the platform (operational and development teams, general management structures, brand, etc.), which could only close when the “10% condition” was satisfied.

Important to note is that in essence, in the mind of the parties, this was always a single transaction, for the acquisition of both the assets and the overarching Basecamp platform. It is merely due to the legal and factual circumstances that this was split into two steps, but Xior has been committed to acquire both elements since signing the contract regarding the Basecamp Transaction, and it was important that the delay of one part due to regulatory reasons linked to Xior’s B-REIT status could never turn into a cancellation of that part of the transaction. On the other hand, Xior under no circumstances wanted to be forced to carry through this second step if that would mean that it would be in breach of its legal obligations as a B-REIT.

What is this “10% condition” in the Agreement? What is this “10% rule referring to specifically?

The so-called “max 10% external management rule” means that a B-REIT and its perimeter companies is not allowed to provide “too much” real estate services to third parties (i.e., not pertaining to its own real estate). Too much is defined as 10 % of its income OR relating to real estate that is worth more than 10% of its portfolio. BC is an operating company managing and developing assets for third parties (specifically, two real estate funds). In the first step of the transaction, we acquired 8 operational assets and 2 development projects from the underlying owners but we did not acquire all of the assets BC were managing for them. The funds remained owners of those properties and projects, and they continued to be managed/developed by BC. Crucially, these properties and projects have a value totaling in excess of 10% of Xior’s current portfolio. So, if Xior would simply acquire BC, it would immediately have a perimeter company that is in breach of the “10% rule”.

At the moment we acquired the assets we were therefore not able to buy the assets and the BC group at once since this would put us in regulatory breach of the 10% rule, so we needed to split the transaction in two steps as they were managing more assets for third parties than we are regulatory allowed. A six month interim period was provided to solve the issue.

In normal markets and with the portfolio growing it was expected that our portfolio would then become large enough to acquire BC without running into this problem, but this is not the case.

Rather than jeopardizing the entire deal by this, the agreement provides for the possibility of a further 12 months of “overtime”, which is what has been triggered on Friday.

How was this Overtime supposed to work? Postponement but the acquisition of the platform remains committed. How?

In the contractual documentation (as described in detail in the securities note of 13 September 2022), it was stated (at the request of Xior) that Xior has a right of postponement in the event the 10% rule would still be a problem during the initial call option period ending on 31.03.2023 (after which a “put” period would start, in which Xior could be forced to proceed with the acquisition which would be problematic for Xior’s B-REIT status). The aim was to obtain more time for BC to divest some of the management activities to a level below 10% of Xior’s portfolio.

The postponement is only a delay of the acquisition, and it certainly means we are still committed to acquire the highly qualitative BC platform including teams, brand, digital tools, management teams and development teams, only this will happen later.

However, as this solution was implemented into the contract essentially due to Xior’s nature as a B-REIT, it is understandable that the sellers of Basecamp insisted that this would not lead to them having to wait much longer than anticipated for the first tranche of the purchase price for BC, and thereby become shareholders of Xior and participate in the success of the combined entity as shareholders. Therefore, it was agreed that Xior would, in the event it triggered this safeguard mechanism included to prevent a B-REIT rule breach on its part, it would pay an amount equal to this first tranche of the purchase price, in shares, and that this first tranche due upon actual (postponed) closing of the acquisition of BC would be correspondingly reduced. In essence, economically, it becomes a down payment or advance payment of the purchase price.

How does Xior know the BC business is being managed in its best interest?

The platform Basecamp is still managing the assets we acquired and are managing and developing other assets for third parties. For this reason, the agreement contains standard so-called “conduct of business” rules, that apply between signing and closing of any acquisition, and which mean that the sellers who remain in control between signing and closing, must manage in accordance with past practices and are prohibited from making substantial changes or decisions in respect of the business without the purchaser’s consent. Furthermore, as is market practice, a list of representations and warranties is delivered by the sellers in respect of the state of the business and the companies to the purchaser on the date the price is fixed.

Delayed acquisition of Basecamp – Economic effects on Xior’s bottom line?

In the meantime, the BC operating companies continue generating fees and on the actual acquisition date of the BC platform, all market standard adjustments for cash/net debt/working capital will be made based on closing accounts made as at the time we trigger the postponement. The acquisition price will essentially be “locked in” at that point (for the M&A specialists: the “closing accounts” becomes a “locked box” as of that point), and any further cash generated by the business after that point will accrue in the business without triggering an adjustment of the price (and without being able to be paid out to the sellers), so it will be waiting for us when we acquired the company.

Issuance of shares – what are the movements on balance sheet?

The shares that will be issued in April, will not incur a movement on the asset side of Xior’s balance sheet but will be booked against equity that was already booked for this initial payment at closing of the first phase (due to the crossed put-call arrangement, it was all but certain that this payment would become due in any event). At that moment, the largest part (29.5- MEUR) of this commitment of this initial payment of 36 MEUR was already booked as reserve in equity against portfolio premiums on the acquired assets on the active side of Xior’s balance sheet. At the actual payment, shares will be issued and capital and share premiums will increase against the reserve that was already booked per 31/12/2022. This initial payment is therefore already reflected for the largest part (29.5 MEUR) in the current NAV.

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About Xior Student Housing

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Xior Student Housing has been accredited as a public RREC under Belgian law since 24 November 2015. Xior Student Housing's shares have been listed on Euronext Brussels (XIOR) since 11 December 2015. On 31 December 2022, Xior Student Housing held a property portfolio worth approximately EUR 3 billion. More information is available at www.xior.be.

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