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STUDENT MANAGED FUND

M&A Report

KKR Acquires Mitsubishi Corp-UBS Realty

October 4th, 2022

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On April 28th, 2022, KKR completed their acquisition of Mitsubishi Corp-UBS Realty (MC-UBSR), now known as KKR Japanese Realty Management (KJRM), from Mitsubishi Corporation and UBS Capital Management. Valued at ~¥230 billion (\$1.8 billion), the all-cash transaction included the purchase of units in the two funds managed by MC-UBSR: the Japanese Metropolitan Fund Investment Corporation (“JMF”) and the Industrial and Infrastructure Investment Corporation (“IIF”).

The acquisition brings KKR’s global real estate AUM to approximately \$61 billion as of Q2 2022.

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Executive Summary

KKR acquired MC-UBSR on April 28th, 2022, providing a rare opportunity to establish a significant and strategic presence in the Japan real estate market, where barriers to entry are high. This deal established KKR as a leading presence in Japan, the second largest real estate market in the world and adds scale and momentum to their real estate platform; global real estate AUM has increased 6x over two years to \$61 billion with the acquisition of MC-UBSR. This transaction has helped increase KKR's perpetual capital base to 46% of fee-paying AUM. This strategically and financially attractive acquisition, for 2023, the first full year of operations post-closing KKR expects MC-UBSR platform to deliver fee related earnings of approximately \$100million after giving effect to expected revenue synergies.



Increase in Asian dedicated AUM to \$59 billion from \$42 billion

\$14 Billion
Dedicated to the acquisition of MC-UBSR



Increases total perpetual real estate capital to 75% as a % of real estate AUM

9%
Related to the acquisition of MC-UBSR



Adds an attractive asset to KKR's well performing real estate assets class

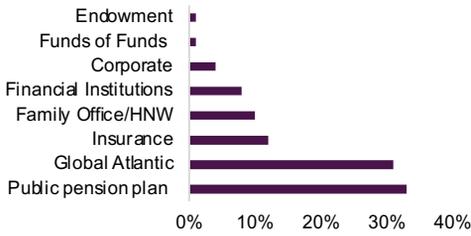
41%
Gross real estate IRR



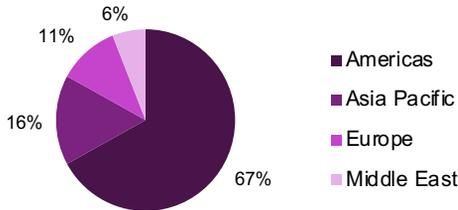
36% increase in real estate AUM

\$61 Billion
KKR real estate AUM

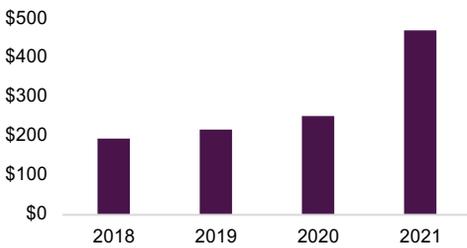
Investor Base by Type



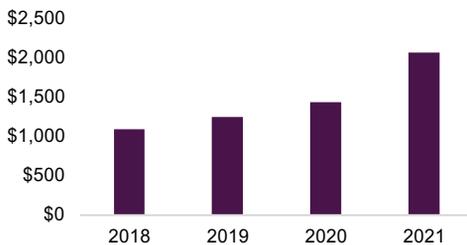
Investor Base by Geography



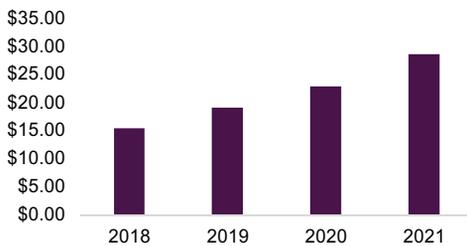
KKR's AUM (\$Billions)



Management Fees



Book Value Per Share



Figures in \$USD Millions, except per share data

Kohlberg Kravis Roberts & Co. L.P. Business Overview

Established in 1976, Kohlberg Kravis Roberts & Co. L.P. (“KKR”) is one of the world’s leading global investment firms. With ~\$471 billion in assets under management, the firm manages a number of alternative asset classes - including private equity, credit and real estate. Its insurance subsidiaries, furthermore, offer retirement, life, and reinsurance products, under the management of The Global Atlantic Financial Group. KKR has completed more than 650 private equity investments in portfolio companies, with a transaction value exceeding \$675 billion. It is worth noting that KKR reports their revenue in two segments: assets under management (which represents 60%) and insurance (which represents 40%).

KKR manages capital for hundreds of fund investors around the world, including some of the most sophisticated institutional allocators-of-capital. They invest in nine core industry sectors and are known for their willingness to pursue complex transactions. KKR also has extensive experience in investing during periods of uncertainty. KKR typically invests capital over periods of seven or more years, allowing for attractive long-term returns throughout economic cycles.

At the end of 2021, KKR reported \$471 billion in assets under management, representing a 23% CAGR from 2011. This growth is split across hedge funds, alternative credit, leverage credit, growth core, real assets and private equity.

As of Q2 2022, real estate constitutes ~\$61 billion of KKR’s AUM and makes up 11% of KKR’s investment holdings.

Sumitomo Mitsui Banking Corporation acted as the financial advisors to KKR on this transaction.

Mitsubishi Corp–UBS Realty Business Overview

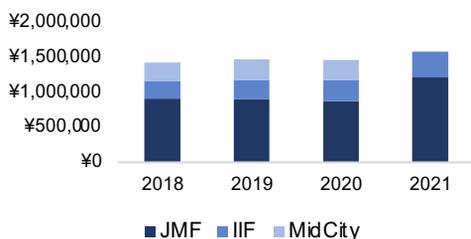
Mitsubishi Corp-UBS Realty Inc (MC-UBSR) was founded in 2000 as a joint venture between Mitsubishi Corporation and UBS Group. Since 2001, the joint venture has been a pioneer of Japanese real estate investment trusts (J-REIT). With 202 properties worth ¥1.7 trillion (\$15 billion), it is one of the largest real estate asset managers in Japan, with 161 professionals focused on their two current J-REITs listed on the Tokyo Stock Exchange (“TYO”). Both the Japan Metropolitan Fund Investment Corporation and Industrial & Infrastructure Fund Investment Corporation (“IIF”) have a significant focus on ESG in accordance with KRJM’s Responsible Property Investment Policy.

Founded in 2001, and listed on TYO in 2002, Japan Retail Fund Investment Corporation merged with MC-UBS MidCity Investment Corporation to form Japan Metropolitan Fund Investment Corporation (“JMF”) in 2021. KRJM managed MC-UBS MidCity Investment Corporation, from 2015 to 2020, after acquiring the corporation, in piecemeal, from 2015 to 2018. JMF has ¥ 1,211,319 million (~\$9.5bn) AUM investing in retail located in urban areas such as Tokyo, Nagoya, and Osaka. Their portfolio focuses on retail properties, office buildings, rental houses, hotels, and mixed-use buildings. Currently holding 128 properties, and an occupancy ratio of 98.5%.

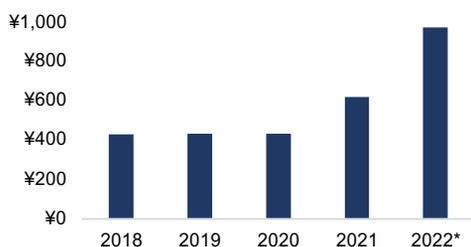
Founded and listed on the TYO in 2006, IIF focuses on Industrial & infrastructure properties in Japan, with ¥372,321 million (~\$2.9 bn) AUM. Currently holding 74 properties and an occupancy rate of 100%. Their portfolio has a heavy focus on logistics facilities, as well as infrastructure and non-logistics facilities (such as manufacturing, research and development).

UBS Group AG acted as the financial advisors to Mitsubishi Corp-UBS Realty on this transaction.

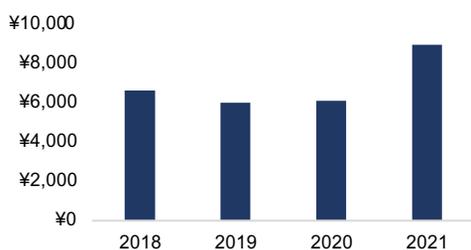
MC-UBSR’s AUM



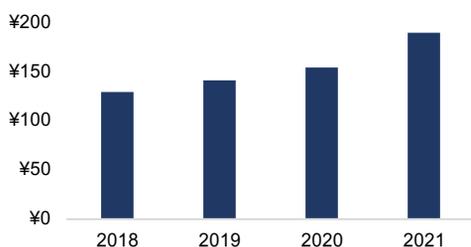
JMF's Net Asset Value (¥ bn)



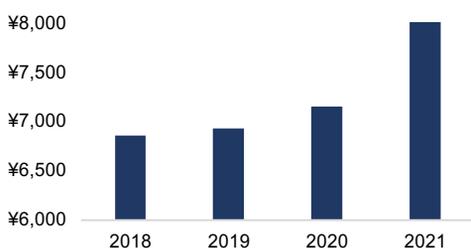
JMF - AFFO/Share (¥)



IIF's Net Asset Value (¥ bn)



IIF - AFFO/Share (¥)



Figures in ¥ Yen Millions, except per share data

KKR Real Estate Select Trust, Japanese Real Estate Index and KKR US Equity Prices



Share Price Analysis

The graph above shows the stock prices of KKR, KKR's Real Estate Select Trust and the Japanese Real Estate Index. The deal was first announced on March 17th, 2022, and was closed on April 28th, 2022. The Firm announced that the acquisition will now stand on KKR's balance sheet, and it is immediately accretive on a fee related earnings per share basis.

Over the past 12 months, we can see KKR's Real Estate Select Trust has increased by 10.72%, despite a challenging macro economic environment.

Key Dates

Announced – [17/03/2022](#)

8-K filed – [17/03/2022](#)

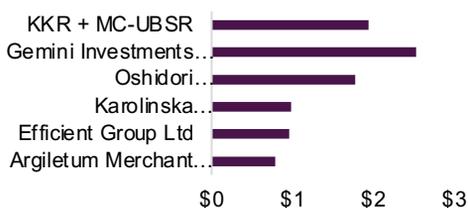
Completion – [28/04/2022](#)

Name change to “KJR Management” – [28/04/2022](#)

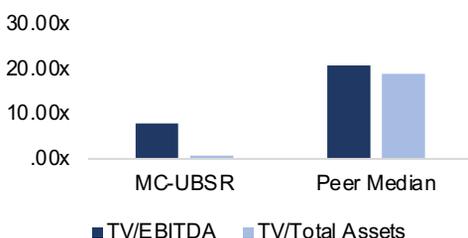
Deal Value	Announced	Final
Transaction Value (Bn)	1,939.46	1939.46
Equity Value	1,939.46	1,939.46
Premium	-	-
Debt Assumption	-	-

TTM Deal Multiples	Target	Comparable Multiples
TV/Revenue	20.74	7.86x
TV/EBIT	30.89	22.70x
TV/EBITDA	30.84	11.07x

Comparable Transactions (\$Billions)



Precedent Comparison



Funding Profile



Figures in \$USD Millions
TV- Transaction Value

Strategic Rationale for Acquisition

KKR has been committed to Japan since 2006, this strategic acquisition deepens that commitment. It creates strategic synergies between KKR's 135-person real estate team and MC-UBSR 170-person real estate team. With MC-UBSR being a long-time leader in the Japanese REIT (or "J-REIT") segment of the global real estate market. The acquisition also gives KKR and its team the advantage of direct access to that segment, through one of the segment's early pioneers.

MC-UBSR itself will, in turn, be furnished with enhanced opportunities for both organic and inorganic growth. KKR has committed to ensure a continued delivery of value to the unit holders of both JMF and IIF and, in pursuit of this, KJRM will be able to make full use of the global network and resources provided by KKR.

It allows KKR significant strategic presence in the Japanese real estate market which poses significant barriers to entry. Finally, it creates the opportunity to grow AUM organically through active portfolio management and new accretive acquisitions, as well as inorganically through opportunistic M&A. MC-UBSR has a strong history of execution with 27 primary offerings across the platform since 2002.

Deal Details

76KK, a subsidiary of KKR, acquired all the outstanding shares of MC-UBSR in a 100% cash consideration of JPY230 billion (US \$2 billion). 76KK will also acquire the units of JMF and IFF currently held by Mitsubishi at market price, thereby strengthening the alignment of interest between KKR and the unitholders of JMF and IIF. MC-UBSR's existing experienced management team of professionals is expected to remain in place to continue to manage JMF and IFF. KKR intends to work closely with the existing team to integrate the business with KKR's US \$41 billion real estate business. The investment is set to be held on KKR's balance sheet, not in any client funds. The transaction is expected to be immediately accretive to KKR on a Fee Related Earnings per share basis.

Post-Merger Performance

The deal stands to accelerate KKR's already fast-growing global real estate segment. KKR's real estate equity (which stood at \$11 billion in Q2 2021) to \$31 billion and accelerated the growth of KKR's overall real estate AUM from \$41 billion to \$61 billion as of Q2 2022, with \$31 billion being real estate equity and \$30 billion in real estate Credit. Additionally, it helps to accelerate KKR's already exceptional Asian Platform, where Gross IRR is 41% and real return is 54% (when compared to a relative Asian public index). Furthermore, this deal has helped drive KKR's real estate LTM Q2 revenue to \$554mm with c.30% (\$166mm) coming from investment income. Finally, KKR's Real Estate Platform now owns or lends \$181bn of real estate assets, boosting perpetual real estate capital to 75% of real estate AUM. Furthermore, it increases KKR's real estate allocation to ~13% of their investment holdings by asset class.

Key Risks

1. The acquired company may struggle to renegotiate an increase in pricing (within their respective leasing agreements) in line with inflation, thereby having trouble with increasing cashflows.
2. Adverse market or economic conditions may reduce the value or performance of KKR's investments, making it difficult for MC-UBSR to acquire new assets and increase their market positioning.
3. The current macro-economic environment may make it difficult for KKR to increase or refinance its debt financing and may adversely impact MC-UBSR.
4. The increased likelihood (in a changing climate) of extreme weather conditions, such as earthquakes and tsunamis, threatens to damage properties.