

ISSUER COMMENT

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Contacts

Maria Gillholm +46 851.791.270
VP-Sr Credit Officer
 maria.gillholm@moodys.com

Anton Horozov +49.69.70730.755
Associate Analyst
 anton.horozov@moodys.com

Anke Rindermann +49.69.70730.788
Associate Managing Director
 anke.rindermann@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

Castellum AB

Acquisition of Entra is credit positive, and offers significant long-term benefits

On November 26, Castellum AB (Castellum, Baa2 stable) announced its intention to launch a share exchange and cash offer to Entra ASA's (Entra, Baa1 stable) shareholders. The combination of Castellum and Entra would create one of the bigger listed companies in Europe. The bid, equating to NOK 170.86 per Entra share, is representing a premium of 30.8% to Entra's volume weighted average share price for the 3-months period ending November 23, 2020. The total acquisition amount is NOK 30.8 billion, which Castellum intends to finance largely with newly issued shares, representing 85% of the purchase piece, and the remaining 15% will be financed in cash. The offer is expected to last for 20 business days and requires more than 90% of Entra's shareholders accepting the offer. The total cash consideration payable of NOK 4.6 bn, is fully covered by Castellum's cash on hand and a new NOK 30 billion bridge facility arranged by J.P. Morgan Securities plc and Danske Bank. Also, Entra's outstanding debt, which is subject to change of control provisions, can be covered by additional backstop facilities available to Castellum. We acknowledge that this transaction is surrounded with execution risk as there are a formal rival bid from the real estate company Samhällsbyggnadsbolaget.

We view the transaction as credit positive for Castellum because the combination with Entra will create a larger player in the Scandinavian office market with a combined portfolio size of SEK 148 bn, from SEK 98 bn for Castellum stand alone. In addition, the transaction adds diversification through adding a new country and will increase Castellum's public sector exposure. Occupancy will increase to 94.7% from 93.4% LTM September 2020 and at the same time its WAULT will increase to 5 years from 4 years. Initially the share of the portfolio in large cities will decrease to 70% from Castellum's current 73% but we assume it likely that Castellum will do divestments in smaller, less attractive cities. This transaction will provide long-term benefits as Castellum can build further on Entra's strong position in attractive positions in Oslo and modern high quality portfolio with a large share of government tenants in Norway while maintaining key personnel, which reduces the potential risk of cultural challenges between the companies. Pro forma for the transaction, Castellum's Moody's-adjusted debt to assets ratio will remain below 45% and is in line with current rating guidance and net debt to EBITDA will increase to 11x from 10.2x LTM September 2020.

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