

Smith & Nephew, Inc.
7135 Goodlett Farms Parkway
Cordova, TN 38016
Tennessee, USA

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www.smith-nephew.com

Reid Dulberger
President
EDGE
100 Peabody Place, Suite 1100
Memphis, TN 38103

Via email

Dear Mr. Dulberger:

Smith+Nephew is requesting assistance from EDGE to preserve good-paying jobs in the City of Memphis and Shelby County, while expanding and strengthening the community's critical medical device sector.

As you know, Smith+Nephew owns and operates an approximately 210,000 square foot distribution center at 3303 Holmes Road. The facility houses 180 employees averaging \$42,570/year, and was constructed in 2008 with help from a PILOT granted by the Industrial Development Board of Memphis and Shelby County, which EDGE now manages.

In order to remain competitive, Smith+Nephew has been pursuing a long term and substantial contractual relationship with a Third-Party-Logistics provider to modernize our warehousing and logistics operation. The selected partner is Arvato Digital Services, a wholly-owned subsidiary of Bertelsmann. As part of this process, Smith+Nephew's operations in Atlanta will be merged with those currently at 3303 Holmes Road. One option under consideration is to locate this combined operation in Memphis, with Arvato: (1) purchasing the building at 3303 Holmes Road and leasing / subleasing space to Smith+Nephew ; (2) expanding the building and installing state-of-the-art material handling equipment; and (3) assuming all staffing functions for both the Memphis and Atlanta warehouse operations, consolidated at 3303 Holmes.

Arvato has the ability to combine Smith+Nephew's Memphis and Atlanta operations in other locations outside Tennessee. Retaining and attracting jobs in Memphis, which Smith+Nephew strongly supports, will require assistance to help Arvato offset the significant capital investment required.

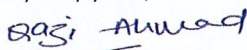
To achieve that goal Smith+Nephew requests that EDGE:

1. Allow the sale of 3303 Holmes Road to Arvato under the existing IDB PILOT, per your policies and procedures which will require the restructure of the existing PILOT lease.
2. Approve new real and personal property PILOTs to help Arvato offset the added tax burden from their capital investment in Shelby County. Smith+Nephew's 3PL contract with Arvato will have an initial term (subject to customary termination rights) at least as long as the expected benefit term.
3. Terminate Smith+Nephew's existing IDB real and personal property PILOT leases at 3303 Holmes Road effective on or about September 30, 2021 to allow for Arvato's incentive to re-tool and expand the facility.

We believe this proposal is a win-win for Smith+Nephew and the community. Smith+Nephew receives the benefit of a highly automated and efficient state-of-the-art expanded/consolidated distribution center, which helps secure our operations for years to come, and the community is spared the loss of jobs that typically accompanies such improvements. We ask that you give this request all due consideration.

Please let me know if you have any questions or require any additional information.

Very truly yours,



Smith+Nephew

Qazi Ahmad | Sr. Director – Indirect Procurement
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EDGE File No: _____

**APPLICATION FOR PILOT
ECONOMIC DEVELOPMENT GROWTH ENGINE INDUSTRIAL DEVELOPMENT
BOARD OF CITY OF MEMPHIS AND SHELBY COUNTY, TENNESSEE**

Applicant Information:

Company Name: **ARVATO DIGITAL SERVICES LLC**

Company Contact: Cathi Schmidt, VP of Account Management

Mailing Address: 29011 Commerce Center Drive

City: Valencia State: CA

Country: USA

Zip: 91355

Telephone: 650-759-6242

Federal Employer Identification Number: 95-2949493

Applicant's Legal Structure: LLC established and existing under the law of the United States

If any outside consultants will be representing the applicant (accounting firm, law firm or site consultant) in applying for this PILOT, please provide the following:

Company Name: Harris Shelton Hanover Walsh, PLLC

Contact Name: Allison Gilbert and Tricia Adrian

Mailing Address: 6060 Primacy Parkway, Suite 100

City: Memphis, TN 38119

Telephone: 901-525-1455

Project Location:

A. Address: 3303 E. Holmes Rd, Memphis, TN 38118, Shelby County, Tennessee

B. Tax Parcel Numbers: 094100 00304

C. City of Memphis: Yes

D. New Market Tax Credit Eligible Site: Yes, Census Tract 47157021900

Project Description:

Briefly describe the applicant's principal business activities to be conducted at the Project

Site:

Applicant is a wholly owned subsidiary of Bertelsmann, and is the #1 fashion e-commerce provider in the European Union. Arvato’s parent company, Bertelsmann, is a German company that has been privately owned since 1835. Arvato has 85 global locations. The potential Memphis Project would be the 9th location in the United States. Arvato provides a broad service portfolio, including warehousing and distribution, value added services, freight and customs management, customer support, and financial services, for the leading brands in the world. Its key industries are Tech, Healthcare and Consumer Products.

Applicant desires to initiate its “Arvato Healthcare” growth strategy by enabling market entry into the United States with a long-term contract with a market leader anchor client. Therefore, Applicant has entered into a non-binding letter of intent with Smith + Nephew to purchase the property and building located at 3303 E. Holmes Road, Memphis, Shelby County, Tennessee 38118, and to further provide third party logistics services for Smith + Nephew. Applicant desires to commence the Project in October, 2020 with Phase I of the Project: the purchase of the facility (land and improvements) from Smith + Nephew. As the Project site currently does not offer enough capacity to host the Sports, Ortho and Wound business units, the Applicant will expand the facility by an additional ~ 105,000 sq ft. For Phase II of the Project, Applicant desires to own and operate the distribution services facility, potentially hire Smith + Nephew’s current employees at the Project location, and consolidate its Atlanta, Georgia employees to Memphis. Phase II of the Project is expected to be completed by March, 2022. It is Arvato’s long term growth strategy to leverage the relationship with its client, Smith + Nephew, to expand its market presence in the Healthcare Industry. Arvato sees the Memphis Project site as an ideal location to support this strategy.

Project - Real Property Investment:

- Purchase the existing 209,916 sq. ft. facility
- Build a new 105,000 sq. ft. facility
- Renovations and additions to existing facility

Real Property Investment:

Category	Capital Investment
Purchase Price of Land	\$ 990,300.00
Purchase Price of Building	\$ 9,509,700.00
New Construction/Site Improvements	\$ 6,825,000.00
Renovation of Existing Structure	\$ 300,000.00
Soft Costs	\$ 665,437.00
TOTAL	\$ 18,290,437.00

Personal Property Investment:

Group	New
1 – Furniture, Fixtures, General Equipment & All Other Property Not Listed in Another Group	\$ 11,743,800.00
2 – Computers, Copiers, Fax Machines, Peripherals & Tools	\$ 223,238.00
3 -- Molds, Dies & Jigs	
4 – Aircraft, Towers & Boats ¹	
5 – Manufacturing Machinery	
6 – Billboards, Tanks & Pipelines	
7 – Scrap Property ¹	
8 – Raw Material & Supplies ¹	
9 – Vehicles ¹	
TOTAL	\$ 11,967,038.00

¹Vehicles, towers, scrap and inventory are not eligible for a PILOT agreement, but the value of these items may be included in the determination of the PILOT benefit.

PROJECT EMPLOYMENT

Project Employment									
Position	No of Full time Jobs (1)	Average Annual Base Pay (2)		Annual Overtime (3)		Annual Benefits (4)		Annual total Compensation	
		Each	Total	Each	Total	Each	Total	Each	Total
Managers	10.0	\$ 106,370	\$ 1,063,700	N/A	\$ -	\$ 47,890	\$ 478,900	\$ 154,260	\$ 1,542,600
Client Services/Quality Rep	7.0	\$ 53,000	\$ 371,000	N/A	\$ -	\$ 23,086	\$ 161,602	\$ 76,086	\$ 532,602
IT: ERP Key User/ Infrastructure	4	\$ 64,000	\$ 256,000	N/A	\$ -	\$ 26,186	\$ 104,744	\$ 90,186	\$ 360,744
Centralized Support (Security, Safety, Procurement, PMO)	5.0	\$ 59,600	\$ 298,000			\$ 20,500	\$ 102,500	\$ 80,100	\$ 400,500
Supervisor	10.0	\$ 78,500	\$ 785,000	N/A	\$ -	\$ 32,119	\$ 321,188	\$ 110,619	\$ 1,106,188
Team Lead (inbound)	10.0	\$ 57,500	\$ 575,000	N/A	\$ -	\$ 23,575	\$ 414,617	\$ 81,075	\$ 989,617
Team Lead (outbound)	15.5	\$ 57,500	\$ 891,250	N/A	\$ -	\$ 23,575	\$ 414,617	\$ 81,075	\$ 1,305,867
Wave Planner	1.0	\$ 60,100	\$ 60,100	N/A	\$ -	\$ 24,641		\$ 84,741	\$ 60,100
Sr. Associate	22.0	\$ 40,500	\$ 891,000	N/A	\$ -	\$ 16,605	\$ 356,400	\$ 57,105	\$ 1,247,400
Associate II	36.0	\$ 33,400	\$ 1,202,400	N/A	\$ -	\$ 13,694	\$ 480,960	\$ 47,094	\$ 1,683,360
Associate I	35.0	\$ 29,500	\$ 1,032,500	N/A	\$ -	\$ 12,095	\$ 413,000	\$ 41,595	\$ 1,445,500
Associates Forklift	31.0	\$ 32,000	\$ 992,000	N/A	\$ -	\$ 13,120	\$ 396,800	\$ 45,120	\$ 1,388,800
TOTALS	186.5	671,970.0	8,417,950.0	-	-	277,085.8	3,645,328.2	949,055.8	12,063,278.2
AVERAGES	15.5	\$55,998				\$ 23,090.48		\$ 79,088	

Definitions:

1 Permanent jobs or combination of permanent positions that provide employment of 1,600 hours or more within a year that is employed directly by the Applicant or employed by a contract employer on behalf of the Applicant.

2 Annual base wage must exceed \$13 per hour to be included, please show payments as annual average wages.

3 Includes paid overtime - Do not expect to incur OT as we have fully staffed for a three shift operation and will supplement with Temps if needed (expect a perm to temp ration of 80/20)

4 Include health insurance, dental insurance, 401K plans, paid sick leave, Holiday & Vacation pay, bonus compensation.

Items to be submitted with this application

- Tax Compliance – Provide documentation demonstrating payment of all municipal, county, state, and federal taxes due for all properties owned by the Applicant located within Shelby County.- No properties currently owned by Applicant in Shelby County.

- Application Fee (\$3,000.00)

This Application is made in order to induce EDGE to grant financial incentives to Applicant. Applicant represents and warrants that the statements contained herein or attached hereto are true and correct to the best of their knowledge and include all information materially significant to EDGE in its consideration of this Application.

Applicant has read and agrees to comply with all requirements of the EDGE Jobs or FastTrack PILOT Program Policies and Procedures. Applicant specifically agrees to pay all reasonable costs, fees, and expenses incurred by EDGE in connection with this Application, whether or not the financial incentives are granted, or the Project is consummated.

By signing this form, I certify that all of the information provided on this application is true and correct to the best of my knowledge. I understand that the Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee ("EDGE") and its affiliates have relied on this information when making decisions regarding an application for Payment In Lieu of Tax ("PILOT") incentives. I further certify that I understand that falsification of any information on this application or attachments will eliminate my Company from consideration for PILOT incentives through EDGE PILOT Programs. I understand that at any time, EDGE can rescind any rights or privileges to an applicant based on the submission of false information or documents.

Applicant:

Arvato Digital Services, LLC

By: Cathi Schmidt 10/5/2020
Cathi Schmidt, VP of Account Management

Date: