

Expansion PILOT Term Sheet
Arvato Digital Services LLC
October 21, 2020

Arvato Digital Services LLC ("Applicant") is seeking an 11-year Expansion PILOT to enable the company to retain 180 existing positions and create six net new positions with a combined average wage of \$55,998 and invest \$30,257,475 to purchase and expand a distribution center at 3303 East Holmes Road ("Project"). While Arvato is new to the Memphis market, this Project is designed specifically to provide service to Smith + Nephew and is therefore being evaluated under the EDGE Expansion PILOT Policies and Procedures. Applicant and Smith + Nephew will enter into a third-party logistics service agreement for the Project that will have a term of at least as long as the benefit provided in this term sheet, subject to typical performance obligations.

Smith + Nephew currently owns and operates 3303 East Holmes Road, employing 180 warehouse and distribution employees at an average wage of \$42,570 a year. Smith + Nephew plans to sell 3303 East Holmes Road to Arvato, then lease back and operate the existing space as it does today through a transition period ending on or about September 30, 2021 under the terms of IDB PILOT #20010302.

All existing PILOT Leases with the IDB related to 3303 East Holmes Road will be terminated on or about September 30, 2021 when operations transfer to Arvato. PILOT #20010302 will be amended, reducing the total jobs commitment from 1,839 to 1,659.

New PILOT leases will be created on or about October 1, 2021 providing benefit for real property improvements at 3303 East Holmes Road that exceed the current 2020 appraised value. All new personal property at the site up to limits provided by EDGE Expansion PILOT Policy will be included.

The new Arvato operation will maintain no fewer than 186 jobs with an average wage of \$55,998.

The total Project investment includes purchase of the existing property for \$10,500,000, construction of a 105,000 square foot expansion at a cost of \$7,790,437, and \$11,967,038 in new personal property.

Parcel 094100 00304 (3303 E. Holmes Road) is 34.162 acres and contains an existing 209,916 square foot warehouse.

Both real property improvements and new personal property located on this parcel will be included in the PILOT. Real Property PILOT benefit will only be extended to the value of the building created above its current value of \$5,077,100 as appraised by the Shelby County Assessor of Property's office.

Arvato is a third-party logistics service provider operating in 85 global locations with nine in the United States. Services include warehousing and distribution, freight and customs management, financial services, and customer support. The company is the top fashion e-commerce provider in the European Union and has been expanding into healthcare sectors. The company is a wholly owned subsidiary of the Bertelsmann Group, a Germany-based conglomerate with more than 126,000 total employees and annual revenues of \$21 billion.

Smith + Nephew is a global medical technology business that produces a range of devices and wound therapies. The company has maintained a presence in Memphis since acquiring the Richards Medical Company in 1986. Today, the orthopedics manufacturer employs more than 1,800 people in Memphis.

Arvato has been evaluating locations throughout its network to provide contract warehousing and distribution services to Smith + Nephew, including Atlanta and Louisville. This PILOT will allow the Applicant to acquire the property, provide continuous operations through a transition period, expand and modernize the facility, combine Smith + Nephew's Memphis and Atlanta distribution into one location, while maintaining Memphis jobs, adding new positions and increasing wages.

The location currently produces \$71,770 in City and County property taxes. Estimated annual property taxes will be \$285,558 during the PILOT term and \$562,870 after. Staff projects \$10,924,857 in total local tax revenues to be received during the PILOT term of this Project and a \$3,620,137 benefit to the Applicant.

The 11-year PILOT for the Applicant is based on the following terms:

| CITY OF MEMPHIS TERMS | % PAID | SHELBY COUNTY TERMS | % PAID |
|-----------------------|------------------|---------------------|------------------|
| Personal Property | Year 1-11 25% | Personal Property | Year 1-11 25% |
| Real Property | Year 1-11 25% | Real Property | Year 1-11 25% |

PILOT Evaluation Matrix

| CATEGORY | DATA | POINTS | YEARS |
|-------------------------------------|-----------------|-------------|----------|
| Net New Jobs | 186 | 37.2 | |
| Wages | \$55,998 | 25.6 | |
| Capital Investment | \$30,257,475 | 15.1 | |
| Sub-total | | 77.9 | 7 |
| Location: City of Memphis | Yes | | 1 |
| Local Business Participation | Yes | | 1 |
| New Markets Tax Credit Census Tract | Yes | | 2 |
| MWBE Owned | No | | 0 |
| Headquarters | No | | 0 |
| Sub-total | | | 4 |
| Total | 11-Years | | |

Ramp-Up Period

With the exception of the period for accomplishing the jobs and wages which shall be one (1) year, the Applicant will have a two (2) year Ramp-Up Period within which to achieve its Project commitments. This two (2) year period. These periods shall begin upon the date when any property, in whole or in part, is conveyed to EDGE, covered by a PILOT Lease, and begins to enjoy the benefits of the PILOT incentive.

Project Budget Detail

| REAL PROPERTY | |
|----------------------------------|---------------------|
| Purchase Price | \$10,500,000 |
| Hard Construction and Site Work | \$7,790,437 |
| Sub-Total | \$17,625,000 |
| PERSONAL PROPERTY | |
| New | \$11,967,038 |
| Transferred* | \$0 |
| Sub-Total | \$11,967,038 |
| Total Investment in PILOT | \$29,592,038 |
| INVESTMENT NOT INCLUDED IN PILOT | |
| Other Real Property | \$0 |
| Other Personal Property | \$0 |
| Fees & Soft Costs | \$665,437 |
| Sub-Total | \$665,437 |
| Total Capital Investment | \$30,257,475 |

**Personal property relocated from a facility outside of Shelby County is considered at its depreciated, current value.*

Local Business Participation

Spending with City of Memphis or Shelby County certified minority and women business enterprises (MWBES) shall be an amount equal to or greater than:

| | | | | *Minimum For Bonus Opportunity | |
|---|-------|----------------------------------|-------------|--------------------------------|---------------|
| | | Basis | \$ LBP | 1 Added Year | 2 Added Years |
| | 25% | Construction/Site Work | \$1,781,250 | \$2,493,750 | \$3,206,250 |
| + | 15% | Real & Personal Property Savings | \$543,020 | \$987,309 | \$1,497,418 |
| = | Total | | \$2,324,270 | \$3,481,059 | \$4,703,668 |

Identified Labor Source

Per section X (C) (ii) of the Expansion PILOT Policies and Procedures, the PILOT Recipient is required to list all Net New Jobs with the Workforce Investment Network (WIN) and give due consideration to individuals referred by those organizations for open positions.

Terms & Conditions

Award of a PILOT in accordance with the recommendations of the Economic Development Growth Engine (EDGE) Industrial Development Board of the City of Memphis and County of Shelby, Tennessee staff, as set forth herein, is subject to the following conditions.

1. The award of a PILOT to the real property used for Applicant's Project is subject to Board Counsel's review and approval of the environmental impact study for said real property to be produced or procured by Applicant.
2. The award is subject to receipt of letters of approval from the mayors of both the City of Memphis and the County of Shelby. Additionally, the award is subject to a letter of recommendation from Smith + Nephew and the entering into and maintaining (unless waived in writing by the Board) of a contract between Applicant and Smith + Nephew for a term at least equal to the term of the benefit herein.
3. The EDGE Board of Directors (the "Board") reserves the right to assign the PILOT, or its rights with respect thereto, to the Memphis and Shelby County Industrial Development Board (the "IDB"), in accordance with the service agreement between the Board and the IDB, if the Board ultimately deems it beneficial.
4. Except as explicitly provided in this term sheet or in a resolution of the Board, the award of a PILOT is subject to the provisions of the Expansion PILOT Policies and Procedures ("Policy"). The term of any land lease must exceed the length of the PILOT benefit term. The Board hereby waives the following Policy obligations:
 - a. The ramp-up period for Jobs (retained and new) and associated wages shall be 1 year from the Effective Date of the first lease entered with EDGE.
 - b. Due to Smith + Nephew's operations and employment of over 1,500 jobs in Memphis, Tennessee for a period in excess of ten (10) years and Smith + Nephew's continued commitment to this Project, the requirement of the Applicant to operate and employ workers in Shelby county for ten (10) years prior to applying for an Expansion PILOT is hereby waived for this Project.
5. The award is subject to the negotiation and execution of PILOT lease agreements requiring the payment of rent in the amount of \$100.00 per year, which agreements shall be in a form substantially similar to EDGE's standard form as approved by the Board at its meeting of March 21, 2018, and consistent with the provisions of this Term Sheet.

6. In the absence of an explicit written waiver of this condition, no conveyance will be deemed to have been accepted by EDGE, the IDB or any other affiliate or agent of EDGE unless and until all of the documents for the subject transaction, including the PILOT lease agreement, have been negotiated and delivered.

7. The Applicant shall not receive Community Reinvestment Credit for the Project.