PHILLIPS EDISON & COMPANY

PHILLIPS EDISON GROCERY CENTER REIT II

# Phillips Edison & Company, Inc. (PECO) and Phillips Edison Grocery Center REIT II, Inc. (REIT II) Complete Merger

### *November 16, 2018 - FAQs*

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## GENERAL MERGER OVERVIEW

**1. What is being announced?**

a. On November 16, 2018, Phillips Edison & Company, Inc. (PECO) completed its merger with Phillips Edison Grocery Center REIT II, Inc. (REIT II).

b. This strategic merger is an important step towards a full-cycle liquidity event for both PECO and REIT II stockholders, as it has created an internally-managed REIT of significant scale.

c. Upon the close of the merger, the combined REIT will increase its market prominence as a strong leader in grocery-anchored real estate and has an estimated enterprise value of approximately $6.0 billion.

d. The combined REIT owns interests in 334 shopping centers (including 304 wholly-owned centers) encompassing approximately 37.7 million square feet in established trade areas across 32 states.

**2. What is PECO?**

a. PECO, an internally-managed REIT, is one of the nation's largest owners and operators of grocery-anchored shopping centers. Its diversified portfolio of well-occupied neighborhood shopping centers has a mix of national and regional retailers selling necessity-based goods and services, in strong demographic markets throughout the United States.

b. Prior to the merger with REIT II, PECO managed 339 shopping centers and owned 218 centers comprising approximately 24.1 million square feet located across 31 states.

c. PECO's proven, vertically-integrated operating platform allows it to effectively and efficiently acquire, lease and manage its properties, resulting in a history of strong operating results and great shopping experiences.

3. **What is REIT II?**
   a. Prior to the merger with PECO, REIT II was a public non-traded REIT that owned well-occupied grocery-anchored neighborhood shopping centers with a mix of national and regional retailers selling necessity-based goods and services in strong demographic markets throughout the United States.
   b. Prior to the merger, REIT II owned an institutional quality retail portfolio consisting of 86 grocery-anchored shopping centers totaling approximately 10.3 million square feet.

## STRATEGIC BENEFITS

4. **Why is PECO merging with REIT II? And why is this a positive for stockholders?**
   a. The merger is expected to create meaningful operational and financial benefits for both PECO and REIT II stockholders, including:
      i. **Actively Positions Combined Company for Liquidity:** The merger has created an internally-managed REIT of significant scale, which is another important step towards a full-cycle liquidity event for both PECO and REIT II stockholders.
      ii. **Maintains Exclusive Grocery Focus:** Two complementary portfolios have been combined to create a high-quality portfolio with ownership interests in 334 wholly-owned grocery-anchored shopping centers encompassing approximately 37.7 million square feet located across 32 states. This portfolio has an emphasis on necessity-based retailers and service providers, which have proven to be internet resistant and recession resilient, and will benefit from greater geographic, grocery-anchor, and tenant diversification.
      iii. **Enhances Potential Public Market Valuation and Increases Size, Scale, and Market Prominence:** REIT II stockholders will benefit from PECO's internally-managed structure, which is likely to receive a better valuation in the public equity markets compared to externally-managed REITs. Additionally, given its enhanced size and scale, the combined company will have improved access to the capital markets, which can be accessed to make strategic investments for future growth.
      iv. **Improves Earnings Quality:** The merger increases the percentage of PECO's earnings from real estate from approximately 92% to approximately 97%. The balance is management fee income, which is not as highly valued as real estate earnings in the public equity markets, given the long-term, recurring nature of owning and operating real estate.
      v. **Accelerates Strategy to Simplify Business Model:** The combined company is expected to realize the synergies of operating a combined enterprise focused on driving stockholder value. Since PECO has managed REIT II since its inception, the combined company expects to have a seamless integration.
      vi. **No Internalization or Disposition Fees Paid; Advisory Fees Terminated:** REIT II did not pay PECO any internalization or disposition fees in connection with the merger. Additionally, the advisory agreement between PECO and REIT II has been terminated to remove fees paid by REIT II, which totaled $13.9 million in 2017.

## MERGER DETAILS

5. **What were the terms and details of the merger?**
   a. REIT II has merged into PECO, and PECO is the surviving entity.
   b. In exchange for each share of REIT II common stock, REIT II stockholders received 2.04 shares of PECO common stock. This is equivalent to approximately $22.54 per share based on PECO's most recent estimated net asset value per share (EVPS) of $11.05. See 7.c for more information on the EVPS.
   c. The exchange ratio was based on a thorough review of the absolute and relative valuation of each entity, including factoring in PECO's investment management business as well as each company's transaction costs.

6. **Who owns the combined entity?**
    a. Original PECO stockholders now own approximately 71% of the combined company and former REIT II stockholders own approximately 29%.
    b. Management remains the combined company's largest stockholders – owning 7.3% or $262 million of equity – aligning management and stockholder interests.

## PECO STOCKHOLDERS

7. **I am an original PECO stockholder - will there be any changes to the estimated value per share (EVPS) of $11.05?**
    a. At this time, PECO does not plan to make any update to its EVPS. PECO's most recent EVPS of $11.05 was established on May 9, 2018 by its board of directors based on valuations performed by an independent valuation firm, Duff & Phelps.
    b. The combined company expects to perform its next annual valuation during the Spring of 2019, per its normal course process.
    c. Duff & Phelps was engaged to provide a calculation of the range in estimated value per share of the company's common stock as of March 31, 2018. Duff & Phelps prepared a valuation report based substantially on its estimate of the "as is" market values of the company's portfolio, adjusted to reflect balance sheet assets and liabilities, and the estimated value of in-place contracts of the third-party asset management business provided by the company's management as of March 31, 2018, before calculating a range of estimated per share values based on the number of outstanding shares of common stock and operating partnership units (OP units) as of quarter end. These calculations produced an estimated value per share in the range of $10.35 to $11.75.
    d. For a full description of the assumptions and methodologies used to determine the estimated value per share, see the Form 10-Q for the quarter ended March 31, 2018 to be filed with the SEC, which will be accessible on the SEC's website at www.sec.gov.

8. **I am an original PECO stockholder - will there be any changes to PECO's regular distributions?**
    a. At this time, PECO does not plan to make any changes to its distributions. At the recent quarterly board meeting, the board of directors maintained PECO's current distribution rate ($0.67 per share annualized) for December 2018, January 2019, and February 2019.
    b. PECO's current distribution rate of $0.67 per share per year, paid monthly, represents a 6.1% distribution yield on the most recent EVPS, and 6.7% on the original offering price of $10.00 per share.
    c. Distributions will continue to be made to stockholders based on their distribution preference (cash or reinvest). Distributions are not guaranteed and are made at the discretion of the board of directors and are declared on a quarterly basis.

## FORMER REIT II STOCKHOLDERS

9. **I am a former REIT II stockholder - what am I getting in exchange for my REIT II shares? And what is the value?**
    a. In exchange for each share of REIT II common stock, REIT II stockholders received 2.04 shares of PECO common stock. This is equivalent to approximately $22.54 per share based on PECO's most recent EVPS of $11.05. Prior to the merger, the EVPS of REIT II common stock was $22.80 per share.
    b. The combined company expects to perform its next annual valuation during the Spring of 2019, per its normal course process.

10. **I am a former REIT II stockholder - how are my distributions impacted?**
    a. Throughout 2018, REIT II stockholders received monthly distributions of $0.13541652 per share, which is the annual equivalent of $1.625 per share, or 6.5% of the original offering price of $25.00 per share.

b. On December 3, 2018, REIT II will make its November 2018 distribution to stockholders of record as of November 15, 2018 at an annualized amount of $1.625 per share, which is consistent with prior months. In connection with the merger, this distribution is required to be paid in cash (no REIT II stockholders will be able to participate in the distribution reinvestment plan, or "DRIP"). This will be REIT II's last distribution.

c. The combined company will make its first distribution for the month of December 2018 to stockholders of record at the close of business on December 17, 2018 (including former REIT II stockholders), and it will be processed on January 2, 2019.

    i. Future distributions from the combined company will be made to stockholders based on their distribution preference prior to the merger (cash or reinvest) and the distribution preference will continue accordingly.

    ii. The combined company's board of directors expects to continue making monthly distributions totaling $0.67 per share per year. Based on the merger's exchange ratio of 2.04, the total annual distribution per former REIT II common share is expected to be approximately $1.367, compared to $1.625 prior to the merger.

    iii. Distributions are not guaranteed and are made at the discretion of the board of directors and are declared on a quarterly basis.

## MERGER APPROVAL

**11. Who approved the merger?**

a. As part of the merger process, both PECO's board of directors and the special committee of REIT II's board of directors independently retained their own financial and legal advisors. Upon the conclusion of a thorough due diligence and negotiation process, PECO's board of directors and, upon the recommendation of the independent special committee formed by REIT II's board of directors, REIT II's board of directors each unanimously approved the merger.

    i. PECO Board of Directors: BofA Merrill Lynch acted as lead financial advisor. Citigroup Global Markets Inc. and Goldman, Sachs and Co. also acted as financial advisors. Latham & Watkins LLP acted as legal advisor.

    ii. REIT II Special Committee: Morgan Stanley & Co. LLC acted as financial advisor. Hogan Lovells US LLP acted as legal advisor.

b. At the November 14, 2018 PECO annual meeting of stockholders, the proposals to amend PECO's charter and consummate the merger with REIT II were each approved by at least 92.5% of the votes cast. Of the total shares outstanding, only 1.35% voted unfavorably.

c. At the November 14, 2018 REIT II annual meeting of stockholders, the proposal to approve the merger with PECO was approved by approximately 93.0% of the votes cast. Of the total shares outstanding, only 1.34% voted unfavorably.

## LIQUIDITY & SHARE REPURCHASE PROGRAM

**12. When will there be a liquidity event? And will there be additional liquidity now that the merger has closed?**

a. PECO's management and its board of directors, and REIT II's management and its board of directors believe that the merger is in the best interest of stockholders because, among other things, it puts the combined entity in a better position to explore liquidity alternatives. This is a transformative and positive step toward a potential full-cycle liquidity event for both PECO & former REIT II investors.

    i. One of the combined company's options to provide stockholders with liquidity is a public listing.

        1. *Looking at the public markets, PECO compares itself to nine publicly traded REITs, and as of October 30, 2018, these nine public companies were trading at an average discount to NAV of 23%. This material discount below NAV is a concern as PECO evaluates a potential liquidity event.*

        2. *Real estate moves in cycles, and when publicly-traded shopping center REITs begin trading more favorably, the combined company will be well positioned to potentially execute a full-cycle liquidity event at an attractive valuation in the form of a public listing.*

b. The company continues to closely evaluate a listing, as well as many other liquidity options, but it does not have an update on timing. There will be no additional liquidity available as a result of the merger.

**13. Will there be any changes to the combined company's Share Repurchase Program (SRP)?**

a. **Yes.** As part of the merger, PECO is required to make changes to the SRP. The SRP queue has been reset – all existing standard requests have been cancelled.

   i. **<u>All investors must resubmit a new form if they wish to continue their participation in the SRP for standard repurchases.</u>** Forms must be on file and in good order with DST (PECO's transfer agent) by July 24, 2019 at 5:00 p.m. Central time to be included in the next standard repurchase, which is expected to be at the end of July of 2019. All SRP Forms must have a Medallion Signature Guarantee – there are no exceptions.

      1. In the future, should the demand for redemptions exceed available funding, the combined company expects to make redemptions on a pro-rata basis.

      2. Future standard SRP requests that are in good order and have not been fully executed (due to the nature of pro-rata redemptions), will remain on file for future redemptions. There will be no need to resubmit paperwork after each pro-rata redemption.

      3. The combined company will make repurchases related to death, disability, and incompetence (under the terms of the SRP) on a monthly basis and will honor forms currently on file. The next repurchase for DDI will be at the end of November 2019.

   ii. PECO has sent a letter to each investor currently in the SRP queue explaining the required changes, and a copy of the correspondence has also been emailed to each financial representative.

b. PECO will continue to provide updates regarding the share repurchase program in its quarterly and annual reports, as well as at www.phillipsedison.com/investors.

## TAX IMPLICATIONS

*Phillips Edison & Company, Inc. and Phillips Edison Grocery Center REIT II, Inc. do not provide tax or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax or accounting advice. Please consult a professional tax and/or accounting advisor.*

**14. Is the merger a taxable event?**

a. The merger is not expected to be a taxable event for REIT II or PECO stockholders.

**15. I am a former REIT II stockholder - what happens to my basis?**

a. The basis from REIT II is expected to carry over to the new holding in PECO.

**16. I am a former REIT II stockholder - will I get two Form-1099s for 2018? What about 2019?**

a. Former REIT II stockholders that have held their shares all year, are expected to receive 12 monthly distributions from REIT II during 2018, which will be accounted for on the 2018 Form-1099 that will be sent in January 2019. They will not receive a PECO Form-1099 for 2018.

b. Because the first distribution from the combined company will be paid out on January 2, 2019, Former REIT II stockholders will not receive a Form-1099 from REIT II for 2019.

   i. Former REIT II stockholders are expected to receive monthly distributions from PECO (the combined company) in 2019 which will be accounted for on the 2019 Form-1099 that will be sent in January 2020.

   ii. Distributions are not guaranteed and are made at the discretion of the board of directors and are declared on a quarterly basis.

## ACCOUNT ACCESS

**17. I am a former REIT II stockholder; will I get a new account number?**

a. Yes. This was required for record keeping purposes.

**18. How can I see my updated account balance?**

a. Stockholders can access their account online by visiting www.phillipsedison.com – Once there, go to the Investors section of the website and click Log In.

b. Former REIT II stockholders are not required to create a new username and password. For account access questions, please call DST at 888-518-8073

c. Accounts are expected to be updated by Friday, November 23, 2018 online and on DST Vision.

**19. What about Account Statements?**

a. Former REIT II stockholders will be sent a confirmation statement from our transfer agent outlining the exchange from REIT II common stock into PECO common stock.

b. The combined company will send out its statements for the year ended December 31, 2018 in early January 2019.

## CUSIP

**20. What is the CUSIP of the combined company?**

a. REIT II has merged into PECO, and PECO is the surviving entity. Therefore, the CUSIP for PECO will survive.

b. The CUSIP is 71844V102.

## INVESTOR UPDATES & CONTACT INFORMATION

- For investor-related updates on the combined company, please visit www.phillipsedison.com/investors.
- Investor & Operations Inquiries: DST (888) 518-8073
- Financial Advisor & Broker Dealer Inquiries: Griffin Capital (888) 926-2688
- Phillips Edison Investor Relations Team: (833) 347-5717 or InvestorRelations@PhillipsEdison.com

## DISCLOSURES & DISCRIPTIONS

**About Phillips Edison & Company, Inc.**

Phillips Edison & Company, Inc., an internally-managed REIT, is one of the nation's largest owners and operators of grocery-anchored shopping centers. Its diversified portfolio of well-occupied neighborhood shopping centers has a mix of national and regional retailers selling necessity-based goods and services, in strong demographic markets throughout the United States. Immediately prior to the merger with REIT II, PECO managed 339 shopping centers and wholly owned 218 centers comprising approximately 24.1 million square feet located across 31 states. PECO's proven, vertically-integrated operating platform allows it to effectively and efficiently acquire, lease and manage its properties, resulting in a history of strong operating results and great shopping experiences. For more information, please visit www.phillipsedison.com.

**About Phillips Edison Grocery Center REIT II, Inc.**

Prior to the merger with PECO, Phillips Edison Grocery Center REIT II, Inc. was a public non-traded REIT that owned well-occupied grocery-anchored neighborhood shopping centers with a mix of national and regional retailers selling necessity-based goods and services, in strong demographic markets throughout the United States. Immediately prior to the merger, REIT II owned an institutional quality retail portfolio consisting of 86 grocery-anchored shopping centers totaling approximately 10.3 million square feet.

**Forward-Looking Statements**

Certain statements contained in this press release may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements regarding the transaction and anticipated earnings, distribution coverage, distributions and other anticipated benefits of the transaction. PECO and REIT II intend for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act, as applicable. Such statements include, in particular, statements about PECO and REIT II's plans, strategies, liquidity, distributions, and prospects and are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of PECO and/or REIT II's performance in future periods. Such forward-looking statements can generally be identified by PECO's or REIT II's, as applicable, use of forward-looking terminology such as "pro forma," "may," "will," "would," "could," "should," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this release. PECO and REIT II make no representation or warranty (express or implied) about the accuracy of any such forward-looking statements contained in this release, and do not intend, and undertake no obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.