TRITAX EUROBOX

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Half Year Results to 31 March 2022

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Robert Orr:

Good morning, and welcome to the Tritax EuroBox presentation for the first half year results to 31st of March, 2022. My name's Robert Orr, and I chair Tritax EuroBox.

I'm pleased to report, it's been another period of strong performance building on the achievement of last year, demonstrating that our strategy is working. Despite the recent challenging market conditions, the long term shifts in consumer shopping behaviour and strengthening supply chains remain and have increased the importance of logistics. These shifts have been accelerated by recent macro events as strategy of owning and developing high specification assets in the best locations with the right infrastructure in place is now mission critical for our tenant partners, and our company is ideally positioned to capitalise on this.

This was evidenced first-hand by the board and manager when we recently visited five of our assets in the Netherlands and Belgium four weeks ago. In all cases, our tenant partners were very keen to spend time with us explaining their dynamic business plans and exploring how we can work with them to help realise their growth potential. Within the European real estate sector, demand is set to continue to outstrip supply and our business model allows us to further capitalise on the huge opportunity available to us. We're very conscious of the current divergence between our net-asset value and share price, but we are confident that our proven stock selection and asset management skills will continue to release the embedded value in our portfolio.

There are some exciting near term opportunities to share with you. Like all businesses, we're also facing the uncertainties created by cost and supply chain pressures and the ongoing effect of COVID-19, but the nature of our business and the underlying dynamics in our markets provides a resilience to our financial results, and means that we can look forward with confidence to further growth in earnings and value in the future. It leads me to thank our management team for delivering these results. And I now would like to hand over to Nick and Mehdi for today's presentation. Nick.

Nick Preston:

Thank you very much, Robert. Good morning, everybody. I'm very pleased to be here presenting the half year results to the 31st of March 2022 for Tritax EuroBox, and to provide you with an update on the further excellent progress we are making. I'll kick off the presentation with a brief introduction, Mehdi will then run through the financial results. Following that I will pick up on the market dynamics and then look at how our strategy is aligned and fits in with those market conditions, and then how we are delivering the performance, which we're reporting to you today. I'll then finish with a comment on the outlook for the future. Then after that, Jo Blackshaw, our head of investor relations, will coordinate questions and answers.

And so if you do have any questions, would you please submit them on the online webcast and Jo will collate those questions and ask them at the end. The principle message from today's update is that during the half year, we've continued to deliver a strong financial and operational performance. And looking forward, we remain very positive about the outlook for our markets and our ability to deliver growth and attractive returns for our shareholders. This is based on three key elements. First, we continue to see strong tailwinds in our markets, which maintain an attractive supply demand dynamic, particularly for the right assets. The current macroeconomic uncertainties that we're all familiar with clearly create a more challenging backdrop, but the attractive drivers of demand remain very much in place in our market.

Second, we have now built up a portfolio comprising €1.7 billion of assets in 27 buildings, 25 buildings, I'm sorry, with the characteristics and quality needed to satisfy the demand from occupiers. Tenants are continuing to look for larger size modern facilities which lend themselves to improved efficiencies, more automation, and improving and making more resilient supply chains. And location remains critical. We have built our portfolio to cover many of the best logistics markets in continental Europe. And on top of this, our recently built portfolio scores highly across the many ESG measurement criteria, which as we have said before, remain a critical thread running through our business.

And thirdly, our asset management skills mean that we are unlocking the significant embedded value that is within our portfolio. Our portfolio has seen market rental value growth of 5.4% over the six-month period, leading to a total reversion within the portfolio of 9%. We are now capturing this reversion. We have the skills to deliver the value from our assets through leasing, extensions, building improvements and other projects. A great recent example of this is the new lease secured in Hammersbach near Frankfurt in Germany, which we have announced today alongside these results.

We surrendered an in-place lease, which was originally granted in the middle of 2019, regranting a new lease to a new tenant at a 24% increase in the rental level, and also on much improved lease terms too. I will cover that in a little bit more detail later on. We continue with our careful deployment of capital with a particular focus on adding high quality development opportunities that we can now absorb as the company now has the scale. Our financial performance reflects these three elements of our strategy. As I've said, the capital value has increased by 8.1%. The market ERV, open market rental value has increased by 5.4% over the period.

And in addition to this growth, our portfolio mix provides resilient income with a high degree of inflation hedging and the continuing opportunity to increase value through skilled asset management. And our balance sheet remains strong, and Mehdi will cover that in more detail later. So in summary, the strategy we've been implementing over the past 18 months is delivering. This underpins our current strong performance and also our ability to continue to unlock embedded value and grow the portfolio. I will cover some of these points in more detail later on, but first of all, let me hand over to Mehdi to run through the financial results.

Mehdi Bourassi:

Thank you, Nick. Good morning, and welcome to everyone. In the next few slides, I'll run you through the key headline numbers. I'll spend some time on valuation, income and cost, and finally talk about our capital allocation and financial outlook. This will hopefully demonstrate how well we're performing and underpins our strengths and confidence about the future. The first six months of the financial year have been strong. The group has generated the strongest total return for any six months period in its history at 12.4%. They sets us well on track, we exceeded our target of 9% annually. Valuation increased by 8.1% on a like-for-like basis.

Three main drivers for that, continuous yield compression, indexation on existing rents and asset management initiatives. As a result of the deployment activity throughout the period, the adjusted earnings were 1.82 cents below the 2.50 cents dividend paid for the period. I'll go into the details of earnings in a moment. This is all resulting in an EPRA NTA of €1.49, an increase of more than 10% against the September 2021 figure, and more than 19% since March 2021. Let's go into details and break down these figures. Valuation first. Valuation movement has been the main driver of our strong performance during the period.

Breaking down the portfolio by country, on the top right chart, you can see that Belgium, Germany and the Netherlands have been our top performers. Germany is also our biggest market representing 48% of our total valuation. But you can also see that Poland is lagging, reflecting the recent new vacancy in the portfolio. But again, Poland represents only 3% of the portfolio valuation. Yield compression has been the strongest driver of valuation performance. However, we estimate that cycle quarter of the 8.1% like-for-like valuation increase was the direct result of asset management initiatives.

We've also seen as Nick said, a large estimated market rent increase with the like-for-like valuation ERV growth of 5.4%. To clarify, this is the market rent of our portfolio as assessed by our external values. And this is leading today to a reversionary potential of 9% in the portfolio. Overall, our average net initial yield has dropped from 3.9% in September to 3.5% in March 2022. Looking forward on valuations, we can see some further yield compression, although restricted by the rising risk free environment in which we are. We anticipate that performance in the next 12 to 24 months will be driven primarily by rental growth and by asset management initiatives or developments

On the earning side, income has grown 70% to 32.9 million compared to the six months ending March 2021. A large part of this comes from the deployment into new assets during the last 12 months. If we look at the like-for-like basis against the 30th of September 2021, the annualized rental income at period end has actually decreased by 1.5%. This is entirely due to the expected new vacancy in our Polish asset, which I was referring to. We are in discussions with potential tenants on that vacant space and we are hopeful to let that space shortly. If we exclude the Polish property from the like-for-like, the income has grown 0.9% during the six months, entirely driven by indexation.

With inflation running high throughout Europe, we expect that indexation to gradually increase in the next period as we hit hurdles and indexation dates. I'll show you on the latest slide how we expect indexation, but also deployment and asset management to contribute to the income growth in the future periods. On the cost side now, we've seen an increase in our EPRA cost ratio. This has been driven by the strong valuation increase and the effect of cash drag from the September equity rates. Six months ago, we said we were working on solutions to lower the overall level of fees and costs. Together with the board, we have engaged in a review of the main service providers to the company, starting with the largest one, the manager. The board and Tritax management are now in advanced discussions to change the terms of the management agreement, including a lowering of the fees. This will improve our upper cost ratio, and we expect to agree the newer arrangement shortly.

But beside the manager cost, we've also been discussing with various other service providers to achieve economies of scale. I'm pleased to report we've been successful in a number of these discussions, lowering, for example, our annual tax compliance fee by 120K. We continue to look very hard for further efficiencies and we will report to you as we further progress. And that brings me to the strength of the balance sheet. We started the period with significant cash available and raised a further 200 million euro debt in December, a bilateral prior placement.

We've been busy investing the proceeds in seven different assets during the period and two additional ones after the period ends. With a lot of these assets being forward funding for developments, all the money is not needed immediately. And therefore, the LTV stands only at 27.9%. But if we take into account the capital commitment, the LTV is actually 39.5%. Now, beyond the 39.5%, we have still 130 million undrawn debt available, reserving part of it to organic projects and part of it to our live pipeline. Based on the new valuations, fully drawing our debt facility would lead to an LTV of circa 42%. And that leaves us circa 60 to 70 million available LTV to potentially raise new debt. It's also worth a reminder that we have no debt maturing before 2025, that 73% of our debt is fixed, and the 27%, which is unfixed, is benefiting from hedges in place, capping the Euribor at 0.67%.

If we combine that with a run rate cost of debt of 1.3%, we have a very effective debt strategy, offering an attractive cost, robust maturities, and a great protection from rising rates. This all means we can be more active in capital deployment, although we are maintaining strict discipline. We have an attractive pipeline of new assets with organic expansions opportunities. We have debt available to fund these. We can raise new debt, but we also expect to realize gains and recycle some of our assets in the coming months. All in all, we are in a good, flexible position, and we can continue to realize our strategy whilst being able to react to market conditions.

And that leads me to my last slides on our financial outlook. As Nick said, the overall macro environment has changed significantly since our last results. Inflation, interest rates and geopolitical uncertainties have become more challenging to all businesses, including ours. That being said, the fundamental and structural changes impacting the logistics submarket remain as strong as six months ago. We expect dues to last many years in the future. In many aspects, our portfolio is defensive and in the best location in Western Europe. Our tenants continue to pay 100% of the rent and indexation is protecting us from rising inflation. Beyond that, we are more and more focused on driving organic growth and capturing more value from asset management. We therefore remain confident about the trajectory of our future earnings. Today, we confirm the guidance that dividend will remain steady for the remainder of the financial year.

We expect to approach full coverage at your end, but not full coverage due to the impact of cash drag resulting from the September equity raise. However, we expect earnings to equal dividend in the quarter ending 30th of June 2022, before exceeding the dividend in the quarter ending 30th of September 2022. Today, we are also providing you an illustration of how we see our income evolving beyond this year. I should flag, this is a management estimate and does not represent of profit forecast. Let's go through the chart and let's look, first of all, at the blue line.

This is the portfolio as it currently stands and shows how the income is expected to grow with indexation only. The jump you can see from March 2022 to today is the two acquisitions with close post period end and the result of indexations event materializing in April. If we move up, the red line shows you the evolution of income when we add the existing funded pipeline of investment properties on top of the indexation. You can see we expect to deploy these funds during the summer. And I can confirm we are in advanced DD on these assets. Now, beyond the funded pipeline of new assets, we have a pipeline of funded asset management initiatives. This is the green line you see on screen. These are extensions developments and the capturing of ERV at maturity of our leases or rental guarantees. Now, to be very clear, blue line, red line and green line are all funded. And that means we have set money aside in our capital allocation to fund this income. It does not require new debt, new capital or asset recycling.

Finally, the yellow line shows our pipeline of organic future developments and extensions, which have no capital allocated to them because of timing uncertainty. This can come sooner or later, and we require a total of circa 196 million euro CapEx. As I mentioned before, our capital allocation is flexible and we have several options as to how we will fund these accretive projects. To conclude, like to say, we had a strong six month period despite macro uncertainties. We continue to be very active in capital deployment and we have great visibility on our growing income. We are also working to reduce our cost and expect to report on that shortly. This will all drive the bottom line and distribution to shareholders, which is and will remain our focus. Thank you very much. And back to Nick.

Nick Preston:

Thank you very much, Mehdi, for that explanation of our strong financial performance. And now perhaps I can just move things forward and talk a little bit about the market conditions, first of all, and then how our strategy is fitting in with that. So these market indicators are not new and those of you familiar with our sector will have seen a number of these statistics before. The important point to note is that despite the macroeconomic headwinds that we are facing, which Mehdi has touched on, I touched on earlier, the core drivers in our markets still exist. There is good occupy demand. There is tight supply. That means that vacancy rates are falling and will remain falling and continue to fall for some time, we believe. This is leading to rental growth in our markets. I will provide clear evidence of that later on.

And this is despite Amazon's recent announcement that they are easing off on further short term expansion. And despite that, we remain confident about the positive supply and demand outlooks in our markets across Europe. We know that because of our tenants' interaction. We have recently, as Robert said, been traveling again, which is a relief. And we have been in discussion with our tenants and we know that these demand pressures are real. We're discussing expansion plans across our portfolio, in Spain, Germany, Poland, Netherlands, and Sweden. This is driven by the factors that we have been communicating for some time now. It's all to do with the transition to online retailing and the growth in the online retailing sector and also, companies building inventory for more business resilience in the face of supply chain issues that we have read about over the last few years.

And on top of that, we know from our interaction with our developer partners and our market contacts that the scarcity of land available in the best locations is very, very low. Now, on the basis of that market update, now I'm just going to turn and look at how our strategy and our portfolio is delivering against that backdrop. It revolves around three key points that I have mentioned before: high quality portfolio, defensive characteristics of our portfolio income streams in particular, and then our ability to capture rental growth. We have continued to deliver our strategy, building the portfolio. We now have a portfolio approaching 1.8 billion and with 25 assets, that's adding one billion of assets under management in the last year. And in doing this, we have maintained the quality, the lease length and the age of assets across the portfolio.

It's reassuring to note that 45% of our portfolio by income is located in Germany and nearly three-quarters of our portfolio in a combination of Germany, Belgium, Netherlands and Sweden, Returning to the three key points, I'll now look at each of those three points separately. First of all, high quality portfolio. Everything we do revolves around high quality assets in top locations. What does this actually mean? It means prime locations where occupies want to be. It means well-located, modern, simple, flexible buildings. It means buildings that are energy efficient, that are high quality places to work, that have a beneficial impact on the local environment and economy. I've put up here two examples. One in Geiselwind, in Germany, which we bought last year, which is leased to Puma. It is their global distribution hub. 70,000 square meter building and there's a potential expansion of 42,000 square meters on an adjacent plot of land there. This is building constructed to LEED Gold classification and it benefits from a whole host of ESG credentials, which means it's a market leading in that field.

The next one on the right is Breda, in the Netherlands. This is leased to two global companies, Abbott Pharmaceutical and Samsung, for their distribution side of their consumer electronics business. This is a 46,000 meter building split in half, and it has a wide selection of solar panels on the roof. We have demand pressures here from both tenants looking to expand on site, which is a positive problem for us to have.

The second point is defensive characteristics. We've talked about the high quality portfolio, but in these more uncertain times, it's reassuring to know that it's not only the geographies, the locations and the modern, sustainable buildings. It is also about the income profile. We have long term leases, an average of eight and a half years at the period end. We have annual inflation linked indexation, providing us with that inflation protection. 77% of our leases have some form of annual CPI increases. We have a diverse occupier base which is financially strong and representing a wide range of businesses across business sectors, and I've put up some of our tenants there in terms of the logos and the breakdown of the rental income.

Moving on to capturing rental growth. So in addition to that resilience, our portfolio continues to offer substantial growth from both our stabilized assets, but also the development assets, which we have been increasing exposure to. 81% of our portfolio is in stabilized assets. Now, you may think that these are benign, dry assets with little opportunities to add value, but that is far from the case. We have numerous opportunities within this stabilized foundation portfolio to grow our income. I've put here two examples of this. One, we have mentioned before, it is the top one, it is a 94,000 square meter extension of our property lease Mango in Barcelona in Spain. This will provide the company with an additional 2.8 million euros of additional rent at a 7.1% yield on cost. It is also good to note that it was improving the environmental credentials of the building by adding a significant amount of photovoltaic panels to the roof, working in conjunction with Mango on that.

And the second one is the one that I mentioned earlier on, which is the announcement we made today. This is the new lease in Hammersbach close to Frankfurt in Germany. It is a 43,000 square meter building, and let me just put a bit of colour around this. We, through our asset management teams, remain close to the previous occupier. We knew that tenant had lost its operating contract, which it was using the building to service, and we therefore knew that they were looking for options to leave the building in some way, shape, or form. They were considering a sublease at the existing rent to another party. However, we realized there was a significant difference between the in place rent and the open market rent, and we were therefore very keen to step in. We ended up paying a premium to that tenant, they left, gave us vacant possession of that building, which we then immediately relet at an increased rent, 24% increase in the previous rent but also with very beneficial lease terms compared to the previous lease in terms of indexation, 100% indexation capture annually, and introducing, very unusually for the German market, a rent review if the tenant chooses to exercise an extension option at the end of the lease in year seven.

So these are factors that have significant valuation increase for the company. And overall, we added 588,000 euros to the rent and overall triggered over 12 million euros valuation uplift to the company. This is an important event for a number of reasons. One, it proves that rents are rising faster than we were expecting, that level of rent is some 15% above what our external value has had assumed the open market rental value was. It also proves that we can capture this rental growth and improve lease terms, driving income and value. It proves that our assets are well located, appealing to occupies, and that our asset management approach works in being able to capture these uplifts and deliver value.

Moving on to the 19% of our portfolio which is exposed to development now, this has increased over the last couple of years in line with our strategy, and we have a number of different development exposures. We have some pre-leased forward fundings, we have some speculative forward fundings, all of which are located in top locations, in strong markets. The speculative forward funding opportunities located in Turin, Stockholm, and two in the North Rhine-Westphalia area in Germany. We are expecting rental growth in these markets to continue to rise, and we expect to be able to capture these increased rents as we lease these properties over the next year or two.

And we've also recently bought our first income producing land for redevelopment in a prime site just to the South of Malmo, close to the Oresund Bridge, going to Copenhagen. It's one of the leading logistics locations in Sweden. This property benefits from a lease for another 18 months to the previous tenant who's been there for approaching 50 years, a meat manufacturing plant, and what we will be doing is preparing the development over the next 18 months to be able to expand the floor space on site and develop first class logistics buildings in this location. We acquired this property for 21 million euros, we're expecting to invest around 65 million euros in the construction of the building with an expected end value of around 115 million euros.

I'll now have a quick update on the positive outlook for the future. We've talked about how our strategy in our portfolio is delivering, and now I would like to just summarize and wrap up with a few key look forward points. As I've said, the market dynamics remain supportive and strong, despite some of the headwinds we're facing. Our portfolio is in a very good position to be able to capture these market dynamics. We high quality assets in the best locations that are well positioned to capture this market growth. Our ESG credentials remain critical, it's energy efficiency, it's biodiversity, it is having socially aware buildings that are well positioned for the future, suffering from low obsolescence and low capital expenditure requirements. There's further embedded value to unlock across our portfolio. I've given you some examples of how we're doing this. We have numerous other opportunities to do this, and all of this is underpinned by the strong financial position, which Mehdi has outlined already.

To summarize, we have a resilient, defensive portfolio with real, tangible, embedded upside. That now leaves me to hand over to Jo Blackshaw to organise the questions.

Jo Blackshaw:

Thank you, Nick and Mehdi. Just a reminder that you can input your questions via the webcast. To submit a question, tap the question icon in the toolbar at the bottom of your screens. We've already had several questions coming through during the course of the presentation. So just to start off with, "Following the recent Amazon announcements and DHL results, noting a year-on-year slow down in parcels, should we be concerned that this could be a precursor for a general broad slowing in demand growth or even to a reduction in demand? And could we have more colour and examples of what's you're seeing in terms of your interactions with tenants and how confident you remain over growth prospects moving forwards?"

Nick Preston:

Thank you, Jo. Yes, I'll take that question to start with. Yes, this Amazon announcement, which we saw a few weeks ago, been much discussed. Amazon in Europe actually has a far lower presence than it does in the UK and in the US, and therefore their influence is actually a lot lower in Europe. The take up that Amazon has absorbed in the last 12 months was below 10% of the total, and this accords with what we are seeing on the ground in terms of from our interaction with tenants. We are seeing a very wide range of demand from different tenants with Amazon not being amongst them, frankly. Our portfolio has one exposure to Amazon in Rome, and it does not form part of our pipeline to any great degree at all. So we're not really seeing much of an impact and fundamentally it does not really accord to what we are seeing on the ground the tenant demand remains strong from a range of different occupiers.

Jo Blackshaw:

Thank you, Nick. A number of questions coming in regarding the funds sensitivity to inflation. "So how much cost inflation can we pass through, particularly on the development side and what proportion of the leases are 100% protected against inflation?"

Mehdi Bourassi:

You guys i'll take this one.

Nick Preston:

You'll take that one, Mehdi.

Mehdi Bourassi:

On the development side, on the cost side, first of all, all our existing developments, what we have in the portfolio are developments which are under fixed price contracts. So we are fully covered for increase in construction cost within our existing developments. Now, we are seeing the development cost inflation in the market and for future development, we would expect an impact on our costs. Now, we also see, as we said in the presentation, that income is growing quickly. The market ERV is growing quickly, which we expect to compensate for that inflation and construction cost.

So that's on the cost side. On the income side, we have a complex structure of leases. Each lease is different in Europe, as we've said in the past. On average, we capture North of 70% of inflation, we've captured 0.9% indexation during the six months, on an annualized basis, that's North of 1.8%. We expect that to accelerate as we hit hurdles and indexation dates. Now bearing that in mind, inflation is not as high in Europe as in the UK. We do not see the 7, 8, 9% inflation rates within the UK. We taking Oxford economics figures as our base for our modelling and we expect an annualized inflation rate across Europe for the next three years of around 3%.

Jo Blackshaw:

Thank you. Following the announcements today of the two new leases, one in Germany and one in Belgium, we're being asked several questions on rental growth and whether or not we can break that down, for like in terms of geographies and more colour on our prospects for rental growth across the portfolio.

Nick Preston:

Shall I take that one? As ever, it's difficult to generalize about rental growth, other than to say we are seeing strong rental growth in prime markets, and I also, as those of you heard me speak about this before, hazard against classifying one country as a single entity, it's all about submarkets within countries. And so we can see certain areas, the Netherlands have strong growth prospects, whereas others don't, and similarly in Germany. It's all about picking the right locations where the supply is very scarce and the tenant demand is strong, being close to population centres, being close to infrastructure, and understanding local markets. But coming back to so the question Jo, it is difficult to say. I hazard a guess I would expect something in the region of 5 to 10% per anum rental growth in prime markets within Western continental European countries looking forward. But as ever with rental growth, it's never in a straight line, it jumps, and so you can't be very specific.

Jo Blackshaw:

Thank you. And a follow-up question really, "Is the potentially worsening macroeconomic backdrop, changing this at all and what are you hearing sort of day to day from your tenants?"

Nick Preston:

What we are hearing from our tenants does not imply any slowing down of this. We are seeing these big macro factors, the big structural changes, as I've said before, to do with the shift to online retailing, with supply chain issues, with global geopolitical uncertainty leading to companies needing to hold more inventory closer to their final customers. This is the principle driver. Now, I suspect and be reasonably sure that recessions and all of these other macroeconomic issues will lead to a dampening of that, but I still fundamentally believe that we will see growth in these markets. Remember, the supply just isn't there, and you cannot create land to develop very large format logistics buildings out of nothing. There's green pressure lobbies in Europe in particular are very, very strong and resisting all manner of development.

Jo Blackshaw:

Thank you. We're also getting questions on the EPRA cost ratio, which we've touched on in the presentation. In addition to discussing a lower investment management fee to reduce this, are there any other levers that we can pull in the midterm to reduce the cost base, and are the things we're doing to date enough to get us down to our 25% target?

Mehdi Bourassi:

Thank you for the question. Obviously, we're looking at the cost, first of all, and the biggest cost is the managed cost. We're looking at, as I said, a number of other service providers, trying to find economies of scale. But actually, one good way to reduce that EPRA cost ratio, which as a reminder, is the division between the cost and the income, we will be driving the rental income, as we said. Inflation will drive income, asset management will drive income, and therefore we expect the proportion of cost out of income to reduce gradually. So, yes, we are trying to be as active as possible on the cost side, but I believe the income growth will also help that EPRA cost ratio to look a lot better in the future.

Jo Blackshaw:

Great. Thank you. Now, the total return performance announced today is very strong, and on slide six, we refer to that. Can we break that down in any way in terms of different sources of return, please?

Mehdi Bourassi:

A very large part of the total return is the like for like valuation increase we've seen in the portfolio, the 8.4%. If you add to that the leverage effect, as well as the dividend, you get to the 12.4. I don't have the exact breakdown of that. It's something we can post on the website if there is appetite for that question. I don't have the exact breakdown to provide that just now.

Jo Blackshaw:

Thank you. Now, in terms of the broader market, what's the current percentage of continental European consumers adoption of online purchases, and what's our expectation of continued adoption growth?

Nick Preston:

Shall I deal with that one? Again, I don't have the exact numbers to hand, but bear in mind, before the pandemic, the overall online retail penetration was somewhere below 10%. It was growing. It stepped up markedly during COVID, and it is, as one would expect, subsiding again. As far as I'm aware, it's somewhere approaching in 20% now. That is still somewhere below the peaks we've seen in the more developed, if you want to call it that, online retailing markets, such as US and UK, which peaked at around 35%. So, there is still a significant gap, a lag between the European online spending percentage relative to US and UK, we expect that to continue to grow, despite there might be a little reset post the pandemic.

Jo Blackshaw:

Okay, thank you. In the same sort of line, consumption being a big driver for logistics take up and debate around consumer confidence eroding, how confident are we that the demand will not just wane in Europe for logistics assets?

Nick Preston:

I think the fundamental point is the diversity of demand. I mean, we see across our portfolio from our meetings with leasing teams the depth and range of different occupiers, I would say all of whom appreciate the scarcity, the lack of supply of new buildings and land to build new buildings on. So, I don't see that we will that way, and I think it will continue. As I said, there is such a diversity of different demand sources that that gives me confidence.

Jo Blackshaw:

Thank you. Now, the observation being made that our portfolio comes from one of the longest WAULTs in the logistics coverage, which is positive, obviously, in terms of secure cash flows, but also may limit capabilities of capturing rental growth. How do we currently see the trade-off between these secure cash flows on the one side and the potential for rental growth on the other?

Nick Preston:

Our average weighted unexpired lease term is over eight years. Yes, that is long, and we have a number of long leases within the portfolio, some of them very long. However, we do also have a number of shorter leases, and we have deliberately constructed the portfolio in such a way that we have short leases counterbalanced by longer leases. Short leases provide us with the opportunities to capture this market rental growth that we're seeing. It provides us options to add value. So, through such things as our forward funding development program, buying properties deliberately with shorter leases, means that we build up a portfolio that is comprised of a spread of different lease expires. So, we like both characteristics. We like the length of lease and the security that provides. We also like shorter leases. That gives us value add potential.

Jo Blackshaw:

Great. Now, you've also spoken around the discipline in terms of where you invest in the prime locations and selection criteria around your assets. You still have capital available from the raises from last year, and have talked to recycling some of the assets in the coming months. Could you speak a little bit more about that? Any other markets you're looking to invest in after the successful entry into the Swedish market last year?

Nick Preston:

As a general point, we are now a large established player in the European logistics market. We have very strong relationships with a wide range of developers and other market players, and therefore, our pipeline continues to be generated. We are therefore able to select, using our very disciplined approach, the best assets to populate our portfolio. As you suggest, Jo, we will be looking to continue the recycling of capital through disposal of assets that we see as offering lower return potential while replacing those with some high returning assets going forward. So, from that perspective, we will be looking to grow the portfolio in the markets that we are already exposed to, but we are expecting, hopefully, fingers crossed, we'll be announcing our first acquisition in the French market in the near future. We are looking at all developed markets across Western Europe. We, as I say, continue to grow in those where we are exposed, but also look at good new markets too, France being an obvious example.

Jo Blackshaw:

Thank you. Then also in terms of a selection criteria for your assets, you've spoken a lot to the ESG criteria that underpins the investment process. Please could you outline the opportunity around adding solar panels to buildings and new developments, and the extent to which you are discussing this increasingly with your tenants?

Nick Preston:

We've always had an ambition to have the maximum exposure or make the maximum use, I should say, of obviously the roof space on these very large buildings, and making sure that they are as efficiently covered with PV cells as possible. We have a number of our buildings already have PV cells. We have a program going through every single asset looking at feasibility studies, and we are working on a number of those right now. I mentioned the Barcelona asset. That had none on it before. This extension was constructed, slightly paradoxical being in Barcelona, but we are putting PV on that roof. We have a program going across a number of our other assets as well, with the ultimate long term ambition of doing that on all of our assets. There are problems, there are practical issues, there are in certain cases tax issues in the German market, for instance, with this, but these are problems that we are solving.

Jo Blackshaw:

Thank you. Then given the portfolio does have exposure to Poland, is the war in Ukraine affecting your business at all, and how shall we look at that?

Nick Preston:

Well, first of all, beyond the human side of things, which we're very sympathetic about, the actual business side, the answer is no, we're not affected by the Russian Ukraine war at the moment. We have no tenants who are funded or come from Russia or Ukraine. We do have one or two tenants who have exposure. Their business reaches into Russia and the Ukraine, but these are a very small part of their overall business profile, and therefore we have not been affected. In relation to the single asset that we have in Poland, it's located in Strykow, just north of Łódź in central Poland. It's 350, 400 kilometers from the Ukrainian border, and therefore has not been directly affected. Although, as a little anecdote, I understand from recent discussions that there has been a step up in take up and demand from occupiers relocating from the Ukraine and Belarus into Poland, which is causing a spike in demand there.

Jo Blackshaw:

Thank you. Then finally, our portfolio net initial yield is now 3.5%. How do we see the yield environment evolving in a rising rate environment?

Nick Preston:

I think that it's an obvious dampener on further yield compression. I think that with rising interest rates, rising risk free rates, that I would not expect to see much more yield compression in the market. I think that the returns for the future will be generated from asset management value add delivering and converting rental growth, basically, income driven returns moving forward, rather than from any further yield compression.

Jo Blackshaw:

Thank you. Actually, one final question. Can we outline the dividend policy to dividend cover and forecast if and when the dividend cover will get to 100%, please?

Mehdi Bourassi:

Sure. It's our policy to have a fully covered dividend and to actually distribute 85 to a 100% of our adjusted earnings. As I mentioned in my presentation, we expect the adjusted earnings to equal the dividend paid in the quarter ending 30th of June this year before exceeding the dividend paid in the quarter ending 30th of September.

Jo Blackshaw:

Thank you, Nick and Mehdi. I think that is all the questions that have come through today. There will be a transcript of today's call, and the webcast will be available on our webcast. I'll just hand back to Nick to close the presentation.

Nick Preston:

Thank you very much, Jo. Thank you, Robert. Thank you, Mehdi. Thank you all for joining us today. If you do have any further questions, please don't hesitate to get in contact with us. We'll be very happy to discuss any of these or answer any further questions you might have. Thank you very much, and we'll close for today. Thank you

[END OF TRANSCRIPT]