TRITAX EUROBOX

Half-year results for the six months ended 31 March 2023

18 May 2023

Presentation transcript

Introduction

<Charles Chalkly>

Good morning and welcome to Tritax EuroBox's half-year results presentation for the six months ended 31 March 2023. I am Charles Chalkly, Director of Investor Relations for Tritax EuroBox.

Before Phil Redding, our CEO, and Mehdi Bourassi, our CFO, talk us through our results, I will make two quick housekeeping points. First, today's presentation is being recorded. A replay and transcript will be made available on our website. Second, there will be an opportunity for investors and analysts to put questions to the team at the end of the presentation. To submit a question, please use the text box in the webcast viewer.

Thank you. I will now hand you over to Phil.

Slide 1: Strong platform, delivering good progress

<Phil Redding>

Good morning, everyone and welcome to our half-year results presentation.

As I highlighted in our full year results in December, we have a strong, resilient platform, and a focus on optimising operational performance. These two strands have enabled us to both navigate the more challenging market backdrop, and deliver good progress on our priorities over the past six months.

In particular, we've continued to grow income from within our existing portfolio, we've reduced our cost ratio, and we've delivered a well-covered dividend - and at the same time, we're making further progress with our ESG initiatives and continue to actively manage our balance sheet.

Slide 3: Agenda

As usual, I'll begin by covering our operational performance, Mehdi will then talk through the detailed financials, before I provide more colour on the market and our portfolio, as well as outlining some of the key asset management initiatives the team have been working on.

Slide 4: Operating review

Focus remains on growing income and enhancing value from our high-quality portfolio throughout the economic cycle. Turning then to our strong platform.

Slide 5: Focus remains on growing income in our high-quality portfolio through the economic cycle

Over the past 6 months, changes in the macro-economic environment have weighed on investor sentiment and led to a significant decline in investment activity. In response, property yields have moved higher with adjustments in asset values being seen across the entire European logistics sector.

However, underlying structural drivers remain strong, and market fundamentals supportive, with our portfolio well-positioned to capitalise on existing and future opportunities.

Our high-quality sustainable assets, strong customer base, and long-term, inflation-linked leases, have provided resilience.

And combined with the embedded opportunities to grow income, through our proactive asset management and development activities, this has enabled us to continue to create and grow revenues through this more challenging stage of the market cycle.

We have made good progress on our priorities despite tougher economic conditions.

Slide 6: We have made good progress on our priorities despite tougher economic conditions

Even in the context of more difficult market conditions, we've delivered a strong operational performance, making good progress on our priorities during the period.

Back in December we outlined three key priorities:

- To capture opportunities to increase income
- To lower the cost ratio
- And to grow earnings to provide a covered dividend

Underpinning all three, was a focus on maintaining a solid balance sheet position.

Over the last six months:

- Annualised rental income has increased by 5.8% to €78.6m
- The cost ratio has reduced from almost 30% to 25.6%
- And earnings are up 11.6% half-on-half and the dividend fully covered at 108%

But as anticipated - and reflecting the higher interest rate environment - our portfolio declined in value by 14.7% on a like-for-like basis, primarily due to market yield expansion, mitigated in part by asset management and ERV growth of 3.4%.

This has impacted our LTV, which at 44.9% remains in line with our previously stated target and well below covenant thresholds, but higher than we would like at this stage of the cycle. We've therefore commenced some selective disposals, identified as part of our normal capital recycling strategy, to maintain balance sheet strength and fund appropriate opportunities from within the existing portfolio.

Mehdi is going to provide further details on this - so let me hand over to him for a more in-depth look at our financial performance.

Slide 7: Financial review

<Mehdi Bourassi>

Thank you, Phil. Good morning, everyone. In the next few minutes, I'll give you an overview of our financial highlights for the period.

I'll provide details on how our operational results have improved, further demonstrating the quality of our portfolio, and resulting in a rise in EPS with a well-covered dividend. I'll also show how the balance sheet has evolved how valuations have gone down during the period and what actions we are taking, to ensure the balance sheet remains robust.

Slide 8: Income growth and a lower cost ratio drove EPS growth and dividend cover; while valuation was impacted by tougher economic conditions

At a glance, our adjusted earnings per share have continued accelerating to 2.70 cents for the six months, meaning our dividend is 108% covered for the period.

This growth is the result of continued asset management initiatives / indexations driving rental income, and our cost ratio coming down following the lowering of Management fees last year.

On the other hand, the higher interest rate environment means our valuations have decreased 14.7% LFL fully reflecting the evolution of the property yields during the period. Combining this with the leverage effect, our NTA NAV is down 23.9% to €1.05, leading to a negative total return for the period of -22.1%.

Let's go through the detail of all these figures, and let's start with the P&L first.

Slide 9: Increasing visibility on annualised income growth

The chart shows how our annualised rental income has progressed in the past six months, and the projects in which we have certainty on, but not yet delivering any income. Moving left to right, our annualised rental income at the end of last financial year was €74.3m.

During the period, we delivered an additional €2.6m annualised income from asset management, mainly driven by the practical completion of the Mango extension in our Barcelona asset. We have also seen indexation in our leases accelerate.

We had circa 33% of all our leases index during the period / and out of those leases that are full CPI linked, the average indexation was 10%. Overall, indexation has led to an additional annualised €1.7m rent and we expect that to continue to grow in the second half of the year.

This has meant that our like for like income has grown 5.8% for the last six months, and 10.4% for the last 12 months. This leads to an annualised rental income at 31 March of €78.6m as you can see in the middle chart. Beyond that, we have high visibility on three events which will provide further rental growth in the short term.

We released the news last week of a new letting in Dormagen, replacing our current rental guarantee with a lease 18% higher, delivering an annualised half a million additional income. The Settimo development is expected to complete imminently, and a rental guarantee will come into effect immediately after that, delivering an annualised €1.3m rental income.

And finally, we are kicking off a small pre-let extension to our Strykow asset, delivering an additional half a million annualised income from completion, expected in October 2023.

Oher factors will continue to drive income growth in both short term and medium term. Indexation, the Oberhausen development, or simply leasing up the vacant space under rental guarantee, will provide opportunities, which Phil will touch on later.

Slide 10: Reduction in cost ratio driven by higher income and lower management fee

Moving on to the cost side, we said back in December we were expecting our adjusted cost ratio to drop. I am pleased to report that we have delivered a reduction from 29.5% for the FY22, to 25.6% in the first six months of the period.

This is mainly the result of Management fees coming down, due to the change in the Investment Management Agreement last year / as well as a small reduction in NAV in September 2022.

With the sharper decrease in NAV as of March 2023, we expect the fees to continue to drop and save an additional estimated €1.1m in the next six months. This means that we anticipate the cost ratio to be within our target range of 20-25% by the end of the financial year, which would place us in line with our pan-European peers.

Slide 11: Strong earnings growth through H1 underpinned dividend cover of 108%

Six months ago, we said our EPS growth would continue through a combination of higher income and lower cost. We also said we expected a fully covered dividend. I am pleased to say we are delivering on those expectations. As a reminder, as you can see here, the adjusted EPS for the quarter ending September 2022 was 1.26 cents. This has increased to 1.32 and 1.38 cents for the two following quarters, leading to a well-covered dividend.

We also guided that we would keep the dividend steady for the first three quarters of the financial year / and then review the dividend in the fourth quarter with the benefit of all financial information available for the year. We are maintaining that guidance and are announcing today a 1.25-cent dividend for the quarter.

Looking forward, in terms of EPS, we can see that income growth and cost reduction will continue to drive earnings. And while any disposals we make will have some earnings impact, it remains our guiding principle to deliver a fully covered dividend, that can continue to grow over time.

Slide 12: Asset value declines accelerated in H1, reflecting increased economic uncertainty, but rental growth remained strong

That leads us to our balance sheet and let's start with our valuations. Before I go into the details of the figures, I'd like to highlight that we appointed a new valuer, CBRE to perform the independent valuations at the period end.

As you can see here, since September 2022, we have seen a significant adjustment of investment yields as a direct result of inflation and a new higher rate environment. This has meant that our valuations have dropped 14.7% on a like for like basis since Sept, with the valuation net initial yield expanding by 70bps, or 18%. Over a 12 months period, peak to today, the valuation Net Initial Yield has expanded by circa 110bps.

On the other hand, the fundamentals of the logistics sector are still strong, particularly for the assets we hold with low supply, sustained demand and vacancy rates very low on a historical level. This means rental growth has continued, partly offsetting the significant expansion in yields. And as you see on the right, it also means the portfolio today has a 15.3% reversion potential, or €12m in absolute value.

Slide 13: Strong debt position, with long-dated and hedged facilities

On the debt side, we continue to maintain a strong position. We have a total of €950m available debt, of which €171m is currently undrawn. The earliest maturity is the RCF, which matures in October 2025 and is the most expensive source of debt currently.

Our average cost of debt for the period was 1.22%, and with the current caps in place the maximum average cost of debt is 1.46% if the RCF is fully drawn. This maximum may increase a little with these caps expiring at the end of the calendar year however, we also anticipate that most of the RCF will remain undrawn, meaning only a small increase in the actual cost of debt.

With the valuations coming down and the capex spent on development, our LTV has increased to 44.9%. If we include commitments as of 31 March, that LTV goes up to 46%.

45% has historically been a target LTV for the company. However, in the current cycle, we have also stated that 45% is considered a peak, and we would not feel comfortable exceeding it for a sustained period. As such, a priority for

us in the short term will be to lower the ratio, ideally down towards the low 40s. As part of our regular review of the portfolio, we aim to sell assets that have a lower return perspective, and typically re-invest in higher returning opportunities.

Anticipating our higher LTV, we have identified our first assets for sale, part of a disposal program that we expect to undertake over the next 12 to 18 months.

The reduction of our LTV will also benefit our investment grade rating. Fitch reaffirmed this rating at the start of the year, but also placed us on negative outlook / reflecting an increase in our net debt to EBITDA ratio. The disposals we anticipate will reduce this ratio to a range consistent with restoring a stable outlook.

Slide 14: Summary

So, to summarise before passing back to Phil. Operationally, it's been a strong six months and we have delivered on our promise to increase income through accelerating indexations and asset management, to lower costs through a reduction of the investment and professional fees and to deliver a fully covered dividend for the period.

Looking forward to the next six months, we continue to be positive and expect these trends to continue and improve the quarterly performance of the Company.

From a NAV and balance sheet perspective we have seen a significant drop in valuation which is the result of a changed macro environment. And this means our LTV is now very close to the upper limit we have set ourselves. We therefore aim to deliver targeted asset disposals to reduce the LTV over time. This will support our investment grade rating, while continuing to allow us to deliver a growing, covered dividend.

Thank you very much and back to Phil.

Slide 15: Business update

<Phil Redding>

Thank you, Mehdi.

Before we take a closer look at our portfolio and some of our recent activity, let me provide a few comments on broader market dynamics, starting with investment markets.

Slide 16: A changing investment market outlook, with values adjusting to macroeconomic drivers

As I briefly mentioned earlier, the more uncertain macro context and increases in the cost of capital, have led to yields expanding and adjustments in asset values.

The lower left-hand charts on this slide, highlight how the change in the external environment has led to investors pausing investment activity, with volumes declining significantly over the second half of 2022 and into this year. And transaction levels continue to be subdued.

In response to these trends, as shown on the lower right-hand chart, yields have moved out significantly and over a much shorter timescale than in the past. However, this rapid adjustment of asset values, together with a macro environment that is becoming less uncertain, is encouraging investors to tentatively return to the sector, and signs are emerging of prices stabilising.

Market fundamentals and structural drivers remain favourable, and these, combined with the opportunity to gain exposure at re-based prices, will underpin the attractions of the sector to long-term investors. And for assets with the right characteristics, that is high-quality sustainable buildings, let to strong tenants, and located in established

distribution hubs, I expect investor interest to return and investment volumes to recover, as we move through the year. Structural drivers continue to support occupier market, which remains attractive.

Slide 17: Structural drivers continue to support occupier market, which remains attractive

Turning to occupier markets.

It is clear the uncertain economic outlook is causing some occupiers to reassess expansion or leasing decisions, and this has led to a moderation in take-up. But, as the top-left hand chart shows, this decline is coming from exceptional levels, and take-up remains healthy. At the same time, the limited availability and cost of finance is likely to hold back development activity, and help maintain attractive demand and supply dynamics. And you can see these positive market characteristics in the bottom-left chart, with vacancy rates remaining very low, and rental growth still at elevated levels.

I expect these drivers to continue to support rental growth through 2023, although at a slower pace than recent peak levels. And it's worth stressing, what we are seeing on the ground is high quality buildings, in areas of limited supply, continuing to attract a robust level of occupier demand, and I'll come on to provide some examples from our own activities in a moment.

So -we'll carefully monitor near-term cyclical headwinds, but also look to capitalise on the positive structural drivers and strong market dynamics, that continue to provide growth opportunities from within our existing portfolio.

Slide 18: Our resilient portfolio centres on high-quality, sustainable assets with strong income

As I've outlined before, a major factor in our ability to respond to customer requirements and generate growth, is derived from the well positioned, high quality and sustainable nature of our portfolio. And this underpins the resilience of our income.

Looking a bit closer at the left-hand chart - this shows the strong asset characteristics of the portfolio. By that I mean the focus on modern buildings, with excellent ESG credentials, located in core Western European markets.

This is combined with a focus on large-scale warehouses -that allows the substantial investment in automation and power-generation, that improves operational efficiency, and makes these buildings mission critical to our customers.

Looking now at the right-hand chart -this highlights the strong income characteristics of the portfolio. Specifically:

- The strength of our customer base, concentrated on major multi-national companies
- The long-term leases - with a weighted average to break of just under eight years
- And the indexation structure - with 80% of our leases subject to inflation uplifts

These characteristics all combine to generate a robust, predictable and growing source of income, that is demonstrated in the portfolio's:

- 100% rent collection
- High occupancy rate of 98%
- And the 5.8% like-for-like rental income growth generated over the last six months that Mehdi highlighted earlier.

And looking forward, the portfolio remains well positioned to further increase revenues - both through our proactive approach to unlocking new income opportunities, and also from the indexed structure of our leases.

Slide 19: Further progress delivered on ESG analysis and objectives, including enhancing our net zero commitment

And we've also continued to deliver further progress with our ESG priorities during the period.

One of our key targets for 2022 was to establish a clear baseline from which to launch our updated ESG targets. These are now in place, and include an enhanced commitment to achieve net zero carbon across all aspects of our business by 2040, rather than the previously stated target of 2050.

This more ambitious target demonstrates our commitment to continually seek ways to reduce the environmental impact of our business, and to transparently measure and report our progress against these objectives.

At the operational level, we continue to progress initiatives to increase the number of assets that generate renewable energy by the installation of roof-mounted solar panels.

We plan to commence installations on 2 sites in Germany by the end of the year and follow these with a rolling programme, in collaboration with our customers. These two projects will add an extra 6.9 MW to our existing generating capacity of 6.7 MW.

The generation of renewable energy from within the portfolio, to reduce the carbon intensity of our assets and the environmental impact of our customers operations, remains a key objective for the team.

Slide 20: Asset management and development added €2.6m to annualised rental income

We've also been busy in the period driving value through active asset management and development activities, completing a whole spectrum of initiatives right across the portfolio.

And these demonstrate the breadth of opportunities available, and also the skills and capabilities of the in-house team, working together with our locally-based asset management partners.

The boxes on the left show some of these activities, including:

- The Development completions at Rosersberg and Roosendaal
- In Dormagen, the completion in March of the 36,000 sqm speculative forward funding, now let on a 10-year lease to a leading global logistics company
- In Strykow, we've agreed a new extension for our customer Arvato, that also includes the re-gear of their existing lease on a new 11-year term.
- And at the bottom, the previously reported building extension in Barcelona for Mango

Bringing all this activity together, over the past six months, our asset management and development activity added €2.6m of annualised income to the portfolio, with an additional €1m from Dormagen and Strykow to come over the near-term.

Slide 21: Growing income and extracting value

Looking now at Dormagen and Strykow in a bit more detail. Both these projects provide great examples of how our disciplined approach to capital allocation and active asset management can generate income and create value through the cycle.

We completed this speculative forward funding at the end of March. It's close to Dusseldorf, it's a well located, high quality and sustainable warehouse, in an area with limited availability and high demand -all being the key criteria we look for when taking on speculative leasing risk.

And it was these characteristics that attracted a number of potential customers during construction, with a global logistics company signing a lease just five weeks following the completion of the building. The customer will lease the entire warehouse for 10 years at a rent 18% ahead of the rental guarantee, which will add a further half a million euros to annualised rental income.

In Strykow, the team has been working closely with our customer, Arvato, to facilitate the continued growth of their business, agreeing the construction of a new extension, which will complete at the end of October this year. The additional space will create half a million euros of new annualised rental income.

And as part of this extension, we have also agreed a re-gear of Arvato's existing lease - covering the 61,000 sqm they currently occupy - on a new 11-year term, enhancing the value of the overall completed investment.

And we expect to build on this activity through the second half, with three further development schemes, shown here on the right, completing over the next few months and comprising a mix of speculative and pre-let investment funding projects.

Also shown below are two potential extension projects at Wunstorf and Geiselwind, that have the potential to deliver over 50,000 sqm of additional space.

Slide 22: Future income growth opportunities

So, drawing all this together - this chart shows the pipeline of future income growth opportunities that sit within the existing portfolio. Just to clarify -this isn't a forecast, it's more of an illustration of the new income opportunities available over the next three years and beyond.

Mehdi talked earlier about the first half of €78.6m and the secured near-term activities that will take this to €80.9m. The first yellow bar to the right represents potential income from leasing vacant buildings and securing new lettings above agreed rental guarantee levels -as exemplified by the Dormagen letting that I talked about on the last slide.

The two speculative developments that will complete over the next 6 months provide the majority of the near-term opportunity of €0.9m.

The next bar, relates to the building extension projects at Wunsdorf and Geiselwind in Germany, mentioned earlier, and which have the potential to add €3.2m of new annualised rent.

Again, the recent agreement with Arvato in Strykow, and completion of the Mango extension in Barcelona, demonstrates our ability to bring these types of projects to fruition -and discussions are on-going with our customers on both these potential expansion projects.

Income from development relates to the projects at Malmo in Sweden and Oberhausen in Germany, where starts will depend on market conditions and appropriate returns. And these developments have the potential to add annualised rent of €5.1m.

Then, in terms of indexation, the expected blended uplift over the next three years would add a further €5.9 million, based on the Oxford Economics average inflation forecast of 4.2% per year.

And finally, the last block shows the portfolio reversion - worth €12m - which in a number of cases will take some time to crystallise, but the team will continue to look for ways to accelerate the capture of these uplifts.

All this said, it's worth remembering this chart does not include the impact of disposals, or indeed any additional investments.

But as you can see, there are significant opportunities to capture further income growth from within the existing portfolio, that will support our focus on driving earnings -and capturing these will be a key priority for the team over the next few years.

Slide 23: Our focus remains on delivering on our priorities and working to optimise performance

So, to conclude, we've made good progress over the first 6-months of the financial year, and our focus remains on delivering our priorities and working to optimise performance over the second half.

Market conditions are uncertain, but the high quality of our portfolio and customers means that our assets remain in demand, and our income is robust.

And we're running the business well:

- We've grown rental income, adding €2.6m of annualised income during the period, with further opportunities to increase income in the second half.
- We've lowered the cost ratio significantly – from almost 30% to 25.6%, and we expect this to move towards our target range by the end of the full year.
- At the end of the first half, these activities increased earnings by 11.6%, and produced a dividend cover of 108%. And we expect the dividend to be fully covered over the full year.

But as expected, the rapid changes in the macro environment have impacted the value of our assets, and this has increased our LTV to a level higher than we would like at this stage of the cycle.

So, we've commenced some selective disposals, to maintain balance sheet strength, and fund appropriate opportunities from within the existing portfolio. And we remain of the view that the structural drivers and strong market fundamentals, will continue to support the sector. And our high-quality portfolio provides resilience to weather near-term economic uncertainties, while also generating income growth and improved performance, as we move into the second half of the year and beyond. Thank you.

Mehdi and I would now be pleased to take your questions.

Questions

<Charles Chalkly>

Thank you, Phil. I'm Charles Chalkly, the Investor Relations Director here at Tritax EuroBox. I'll help manage the questions as they come through the webcast platform this morning. Just as a reminder, if you would like to ask a question, please use the text box within the webcast viewer. I'll leave a few moments for people to put their questions in and then we'll make a start on that.

Okay. Some feeding through there, thank you. The first one then: *"have we seen the bottom for European logistics now? Recent data seems to show yields are stabilising."* That comes in from Dami Olusanya at RBC. Phil, would you like to make a start on that one?

<Phil Redding>

Yes, sure. Thank you Dami. Good morning, everyone, and thank you for joining us this morning.

Yes, so where are we then? Clearly, it's very difficult to say where yields will go from here. What I can say is, what we have seen is values adjust pretty quickly. And this, no doubt, is attracting investors to have a relook at the sector at these rebased levels. I do expect transaction volumes, which have fallen quite significantly – which I mentioned in the presentation – I do expect these to increase as we get more visibility on pricing through the year.

In terms of adjustments, I think we've taken a good proportion already and perhaps we are nearer the end of this adjustment than the beginning. But still, very difficult to know what will happen over the next six, 12 months.

<Charles Chalkly>
Thank you. Okay. Question here from Pieter at Kempen: *"Can you perhaps shed some light on the selective divestment of strategic assets? Could this mean leaving certain regions such as Italy or Spain in favour of a more focused portfolio?"* Phil, I think that's one for you again.

<Phil Redding>
Sure. And thank you, Pieter. I think Mehdi outlined in the presentation; we undertake a biannual review of the portfolio where we look to identify assets for disposal. This could be assets where we've completed the asset plan. It could be assets that the return expectations are a bit lower, or it could be assets where we believe the risks looking forward are a bit higher.

But it does include, also, those markets where we might feel it'll be challenging to build scale and gain economies of scales and critical mass. So, from that perspective, countries are in the mix, in terms of how we look at disposals going forward.

<Charles Chalkly>
Okay, thank you. We've had a few come through on the LTV. I'll try and collate those together because they're all broadly along that theme. Mehdi, let's line you up for these ones. *"What is your preferred LTV range and why?"* That's come through. And then: *"can you please remind us of the LTV covenant ceiling and how much more of a portfolio re-evaluation decline the balance sheet can absorb, and any guidance on there?"* That was from Mike Prew of Jefferies.

<Mehdi Bourassi>
Sure. Thank you, Charles and thank you Mike and everyone. So, as I stated in the presentation, we are now at 45% LTV. That's in line with our historical target, but it's also a peak given the current market cycle.

Ideally, we would like that LTV ratio to drop towards low 40s in the short to medium term. And at that level, we think it would reflect the maturity of the business after a quick growth period. And it would provide scope to fund the further investment opportunities we have within the portfolio, without exceeding the 45% upper limit.

On the second question on the covenant limits. The LTV limit is set at 65%, and the portfolio would need to drop a further 30% to breach that limit.

<Charles Chalkly>
Okay, thank you. Then moving on to a question from Laura Monty at MFS. *"You plan to reduce LTV through asset disposals, but you also point out that transaction volumes have declined significantly. If asset disposals are too slow, would you therefore consider an equity raise, especially considering you're on negative outlook by Fitch?"*

And there was a question similarly from Philip Small along similar lines about equity being added. So, Phil, do you want to tackle those together?

<Phil Redding>
Yeah. Well, I think in terms of the disposal programming, we mentioned in the presentation that we've commenced this programme. It's probably worth me providing a little bit of colour on that because we are in the market at the

moment with a disposal. And what that has done is given us some good intelligence and a good view of the level of interest from investors.

What I can say is that the level of interest is very encouraging. I think if you've got high-quality assets, high-quality income, good sustainability credentials, at rebased prices, what we are seeing is there is a good depth of demand from investors.

At the moment, it's very much our plan to do the disposals or undertake a disposal programme over the next 12 to 18 months. We're encouraged at the moment in terms of the level of interest we're receiving, so have a degree of confidence that we can execute that.

<Charles Chalkly>
Okay. And then one here from Tom Furlong at CCLA: *"Given the extent of the discount in NAV even following a substantial write down to fair values, will returning capital to investors be considered following the receipt of the proceeds from the plan disposals?"*

<Phil Redding>
We outlined some of our key objectives in the presentation, to capture growth through the existing opportunities in the portfolio. And we will look to allocate capital to those projects, on the basis market conditions are there and the returns are attractive. We've also talked about using those proceeds to reduce debt levels and we're also obviously managing this process to ensure that we've got a fully covered dividend at the full year.

But what I can say is the board and the manager regularly discuss buybacks. It's a key part of our investment process. And with doing these disposals, we recognise that the bar, if you like, for reinvestment is high to reflect the option of shared buybacks being there.

At the current time, those priorities that I just outlined, we feel that that is the best place for us to recycle our capital at the moment. But we will keep that always under review.

<Charles Chalkly>
Yeah, thank you Phil. Okay. We've had a few on ESG and the diligent work we've been doing there. So let's turn to those. One here: *"how do you get revenue from the solar roof panels? Does the rent simply increase, or do you have a separate agreement for the electricity supply?"* And then a few more about our ESG initiatives and the change in our targets. Mehdi, did you want to tackle them?

<Mehdi Bourassi>
On the income from solar roof – it's typically separate agreements, whether with the grid or with the tenant itself. And both actually, on most of the solar we have. So it's not additional rental income, it's classified as other income. As solar income, basically.

<Charles Chalkly>
Okay. And then on the evolution of the targets as well?

<Mehdi Bourassi>
Sure. Basically, our ambition reflects the ability to invest in assets which are fit for the future. We aim to establish whether an asset is already fit for the future, or can be improved to become one before we do an investment. And that's part of our ESG due diligence process that enables us to do that.

A few elements that we look at when we do that. Energy performance of the building is one, obviously. Emissions associated with the building, and the asset's exposure to physical impacts of climate change in the future.

<Charles Chalkly>

Yeah, thank you. Thank you. And then one from Peter Webster at Janus Henderson: *"what does longer term growth look like for the company, given equity markets are likely closed? Would you consider other capital sources such as JVs?"* Phil, do you want to take that one?

<Phil Redding>
Yeah. First off, we're fortunate to have a number of opportunities within the existing portfolio at the moment. And as Mehdi highlighted in the presentation, we will look to recycle out of lower-yielding, lower-returning assets, and putting that capital to work in opportunities within the portfolio that we estimate will do higher returns. Certainly, that's the main source but we will look at other avenues as well, and JVs is one of those options that we will look at. At the moment, the focus is on recycling the capital from the existing portfolio.

<Charles Chalkly>
Thank you. Okay. Mehdi, a couple more coming through on caps here.
So, should we talk a little bit about that? A question specifically from Andrew Rees at Numis and another one from Tom Furlong as well about caps along the lines of: *"is there a plan to put further hedging in place when the caps expire, and what do average debt costs look like in that?"*

<Mehdi Bourassi>
Sure. So just to give the current situation, we have three sources of debt, the bond and the USPP, which are both fixed coupons. That's €700 million. And then we have an RCF which is floating on top of the margin, which is a full RCF of £250 million fully protected by existing caps.

Now, we know that with the disposals we are planning to do, most of that RCF we will actually not be drawn in the future. These caps are expiring end of 2023 as I said. I think it's October or November from memory. The plan is to renew some of these caps probably at the strike price a bit higher than what it is currently. But also very likely at the nominal, which is a lot lower than the full £250 million.

We are currently, in a way, over-hedged, benefiting from that over-hedge from a cashflow perspective. So, we will be looking to reinvest that positive cash flow from that overhead right now to buy new caps. All in all, I would expect that buying the new caps at the slightly higher strike price for lower nominal will not lead to any additional new money requirement, beyond what we receive from the proceeds of the existing caps on the unused part. If that makes sense.

<Charles Chalkly>
Okay. Okay, thank you. We're coming towards the end of the questions submitted so far. So just as a reminder, if you'd like to submit a question, do drop it into the text box in the webcast viewer. But a couple more here: *"what value of disposals do you estimate is required to reduce leverage to a level that satisfies the credit rating return to stable from negative outlook?"* Phil, do you want... That's from Saravana Bala at RBC.

<Phil Redding>
Yeah. Just a reminder, obviously we are looking to put in place that disposal programme that we have commenced for two reasons. To help reduce the LTV towards our preferred level of low 40s, but also to fund the opportunities from within the existing portfolio.

This will evolve a little bit because those opportunities within the portfolio are over the next 12 months or so. And actually putting this money to work on those opportunities will depend on the returns that they generate when we come to assess this, and of course on supportive market conditions. But probably I can say that we would expect to undertake disposals of at least €150 million over the next 12 to 18 months or so.

<Charles Chalkly>
Okay, thank you. And then one on market dynamics and demand: *"are you seeing any evidence of reduced take-up affecting your speculative development programme?"* Phil, that's probably one for you, isn't it?

<Phil Redding>

Well again, I think we showed in the charts in the presentation that it is obvious that take-up is reducing. And what I'm hearing from our customers when I speak to them is there is a little bit more caution. I think things are taking a bit more time, but they're still very focused. The customers are still very focused on improving their e-commerce capabilities, improving resilience, improving their environmental impact.

So, demand is coming down, but it's still at healthy levels. Again, a great example of this is at Dormagen, and again, it was in the presentation. We had speculative forward funding on quite a large building, of 36,000 square metres. During construction we had a number of conversations with customers, indeed, offers from customers, but we decided to take a deal towards the end of that construction process, with the deal completing five weeks after.

It's a demonstration for high-quality buildings, great sustainability features, area of limited supply – with those sorts of characteristics there is still a healthy level of demand. The letting was done 10 years, 18% against our underwritten rental guarantee, 6% above ERV. These are very healthy deals that we are doing. So, occupier demand, yes, coming off a little bit more caution, but for the right space in the right locations, still good levels of demand.

<Charles Chalkly>

Thank you Phil. And then one on the dividend. Mehdi, perhaps we can cover this. *"Given the expiry of caps on the RCF plus some cash drag when assets are disposed of, do you envisage the dividend going uncovered for a period again?"*

<Mehdi Bourassi>

The short answer is no. We are very committed to a covered dividend. Yes, the caps will expire and will have a small impact on our average cost of debt. It's 1.22 for the period. If I had to provide guidance, I would say that that average cost of debt will remain well below 1.5% beyond the expiry of the caps.

Cash drag on asset disposals; yes, there will be some, but we've also seen how we have visibility on future income and lower cost. So, all in all, we are confident we can deliver a fully covered dividend that can grow over time.

<Charles Chalkly>

Okay, thank you. And then another one, I can tack it onto your answer there, along the lines of future income. *"Are you seeing evidence of insolvencies or difficulties with rent among customers, and has there been any resistance to inflationary influences?"* Mehdi, would you cover that one as well?

<Mehdi Bourassi>

The answer is no and no. We are not seeing any insolvencies. We haven't had any pushback from indexation. We obviously monitor all our customers very carefully, speak to them very regularly. But not seeing any sign of issues on that point. We are continuing to collect 100% of rental income.

<Charles Chalkly>

Thank you. Okay. And then one more here on development cost inflation from Phillip Small. *"Can we comment or can we add some colour on development cost inflation, please?"* Phil, that's one for you.

<Phil Redding>

Yeah, thank you Philip. I should start by saying that in terms of our development program that we deliver through preferred developer partners, we will enter into a fixed price contract at the time that we kick off that development. So our exposure to this is indirect rather than direct, if you like.

But clearly there has been some significant build cost inflation over the last few years. What we are seeing now through talking to the developer partners is this is stabilising.

Stepping back, the amount of development that came into most European markets last year was still quite high. This development is beginning to fall. It's still at quite high levels, but it is expected to fall quite significantly. And I would expect for the general contractors who will see a picture of falling new starts, I would imagine build cost inflation

would at least stabilise, if not come in a little bit. But, yeah, we're not too exposed to that on the basis that we work through our developer partners.

<Charles Chalkly>
Thank you. Okay, well we've reached the end of the questions that have been submitted. So that sees us across all of them.

Thank you everyone for joining us this morning. We will be available for the rest of the day, so please reach out if you need any further information. But with that, I'll hand back to Phil.

<Phil Redding>
Just to say thank you very much for everyone for joining today. And as Charles says, if you have any further questions for Mehdi and I, please let me know.

Thank you very much.

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