Full-year results for the 12 months ended 30 September 2023

5 December 2023

Presentation transcript

Introduction

<Charles Chalkly>

Good morning and welcome to Tritax EuroBox's full-year results presentation for the 2023 financial year I'm Charles Chalkly, director of investor relations for Tritax EuroBox. Before I hand over to our chairman, Robert Orr, I'll make three quick housekeeping points. First, today's presentation is being recorded. A replay and transcript will be made available on our website. Second, there'll be an opportunity for investors and analysts to put questions to the team at the end of the presentation. To do so, please use the text box in the webcast viewer. In the interest of time, we will look to aggregate and answer similar questions together. Finally, should you have any subsequent questions, please do not hesitate to get in touch. Our contact details can be found on our website. Thank you. I will now hand over to Robert.

Slide 2: Chairman's welcome

<Robert Orr>

Thank you, Charles, and good morning, everyone. Before I pass across to Phil Redding, our CEO, and Mehdi Bourassi, our CFO, to talk you through the results, just a few words from myself. This has been another significant year for EuroBox. Despite the challenging market backdrop, our well positioned, high quality portfolio has continued to provide resilience and generate income growth, with underlying dynamics also remaining supportive in our target markets.

The first half saw the portfolio valuation decline significantly, in response to the market-wide outward yield shift, but values were broadly steady in the second half, with signs of stabilisation now emerging. Over the year, we've delivered very good progress on the strategic priorities outlined 12 months ago, with the results we're reporting today showing strong earnings growth and further improvements in the cost ratio and dividend cover. And we've also made good progress in delivering the disposal program we announced at the half-year, supporting our objective of maintaining balance sheet strength.

I would like to take this opportunity to thank our shareholders, some of whom I met during the year, for the feedback and perspectives provided. The board and I will continue to engage with our stakeholders over the coming months. I'd also like to thank the EuroBox team for their significant contribution over the past 12 months, and the experience and leadership that Phil Redding has added during his first full year as CEO. And with that, I'll hand over to Phil.

Slide 3: Agenda

<Phil Redding>

Thanks, Robert, and good morning, everyone. As Robert says, our key message today is that over the last 12 months we have made good progress on delivering the strategic priorities set out at the beginning of the year.

To outline this progress, I'll begin with a brief overview. Mehdi will then talk through our financial performance, before I provide more colour on the market and our portfolio, as well as outlining some of the key initiatives the team have been working on during the period.

Slide 4: We have made good progress on the priorities outlined a year ago

So, to start with the overview, you can see here the progress that we've delivered during the year. 12 months ago, we outlined four strategic priorities: to grow income, improve operational efficiencies, drive earnings to support a fully covered dividend, and maintain balance sheet strength. I'm pleased to report good progress on all these objectives. Annualised rental income increased by 4.5% to €76.3 million. The cost ratio has reduced further to 24.2% and is now within our stated target range of 20% to 25%. The combination of higher income and lower costs has driven a 30% increase in adjusted EPS to 5.51 cents, supporting the dividend of 5 cents, which is now 110% covered.

We have also taken some significant steps to maintain our balance sheet strength, securing sales of €65 million in the year, and a further €74 million post period end. This total of €139 million is well on the way to achieving our target of at least €150 million in the next 6 to 12 months. Including the recently announced disposals, our pro forma LTV is now 44%, which remains a little above where we would like it, but with further sales identified, we remain confident of achieving our target percentage in the low forties during the course of 2024. I'll come back with further details of our activities a bit later, but for now, I'll hand over to Mehdi for the financial review.

Slide 5: Financial Review

<Mehdi Bourassi>

Thank you, Phil. Good morning, everyone. In the next few minutes, I will give you an overview of our financial highlights for the year. I will provide details on how our operations have delivered high income and lower costs, resulting in a rise in EPS and a well covered dividend. I will also talk to the balance sheet where, after coming down sharp in the first half, valuations stabilised in the second half, and our debt metrics have evolved accordingly.

Slide 6: Strong EPS growth driven by increased income and lower cost ratio portfolio valuation stable in H2

At a glance, our rental income has increased to €68.1 million during the year, from €57.9 million in the previous year. This is the result of full effect of prior acquisitions, the rent indexation during the year, and our asset management activity, particularly the large Mango extension in Barcelona. The cost has also evolved favourably. The investment management fee cut delivered last year, coupled with additional efficiencies in the portfolio, means the adjusted EPRA cost ratio is now 24.2%, down from 29.5% in the prior year. The combination of higher income and lower costs leads to adjusted earnings of 5.51 cents for the year, up from 4.24 cents in the prior year. And this means our dividend is well covered, with a cover ratio of 110%.

Moving to the balance sheet on the right, as reported at the interim, the effect of higher interest rate environment significantly impacted our valuations for the year. The 14.5% like-for-like drop in valuation for the full year reflects a sharp decrease in the first half, followed by a stabilisation in the second half. This has led to our EPRA NTA dropping from €1.38 last year to €1.02 at the end of the year.

Slide 7: Rental income growth captured from embedded portfolio opportunities, partly offset by Hammersbach disposal

Let's go through the details of all these figures, and let's start with the P&L. The chart shows how our rental income has progressed during the year, and all these figures are annualised. Moving left to right, our annualised rental income at the end of last financial year was €74.3 million. During the year, we benefited from our inflation protected leases, which delivered an additional €2.3 million income. We have also been active working on new asset management initiatives, and signing three new leases, delivering an additional €1.3 million income. In August, the lease in our Malmö redevelopment site expired, leading to a decrease of €0.8 million in income, and we have since announced the disposal of that site, which Phil will cover later.

Finally, you can see €2.3 million of new income, which reflects two large extensions in our Barcelona and Strykow assets, which we are pleased to have delivered on time and on budget during the year. All in all, on a like-for-like basis, our annualised rental income has increased 4.5%, or 7.8% if we include extensions in that figure. And finally, you can see the impact of the sale of Hammersbach, which decreases the income by €3.1 million. This reflects the disposal program that we announced at the interim, which is now well underway. So, in total we have increased our annualised rental income by €2 million during the year, to €76.3 million after the effect of disposals. Let's now have a look at the cost side of the P&L and what this all means for earnings and dividends.

Slide 8: Cost ratio lower and now within target range; dividend cover expanded to 110%

I'm pleased to report our adjusted EPRA cost ratio is now within our set target range. The significant drop from 29.5% last year to 24.2% this year is the combined impact of the lowering of the investment management fees, a lower NAV, efficiencies with some of our professional costs, and the higher income. As we have stated before. Our aim and expectation is for the cost ratio to remain well within our target range in the next financial year. The combination of higher income and lower cost has increased our adjusted earnings from 4.24 cents last year to 5.51 cents this year. We have today announced a steady dividend of 1.25 cents for the quarter, which means we will have distributed 5 cents for the year, with an improved dividend cover of 110%.

Looking forward to financial year '24. Similarly, to last year, we anticipate keeping the dividend steady at 1.25 cents for the first three quarters, before deciding a final quarter dividend in the light of full-year results. Our expectation is for the-full year dividend to remain covered after taking into account the planned disposals.

Slide 9: Asset values showed signs of stabilisation in H2, having declined sharply in H1; while rental growth remained strong

Let's now move to the balance sheet, and let's start with our valuations. Before I go into the details of the figures, a reminder that we are appointed CBRE as new valuer this year, starting from interim, to perform the independent valuations at the period end. As you can see on the first chart, since last year, we have seen a significant readjustment of our property yields as a direct result of inflation and the new higher rate environment. Over the year, the valuation net equivalent yield increased by 100 bips to 4.94% at year end. This meant that our valuation dropped 14.5% on a like-for-like basis over the full year.

It is however worth noting that almost all the yield expansion occurred in the first half of the year, as reported in May, and the very small amount we saw in the second half was offset by rental growth. That continued strength in rental growth is driven by the fundamentals of the logistics sector, which remain strong, particularly for the assets we hold. Whilst we have seen tenant demands start to come down from very elevated levels during the pandemic, we have also seen supply reduce significantly, keeping vacancy low, and this supports rental growth for the right assets.

As you see on the right, the ERV has grown 6.5% during the year, increasing the total reversion potential in the portfolio to 17.6%, or €13.4 million, which is an increase from €7.1 million last year. More on this from Phil a bit later.

Slide 10: Balance sheet supported by low average cost of debt and no near-term refinancings; LTV remains higher than target level

On the debt side of the balance sheet, we continue to maintain a strong position. We have a total of 950 million available debt of which 172.5 million is currently undrawn. The earliest maturity is the RCF, which matures in October 2025. Beyond the RCF, the green bond matures in summer 2026 and its impact on adjusted earnings will clearly reflect rental growth across the period and the interest rate environment at that time. 100% of drawn debt is either fixed or capped. Our cost of debt during the year was 1.28% and we expect the cost of debt during the next financial year to be between 1.25% and 1.5%, subject to how fast we execute our disposal program and pay down the RCF. And as you can see at the bottom left of the slide, we continue to maintain significant head room against all our covenant limits and the disposal program is expected to maintain our investment grade rating.

Back in May, we expressed our intentions to lower our LTV to the low forties, through a disposal program over 12-to-18-month period. On the next slide, I will explain where we are now and how we see the ratio dropping in the short term.

Slide 11: Disposal programme commenced with sales of €139m announced; clear ongoing plan to reduce LTV ratio to target of low 40s

Moving left to right, you can see the LTV of 44.9% back in March this year. The movement during the six months to September is mainly the result of CapEx to complete developments, working capital movements and the disposal of Hammersbach, which brought our LTV to 46.4% at the end of the financial year, above our target range.

Looking forward however, we have a clear view of how it'll come down. We recently announced the disposals of our Bochum and Malmo assets. These will immediately reduce the LTV to 44%. In addition, the negative working capital movement that pushed the LTV higher during the second half is now unwinding. This is mainly the result of an exceptional receivable from the German government for building green assets. We have already received 11.8 million out of a total of 18.3 million and expect the remainder very soon. This will further decrease the LTV to 42.8% in the very short term.

Beyond that, we continue to be active with our disposal program and expect that program to fully offset the last remaining development CapEx in Oberhausen, circa 21 million. And this will lower the LTV to within our target range before the end of calendar year 2024.

Slide 12: A solid financial performance during the year; further progress expected in 2024

So, to summarise, before passing back to Phil, operationally it has been a strong year and we have delivered on our targets. Increased income through accelerating indexation and asset management, lower costs through a reduction of the investment and professional fees and deliver a fully covered dividend for the period.

We expect the dividend to continue to be fully covered in the financial year 2024, after taking into account the planned disposals. From NAV and balance sheet perspective, we saw a significant drop in valuation during the first half, which is the result of a changed microenvironment. We have seen valuation stabilise in the second half and have made good progress on our disposal program to lower the level of debt within the company. Whilst the LTV has increased in the period, we have already delivered new disposal since year end that provide a clear pathway to a lower LTV in the very short term. That concludes the financial review and I'll now hand back to Phil.

Slide 13: Business update

<Phil Redding>

Thank you, Mehdi. Before we take a closer look at the portfolio and some of our recent activity, let me provide a few comments on the broader market dynamics.

Slide 14: Macro continues to dominate investor sentiment; favourable market dynamics remain attractive to investors and continue to support rental growth

And while it is clear we have been through a challenge in 12 months, both from an investment and occupier perspective, we are beginning to see signs of stabilisation and a more positive view emerging of market prospects. Starting with investment markets. We flagged at the interims that the uncertain macro environment and higher interest rates had weighed on investor sentiment. As a result, as shown in the top left-hand chart, transaction volumes have declined significantly, and yields have adjusted higher. But as you can see, while investors remain cautious and volume subdued, activity levels have remained relatively flat over the past three quarters. The chart bottom left shows the rapid price adjustments seen across all markets in the first half of the year, but also that yield expansion has slowed materially over the second half, shown here in dark blue. With some markets such as Germany and Netherlands, seeing little or no further movements.

And what we know from our own disposal program is that while investors are becoming more selective, there remains good appetite for high quality assets in core locations such as those within our portfolio. Turning now to occupier markets on the right-hand side, where the picture remains encouraging. Although take up is moderated through the year, as the top right chart shows, demand in Europe remains healthy, reflecting a normalised pre-pandemic level of activity. On the supply side, development completions have slowed. And while we are seeing some pockets of excess development add into vacancy, these are outside the core logistics markets where our portfolio is concentrated and where availability remains very low. And as you can see in the bottom right chart, this picture of healthy demand combined with limited supply is generating rental growth, which we expect to continue, although at a more moderate pace than that seen recently. So, although the economic outlook remains uncertain with investor sentiment still driven by the macro environment, our portfolio continues to benefit from strong underlying market fundamentals. And looking forward, we are seeing signs of market conditions stabilising.

Slide 15: Portfolio resilience derived from high-quality, sustainable assets with strong income characteristics

I've outlined the attractive features of our portfolio before, but it's worth a quick reminder because this is a key differentiator for us. And it's the combination of our high-quality assets with strong income characteristics that allows secure and predictable rent increases to be delivered through the market cycle. Looking at the left-hand side, by high quality assets, we mean modern buildings, large scale facilities that are mission-critical to our customers, with excellent ESG credentials. The strong income characteristics are shown on the right-hand side, the strength of our customer base, the long-term leases with an average expiry of over nine years and the indexation structure with over 80% of our leases subject to inflation uplifts. These attributes combine to generate a robust and growing source of income, and this is reflected in the 100% rent collection, high occupancy rates of 95% and the 4.5% like-for-like rental income growth generated over the last 12 months.

And looking ahead, the portfolio remains well positioned to generate further growth both through the indexed lease structures and our proactive approach to unlocking new income opportunities. And I'll talk a bit more about that in a moment.

Slide 16: Continued implementation of our ESG strategy, including enhancing our next zero commitment and increasing solar PV capacity

And another key strength of our portfolio is its ESG performance, which reflects the further progress we're making in delivering our ESG strategy. At the half year results, we launched new targets aimed at our four ESG pillars, shown here in the centre of the chart. With our climate and carbon pillar, an important objective for the year was to increase the number of assets that generate renewable energy. In collaboration with our customers, we increased our solar PV capacity to 10.3 megawatts and advanced our near-term pipeline of a further nine megawatts at three schemes in Germany that we now anticipate commencing in Q1 next year.

We also implemented a range of sustainability measures to maintain our strong credentials, including in response to stakeholder feedback, completing our first CDP submission that aligns us more closely to market best practice. We also stepped up our emphasis on the nature and wellbeing pillar with a number of biodiversity initiatives completed at our Rumst and Strykow assets. And finally, we increased engagement with our charity partnership, The Mission for Seafarers, which supports the one and a half million men and women working at sea as part of our customer supply chain. It's a great organisation to work with and visiting one of their facilities a few months ago, I witnessed firsthand the real difference this charity makes.

Slide 17: Completed six forward-funded developments, totalling 224,763 sqm, producing €14.6 million per annum in rental income

And continuing to build on the quality of our portfolio, we have also been very busy with our development program and asset management initiatives. And I'm pleased to say we've made some really good progress. I'll look in more detail at three of these projects in a moment but first, an overview of our activities over the last 12 months. Starting on this slide with a look at developments. We added to the three projects outlined in the interim results with three further completions in the second half of the year. Shown here on the right. Over the year, the six forward funded developments totalled nearly 230,000 square meters and produced 14.6 million euros in rental income.

All these schemes are located in core markets and add high quality sustainable assets to our portfolio and also introduce a number of strong companies to our customer roster such as Lidl, RENAS and GXO. During the year, we also began construction of our 23,000 square meter forward funding in Oberhausen, which is expected to complete in Q3 2024. And this is one of the projects I will talk a bit more about in a moment. It's worth noting many of these projects are sourced and delivered in collaboration with our strong local relationships and it is these relationships with key market participants that continues to provide us with an ongoing source of market intelligence and visibility on future opportunities.

Slide 18: Proactive asset management activities have added €3.6 million of annualised rental income, with indexation adding a further €2.3 million

Turning now to asset management. Following the completion of Barcelona in half one, the Strykow extension and regear completed in October, together with the three lettings in the second half. As you can see here on the right. At the multi-unit scheme at Bochum, we completed a new seven-year lease at a rent 35% above the previous pass in rent and also signed leases at the recently completed schemes at Dormagen and Settimo Torinese. Post period end, we signed a second lease at Settimo, which together with the other recent lettings reduces the portfolio of vacancy from 5.5% to 4.75%.

Finally, the chart bottom left shows the majority of our vacancy now being made up of the two Rosersberg schemes. These are currently covered by rental guarantees, but identifying tenants to de-risk this income is a top priority of the team. As Mehdi described earlier, these asset management activities have added a total of 3.6 million euros of annualised rental income, with indexation adding a further 2.3 million euros.

Slide 19: Successful leasing activity has secured additional rental income; with further growth potential from asset under construction

Now providing a bit more colour on three of these projects, all of which are great examples of how our focus on investing in the right assets, in the right locations is bearing fruit. Both the Dormagen and Settimo schemes comprise high quality and sustainable buildings, benefiting from consistent and robust levels of demand in areas of limited supply. Key factors we look for when taking on leasing risk. As detailed at the half year, we let the Dormagen and scheme to GXO on a 10-year lease just five weeks after the building's completion, disagreed rent was 18% above the rental guarantee and added an incremental half a million euros to the annual rent roll. The Brownfield redevelopment at Settimo was let on a six-year lease to an Italian logistics specialist within three weeks of completion with degreed rental level in line with the underwrite and current ERV. And as I've mentioned, post-period end, we signed a new lease on the second unit to the same Italian logistics company on similar lease terms, but at a rent 8% above the originally agreed level and current ERV. The scheme is now fully let and the rental guarantee de-risked.

Moving now to look at Oberhausen. The project is another Brownfield redevelopment with excellent sustainability credentials including a floor made from material recovered from the previous building. The development began in the summer and is targeted for completion in Q3 2024 with a potential income of 2 million euros when built and let and reflects a target development yield of approximately 6.5% and a profit of over 25%. Although in three different cities and two different countries, all these investments reflect our disciplined approach to capital allocation targeting well located, high quality sustainable buildings in core distribution markets.

Slide 20: Good momentum in our sales programme; gross sales of €139m signed so far

Let me now expand on the ongoing disposal program we announced at the half year results in May. As a reminder, we commenced the program with two principal objectives. First and foremost, to reduce leverage and improve balance sheet metrics. And second, to fund existing opportunities within the portfolio, but only where those projects are expected to generate appropriate returns with the bar to new investments set appropriately high. Our approach to asset recycling is outlined here on the left. This process helps us identify markets expected to underperform or where gaining critical mass in an appropriate timescale will be challenging. And it also highlights those properties where asset plans have been optimised or where forecast ESG performance is not aligned with our overall portfolio objectives. And we have made significant progress to date completing the three disposals shown here on the right, bringing sales so far to 139 million euros against our target of at least 150 million euros over the next 6 to 12 months.

Both the Hammersbach and Bochum assets were sold close to book values following the completion of individual asset plans where regears and new leases secured higher rents and reset ERVs with limited further opportunities to add value. Finally, our recently announced disposal of Malmo to our owner-occupier for data centre use was agreed at a price of 320 million Sek, nearly 40% above the March valuation net of transaction costs. This sale accelerated the capture of development profits, and also compared favourably to the expected returns from undertaking the project ourselves. So far, the total proceeds from these three disposals have comfortably exceeded the combined book valuation. And as Mehdi highlighted, these sales take the pro forma LTV to 44%, and with further disposals identified, we remain confident of achieving our target balance sheet position during the course of 2024.

Slide 21: Future income growth from embedded opportunities and development activity

Looking now at the future income growth potential of the portfolio, the first three buckets show the existing opportunities embedded in the portfolio made up of indexation estimated at 4.3 million euros over the next three years. Lettings and uplifts above rental guarantees on unlit space, adding 1.5 million euros expected over the next year or so, and portfolio reversion of 11.9 million euros on let space, some of which of course will take more time to capture, but we will constantly look for ways to accelerate these uplifts.

The next bucket relates to projects where CapEx has already been committed, made up of the Oberhausen development anticipated to add 2 million euros when finished and let, and also 0.5 million euros from the Strykow extension that as I mentioned earlier, has already been secured.

Moving to the right, we also plan to start three solar PV projects in Germany in Q1 next year, with the nine-megawatt arrays anticipated to produce annualised income of circa 0.9 million euros. The last bucket includes the building extension opportunities at Geiselwind and Wunstorf in Germany that require capital expenditure, which has not yet been committed. Together, these two projects would add a further 4 million euros to rental income, but as I have said, we will look closely at the expected returns of these projects when compared to other alternative uses of capital.

Slide 22: Our focus remains on driving earnings and maintaining balance sheet strength and dividend cover

So, to conclude, I have been the CEO of Eurobox for just over a year now. And on taking the role, it was clear to me that the company needed to address a number of operational priorities. As I look back on what has been a challenging 12 months in our markets, I am pleased with the progress we have made in delivering these objectives and there is plenty more for us to do. Macroeconomic factors continue to drive investor sentiment, although underlying market dynamics in the European logistics sector remain supportive, particularly for the right assets in the right locations and we have seen an element of market stabilisation emerging in the second half. We've driven forward rental income, and we'll look to grow this further by capturing the embedded opportunities within the existing portfolio, including the ongoing development at Oberhausen.

And having worked hard to improve operational efficiencies through the year, we aim to maintain our adjusted EPRA cost ratio within our target range. And expect the dividend for the financial year 2024 to be fully covered, including the impact of planned disposals.

Finally, we'll keep up the momentum in the disposal program to improve balance sheet metrics, including reducing the LTV ratio towards our target percentage range in the low forties during the course of 2024. We remain of the view that our high-quality portfolio and strong customer base mean the company is well-placed to benefit from the favourable market dynamics that continue to support the European logistics sector.

That concludes our presentation, and I'll now hand over to Charles to coordinate the Q&A.

Questions

<Charles Chalkly>
Morning everyone. I'm Charles Chalkly, investor relations director at Tritax Eurobox. And I'll help manage the questions this morning. Just a reminder that if you would like to ask a question, please submit it via the text box in the webcast platform. And as far as we can, we will look to answer similar questions together. I'll leave a few moments for people to put questions in and then we'll make a start. Yeah. As those are coming through, let's start with one here. Phil, I think this one's going to be for you. *Have you seen differences in performance across geographies?*

<Phil Redding>
Thank you, Charles, and good morning, everyone. Look in terms of the performance of our individual geographies, I think a little bit of context. I mean what we have seen over the year is quite consistent outward yield shift and declines in values over the first six months, but then quite a consistent stabilisation over the second half. In terms of the Eurobox portfolio and our individual countries, a lot of the performance is actually influenced by our own asset management activities such as, outlined in the presentation, the extensions in Strykow, for example, which boosted the performance of Poland.

I think more generally in terms of differential in performance, and I think we are going to see a little bit more of this, it's the core markets and the core sort of countries that are seeing the better performance. So, countries such as Germany, Netherlands, and Belgium, where the availability in these core markets is lower, where the vacancy rates, remains lower, and therefore these markets are generating better ERV growth. And it's those countries that are showing the better performance.

<Charles Chalkly>
Okay, yeah. Thank you. And one here on development strategy then, perhaps building out about your conversation on market conditions. *So how do you say your development strategy has changed going forwards or has it changed?*

<Phil Redding>
Well, in terms of our development strategy, obviously most of it has come through... The development pipeline has come through our partners in terms of what we look for in the type of projects we're going to fund. Has not really changed in terms of we are looking at very strong markets, we're looking at high quality buildings with ESG credentials. But obviously at the moment the focus is on dealing with what we have rather than taking on too many new projects. Obviously, I outlined in the presentation a really great project that we have started in Oberhausen. And that demonstrates some of these characteristics by being located in a very strong market, excellent communications, very limited supply. And those are the sort of credentials we'll continue to look for.

<Charles Chalkly>
Okay, thank you. And one coming out of that. Medhi one for you. *Can you confirm the expected CapEx for Oberhausen?.*

<Mehdi Bourassi>
Sure. The outstanding CapEx on Oberhausen development is 21 million euros.

<Charles Chalkly>
Great, thank you. And Mehdi, sticking with you, *I have one here on tenants and how are your tenants coping and have you had any pushback on rent indexation?*

<Mehdi Bourassi>
Thanks Charles. Well first of all I can confirm we collected 100% of the rent during the period and we had absolutely no pushback on inflation indexation. Overall, I would say our tenants are coping well, and we do not have any strength issues. However, of course, as you would expect, some tenants are stronger than others, and we are very well aware, we are in an uncertain economic environment. So, we keep monitoring and talking to our customers as much as we can.

<Charles Chalkly>
And Phil, one for you here. *Do you think values are going to move significantly in the year ahead, so through 2024?*

<Phil Redding>
Well, in terms of values, what we reported today, the half two valuation decline of just 0.3%. We also pointed to our sales program where we are coming out of those broadly in line with valuation. So, I think those two things are indicating or showing some signs of market stabilisation. We also showed in the presentation transaction volumes, although they have fallen quite considerably, flattening out over the last few quarters. And the same with occupier take up.

So, I think after the fairly rapid adjustments we've seen over the last 12 months, I don't think we'll see further significant moves in 2024. But look, I mean it's still quite an uncertain environment out there, and I think investors, or some investors are still looking for a little bit more clarity there. So, it remains difficult to predict. I think we may see some further modest falls, but I think this is going to be more asset specific or market specific rather than a sector wide adjustment, which we'd be probably taking the majority of that from here.

<Charles Chalkly>
A two-parter here, I think I might split this between you. But the first part then for Phil and then onto Mehdi, but I'll read them both out before we tackle them*. So, is there any change in methodology with the switch to see CBRE as valuers?* So perhaps, Phil, that's one for you in a moment. And then the second bit, *can you please elaborate on the German government's credits on green buildings and are any more credits due to Eurobox?*

<Phil Redding>
Yeah, on the valuers, I think that's a pretty simple one. Obviously, we moved from Jones Lang LaSalle to CBRE, excuse me, at the interims. They followed exactly the same RICS guidelines. So, the methodologies on the two valuers are exactly the same.

<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>
On the credits from the German government, they are for having built green building. What I would say is that these credits, grants, cannot impact the P&L of the company. These are receivable and actually are grants to the developer. We had a period and circa 12 million of credits receivable from the German government, since period end, we have received roughly half of it and expect to receive the remainder very soon. But beyond these 12 million, we do not expect anymore.

<Charles Chalkly>
Okay. Yeah, very clear. Thank you. Next question here. The main issue as we see it for EuroBox is a lack of scale. *So how do EuroBox plan to address this? Selling assets and shrinking doesn't appear to be the answer. So, no punches pulled on that question, but you want to dive in on that?*

<Phil Redding>
Thank you, Paul from Barclay's. Yeah, well first of all, selling assets. Yes. So, we outlined some priorities. We thought it was very important to get the LTV towards the low forties. I think we're making very good progress in doing that. So that is focused on managing and maintaining, excuse me, our balance sheet strengths. In terms of the other priorities we outlined, we think by focusing on those and delivering those, that will put the business in a much better place to then consider as we look forward perhaps taking advantage of some of the opportunities that we are seeing in the market. We are very lucky to have some very strong relationships with our developer partners and with our asset managers and with other relationship with key market participants. So, we get a lot of intelligence about what is going on in the market so we can see some of these opportunities that are coming forward. But the priority, we've got more work to do in terms of getting the business in the shape I'd like it to be in.

<Charles Chalkly>
Okay. Then on to this next one, I think Mehdi, this is coming your way. *How will you manage a likely increase in debt cost with the refinance required in '25 '26?*

<Mehdi Bourassi>
Sure. Let me start by saying that obviously we enjoy a very low cost of debt right now with medium term maturity. As a reminder, the earliest maturity on the debt is the RCF, which is in Q4 2025. The RCF is expected to be fully undrawn by the time we finish our disposal program. But beyond the RCF, looking forward to the bond refinancing in 2026, there are obviously a number of moving parts that could influence the impact, which are quite difficult to predict over this timescale. What I would say is that in the meantime, we continue to focus on driving income forward through indexation, asset management and reversion capture. The other thing I can say is that if we look at forward rates

today and inflation forecast today, the 5 cents annual dividend we currently pay would be broadly covered post bond refinancing.

<Charles Chalkly>
Thanks, Mehdi. Sticking with you Mehdi, a question here about *can you tell us about your credit rating and your expectation going forward?*

<Mehdi Bourassi>
Sure. So, we are in constant dialogue with Fetch, our penetrating agency. We've been placed last year, as you know, on negative outlook, mainly on the basis of our elevated net debt to EBITDA ratio. We expect the disposal program we have announced to reduce that ratio to an acceptable level, and we hope to restore the stable outlook as soon as possible.

<Charles Chalkly>
Then combining a couple of questions here, there's one on noting the sale of Malmo driven by weaker market fundamentals and increased construction costs. Phil, *a couple of questions here around the strategy for disposals. Do you want to talk on that?*

<Phil Redding>
Yeah, well let me talk about Malmo first and then a little bit more about the disposal strategy in general and what drives that. So, Malmo, obviously this was one of the last assets that EuroBox actually acquired. It's a fantastic site and it was bought specifically for a redevelopment into a 50,000 square meter industrial scheme, which we had every intention of progressing with. However, since our ownership, some things changed. Obviously yields have moved out, construction costs have increased, but also rents have increased quite a lot as well. But the whole economics of that development weren't as strong as when we actually bought it. Saying that, the opportunity that presented itself was a potential sale for an alternative use, for a data centre, and it was simply looking at the returns we could generate from the redevelopment now and also a little bit in the future, compared to the profits we could realise from selling to that alternative use.

The view was it was in the best interest of shareholders to take the profit that was generated from the alternative use sale. That was a little bit of an unusual situation. The way we normally go about looking at disposals, we tend to look at it both top down in terms of country and market performance, but also bottom up in terms of have we completed our asset plans? Is there any further value for us to add? Both the German sales were in that bucket. We did some re-gears and re-lettings, we reset the ERVs. There were limited further stuff for us to do. So, it is why those were allocated for sale.

<Charles Chalkly>
Just as a reminder, if you'd like to ask a question to drop it in the text box. We've got one more at the moment. Phil, you've spoke a little bit earlier about outlook for the market. *Do you want to expand a little bit more about expectations for rental growth over the next 12 months?*

<Phil Redding>
Yeah, I suppose the context here is what we have seen is take up decline quite sharply over the last 12 months. Again, in my presentation, stabilisation, the amount of take up there. It's no doubt customer's tenants are getting a little bit more cautious, which is not surprising with the challenging economic backdrop. But we did a survey with Savills recently, there was some quite interesting points came out of that, that undoubtedly decision-making is taking longer and some requirements are being delayed. But the key point for me out of that was that very few of these requirements are actually being shelved.

The challenges that the customers have in terms of improving e-commerce capabilities, building resilience into supply chains, also that drive to reduce the environmental impact of their operations. These are longer term problems that they're still looking to solve. So that demand is there. I think we're also seeing, again, a little bit of differentiation in the core markets. Availability is remaining low, vacancies remaining low. I mean outside of those markets in some peripheral markets. I think there is some evidence now of developments adding to vacancy. But again, that's typically outside of these core areas. So, I mean no doubt rental growth is going to moderate from the very high levels that we've seen, but I still expect to be a fairly robust rental growth going forward.

<Charles Chalkly>
Okay, thank you. Then one coming through here. So, this is linked to the penultimate slide. What yield on cost would you need to be comfortable with or comfortable in achieving before proceeding with the possible Geiselwind and Wunstorf extensions? Mehdi, shall I put that one to you?

<Mehdi Bourassi>
Yeah. So, first of all, I would say that we don't have any excess cash at the moment, and that means our capital allocation decision is quite important. Right now. We have focused our efforts in reducing the LTV to the target range, and that's still the priority. That being said, we have opportunities within the portfolio in the medium term, which we would like to do, if we can, if they make sense against alternative use of capital to respond directly to the question, we would expect a year up cost of, I would say in the region of 7% to actually make sense for us at the moment to proceed with these development extensions.

<Charles Chalkly>
Okay. Thank you. Very clear. Well, those are all the questions that we've had through on the portal this morning. So, thank you everyone. Phil, over to you.

<Phil Redding>
Thank you, Charles. Just for me, firstly, sorry for my throat that I keep trying to clear but thank you all for listening this morning and if you have any further questions, please let Charles, Mehdi and I know. Thank you and good morning.

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