



ONE STURDEE

STURDEE

Annual Results Presentation

Year-End September 2019



ARROWHEAD PROPERTIES

Focused on sustainable value

Highlights of the year



Merger of Arrowhead and Gemgrow completed



Dividend marginally ahead of merger target



Disposal of 57 non-core assets at over R1 billion at an average of a 2% discount to book value



Gearing well positioned at 40.5% (under 39% at the time of reporting)



Acquisition of 36 properties at R771 million successfully integrated within the portfolio



Vacancy reduced to 7.5% at 30 September 2019



90% of lease expiries successfully renewed or re-let



Core direct property portfolio growth of 3%



Increase in the size of the team from 16 to 22 in Arrowhead and 20 to 32 for the group



Improved strategy

- South African focused
- Investing in property capable of achieving long-term growth
- Tenant-Centric value proposition
- Invest in highly motivated team of skilled property professionals
- Enhanced commitment to the principles of ESG (Environmental, Social and Governance)
- Strengthening relationships with stakeholders
- Strong balance sheet

Overview of merged portfolio and business

- Diverse portfolio (retail, office and industrial) of R10.8 billion
- 188 assets
- 1.25 million m² of GLA
- Sectoral split by revenue (47% retail, 37% office, 16% industrial)
- 59.6% in Indluplace

Increased team



- + **Team has increased** from 12 to 32 over 2 years
- + **New in-house deal team** to unlock vacant space
- + **Asset management strengthened**
- + **Dedicated utilities manager** to improve collections
- + **Debt manager** to **improve collections**
- + **Relationship manager** to **enhance relationships** with tenants and **improve tenant retention**
- + **Additional legal resource** to manage risk and enhance group compliance

Total dividend

R'000	2019	2018
Revenue (excluding straight line rental income)	2 419 947	2 283 158
Listed securities income	81 775	210 018
Property expenses	(967 079)	(851 812)
Administration and corporate costs	(89 424)	(57 240)
Finance charges	(627 848)	(560 156)
Finance income	73 892	84 262
Non-controlling interest profits elimination (net of antecedent income)	(104 458)	(300 078)
Distributable income	786 805	808 152
Antecedent income - subsidiary	-	306
Accrued dividend on listed securities	22 123	55 902
Listed securities income recognised in previous reporting period	(55 902)	(109 980)
Total dividend	751 901	754 380
Dividend to the Arrowhead Charitable Trust	17 360	22 971
Total dividend after effects of Arrowhead Charitable Trust	769 261	777 351
Property expenses as a percentage of revenue – gross (%)	40%	37%
Property expenses as a percentage of revenue – net (%)	14%	14%
Dividend for the 6 months ended 31 March	-	424 496
Dividend for the 6 months ended 30 September	-	352 855
A share – dividend for the 6 months ended 31 March	34 206	-
B share – dividend for the 6 months ended 31 March	346 707	-
A share – dividend for the 6 months ended 30 September	35 735	-
B share – dividend for the 6 months ended 30 September	352 613	-
Total dividend (R)	769 261	777 351
Dividend per share (cents) for the 6 months ended 31 March	-	40.43
Dividend per share (cents) for the 6 months ended 30 September	-	33.67
	-	74.10
Dividend per A share (cents) for the 6 months ended 31 March [^]	54.53	-
Dividend per A share (cents) for the 6 months ended 30 September [*]	56.98	-
	111.51	-
Dividend per B share (cents) for the 6 months ended 31 March [^]	34.08	-
Dividend per B share (cents) for the 6 months ended 30 September [*]	34.66	-
Total dividend (cents)	68.74	-

[^] The dividend was declared on 29 May 2019.

^{*} The dividend was declared on 27 November 2019.

Note – The dividend per share as at 31 March 2019 was calculated on the combined dividend amount paid to both Arrowhead and old Arrowhead shareholders using the share capital at the end of 30 September 2019. The dividend per share for the 6 months ended 30 September 2019 was determined based on the new share structure of the merged vehicle's shares in issue of 62 718 658 A shares and 1 017 278 237 B shares in issue as at 30 September 2019.

Extract of statement of financial position

As at 30 September

R'000	2019	2018
Assets		
Investment property	14 934 305 393	14 747 383 506
Loans to Group participants of share schemes	384 121 584	732 501 063
Listed investments	210 068 865	1 185 203 572
Other long term assets	3 756 100	37 004 914
Trade receivables	532 850 361	334 330 312
Cash in bank	160 998 333	40 143 527
Total assets	16 226 100 636	17 076 566 894
Liabilities		
Secured debt	6 527 044 519	6 101 935 569
Deferred tax liability	10 040 000	-
Derivative instruments	76 334 376	5 154 319
Trade payables	674 123 441	369 407 370
Total liabilities	7 287 542 336	6 476 497 258
Equity	8 938 558 300	10 600 069 636

Debt

- Arrowhead loans of R5.0 billion and group of R6.5 billion
- Arrowhead LTV Group of 40.5% (39% at reporting date)
- Loans fixed – Group 77% (Company 82%)
- ICR of 2.78
- Arrowhead weighted average interest rate of 9.59% and group weighted average interest rate of 9.48% for the year ended September 2019

Debt expiry	R'000 000	Percentage %
2020	R 522	10
2021	R -	-
2022	R 984	20
2023	R2 472	49
2024	R1 081	21
Total	R5 059	100

Core portfolio

Year-end	30 Sept 2019	30 Sept 2018	Growth
	R'000	R'000	%
Revenue	1 511 883	1 442 615	4.8
Property expenses	(603 226)	(560 063)	7.7
Net operating income	908 657	882 552	3.0

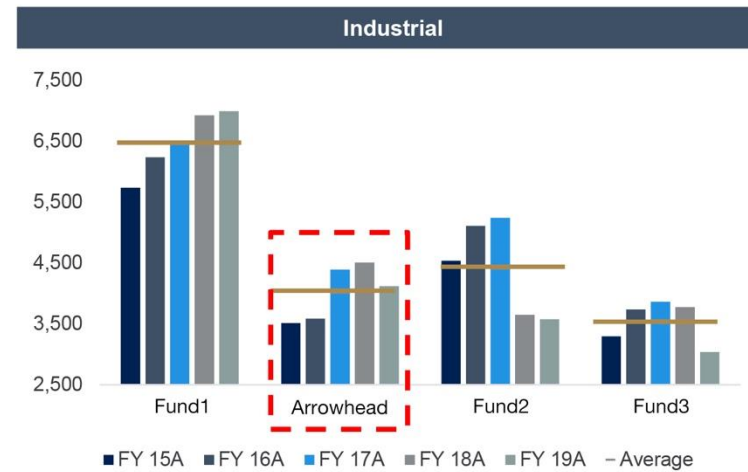
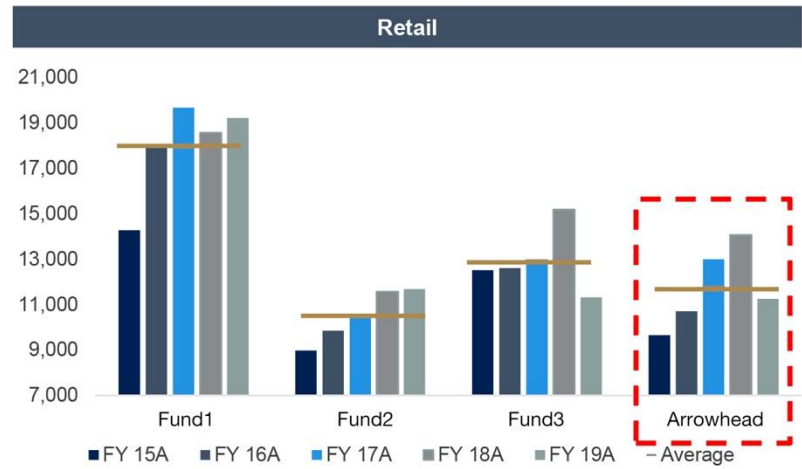
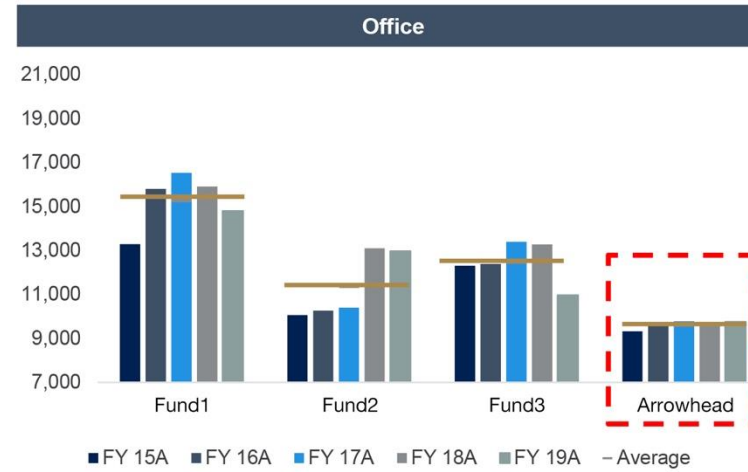
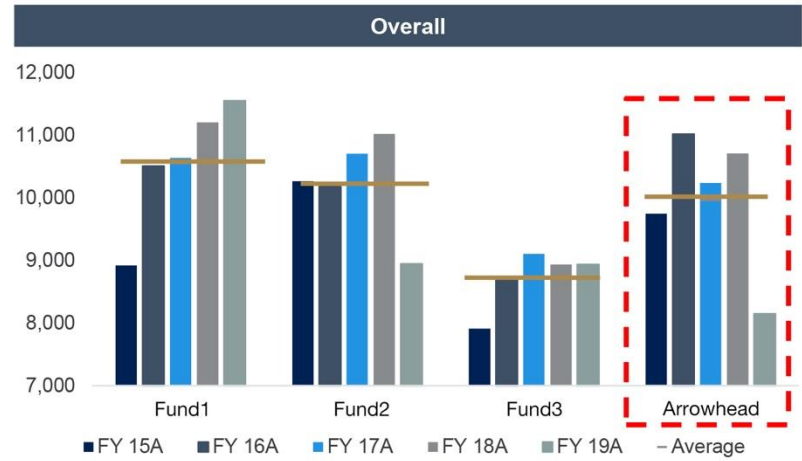
Split by asset class

Retail	4.3
Office	2.5
Industrial	1.0

Listed investments

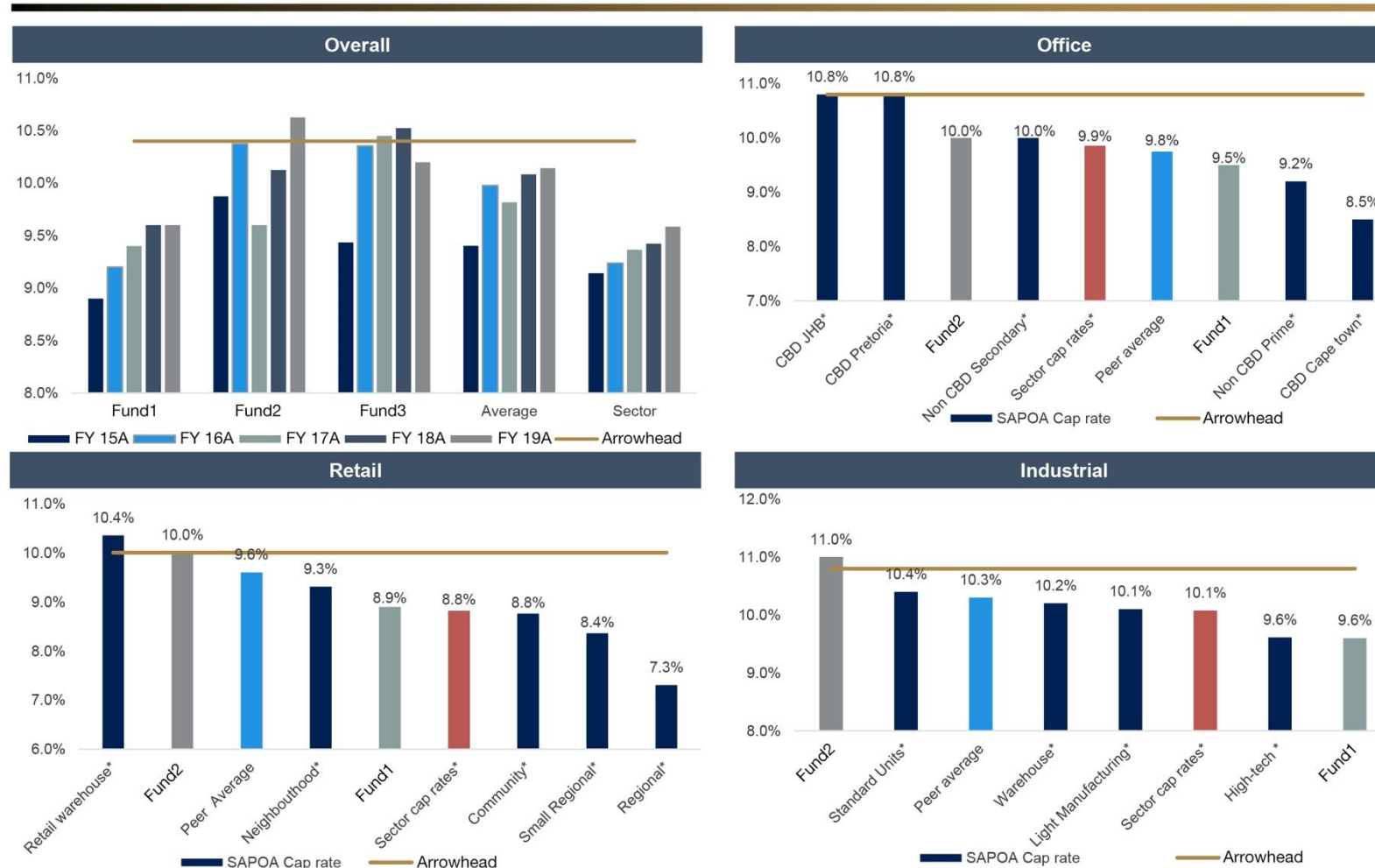
Asset	Balance sheet				Income			
	2019	%	2018	%	2019	%	2018	%
Property	10 758	71	11 243	66	581 741	76	435 962	56
Indluplace	4 175	28	4 700	27	149 820	19	187 275	24
Listed Investments	210	1	1 178	7	37 700	5	154 114	20
Total	15 143		17 121		769 261		777 351	

SA Property values/sqm (ZAR absolute terms)



Currently, Arrowheads overall portfolio value is 17% lower than its direct peer set (Fund1, Fund2, Fund3). Arrowheads office portfolio is by far the most conservative at c. 9,761/sqm (vs. direct peer set: c. 12,126/sqm)

SA Property cap rates by portfolio and sector



Across all key segments, Arrowhead adopted cap rates remain conservative with average spread of +81bps vs. the sector average. The Group's Retail and Office cap rates of 10.0% and 10.8% are +118bps and +94bps higher than sector average, respectively.

Opportunities that will impact the balance sheet

	LTV	Dividend
Further disposals	▼	▼
Acquisitions	▲	▲
Share buy backs	▲	▲
Solar investments	▲	▲
Dividend payout ratio	▼	▼

Our portfolio – R10.8 billion

- Total assets 188, average value per asset of R57 million
- Sectoral split by value: 52% Retail; 32% office; 16% industrial
- 81% of revenue in 4 provinces
- Top 10 assets R3.6 billion
- Top 20 assets R5.1 billion
- Top 80 assets R9 billion averaging R113 million
- R30 million and down, valued at R1.7 billion, 108 buildings



What have we sold and why

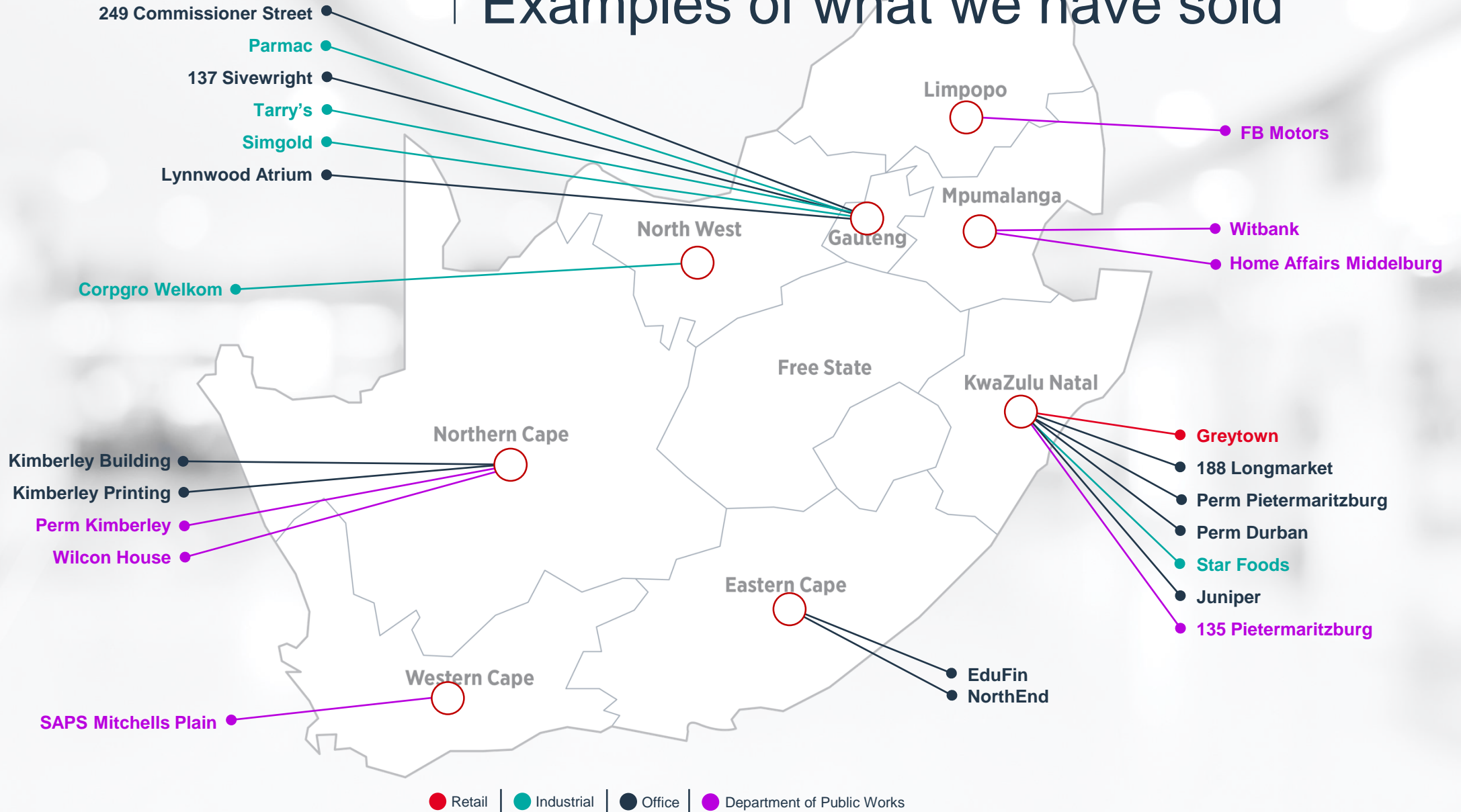
- Assets with weak property fundamentals
- Properties that are not sustainable in the long run
- Sold small scattered assets from R1 million up to R85 million
- Total sales of R1 030 000 000, 57 buildings, average R18 million
- Sales totalling R130 million since year-end



Breakdown of sales

- Sales by value per sector: 64% office; 27% retail; 9% industrial
- R365 million DPW sales
- Total discount to book value of 2%
- Vacancy on sales 12%
- Cap rate on actual income of 9.1%
- R551 million transferred in 2019, 32 properties
- R119 million transferred October 2019, 3 properties
- R360 million still to transfer, 22 properties

Examples of what we have sold





Arrowhead experience of sales in this market

- Diversification of small to medium sized assets assisting sales
- Larger pool of investors
- Assets have value compared to replacement cost
- Selling to tenants, localised landlords, property investors
- Contrarian investors are active and buying
- Sweet spot of R30 million and down for private investors
- Targeted approach

Sales going forward

- ▶ **At pre-close**, communicated R500 million
- ▶ **Sales of R130 million** since year-end
- ▶ **Further sales** expected
- ▶ **Positive will reach target**

As at 30 September 2019

- 188 commercial (retail, office & industrial) properties
- Sectoral by GLA: 37% retail, 28% office and 35% industrial
- Overall vacancy 7.5% (6.2% retail, 11.5% office, 5.6% industrial)
- Average gross (net) rent per sector R127/m² retail (R118/m²), R126/m² office (R105/m²), R47/m² industrial (R45/m²)
- Weighted escalation per sector (7.38% retail, 7.59% office, 7.72% industrial) overall 7.56%
- Average lease profile 3.64 years
- Renewal reversions per sector (-2.31% retail, -0.41% office, -1.88% industrial) overall -1.5%
- New deals per sector (-3.8% retail, -25% office, -7.92% industrial) overall -13.71%
- 62% of all new deals in house

Top core properties

Access Park

Claremont
Western Cape

R903 863 000

Vacancies GLA – 334

2% Vacant

GLA (m²) – 20 442



Top core properties

Cleary Park

Port Elizabeth
Eastern Cape

R565 600 000

Vacancies GLA – 951

3% Vacant

GLA (m²) – 36 283

Annual foot count

7 440 594 – 6.3%
up year on year



Top core properties

Westgate Mall

Mitchells Plain
Western Cape

R409 400 000

Vacancies GLA – 260

1% Vacant

GLA (m²) – 28 373

Annual foot count

6 696 021 – 3.4%
up year on year



Top core properties

Bellville Tijger Park

Bellville Park
Western Cape

R300 343 000

Vacancies GLA – 511

3% Vacant

GLA (m²) – 20 238



Top core properties

Rosebank 158 Offices

Rosebank
Gauteng

R254 300 000

Vacancies GLA – 2 506

13% Vacant

GLA (m²) – 19 274



Top core properties

Midtown Mall

Rustenburg
North West

R246 675 000

Vacancies GLA – 997

6% Vacant

GLA (m²) – 16 721



EDCON

▶ OUR EXPOSURE

- GLA (m²) 1.85%
- Revenue (R) 1.32%

▶ OUR EDCON PER BRAND IS AS FOLLOWS:

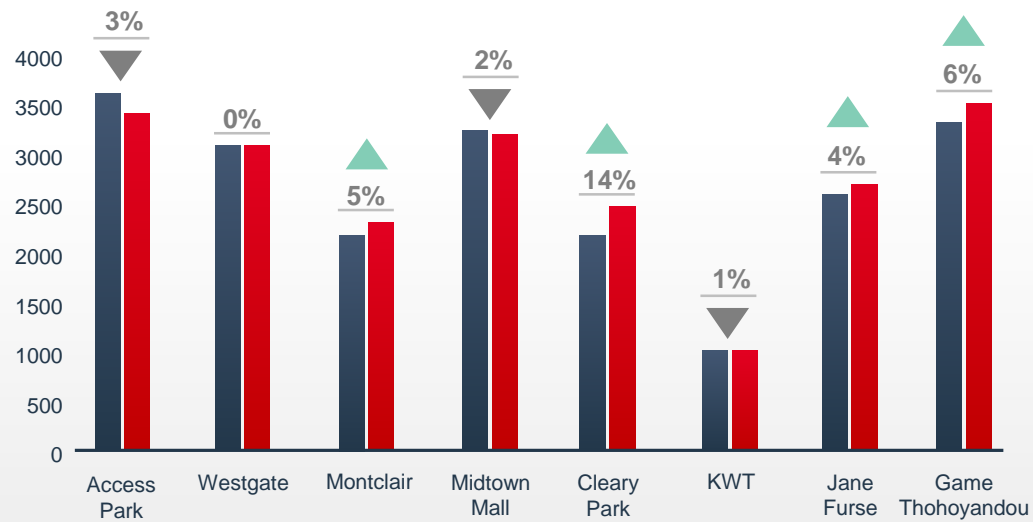
- Edgars 59% (6 tenants)
- Jet 41% (9 tenants)

▶ GOING FORWARD

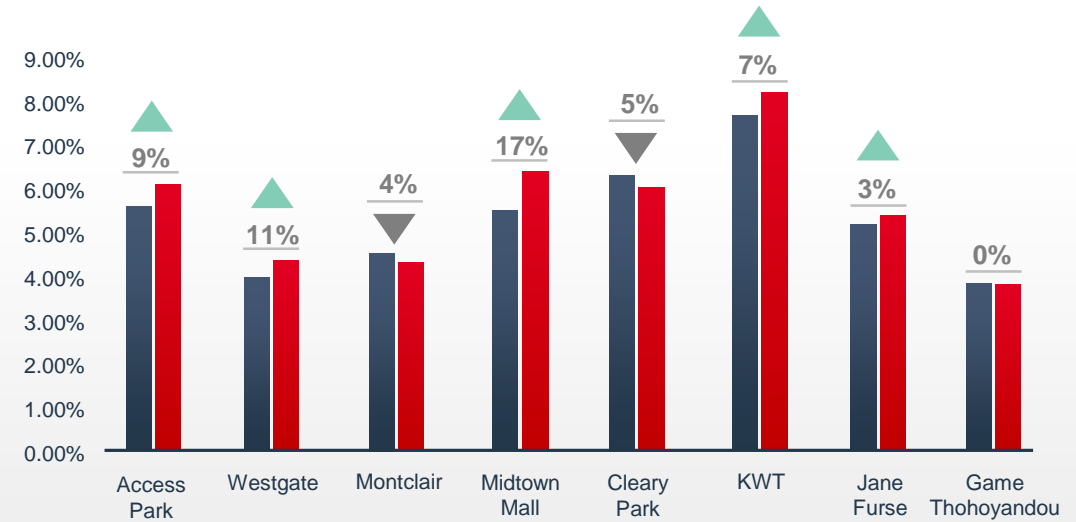
- Further reduce exposure to Edcon by 4 leases (3 Edgars & 1 Jet).
2019 would have been around 0.87% by revenue and 1.11% by GLA

Trading densities

September 2018 vs September 2019



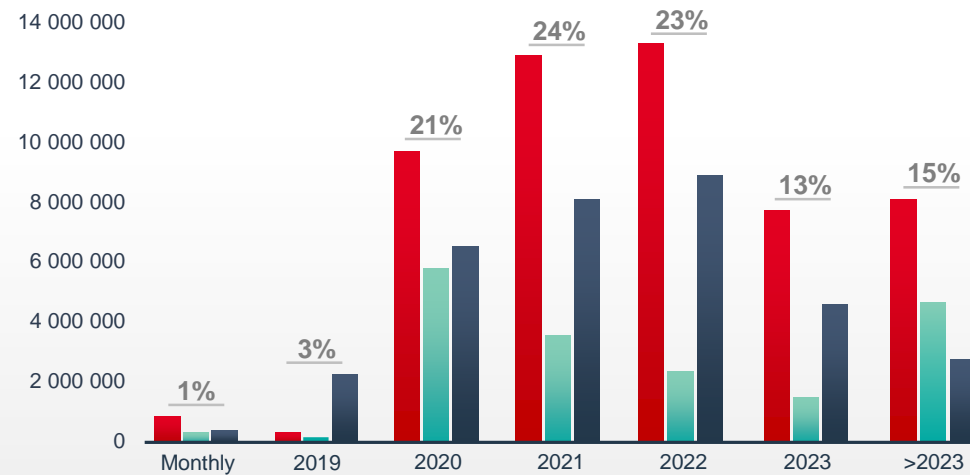
RENT TO SALES RATIO



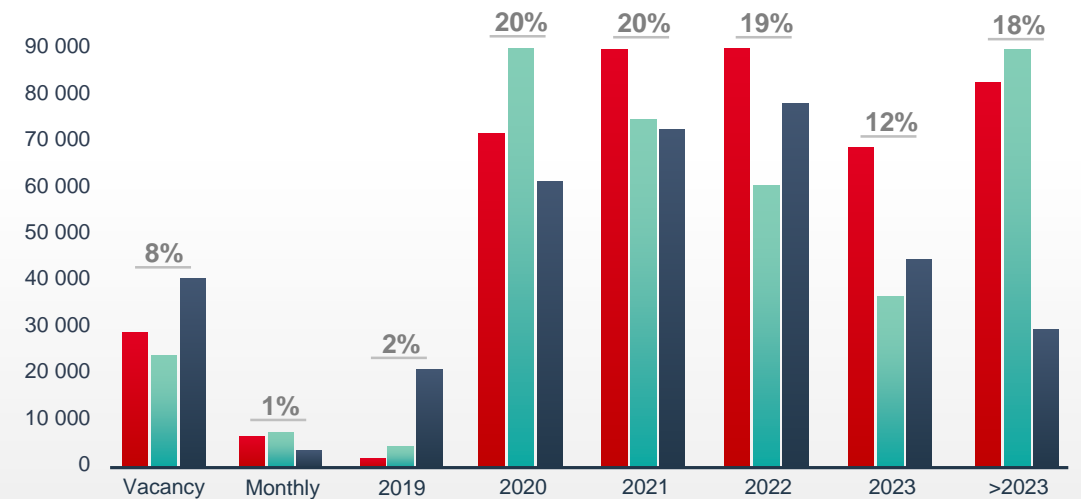
● 2018 | ● 2019

Combined lease expiry profile

BY REVENUE



BY GLA



● Retail | ● Industrial | ● Office



Solar report

Summary December 2018 to September 2019

Property	Solar plant size (kWp)	Plant commission date	kWh produced until 30/9/2019	Rand value produced until 30/9/2019	2019 tonnes CO ² Emissions savings until 30/9/2019	Number of ~ SA people CO ² Emissions absorbed
Grosvenor Crossing	73.70	15/8/2019	9 000	R 13 884	8	0.89
Germiston Route 24	216.10	13/3/2019	132 000	R 219 630	126	14
Randburg Trevallyn	332.00	7/2/2019	261 000	R 468 121	248	27.55
Karoo Junction	561.00	14/12/2018	516 000	R 581 440	490	54.44
Total	1 182.80		918 000	R1 283 075	872	96.88

Plants under construction:

Mall@theJunction	640.20	1 /12/2019
Westgate Mall	1 354.32	15/02/2020

Future plants – phase 2

10 new plants currently in tender process that will include either outright purchase or PPA option

CO² Emissions per Capita – The weight, in tonnes, of carbon dioxide released into the atmosphere by human activity per person, per year. This is the primary driver of climate change.

CO² Emissions per Capita (tonnes) per year in South Africa was calculated in 2014 at average of 9 tonnes per person.

Previous challenges and update

▶ SIMUNYE

- Perpetual vacancy due to node being overtraded and 3 159 m² vacant of 6 538 m²
- Building under offer and expect transfer early 2020

▶ LYNDHURST

- 1 441 m² of 6 352 m²
- Now fully let

Previous challenges and update

▶ THE ATRIUM

- GLA – 2 695 m² vacant of 5 037 m²
- Currently under offer and busy with a due diligence
- If not sold – we will execute an internal and external refurb

▶ MALL@THEJUNCTION - ROSETTENVILLE

- 3 923 m² vacant of 14 198 m²
- Reduced to 1 243 m² – 835 m² to be used for a community social initiative
- Successful refurbishment
- Second anchor secured on lower level
- National tenants are re-entering the centre
- Foot count up

New challenges

▶ **STUDIOS ON HARLEY (formerly Urban Brew)**

- Liquidation – 9 804 m²
- Highly specialised space
- Limited pool media tenants

▶ **KAROO JUNCTION**

- Limited disposable income in Beaufort West
- Building design and location
- Competition from the high street

▶ **RUSTENBURG AS A NODE**

- Future competing retail developments
- Security Challenges
- Municipalities

▶ **BUSINESS RESCUE & LIQUIDATIONS**

- Tenants holding over during the process with no payments
- Unable to re-let the space
- Low success rate on business rescue

Way forward on challenges




▶ **STUDIOS ON HARLEY (formerly Urban Brew)**

- Let 2 200 m² to an office tenant
- Remaining space is highly specialised – media studios
- Currently considering 3 media proposals, a sports facility and office conversion
- Location ideally suited to media tenants

▶ **KAROO JUNCTION**

- Repositioning the offering ie potential Government tenants
- Improving convenience offering - targeting passing traffic
- Potentially high-level resource based in node
- Disposal



Way forward on challenges

▶ RUSTENBURG AS A NODE

- Ensure retail assets remain competitive through platinum cycles – continue to invest (defensive capex)
- Appointed local security company, with larger presence – massive improvement
- Midtown Mall – busy with phase 1 of the revamp
- Phase 2 – improvements to council areas
- Improve surrounds of Transforum
- Securing national tenants on long-term leases

▶ BUSINESS RESCUE & LIQUIDATIONS

- Experience w.r.t. acting fast on these matters
- Take back the premises as quick as possible
- Adjusted leases to cater for business rescue

Operational successes



ABSA CASH CENTRE

- Identified potential
- Converted space from highly specialised to offices
- Re-let before completion of the project



4 LARGE INDUSTRIAL PARKS IN GAUTENG (Route 24, Tungsten, Robertville, Trevallyn)

- Large scale revamp projects implemented
- Resulted in strong uptake in letting & improved tenant retention
- Innovative letting strategy
- Stabilised and improved parks

Operational successes



LOUIS TRICHARDT

- Potential threat of new mall
- Pro-active action taken – revamped and rebranded assets
- Improvements to council common areas
- Secure national tenants on medium to long-term leases
- Tenant turnovers increasing
- Positive media coverage



Indluplace

- Long-term investor
- Strong balance sheet
- 6% to 9% dividend reduction forecast for 2020
- Team strengthened substantially
- Expect to be sustainable from the base of 2020

Rebosis

- Holding at these values
- Exit in the long-term
- Dividend correctly removed from our numbers
- Waiting to see details on potential merger
- Potential buyers who want to privatise (see large upside at these levels)

Dipula

- Long-term exit
- Holding as trading at massive discount to NAV
- Small impact on our numbers
- Forecast of 81.05 cents per share for September 2020
- Only 3% of income forecast for 2020
- Rebosis and Dipula under 1% of total assets



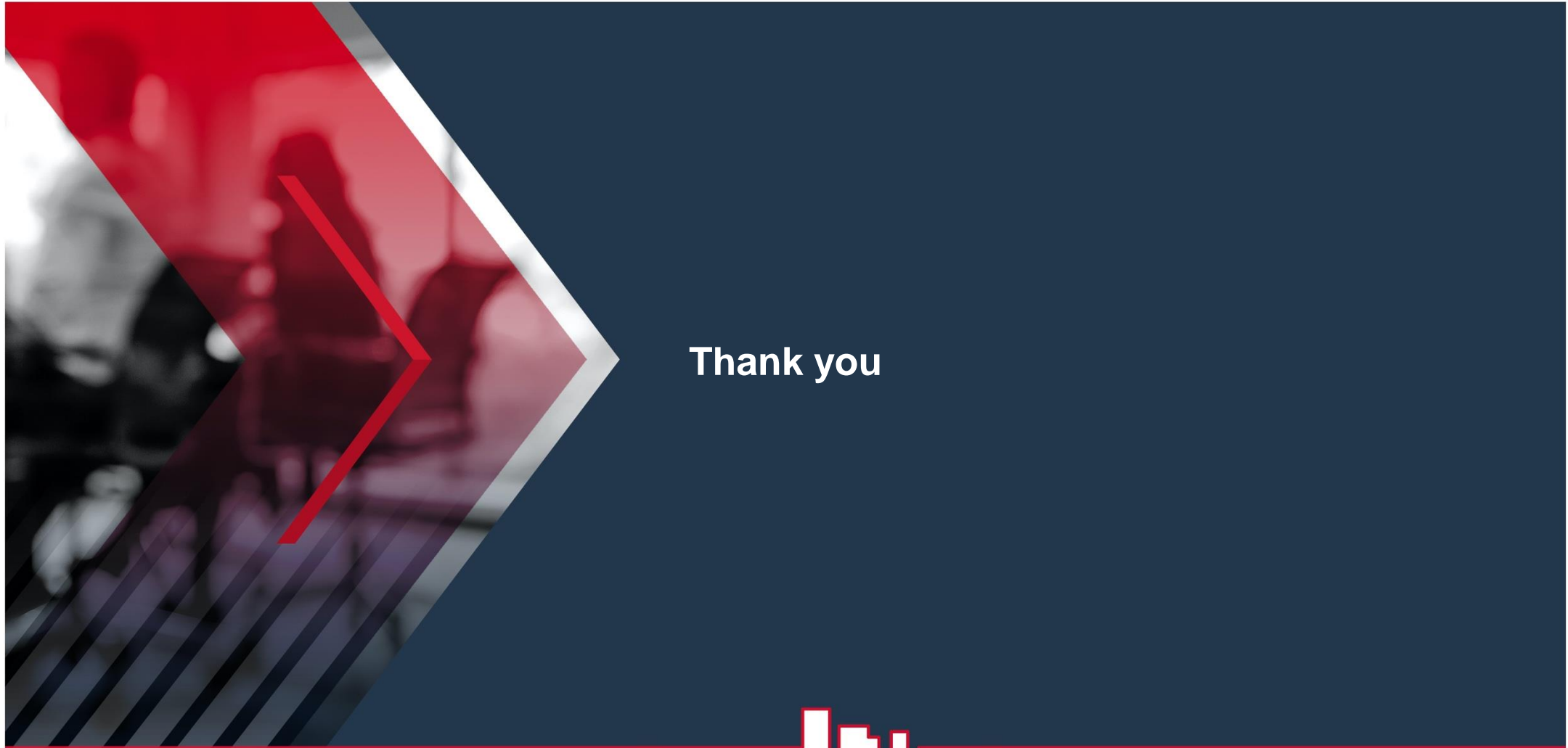
Focus in year ahead

- Further strengthen balance sheet
- Targeted sales
- Tenant retention
- Move quickly on tenant failures
- Box smart in competitive letting environment
- Aggressive letting of vacant space (no vacant space forecast to let)



Prospects

- ▶ Well positioned to weather declining market
- ▶ Careful capital allocation
- ▶ AHA dividend forecast to grow by 5%
- ▶ AHB dividend forecast to reduce by 4%
- ▶ LTV around 37%



Thank you