BURSTONE GROUP LIMITED
(Previously Investec Property Fund Limited)
(Incorporated in the Republic of South Africa)
(Reg. No: 2008/011366/06)
Approved as a REIT by the JSE
Share Code: BTN
Bond Code: BTNI
ISIN: ZAE000180915
("Burstone" or "the Group")

**Investor pre-close conference call and voluntary trading update for the year ending 31 March 2024**

The Group is pleased to provide this pre-close trading update for the year ending 31 March 2024 ("FY24"). An investor conference call will be held today at 11:00 South African time / 9:00 UK time (details are provided below).

**Background**

Burstone is a fully integrated real estate investor, fund and asset manager that has c.R40 billion gross asset value (GAV) under management and c.R6.1 billion third-party capital under management. Approximately 55% of the Group's assets under management are offshore (across western Europe and Australia).

**Strategic highlights of the period under review**

The Group is benefiting from the management internalisation and the strategic repositioning of the Group as an integrated international real estate business. The Group is delivering on its stated strategy with highlights over the period including:

- The annualised net management fee saving resulting from the internalisation is anticipated to be in excess of the R74 million as announced at the time of the transaction.
- The Group has increased its international footprint through its Joint Venture ("JV") with the Irongate Group in Australia (now A$490 million third party capital under management, up 8% since acquisition):
  - Supported by internationally respected capital partners: Ivanhoe Cambridge, Phoenix Property Investors and Metrics Credit Partners, investing alongside the Irongate Group.
  - Strong pipeline of growth opportunities and additional capital partner relationships.
- Progress made on several capital light initiatives:
  - The Group has been mandated to manage a c.€170 million portfolio in Germany with the opportunity to co-invest in the future.
  - Completed the Smithfield acquisition in Australia, in November 2023, alongside Phoenix Property Investors.
  - Significant progress made in South Africa to build the foundation for a third-party fund management platform anchored by local investors / pension funds.
  - Strong pipeline of opportunities across all three markets.
- The Group is already benefiting from synergies created by the internalisation, integration of its business and its enhanced international footprint:
  - Successful rebranding across South Africa and Europe as the Burstone Group.
  - Discussions taking place with global equity and debt investors across both international geographies (Australia and Europe). This unlocks distribution synergies and capability.
  - Delivery of several cost saving initiatives including c.€2 million corporate savings in Europe during the financial year, with further synergies expected in the financial year ending 31 March 2025 ("FY25").
- De-gearing of the Group balance sheet continues:
  - c.R1.8 billion of assets sold over the past financial year (South Africa: c.R1.2 billion and Europe: €33 million).

    - Further c.R1.3 billion of assets identified for sale in South Africa and a pipeline of sales (direct and/or as part of sub-portfolio management opportunities) of c.€150 million to €200 million in Europe which the Group will look to pursue in FY25.

**<u>Overall Group performance</u>**

- The Group is expected to deliver a strong second half performance, with distributable income per share (“DIPS”) expected to be c.6% to c.8% higher than the second half of the 2023 financial year (“2H23”).
- The Group has benefited from:
    - Solid operational performances from the South African and European businesses;
    - The European business is expected to report a solid second half performance, up c.20% to 21% in Euros on 2H23, resulting from normalisation of funding costs and positive impact of rental growth combined with delivery of cost initiatives;
    - Stability across the portfolio with vacancy levels in South Africa and Europe remaining at low levels of c.5% and c.2%, respectively;
    - Positive impact from the recent management company internalisation leading to operational efficiencies within the Group;
    - Growth in income as a result of new business activity, linked to the rollout of the Group’s capital light strategy.
- As expected, Group results have been impacted by higher funding costs with total interest costs expected to increase by c.R275 million over the period.
- As a result, overall Group DIPS is expected to be in line with previous guidance at approximately 0% to 2% higher than the 2023 financial year (“FY23”), with FY24 DIPS expected to deliver between 104.64 cps to 106.73 cps (Mar-23: 104.64 cps).

**<u>Performance of the South African business</u>**

- The South African portfolio is expected to deliver like-for-like (“LFL”) base net property income (“NPI”) growth of c.1% to 2%.
- The portfolio remains stable and continues to perform in line with expectations, despite the ongoing challenging environment and the continued impact of load shedding.
- The Retail and Industrial portfolios have delivered strong NPI growth benefiting from firm letting activity. Performance in the office sector continues to be impacted by negative reversions that offset any contractual income growth.
- Total vacancies expected to increase to c.5% (Mar-23: 3.9%), largely due to a single vacancy in the office sector that will arise at the end of March.
- The Group continues to successfully recycle capital, with c.R1.2 billion of assets sold during the year at a c.2% premium to book value and a further c.R1.3 billion of assets held for sale.
- Burstone has limited exposure to Pick n’ Pay as a tenant representing c.0.45% of gross lettable area (“GLA”) of the Group’s total portfolio. Specifically, the exposure amounts to c.0.95% of GLA for the total South African portfolio and c.3.15% of GLA of the South African retail portfolio. The stores are in dominant malls and there are no short-term renewals of these leases.

**<u>Performance of the European business</u>**

- The performance of the Pan European Logistics Platform (“PEL”) platform is expected to deliver strong LFL NPI growth of c.6% to 7% driven by positive rental reversions (c.5%), impact of higher indexation (c.7%) and positive letting activity (c.96% of space expiring has been relet).
- Distributable earnings from PEL will benefit from the strong NOI growth, the significant cost savings extracted through several streamlining and restructuring initiatives, offset by the impact of higher funding costs.
- As previously communicated, the material shift in Euribor of c.4% since September 2022 has increased the funding costs in the PEL platform in 2H23 to the Euribor cap of c.1.4% plus margin. These higher funding costs are now fully reflected in FY24 and equate to an increase of c.27% for the year.

- The average all-in cost of funding within the PEL platform is c.3.9% (Mar-23: 3.7%). European in-country debt is 93% hedged by way of a cap at a weighted average interest rate of 1.4%. The platform therefore has limited interest rate risk for the next 18 months.
- As a result, the PEL platform is expected to report an increase in earnings of c.1% to 2% in Euros for FY24 (an increase of c.6% to 7% in ZAR).
- Given the capitalisation rate volatility in Europe, exacerbated by low transaction volumes resulting from the shifting interest rate curve, the Group expects a short-term impairment to its investment in PEL of between 2% to 5%. This investment was valued at €1.1 billion at 31 March 2023. This would reflect a carrying yield of between 5.5% to 5.75%.

**Driving growth initiatives**

The Group continues to focus on building out its fund management capabilities, which is a key pillar of the Group's growth strategy. In terms of current initiatives across each region:

- *South Africa:*
    - Built the foundation for a third-party fund management platform in which institutional capital can invest.
    - JV with Flanagan and Gerard Frontiers Proprietary Limited in acquiring the Neighbourhood Square, a best-in-class convenience retail asset located in Linksfield, Johannesburg. Transfer is subject to Competition Commission which is expected in June 2024.
- *Europe:*
    - New management contract to drive the asset management function of a light industrial portfolio in Germany, with opportunity for co-investment and continued management of this platform with existing owners.
    - Exploring multiple sub-portfolio options and value-add and core plus strategies, where Burstone's strong management capabilities can be leveraged.
    - PEL strategic partner: the Group will continue to assess the option to introduce a strategic partner into the PEL portfolio, however, as previously announced this initiative was placed on hold in the current period due to extreme capitalisation rate volatility. Maximising shareholder value and ensuring long-term sustainability of the business remain key considerations in this strategic assessment and the Group will look to explore opportunities in this regard in the second half of the calendar year.
- *Australia:*
    - The 50:50 JV with the Irongate Group is progressing well.
    - Irongate made its first industrial property acquisition for a new industrial platform in November 2023. The acquisition was supported by a co-investment from APAC-focused private equity real estate investment group, Phoenix Property Investors for 80% of the equity, with Irongate co-investing alongside Phoenix and providing the fund and asset management.

**Maintaining a robust balance sheet**

- The Group continues to recycle capital through asset sales.
- The debt book remains well diversified, and the Group has sufficient liquidity and/or committed facilities to cover its near-term refinancing risk.
- Interest rate risk:
    - Limited ZAR interest rate risk.
    - PEL interest rate exposure is capped (as explained above).
    - As previously disclosed, total Group net interest costs are, however, expected to increase further in FY25 largely as a result of cross-currency interest rate swaps that are rolling off and will reprice at higher rates.
    - These costs are expected to be materially offset by several revenue opportunities, balance sheet and cost savings initiatives.

- Loan to value ("LTV"):
    - At the time of announcing the internalisation and the acquisition of the additional 19% investment into PEL, the Group anticipated that the LTV would increase to c.42% and then targeted a reduction to 39.9% largely through asset sales and the sale of the bridge loan into PEL.
        - The Group has successfully concluded on the original pipeline of asset sales, with the exception of c.R300 million worth of South African assets yet to be sold.
        - On a status quo basis, considering the implementation of the internalisation and the impact of these asset sales, the LTV achieved was c.40.8%, being marginally above the short-term target of 39.9%.

    - For 31 March 2024, the LTV is however, expected to be between c.42% to c.43%, which is higher than the anticipated target largely due to: structural capex; the Smithfield co-investment in Australia; and the cash settlement of derivative mark to market positions.
    - The potential impairment on the PEL investment (as explained above) could result in a further c.1% to 1.5% negative impact on LTV.
    - As mentioned above, the Group has identified assets for disposal in South Africa and Europe that will further manage down short-term LTV by between 3% to 5%.
    - The Group is acutely aware that large or strategic asset or platform sales would decrease LTV significantly, however, any large sale now would not deliver maximum shareholder value at this point in the cycle, nor would it enhance the Group's quality of earnings in the medium to long-term. As such, the Group remains focused on several initiatives, which are at various stages of progress, to further manage LTV down in an appropriate manner that maximises shareholder value over time.

**<u>Capital optimisation and the Group's growth strategy</u>**

- Effective capital optimisation remains a strategic imperative. The Group strongly believes that investing in several growth opportunities that are presenting themselves is key to delivering medium-term growth across its core regions and strategies. The Group therefore intends to manage its balance sheet and dividend payout ratio in an appropriate manner to support this growth strategy.

- In light of its current strategy, and pipeline of growth opportunities across its international business, the Board has assessed the appropriateness of its existing dividend payout policy of 90% to 95%. In order to support this growth strategy and structural capital re-investment into the business the Board has resolved that it will look to maintain a dividend payout ratio of 75% going forward, subject to appropriately managing any tax impacts that may arise.

- With a high-quality asset base, a robust balance sheet and the ability to deliver on several exciting opportunities, Burstone has strong foundations for future growth. The Group believes that its integrated international offering will be a key differentiator as it implements its strategic plan over the new three to five years.

**<u>Note</u>**

- The financial information on which this trading update is based has not been reviewed and reported on by the external auditors.
- The above guidance assumes that current normalised trading conditions will persist and does not consider the impact of any unforeseen circumstances, potential business failures or the occurrence of any other factors that are beyond the Group's control.

On behalf of the Board
Moss Ngoasheng (Independent Non-Executive Chairman), Andrew Wooler (Group Chief Executive)

## Other information

***Investor call***
An investor conference call will be held today at 11:00 South African time / 9:00 UK time.
Participants should register for the conference call by navigating to https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=7235041&linkSecurityString=16bdc4853c

***Year-end results***
The results for the year ending 31 March 2024 are scheduled for release on 22 May 2024.

***For further information please contact:***
Jenna Sprenger (CFO)
E-mail: investorrelations@burstone.com

## Additional notes

**Definitions**

- Distributable income per share is equal to distributable earnings divided by the weighted number of shares in issue for the period. Where, distributable earnings equals the total NPI of the South African business, plus investment income, less fund expenses, less funding/interest costs.

**Profit forecasts**
The following matters highlighted in this announcement contain forward-looking statements:

- The annualised net management fee saving resulting from the internalisation is anticipated to be in excess of the R74 million as announced at the time of the transaction.
- Delivery of several cost saving initiatives including c.€2 million corporate savings in Europe during the financial year, with further synergies expected in the financial year ending 31 March 2025 (“FY25”).
- The Group is expected to deliver a strong second half performance, with distributable income per share (“DIPS”) expected to be c.6% to c.8% higher than the second half of the 2023 financial year (“2H23”).
- The South African portfolio is expected to deliver like-for-like (“LFL”) base net property income (“NPI”) growth of c.1% to 2%.
- The performance of the Pan European Logistics Platform (“PEL”) platform is expected to deliver strong LFL NPI growth of c.6% to 7%.
- The European business is expected to report a solid second half performance, up c.20% to 21% in Euros on 2H23.
- The PEL platform is expected to report an increase in earnings of c.1% to 2% in Euros for FY24 (an increase of c.6% to 7% in ZAR).
- As expected, Group results have been impacted by higher funding costs with total interest costs expected to increase by c.R275 million over the period.
- As a result, overall Group DIPS is expected to be in line with previous guidance at approximately 0% to 2% higher than the 2023 financial year (“FY23”), with FY24 DIPS expected to deliver between 104.64 cps to 106.73 cps (Mar-23: 104.64 cps).
- Given the capitalisation rate volatility in Europe, exacerbated by low transaction volumes resulting from the shifting interest rate curve, the Group expects a short-term impairment to its investment in PEL of between 2% to 5%. This investment was valued at €1.1 billion at 31 March 2023. This would reflect a carrying yield of between 5.5% to 5.75%.

- For 31 March 2024, the LTV is however, expected to be between c.42% to c.43%, which is higher than the anticipated target largely due to: structural capex; the Smithfield co-investment in Australia; and the cash settlement of derivative mark to market positions.
- The potential impairment on the PEL investment could result in a further c.1% to 1.5% negative impact on LTV.
- As mentioned above, the Group has identified assets for disposal in South Africa and Europe that will further manage down short-term LTV by between 3% to 5%.
- As previously disclosed, total Group net interest costs are, however, expected to increase further in FY25 largely as a result of cross-currency interest rate swaps that are rolling off and will reprice at higher rates.
- These costs are expected to be materially offset by several revenue opportunities, balance sheet and cost savings initiatives.
  (collectively the ***Profit Forecasts).***

- The basis of preparation of each of these statements and the assumptions upon which they are based are set out below. These statements are subject to various risks and uncertainties and other factors – these factors may cause the Group's actual future results, performance or achievements in the markets in which it operates to differ from those expressed in the Profit Forecasts.
- Any forward-looking statements made are based on the knowledge of the Group at 27 March 2024.
- These forward-looking statements represent a profit forecast under the Listing Rules. The Profit Forecasts relate to the year ending 31 March 2024.
- The financial information on which the Profit Forecasts are based is the responsibility of the Directors of the Group and has not been reviewed and reported on by the Group's auditors.

**Basis of preparation**

- The Profit Forecasts have been compiled using the assumptions stated below, and on a basis consistent with the accounting policies adopted in the Group's March 2023 audited financial statements, which are in accordance with IFRS and are those which the Group anticipates will be applicable for the year ending 31 March 2024.
- The Profit Forecasts have been prepared based on (a) audited financial statements of the Group for the year ended 31 March 2023; (b) the unaudited management accounts of the Group for the eleven months to 29 February 2024; and (c) the projected financial performance of the Group's businesses for the remaining one month of the period ending 31 March 2024.

**Assumptions**

The Profit Forecasts have been prepared on the basis of the following assumptions during the forecast period:

Factors outside the influence or control of the Group:

- There will be no material change in the political and/or economic environment that would materially affect the Group.
- There will be no material change in legislation or regulation impacting on the Group's operations or its accounting policies.
- There will be no business disruption that will have a significant impact on the Group's operations.
- The Rand/Euro and Rand/AUD and any other relevant exchange rates remain materially unchanged from those as at 27 March 2024.
- The Euribor and Jibar curves remain materially unchanged from those as at 27 March 2024.
- The tax rates remain materially unchanged.
- There will be no material changes in the structure of the markets, client demand or the competitive environment.

**About Burstone**

Burstone (previously Investec Property Fund) is a fully integrated international real estate business with c.R40 billion gross asset value (GAV) under management and c.R6.1 billion third-party capital under management. The Group invests in best-in-class assets focusing on fund management; asset management and development management.

Burstone listed on the JSE Limited in 2011 and currently operates in South Africa, select European markets and Australia. About 55% of the Group's asset base is comprised of foreign investments. The Group has a strong management track record of more than 30 years operating in both local and international markets.

Burstone strives to deliver purposeful and authentic client experiences with agility, speed and passion. The Group has the unique ability to identify potential that lies within something and then transform it into something of real value. Across all regions in which the Group operates, the manager has a presence on-the-ground with in-country expertise and adopts a hands-on approach to managing its properties.

Johannesburg
27 March 2024
JSE Equity and Debt Sponsor: Investec Bank Limited