

LIBERTY TWO DEGREES REBUILDS FOR GROWTH

L2D malls attain a first in Africa, international accreditation for Covid-19 compliance in accordance with SAFE Shopping Centres' Risk, Resilience and Security Standard

Rebuilding for growth through strategic value drivers:

- Customer Experience - remains a solid focus by prioritising the execution of Smart Spaces and Safe Spaces
- Tenant Experience - Carefully considered measures will continue to be implemented to step forward together
- Employee Experience - Ongoing focus on the wellbeing of all our people and service providers
- Capital and Risk Management - Ruthlessly protecting the balance sheet to ensure the preservation of capital
- Financial Outcome - Interim distribution guidance deferred given continued uncertainty
- The Good We Do - Firmly committed to a sustainable execution of the strategy and building tomorrow together

27 July 2020

“We present our financial results for the six months ended 30 June 2020 amid unprecedented and evolving market conditions. The Covid-19 pandemic has had far-reaching consequences beyond the spread of the disease itself, as customer sentiment and behaviour continue to echo the uncertainty of the pandemic. The constrained local economic conditions as well as the related uncertainty, has dealt an immediate and near-term impact to prospects for growth globally. Consequently, we expect our performance to be impacted for the remainder of the 2020 financial year.

The crisis has however allowed us to manage the business through these unprecedented times with resilience and in the hope of building the future, by continuing to monitor and adapt to changing market conditions, having moved from crisis management to rebuilding for growth. Management’s focus for the remainder of 2020 will be on rebuilding the business by working together with our tenants in creating environments that support the resumption of safe trading in the short term and positioning the business for sustainable growth thereafter” Amelia Beattie, Chief Executive of Liberty Two Degrees (L2D).



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Spaces



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Safe
Spaces

Due to the distributable earnings decline and the prevailing uncertainty resulting from the Covid-19 impact, the Board has decided not to pay an interim distribution but will consider the payment of a final distribution for the 2020 financial year that meets the regulatory requirements.

At 30 June 2020, L2D's 100% South African property portfolio was valued at R8.7 billion (30 June 2019: R10.2 billion) and the net asset value per share decreased by 19.5%. This excludes Century City offices which were pending transfer as at 30 June 2020 and has been subsequently transferred in July 2020.

“Our independent property valuers have decreased the portfolio value by 14.8% compared to 30 June 2019 (14.3% compared to December 2019). Valuations have been negatively impacted due to the impact of Covid-19 by inter alia, the decrease in rentals for the current year, the negative reversions and lower growth assumptions for the periods forecasted, as well as an increase in vacancies and the time required to re-let vacant space. Our valuers have also applied more conservative valuation metrics including adjustment to exit capitalisation rates, discount rates and an increase in the periods allowed to re-let space. The finalisation of the property valuations has required care and prudence to ensure that a balanced outcome was achieved. This does however remain challenging during this time” says José Snyders, L2D's Financial Director.

L2D's reported revenue and net property income (NPI) decreased by 15.8% and 40.4% respectively in comparison to the prior period. The NPI of R201.8 million for the six months ended 30 June 2020 (30 June 2019: R338.8 million) was significantly impacted by decreases in footfall as shopper behaviour changed with the advent of Covid-19 and subsequently the national lockdown and restricted trading periods.

“In line with our philosophy to respond with humanity and empathy in dealing with tenant impact whilst balancing the need to protect the sustainability of our business in the interests of our stakeholders, rental relief and support has been provided on a pragmatic basis and in line with the Property Industry Group guidelines. Relief offered was structured with weightings in favour of level of impact on tenants' ability to trade. Rental relief negotiations are ongoing but difficult as many of the Covid-19 implications for tenants are evolving. L2D is still in evolving negotiation with the restaurants who are requiring a different approach stepping forward together.” Snyders continues.

Currently 85.4% of retail GLA is trading and only gyms and certain restaurants remain closed. The closure of hotels in the Sandton City precinct, in line with the lockdown restrictions, has impacted earnings negatively. The Sandton



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Sun hotel has recently re-opened, with low occupancies continuing and we expect the remainder to start trading once conditions have improved.

Interest expense has increased by 11.3% from 30 June 2019 as a result of additional term debt that was drawn down in November 2019 and March 2020. Including negative fair value adjustments of R1.5 billion, a loss before tax of R1.4 billion was recorded compared to a profit of R244.2 million for the six months ended 30 June 2019.

Edcon Limited commenced with business rescue proceedings during April 2020. The investment L2D has in Edcon ranks as a secured creditor. Management was in continual engagement with business rescue practitioners and the business rescue plan has been adopted. There are two acquisition deals currently in negotiation and we are working closely with Edcon in assisting in the conclusion thereof. The Board has elected to write down the fair value of the investment in Edcon to zero as at 30 June 2020.

In line with Safe Spaces which underpins the L2D building blocks, L2D aims to drive a clearly defined mall strategy that ensures the mall environments hold the highest standard of safety and security for tenants and shoppers. In the period, L2D was affirmed by SAFE Shopping Centres, a Global certification and advisory company, as the first responsible owner in Africa to achieve international certification following a Covid-19 assessment, taking the extra steps to ensure duty of care for tenants and shoppers.

In addition to prioritising the safety and security of all stakeholders, management's focus for the remainder of 2020 will be to rebuild the L2D business for growth. In accelerating the work that has already been done in merging online retail with physical environments while using technology to improve operations, L2D has made a strategic appointment in the period to strengthen the leadership team and deepen the talent pool. Patrick Masithela joins L2D as Chief Information Officer effective 01 August 2020 and has been appointed to the L2D Management Committee. In his capacity, Pat will be responsible for providing strategic and operational leadership to the Information Technology and Digital Transformation initiatives. These will primarily focus on how L2D continues to transform its retail environments to remain at the forefront of the changing retail landscape.

“The Safe Shopping Centres certification is an achievement we are proud of, especially during this critical and unprecedented time. We are encouraged that the efforts that we continue to make to keep our environments safe during this time, meet global standards and remain in the best interests of all our stakeholders.



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We are pleased with the appointment of Patrick Masithela to the team. Pat’s well-developed understanding of technology trends and the meaningful deployment of technology to enable business strategy, positions us well to drive our ambition of Rebuilding for Growth. As many businesses have been placed under pressure due to the pandemic, these unprecedented times necessitate an awareness of the needs of all our stakeholders and the execution of strategic initiatives to ensure we remain relevant and sustainable for the long term. In rebuilding the business for growth, we aim to focus on refreshing our assets, creating new spaces to pivot and adjust to a new normal and explore new opportunities,” says Beattie.

These opportunities include; filling tenant vacancies and working closely with tenants to rebuild their businesses, the execution of L2D’s building blocks as a key focus to enable the continuation of enhancing the tenant and customer experience and remain relevant in this faced-paced environment, and a focus on rebuilding the capacity of the L2D people while taking new ways of working into account in order to achieve the outcomes that are aligned to the overall vision to be the leading South African, precinct focused, retail-centred REIT.

“Furthermore, we have continued to place a focus on contributing to the greater good. In June 2020, we introduced touch-less parking at Sandton City, Eastgate Shopping Centre and Midlands Mall. 50% of parking income raised (R1.25 million) will be donated to OnePeople Fund which buys maize in bulk and distributes it in partnership with local Non-Profit organisations, distributing more than 370 000 meals each week to many of South Africa’s most vulnerable.

We have remained committed to transformation and we are actively working on improving and achieving our targets with specific actions in place to ensure that we drive each element during the year. Our bold market leading sustainability initiatives are in place to ensure that we continue to reduce the impact of our operations on the natural environment as we continue our journey to Net Zero 2030.” adds Beattie.

The key imperative for 2020 is to have a Net Zero Waste readiness by the end of the year and L2D are on track to achieve this. Management will continue to draw on L2D’s strong balance sheet, complemented by robust liquidity management processes, and is satisfied that there are sufficient cash reserves and unutilised debt facilities to cover our business commitments as they fall due.



Looking ahead, the board of L2D will consider the payment of a final distribution for the 2020 financial year once the full year results are available and in accordance with regulatory requirements. Given current uncertainty, the board has made the decision not to provide earnings and distribution guidance for the remainder of the 2020 year at this stage.

— Ends —

Enquiries

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NOTES TO EDITORS

About Liberty Two Degrees Limited

Liberty Two Degrees was converted and relisted as a corporate REIT on the JSE main board on 1 November 2018 as Liberty Two Degrees Limited (L2D Limited) following the conversion from a CISIP. The new structure cancels the Liberty Group PUT option for no consideration and internalises the management company. The structure also introduces a conservative level of debt to the capital structure of L2D Limited, which will assist in reducing the weighted average cost of capital over time.

About Liberty Two Degrees' portfolio

The portfolio is one of South Africa's iconic, predominantly retail property portfolios with interests in assets such as the Sandton City Complex, the Eastgate Complex and Melrose Arch.

The portfolio comprises predominantly retail real-estate assets in South Africa. In Johannesburg, the retail assets are an interest in the Sandton City Complex, the Eastgate Complex and Nelson Mandela Square. Two regional shopping centres; Liberty Midlands Mall in KwaZulu-Natal and Liberty Promenade Mitchells Plain in the Western Cape are also included in the portfolio as well as interests in the mixed-use precinct of Melrose Arch and the newly developed Botshabelo Mall.

The Sandton City Complex is in the economic heartland of the country and showcases some of the most prestigious of international and domestic retailers. The attraction of its long-established iconic presence and the overall quality of the shopping experience make it irreplaceable and confers brand-value and recognition on the portfolio.

Similarly, the Eastgate Complex, with its strong history and recent upgrade, is in a large catchment area with good access. The recently refurbished Nelson Mandela Square is also a destination centre with a good entertainment offering that complements the neighbouring Sandton City Complex. Melrose Arch's office and retail component supports its status as one of the leading mixed-use precincts in Johannesburg's high-end Northern Suburbs.

Liberty Midlands Mall and Liberty Promenade Mall are large high-quality centres within regional catchment areas positioned for high growth.

In addition to the offices included in the portfolio's main retail complexes, the portfolio includes select office properties located in key business nodes with blue-chip anchor tenants. These properties include the Standard Bank Centre in Johannesburg, Liberty Centre in Century City Office Park in Cape Town and Liberty Centre in Umhlanga Ridge, Durban. The portfolio also comprises the John Ross Eco-Junction where the Melomed hospital and other developments provide diversification and higher yield opportunities. The portfolio also has undivided shares in the Sandton Sun Hotel, the InterContinental Sandton Towers and the Garden Court Sandton City.



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