

## NEPI Rockcastle plc

Incorporated and registered on Isle of Man

Registered number 014178V

Johannesburg Stock Exchange (JSE), Euronext Amsterdam

(Euronext) and A2X share code: NRP

ISIN: IM00BDD7WV31

("NEPI Rockcastle" or "the Company" or "the Group")



# NEPI ROCKCASTLE

## BUSINESS UPDATE

All information below excludes joint ventures, unless otherwise stated

"COVID-19 had limited impact on revenues during the first quarter ('Q1'), with social distancing measures causing closure of most shops starting mid-March. From the beginning of the COVID-19 outbreak, our priority has been ensuring the health and safety of all our customers and staff. Over the last few weeks, in the context of easing of restrictions, a large proportion of retailers have resumed their operations and 63% of the Group's Gross Leasable Area ('GLA') is currently open. As we begin to collect post-reopening operational data, we are confident that our high-quality portfolio, robust balance sheet and strong liquidity together with our unparalleled know-how of the CEE region remain key strengths for weathering this storm well." Alex Morar, CEO NEPI Rockcastle

### BUSINESS HIGHLIGHTS

- Further to the low rate of COVID-19 infections in CEE, trading restrictions in eight out of nine countries have been significantly relaxed and most shops located in Poland, Bulgaria, Slovakia, Hungary, Croatia, Czech Republic, Serbia and Lithuania are now open;
- Entertainment facilities in the countries mentioned above, except for Hungary, are expected to open by end of June, increasing footfall and turnover;
- 63% GLA currently open, with positive trading and footfall trends since re-opening; functional GLA is expected to increase to approximately 94% by end of June;
- Net Operating Income ('NOI') for the three months ended 31 March 2020, net of the COVID-19 losses of €4 million, was €101 million, 4% higher compared to Q1 2019. The COVID-19 losses in Q1 were mainly due to rent and service charge relief imposed by the Polish government during lockdown;
- Until 29 February 2020, like-for-like ('LFL') turnover increased by 8.5% and footfall grew by 4.3%; the closure of most of the stores since mid-March led to a 15% decrease in the Q1 2020 sales compared to Q1 2019, on a like-for-like basis;
- EPRA occupancy rate as at 31 March 2020 across income-producing portfolio was 97.3% and 97.1% as at 30 April 2020;
- Tenant support focused on 60-day deferral of payments for April and May invoices, without penalties, with rent reliefs discussed on a case-by-case basis;
- 94% of rent and other charges due in Q1 2020 have been collected;
- No major tenant insolvencies to date;
- Loan-to-value ratio ('LTV') of 32%, below 35% strategic target;
- 84% of the investment property portfolio unencumbered;
- Significant headroom for all debt covenants;
- BBB Investment Grade credit ratings reaffirmed by Fitch Ratings (stable outlook) and S&P Global Ratings (negative outlook).

### GROUP'S OPERATIONS ACROSS GEOGRAPHIES AFTER EASING OF RESTRICTIONS

Further to the gradual easing of restrictions adopted by the national governments in CEE, the status of operations across the Group's geographies is set out below:

#### Lithuania (reopening of shops: 25 April 2020)

- Restrictions substantially ended, with most shops, including those in malls, opened since 25 April;

- 83% of the GLA currently trading, with normalised occupancy expected in June 2020, when entertainment and indoor restaurants open;
- The Lithuanian government partially covers tenant payments from the commencement of trading restrictions until end of July 2020; the landlord is expected to provide a discount of 30% to the rental and other obligations for this period, while 20% is covered by the tenant and 50% by the government. NEPI Rockcastle is working with tenants to submit the required documentation;
- Footfall in May has already recovered to 50% compared to the same period of previous year and is increasing.

#### Poland (reopening of shops: 4 May 2020)

- Restrictions on non-essential stores ended on 4 May;
- Certain services, including restaurants, cinemas, gym and entertainment facilities, are still restricted, but expected to start trading in June;
- 72% GLA is trading and normalised occupancy is expected by 30 June;
- Government announced relief for rent and service charges, subject to a mandatory six-month lease extension plus the period when units were closed;
- Footfall has already recovered to 50% compared to the same period of the previous year and is increasing.

#### Serbia (reopening of shops: 8 May 2020)

- Restrictions for smaller shops, including those located in retail parks, ended on 27 April, while other non-essential stores reopened on 8 May;
- Restaurants and entertainment facilities will open later, as government monitors situation;
- 35% of GLA open; normalised occupancy estimated by 30 June;
- No specific legislation regulating lease agreements.

#### Croatia (reopening of shops: 11 May 2020)

- Restrictions for smaller shops, including those located in retail parks, ended on 27 April, while other non-essential stores reopened on 11 May;
- Restaurants, coffee shops and food courts are open, with social distancing measures which limit their capacity;
- 90% of GLA open; entertainment facilities, currently closed, are expected to open by 30 June;
- No specific legislation regulating lease agreements.

#### Czech Republic (reopening of shops: 11 May 2020)

- Restrictions on non-essential stores ended on 11 May;
- 76% of GLA open; restaurants and entertainment facilities will open by end of May;
- No specific legislation regulating lease agreements adopted, other than forbidding their unilateral termination by the landlord before the end of 2020.

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### Romania (reopening of part of the shops: 15 May 2020)

- The Romanian government has announced gradual easing of lockdown measures, with shops having street access and those located in retail parks up to 15,000m<sup>2</sup> of total built area allowed to trade from 15 May;
- Reopening of non-essential shops and entertainment facilities located in larger malls will be implemented at a later stage, not yet communicated (expected reopening by mid June);
- Offices remained fully functional, with work-from-home measures adopted by many companies;
- Legislation proposing deferral of rental obligations to year-end under certain conditions is being considered.

### Bulgaria (reopening of shops: 18 May 2020)

- Restrictions on trading of non-essential shops ended on 18 May;
- 72% of GLA open; cinemas and foodcourts are not open, although restaurants can sell take-away food. It is expected that cinemas will open by end of May;
- Offices remained fully functional, with work-from-home measures adopted by many companies;
- No specific legislation regulating lease agreements adopted.

### Hungary (reopening of shops: 18 May 2020)

- Non-essential shops opened on 18 May, with restaurants expected to open by end of June, while entertainment facilities are estimated to open in July;
- 72% of GLA currently open;
- No specific legislation regulating lease agreements adopted.

### Slovakia (reopening of shops: 20 May 2020)

- The Slovakian government ended the trading restrictions for all non-essential shops on 20 May;
- Restaurants and entertainment areas expected to open by end of June;
- 91% of GLA open;
- Offices remained fully functional, with work-from-home measures adopted by many companies;
- No specific legislation regulating lease agreements adopted, other than forbidding their unilateral termination by the landlord before the end of 2020 if the tenant is in delay with its payment obligations for the period April – June 2020.

### TENANT SUPPORT

Certain CEE governments deferred taxes and social contributions, with some suspending loan repayments for specific periods. The Group encourages tenants to utilise all fiscal and monetary stimuli.

The following practices, focused on maintaining a functioning retail environment for the long-term, were implemented to support tenants:

- rent for shops closed during April and May (where already invoiced) deferred for sixty days without penalty;
- rent reliefs discussed on a case-by-case basis, depending on the tenant's financial position, occupancy cost ratio and other factors;

- monthly invoicing implemented instead of quarterly invoicing, where the lease agreements accommodated such a change;
- marketing contribution relief for April and May for closed units; and
- variable operating expenses during lockdown period reduced by approximately 40% relative to the 2019 comparative period, on a like-for-like basis.

### TENANT MIX UPDATE FOR Q1 2020

- **Aupark Kosice Mall (Kosice, Slovakia):** Burger King and Nordsee opened their first stores outside of Bratislava;
- **Arena Mall (Budapest, Hungary):** Sloggi opened a new store and Lindt is expected to open in May;
- **Forum Usti nad Labem (Usti nad Labem, Czech Republic):** Reggata and mBank opened their units;
- **Bonarka City Center (Krakow, Poland):** Peek & Cloppenburg reopened an extended store (additional 900m<sup>2</sup>) and Ochnik reopened 3 times larger relocated unit;
- **Mammut Shopping Centre (Budapest, Hungary):** Regio Jatek signed a lease agreement for 1,000m<sup>2</sup> toy store and fit-out works are ongoing;
- **Ozas Shopping and Entertainment Centre (Vilnius, Lithuania):** Reconstruction of basement level entrance completed. The country's largest entertainment park, the 4,300m<sup>2</sup> Adventica, completed fit-out works and is prepared to open as soon as restrictions for entertainment units end. An expanded and refurbished post office opened, as well as the newest concept for Triumph;
- **Solaris Shopping Centre (Opole, Poland):** Bershka and Zara extended their leases;
- **Shopping City Sibiu (Sibiu, Romania):** Cineplexx opened a cinema;
- **Promenada Sibiu (Sibiu, Romania):** Reserved opened a 2,400m<sup>2</sup> store;
- **Forum Liberec Shopping Centre (Liberec, Czech Republic):** JRC Games and Aurayum opened their units.

### HEALTH AND SAFETY MEASURES

Maintaining the health and safety of customers, tenants and staff remains the Group's priority. Thus, the Group has implemented extensive health and safety measures in its shopping centres including, among others:

- social distancing rules enforced through markings in seating areas, corridors, elevators, escalators, etc;
- shopping centres' staff and customers expected to wear masks and apply other precautionary measures;
- ventilation of the buildings with 100% fresh air;
- hourly disinfection of frequently used furniture and equipment (such as handrails, food court tables and trays); and
- availability of hand sanitising dispensers in numerous locations across each property.

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## DEVELOPMENT UPDATE

The Company has revised its expenditure for the development pipeline, focusing on committed on-going projects. NEPI Rockcastle is benefiting from a flexible approach to its development pipeline, anchored by prudent project management which enables the Group to reassess and adapt the project pipeline as needed. Construction costs are committed on a gradual basis, with the majority of works done by package. The limited use of general contractors enables the Group to suspend or terminate development activities at any time, exercising a high degree of control over the quality of works and cash flow management.

The Group had the following committed projects at 31 March 2020:

- **Focus Mall Zielona Gora (Zielona Gora, Poland):** Necessary works regarding the parking and common areas of the extension (15,600m<sup>2</sup>) are progressing. New tenants include: Apart, Express Marche, Millennium Bank, Rainbow Tours and Time Trend. First phase of the refurbishment and extension is expected to be finalised in fourth quarter ('Q4') 2020;
- **Bonarka City Center (Krakow, Poland):** Peek & Cloopenburg's extended store was opened and several units have been handed over to tenants such as Apart, Costa, Douglas, Pandora and Pinko for fit-out. Completion of the current development phase is expected in June 2020;
- **Shopping City Buzau (Buzau, Romania):** The last phase of the project, which includes the refurbishment of the ground floor and opening of an outdoor terrace and a 6 screen cinema by Cinema City will be completed in second quarter ('Q2') 2020;
- **Forum Liberec Shopping Centre (Liberec, Czech Republic):** The refurbishment is expected to be finalised as planned, in Q2 2020;
- **Shopping City Targu Mures (Targu Mures, Romania):** A 39,800m<sup>2</sup> shopping mall was completed in Q1 2020. The opening was scheduled for end of March and is now estimated for third quarter ('Q3') 2020 (after the Romanian government ends trading restrictions). The tenant mix includes Carrefour, CCC, Cineplexx, Flanco, eMag, Hervis Sports, Intersport, KFC, LC Waikiki, LPP (Cropp, House, Reserved and Sinsay) and New Yorker.

During Q1 2020, €50 million was spent on the pipeline projects detailed above. Following a detailed business review, the Group actively implemented various measures aimed at optimising the allocation of capital, among which was the deferral of non-committed development and capital expenditure projects. Thus, the Group will not launch new constructions until there is further clarity on the impact of COVID-19 on the Group's operations. Consequently, the Group estimates to incur further development and capital expenditure of only €70 million in 2020.

## ROMANIAN OFFICE PORTFOLIO DISPOSAL

As already announced, the disposal of the Romanian office portfolio, in accordance with the agreement signed in December 2019, was not completed due to the purchaser's obligations related to the completion procedures not being fulfilled. This led to a breach in the agreement, which entitled the Group to terminate it and claim the contractual guarantee. The procedures for recovering the guarantee in accordance with the contractual mechanisms have been initiated.

## CASH MANAGEMENT AND DEBT

NEPI Rockcastle had strong liquidity at 31 March 2020, with €590 million available in cash and undrawn credit facilities. The Group's gearing ratio (interest bearing debt less cash, divided by investment property and listed securities, excluding the effect of International Financial Reporting Standard 16 ('IFRS')) was 32%, below the 35% target.

As of 31 March 2020, ratios for unsecured loans and bonds showed ample headroom compared to covenants:

- Solvency Ratio: 40% actual, vs requirement of maximum 60%;
- Consolidated Coverage Ratio: 6.3 actual, vs requirement of minimum 2;
- Unsecured consolidated total assets/unsecured consolidated total debt: 269% actual, vs requirement of minimum 180%.

The Company successfully repurchased the outstanding bond notes due February 2021, with a nominal value of €198 million in January 2020.

In April 2020, the Group's Investment Grade credit ratings were reaffirmed by Fitch Ratings (BBB, stable outlook) and S&P Global Ratings (BBB, negative outlook). NEPI Rockcastle is committed to further enhancing its liquidity and maturity profile and will continue to analyse market opportunities as they arise. Depending on market conditions, the Group may initiate repurchases of issued bonds or shares during the following reporting periods.

## COMMUNITY SUPPORT

The Group supported the community efforts for preventing the spread of the COVID-19 and has collaborated with the Red Cross for the purchasing of protective medical equipment. In addition, NEPI Rockcastle started a fundraising campaign through the online channels (websites and social media) of its shopping centres in Romania. The entire amount collected will be used to support the efforts of the Red Cross organisation.

## OUTLOOK

The COVID-19 pandemic changed the global economic outlook for 2020, and there is significant uncertainty about its impact on NEPI Rockcastle's operations. In this context, NEPI Rockcastle has decided to withdraw its 2020 earnings guidance, as announced on 1 April 2020.

The recent easing of restrictions led to a significant increase in the Group's activity, and the first signs are encouraging. The Group will continue to provide updates, and will announce a revised earnings guidance when it will be in a position to reliably estimate the effect of the current context on its performance.

20 May 2020

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