ARROWHEAD PROPERTIES
Focused on sustainable value

REVIEWED PRELIMINARY CONDENSED CONSOLIDATED RESULTS for the year ended 30 September 2019

ARROWHEAD PROPERTIES LIMITED (formerly known as Gemgrow Properties Limited) | (Incorporated in the Republic of South Africa) | (Registration number 2007/032604/06)
JSE share code: AHA ISIN: ZAE000275491 | JSE share code: AHB ISIN: ZAE000275509
(Approved as a REIT by the JSE) | ("Arrowhead" or "the company" or "the group")

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

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

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

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 20 to 32 for the group

Nature of business

Arrowhead is a proudly South African Real Estate Investment Trust ("**REIT**") committed to creating long-term shareholder value. It holds a diverse portfolio of retail, office and industrial (collectively "**commercial**") properties located in all nine provinces of South Africa valued at R10.8 billion (held directly and through subsidiaries). In addition, as at 30 September 2019, Arrowhead held a 59.6% interest (2018: 60.1%) in its subsidiary, Indluplace Properties Limited ("**Indluplace**"), which owns a portfolio of residential properties, together with small stakes in Rebosis Property Fund Limited ("**Rebosis**") and Dipula Income Fund Limited ("**Dipula**").

The average value per direct property held as at 30 September 2019 was R57.2 million (2018: R56.9 million).

The company's financial focus is on paying good income returns to its investors on a sustainable basis. This is achieved through escalating rentals, satisfactory renewal of leases with existing tenants, renting of vacant space within the property portfolio and managing and where possible reducing costs associated with the property portfolio.

Market conditions

The South African economy is experiencing an unpredictable and difficult environment which has certainly been felt by our tenants. Notwithstanding the challenging environment and the pressure that our listed holdings have experienced, Arrowhead is pleased with the performance of its direct property portfolio which has been in line with expectation. 84% of Arrowhead's income is attributable to its direct property portfolio. This percentage increases to 97% if its majority interest in Indluplace is taken into account.

In expectation of an economic environment that will remain difficult, we have implemented the following defensive measures:

- Increasing the number of in-house property resources to support our external property managers
- Implementing innovative letting strategies
- Disposing of non-core assets with non-sustainable income streams
- Strengthening the company's balance sheet, by reducing debt

We are well under way in implementing our strategy that defensively repositions our portfolio to yield sustainable income over the medium to long term.

Changes to the Business

Increase in the size of the team

In order to implement Arrowhead's strategy, there was a need to increase the size of the team. The group headcount increased from 20 to 32 in the current year to maintain strong market and operational focus. The group has built a highly motivated team of skilled property professionals. There has been a change in philosophy within the organisation from wholly outsourcing the property management to a hybrid model, where each team works alongside its property manager and has direct involvement in the day-to-day property management. The specific areas of focus have been tenant retention, new deals, debt collections, utility management and tenant-centric management. We have employed an additional legal resource to manage risk and enhance compliance. Despite the increase in costs, the change in philosophy has already yielded benefits and we expect further traction going forward.

Arrowhead/Gemgrow merger

During the year under review, Gemgrow and Arrowhead merged. The dual A and B share structure was retained with Gemgrow being the acquiring vehicle. Post the merger the name of Gemgrow was changed to Arrowhead and the old Arrowhead changed its name to Arrowgem ("**old Arrowhead**").

Prior to the merger, old Arrowhead exercised control over Arrowhead by virtue of its shareholding in Arrowhead. Consequently, Arrowhead's statement of financial position was consolidated into old Arrowhead's statement of financial position. As the market capitalisation of old Arrowhead at the date of merger was larger than Arrowhead's market capitalisation, the transaction was considered to be a reverse take-over in accordance with International Financial Reporting Standards ("**IFRS**") and the Listings Requirements of the JSE Limited ("**JSE Listings Requirements**").

In terms of IFRS, the transaction is treated as the acquisition by old Arrowhead of the non-controlling interest in Arrowhead even though, legally, Arrowhead acquired the issued share capital of old Arrowhead by way of a scheme of arrangement. Arrowhead issued consideration shares to the shareholders of old Arrowhead in consideration for their old Arrowhead shares. Accordingly, for accounting purposes old Arrowhead was regarded as the acquirer of the shares in Arrowhead that it did not already own at the effective date. Therefore, the financial statements presented below (including the prior year comparatives) is a continuation of the old Arrowhead's financial statements, adjusted for the transaction.

Disposals

We concluded the sale of over R1 billion worth of properties during the financial year, at an average discount of 2% to book value and at an average yield of 9.1% (excluding income assumptions linked to vacancies). As at year-end, 32 of the properties disposed of, with a value of R551 million, had been transferred. Since year-end we transferred a further 3 properties with a sales value of R119 million, with the remainder expected to transfer before 31 March 2020.

Acquisitions

The group acquired a 75.62% interest (and a 95% economic interest) in a portfolio of 26 properties value at R704 million on 1 December 2018 for the purchase consideration of R634.5 million which was funded by the issue of 10 264 434 A shares at an ex-dividend issue price of R9.74 per A share, with the balance funded with debt. From an IFRS perspective, as the controlling interest does not meet the requirements of a business acquisition, it has been accounted for as an asset acquisition on 1 December 2018.

Condensed consolidated financial results for the year ended 30 September

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	20 998	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 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 1 017 278 238 B shares in issue as at 30 September 2019.

Indicators

For the year ended 30 September 2019, revenue (excluding straight line rental income) for the year increased to R2 419 947 000 (2018: R2 283 158 000) whilst operating profit (rental income less property costs) decreased to R1 449 756 000 (2018: R1 598 070 000). The (loss) increased to (R857 259 000) (2018: R61 319 000). Basic and diluted earnings per combined number of shares in issue (cents) was -170 (2018: -43). Headline and diluted headline earnings per share (cents) is -126 (2018: 44). The net asset value per share (cents) (excluding non-controlling interest) is 715 (2018: 754) and per A share is 990 and per B share 698.

It should be noted that while the dividend of 111.51 cents per A share and 68.74 cents per B share is higher than the guidance communicated to the market in the circular and prospectus sent to shareholders on 22 July 2019, Arrowhead's earnings, diluted earnings and diluted headline earnings per share have been negatively affected by the fair value adjustments in relation to investment property of R285 million, derivatives of R97 million, the devaluation of the group's listed holdings in Dipula and Rebosis of R975 million. The adoption of IFRS 9 has also resulted in a negative fair value adjustment in relation to the loans to the participants of the Arrowhead group's Share Purchase and Option Scheme of R395 million.

Prospects

Arrowhead continues to position itself to weather the current unpredictable economic environment in South Africa. We anticipate that 2020 will be another tough financial year with continued risk of tenant failures and the non-renewal of leases by tenants. To address this, Arrowhead has strengthened its operational team, with a particular focus on tenant retention, rental collections, utility efficiencies and the generation of new deals in respect of vacant space. The operational team was also successful in improving the group's lease expiry profile, thereby reducing the renewal risk for the 2020 financial year.

The core portfolio grew by just under 3% in the 2019 financial year. We believe that as a result of the steps taken in 2019, we are now well positioned to continue delivering a solid level of performance from our direct property portfolio in 2020 and beyond.

Despite the positive outlook under difficult conditions, our 2020 forecast has been negatively impacted due to the reduction in our forecast income from our listed investments in Indluplace and Dipula, sales of non-core properties and a major tenant failure at one of our Randburg properties. Taking all of the above into account, our forecast for the 2020 financial year is for total dividend income to reduce by 3.5%, with the dividend on the A shares to increase by the lower of CPI or 5% to approximately 117 cents per A share; and the dividend on the B shares to reduce by 4% to 66 cents per B share compared to the 2019 year.

In the budget for 2020 we have not taken into account the letting of vacant space and have excluded rental from those tenants which we know will not be renewing, from the expiry of their leases. Rentals have been assessed on a case by case basis and where appropriate negative reversions have been assumed.

Excluding administrative and finance costs, the direct property portfolio will contribute 84% of the dividend income forecast for the 2020 financial year, or 97% if we include our majority investment in Indluplace. We have forecast that no dividend will be received from Rebosis. Dipula accounts for the remaining 3% of the dividend income for the year ahead. Our investments in Rebosis and Dipula now account for less than 1% of Arrowhead's total assets.

We will continue with our sales program and are looking to further dispose of properties which do not meet our long term sustainable value criteria. Capital allocation will be carefully considered with a focus on reducing loan to value. It is our goal to reduce our LTV to 35% within 2 years. It has already reduced from 40.5% at year-end to below 39% at the time of this announcement. Once the existing sales transfer, LTV is expected to reduce further to below 38%.

We believe the decisions we started implementing two years ago with a focus on long-term sustainability means that our portfolio is well positioned to sustain this tough environment and achieve growth when the economy eventually starts to recover.

The forecast, which has not been reviewed or reported on by the group's auditors, assumes that there will be no further material deterioration in prevailing macroeconomic conditions, that no major corporate failures will occur and that tenants will be able to absorb rising utility costs and rates recoveries.

Payment of dividend for the year ended 30 September 2019

The board of directors ("**Board**") has approved a gross dividend (dividend number 9) of 56.97647 cents per A share and 34.66247 cents per B share for the year ended 30 September 2019 in accordance with the timetable set out below:

	2019
Last date to trade *cum* distribution	Tuesday, 17 December
Shares trade *ex*-distribution	Wednesday, 18 December
Record date	Friday, 20 December
Payment date	Monday, 23 December

Share certificates may not be dematerialised or rematerialised between Wednesday, 18 December 2019 and Friday, 20 December 2019, both days inclusive. Payment of the dividend will be made to shareholders on Monday, 23 December 2019. In respect of dematerialised shareholders, the dividend will be transferred to the Central Securities Depositary Participant ("**CSDP**") accounts/ broker accounts on Monday, 23 December 2019. Certificated shareholders' dividend payments will be deposited on or about Monday, 23 December 2019 to certificated shareholders' bank accounts.

In accordance with Arrowhead's status as a REIT, shareholders are advised that the dividends meet the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("**Income Tax Act**"). The distributions on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because they are dividends distributed by a REIT. These dividends are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

a) a declaration that the dividend is exempt from dividends tax; and
b) a written undertaking to inform the CSDP, broker or the company should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends which are exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. Dividends withholding tax is 20% and accordingly, any dividends received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("**DTA**") between South Africa and the country of residence of the shareholders. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 45.58118 cents per A share and 27.72998 cents per B share. A reduced dividend withholding rate in terms of the applicable DTA, may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker in respect of uncertificated shares, or the company, in respect of certificated shares:

a) a declaration that the dividends are subject to a reduced rate as a result of the application of a DTA; and
b) a written undertaking to inform their CSDP, broker or the company should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner,

both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the company to arrange for the abovementioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable.

Shareholders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

A-shares in issue at the date of declaration of dividends:
62 718 658
B-shares in issue at the date of declaration of dividends:
1 017 278 238 (*)

Arrowhead's income tax reference number: 9068/723/17/1

(*) – Total shares of 1 268 439 054 including treasury shares of 251 160 816.

https://senspdf.jse.co.za/documents/2019/JSE/isse/AHAE/FY2019.pdf

Short form announcement

This short-form announcement is the responsibility of the board of directors of the company. This short-form announcement is a summary of the full announcement released on SENS and published on Arrowhead's website: https://www.arrowheadproperties.co.za/cmsAdmin/uploads/annual-results-2019.pdf on 27 November 2019 and on the JSE's website at https://senspdf.jse.co.za/documents/2019/JSE/isse/AHAE/FY2019.pdf and does not contain the complete or full announcement details. Any investment decision by investors and shareholders should be based on consideration of the full announcement. The full announcement is available for inspection at the registered offices of the company (3rd Floor, Upper building, 1 Sturdee Avenue, Rosebank, Johannesburg, 2196), on the company's website, www.arrowheadproperties.co.za and the offices of the sponsor, Java Capital (2nd Floor, 6A Sandown Valley crescent, Sandton, 2196) at no charge during normal business hours from Wednesday, 27 November 2019 to Wednesday, 4 December 2019.

A copy of the full announcement is available on request from info@arrowheadproperties.co.za.

By order of the Board
27 November 2019

Directors	M Nell* (Chairperson), M Kaplan (CEO), J Limalia (CFO), R Kader (COO), A Kirkel (CIO), T Adler*, A Basserabie*, G Kinross*, N Makhoba*, S Mokorosi*, S Noik*
Registered office	3rd Floor, Upper building, 1 Sturdee Avenue, Rosebank, Johannesburg, 2196 PO Box 685, Melrose Arch, 2076
Transfer secretaries	Link Market Services South Africa Proprietary Limited
Sponsor	Java Capital
Company secretary	CIS Companies Secretaries Proprietary Limited
Website	www.arrowheadproperties.co.za

* Independent non-executive. All directors are South African.