

## **ARROWHEAD PROPERTIES LIMITED**

(formerly 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  
(Granted REIT status with the JSE)  
("Arrowhead" or "the company" or "the group")

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## **STRATEGIC UPDATE, CHANGES TO THE BOARD AND POTENTIAL STREAMLINING OF THE GROUP**

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### **Strategic update**

Arrowhead's strategy remains to deliver sustainable income to shareholders by being invested in a property portfolio capable of delivering long-term growth. Key components of this strategy have included the sale of non-core properties that do not meet Arrowhead's investment criteria, and the use of the bulk of the proceeds from these sales to further strengthen the balance sheet by reducing debt.

Prior to COVID-19 and the national lockdown, Arrowhead had, as communicated, made good progress on the implementation of this strategy, disposing (over a 24-month period) of R1.4 billion of non-core properties (at an average 2% discount to book). The success of this strategy ensured that Arrowhead entered the current difficult period in a far stronger position than would otherwise have been the case, enabling the company to assist its tenants and service providers through this crisis.

As a result of the company's proactive steps, rental collection levels through the national lockdown (at 75% and 65% for April 2020 and May 2020 respectively) have been ahead of our revised COVID-19 cash flow forecasts while still accommodating tenants genuinely in need of assistance. Much of the rental relief took the form of rental deferrals, so we expect these percentages to improve. We are also seeing a steady improvement in June with collections already at 66% (compared to 51% at the same time last month). We are cautiously optimistic that this represents the start of a recovery in collections closer to pre-COVID-19 levels yet stress that significant uncertainty remains.

Despite these promising indicators, the economic impact of the steps taken to limit the spread of COVID-19, will exacerbate what was already a difficult economic environment. However, the board is of the view that, even taking into account the potential impact of this economic environment on sustainable rental levels and underlying asset values, the company's assets are being significantly undervalued by the market. Consequently, it is appropriate to intensify its focus, in the short term, on strengthening the company's balance sheet as well as its operating efficiency and cash flows in order to further unlock the value inherent in the company's assets.

This focus includes three main priorities:

- an expanded disposal programme;
- enhanced operational efficiencies and reduced operational costs; and
- identifying opportunities to simplify and streamline the group.

The board believes that a strong focus on these priorities will unlock value for shareholders, while also reducing risk and enhancing the company's ability to deliver sustainable income to its shareholders.

## **The expanded disposal programme**

Until now the company has only sold assets that do not meet Arrowhead's long-term investment criteria. Under the expanded disposal programme, the company will also pursue the sale of a limited number of its larger assets provided that this significantly strengthens its balance sheet.

We are mindful that this is an uncertain environment, where asset sales at reasonable levels may be challenging. However, our team has a track record of disposing of assets at good values, in a difficult market. We are confident in their ability to apply the same approach to our expanded disposal programme.

We will remain disciplined sellers, and the existing programme of selling non-core assets will continue.

## **Operational efficiencies, cost savings and changes to the board of directors**

Given the potential risks to revenue, it is important that the company take advantage of all available opportunities to increase efficiency and reduce operating costs.

As previously announced, between March 2019 and March 2020, we increased our staff complement from 20 to 34. This increased head count has already led to efficiencies and cost savings (which have more than offset the additional salary cost). There remain a number of areas where this enhanced internal capacity can improve operational efficiencies and reduce costs. We have begun a process to unlock these further cost saving opportunities.

The company is also focused on reducing administration expenses wherever possible. In this regard a decision has been made to freeze the salaries of certain key executives namely the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Chief Investment Officer.

A decision has also been made to reduce the size of the board. Riaz Kader and Alon Kirkel have agreed to step down from the board with effect from 1 October 2020 while retaining their executive roles and responsibilities (as Chief Operating Officer and Chief Investment Officer, respectively). They remain important and valued members of the executive team and integral to delivery of the new strategy.

A process is underway to review the composition of the balance of the board, and further announcements will be made in due course.

## **Simplify and streamline group structure**

An exercise has been initiated to evaluate the cost benefit and other possible implications of merging Arrowhead and Indluplace Properties Limited. Further details will be announced in due course.

Additionally, we continue to actively seek a basis to unlock value from our holdings in Rebasis Property Fund Limited and Dipula Income Fund Limited.

9 June 2020

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Advisor to Arrowhead

Ferryman Capital Partners

Sponsor

The logo for Java Capital, featuring the word "JAVA" in a stylized font with a blue underline, followed by "CAPITAL" in a plain sans-serif font.