

HYPROP INVESTMENTS LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1987/005284/06)

JSE share code: HYP ISIN: ZAE000190724

JSE bond issuer code: HYPI

(Approved as a REIT by the JSE)

(“**Hyprop**” or “**the Company**” or “**the Group**”)



ACQUISITION OF FOUR RETAIL PROPERTIES FROM HYTEAD LIMITED AND CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

Hyprop holds a 60% interest in Hystead Limited (“**Hystead**”), with the remaining 40% being held by PDI Investment Holdings Limited (“**PDI**”). Hystead holds interests in five dominant retail centres in the Balkan region of Eastern Europe (“**EE**”). The Hystead shareholders agreement contemplates a “liquidity event” by no later than 31 May 2022, to, *inter alia*, release Hyprop from the disparate guarantees provided by it in respect of Hystead’s bank funding and to terminate the arrangements contemplated in the indemnity agreement between Hyprop and PDI.

Shareholders are advised that Hyprop has concluded an agreement with Hystead (the “**transaction agreement**”) in terms of which Hyprop (or a wholly-owned subsidiary of Hyprop) will acquire (i) Skopje City Mall in North Macedonia; (ii) City Center One East in Croatia; (iii) City Center One West in Croatia; and (iv) The Mall of Sofia in Bulgaria, (collectively, the “**Hystead acquisition properties**”), by acquiring 100% of the shares in, and shareholder claims against, Balkan Retail N.V. (“**Balkan Retail**”) and SCM Retail Dooel Skopje (“**SCM Retail**”) (collectively, with their subsidiaries, the “**target group**”) (the “**transaction**”).

The estimated aggregate consideration payable is €193 million (approximately R3.32 billion), comprising the estimated purchase consideration of €173 million (as detailed below) and settlement of the excluded claim (as detailed below) of €20 million, subject to customary net asset value adjustments.

2. RATIONALE

The Hystead acquisition properties accord with Hyprop’s strategy for its EE portfolio, are premium retail properties in their respective jurisdictions, and have the potential for future growth through active asset management and development initiatives, drawing on Hyprop’s South African expertise.

The transaction will enable Hyprop to take full control of the Hystead acquisition properties, with the following impact:

- An increase in Hyprop’s effective interest in the Group’s EE portfolio from €390 million (being 60% of the value of the Group’s EE portfolio prior to the transaction) to €575 million (being 100% of the value of the Hystead acquisition properties) in line with Hyprop’s strategy to diversify its portfolio from the underperforming South African economy. Hyprop will retain its existing effective interest of €45 million in Delta City Podgorica (being 60% of the value of Delta City Podgorica) until this asset is sold by Hystead;
- An alignment of Hyprop’s economic interest in the Hystead acquisition properties and its risk exposure. Hyprop is currently exposed to 78% of Hystead’s equity debt and receives 71% of the dividends declared by Hystead (60% via its shareholding and 11% as a guarantee fee from PDI on dividends declared by Hystead). Pursuant to the transaction, Hyprop’s economic benefit in the Hystead acquisition properties will increase by 29% (to 100%), and its exposure to the related equity debt will increase by 22% (to 100%);
- Optimisation of the target group’s capital structure and the Group’s borrowings and gearing profile across its Rand, Euro and Dollar funded portfolios. The proceeds from the transaction will be utilised by Hystead to reduce its equity debt, thereby reducing the guarantees provided by Hyprop on Hystead’s equity debt, and the related currency risk as a result of Rand denominated assets being used to secure Euro denominated borrowings;

- Consolidation of the Hystead acquisition properties in Hyprop’s financial statements, providing greater disclosure and transparency on the financial performance of the Hystead acquisition properties and the Group; and
- Retention of the experienced Hystead asset management team, ensuring management continuity, and positioning Hyprop to grow its EE portfolio in the long-term.

The transaction follows the recent disposals of Delta City Belgrade and Atterbury Value Mart and the fund raising initiatives of the FY2021 dividend reinvestment alternative and April 2021 capital raise. In addition, the sale of Delta City Podgorica is progressing. These activities are important steps towards repositioning and strengthening the Group’s balance sheet and in furthering its diversification strategy.

3. TERMS OF THE TRANSACTION

In terms of the transaction agreement, Hyprop will acquire 100% of the shares in, and shareholder claims against, Balkan Retail and SCM Retail from Hystead with effect from the effective date of the transaction, which is anticipated to be 31 March 2022 (the “**effective date**”).

Purchase consideration

The purchase consideration payable in terms of the transaction is an amount equal to the consolidated aggregate net asset value (“**NAV**”) of the target group, based on the independent property valuations of the Hystead acquisition properties at 31 October 2021, being an aggregate amount of €575.1 million (the “**Current Valuations**”), less 33.3% of the deferred tax liability based on the independent property valuations, and plus/minus adjustments for the following balances at the effective date:

- short and long-term debt;
- net working capital;
- other actual assets/liabilities (other than “IFRS” accounting assets/liabilities); and
- liabilities for income or other taxes payable by the target group.

The estimated purchase consideration, based on the above, is €173 million (equivalent to R2.98 billion).

The estimated purchase consideration will be settled in cash on the effective date, funded from a combination of Hyprop’s cash reserves and existing debt facilities. The proceeds from the transaction will be used by Hystead to reduce its equity debt. The effect of this will be that a minimum of €132 million of the Group’s Euro equity debt will be settled and/or replaced with Rand debt, and Hyprop’s exposure to the Euro equity debt in the target group companies will increase by €23 million (being 22% of the equity debt within in target group companies). The Group’s LTV ratio will remain within bank covenant levels.

Included in the short and long-term debt for purposes of calculating the purchase consideration, is an amount of circa €20 million owed by Balkan Retail to Hystead (the “**excluded claim**”). This loan will be settled by Balkan Retail either in cash or by assuming an equivalent portion of Hystead’s remaining equity debt, by no later than 31 May 2022.

Taking into account the estimated purchase consideration of €173 million and the excluded claim of €20 million, the estimated aggregate consideration payable by the purchaser in terms of the transaction is €193 million (approximately R3.32 billion).

While management is confident that the transaction will be implemented by 30 April 2022, should the transaction not have been implemented by that date, the Hystead acquisition properties will be required to be revalued as at 30 April 2022 (“**New Valuations**”). The New Valuations will replace the Current Valuations as the basis for the determination of the NAV and the purchase consideration, provided that the New Valuations may not be more than €603.9 million (being 5% more than the Current Valuations) and not less than €546.4 million (being 5% less than the Current Valuations) for the purposes of any recalculation.

Warranties and indemnities

Hyprop is the beneficial owner of 60% of the shares in Hystead and has been actively involved in the management and financial reporting of the Hystead acquisition properties since their acquisition by Hystead. Accordingly, the warranties and indemnities provided by Hystead (as vendor in the transaction) are limited to Hystead's capacity and authority to enter into, and perform its obligations in terms of, the transaction agreement, and Hystead's title and ownership of the sale equity.

Unwind of the Hystead structure

Following implementation of the transaction, and the disposal of Delta City Podgorica (which is anticipated to be concluded in the first quarter of 2022), Hyprop and PDI intend to wind Hystead up in an orderly manner, including settling Hystead's remaining equity debt and procuring the release of Hyprop and PDI from all of the guarantees contemplated in the Hystead shareholders agreement, including the back-to-back guarantees provided by PDI to Hyprop.

In the event that the disposal of Delta City Podgorica is not concluded, it remains the intention of Hystead and its shareholders to sell Delta City Podgorica in the open market, with Hyprop and PDI each having the right to acquire Delta City Podgorica at its latest independent valuation (provided such valuation is not older than six months).

4. SUSPENSIVE CONDITIONS

The transaction remains subject to, *inter alia*, the fulfilment and/or waiver of the following suspensive conditions:

- the boards of directors of Hyprop, Hystead and PDI, and the shareholders of PDI, adopting resolutions approving the conclusion of the transaction agreement;
- Hyprop and PDI, as the shareholders of Hystead, adopting resolutions approving the conclusion of the transaction agreement, as required in terms of the Hystead shareholders' agreement;
- Hyprop obtaining shareholder approval for the transaction;
- Hyprop confirming to Hystead in writing that it has obtained such funding as it may require, on terms and conditions satisfactory to Hyprop to settle the purchase consideration;
- Hyprop and Hystead obtaining all requisite regulatory and other approvals as may be required in any jurisdiction applicable to Hyprop, Hystead and/or any target group company, including, *inter alia*, exchange control approval from the South African Reserve Bank;
- Hystead delivering to Hyprop duly signed consent/s given by the counterparties to any major contracts of the target group regarding the change in shareholding of the target group, to the extent required in terms of such contracts;
- cancellation of the existing Hystead asset management arrangements;
- an agreement being concluded by Hyprop, Hystead and PDI clarifying how the provisions of the existing Hystead shareholders agreement will be applied in respect of the arrangements pertaining to Delta City Podgorica and the manner in which Hystead will be wound up; and
- Hyprop confirming to Hystead in writing that it is satisfied with the outcome of any legal, operational, tax and financial due diligence investigation that it may require to be conducted in respect of the target group, or alternatively that it does not require a due diligence investigation to be conducted.

Should any of the suspensive conditions not be fulfilled (or waived) by 31 May 2022, the transaction agreement shall automatically lapse and cease to be of any further force or effect.

5. PROPERTY SPECIFIC INFORMATION

The following information relates to the Hystead acquisition properties:

Property name	Skopje City Mall	City Center One East	City Center One West	The Mall Sofia
Location	Skopje, Republic of North Macedonia	Zagreb, Croatia	Zagreb, Croatia	Sofia, Bulgaria
Sector	Retail	Retail	Retail	Retail
Total GLA (m²)	36 639	48 608	46 725	61 591
Weighted average rental per m² per month (€)	19.33	21.48	21.67	14.65
Effective date of acquisition by Hystead	21 October 2016	20 April 2018	20 April 2018	4 October 2017
Original purchase consideration when acquired by Hystead (€million)	92.0	315.1 (acquired on a combined basis)		180.0
Valuation (€million) ⁽¹⁾	91.3	148.4 ²	156.3 ²	179.1

Notes:

1. The Hystead acquisition properties were valued as at 31 October 2021 by CBRE, an independent, external, registered professional valuer and a corporate member of The Royal Institution of Chartered Surveyors, a recognised property valuers' regulatory body.
2. The aggregate valuation of City Center One East and City Center One West is €304.7 million.

6. CATEGORISATION OF THE TRANSACTION

The transaction is classified as a category 1 transaction in terms of the JSE Listings Requirements and, accordingly, requires shareholder approval by way of an ordinary resolution.

Full details of the transaction will be included in a circular to be distributed to shareholders in due course. The salient dates and times relating to the transaction will be released on SENS and published in the press at the time of posting the circular.

7. FINANCIAL INFORMATION AND CAUTIONARY ANNOUNCEMENT

A further announcement incorporating the financial information relating to the transaction will be released on SENS in due course. Shareholders are advised to exercise caution when dealing in the Company's securities until a further announcement is made.

28 January 2022

Corporate advisor and sponsor

JAVACAPITAL