Jean-Marc Jestin's speech – First-half 2022 results

Paris, July 27, 2022

Good morning, everyone. Thank you for joining us this morning.

I am pleased to present Klépierre's half-year 2022 earnings. We had a productive and successful semester. We recorded strong operational results and generated €428 million of net current cash flow. This is €1.32 per share, an 84% increase compared to 2021.

This half-year has demonstrated the strengths of our business model, based on strong cash-flow generation, a limited cost base and a clear focus on high cash returns to our shareholders.

Coming off two difficult years marked with multiple stores closures and various trading restrictions for our retailers, our results are a testament to the quality of our portfolio, our strategy and our teams.

Despite a challenging global environment, our clients have seen their business drastically improve in the last 12 months, with a strong momentum in the last quarter.

Retailer sales and footfall confirmed their positive trajectory, already observed during the second half of 2021. Let's remind ourselves that January 2022 was impacted by the pandemic and notably the lockdown in the Netherlands, the "2G" law in Germany and mandatory face covering to visit stores in other countries.

But from February to June, the trend improved month after month with a sequential acceleration in the second quarter, our retailers posting sales above 2019 levels and footfall being at the highest since 2020, at 90% in May and 89% in June, a 10 percentage points better than in the second half of 2021.

This performance has been evenly distributed in all the regions where we operate as well as among all the segments. Nevertheless, the pace has been especially firm in Scandinavia and the Netherlands, which outpaced pre-pandemic levels. Fashion also posted an impressive rebound, reaching 102% of 2019 levels in the second quarter while Household equipment has continued to outperform. Food & beverage is also about to close the gap with sales at 96% of 2019 levels in the second quarter.

On the leasing side, demand for our space has been strong. We signed 700 leases, including 516 renewals and relettings, which is in line with pre-covid levels. Reversion stood at 2.7% on average, with Iberia and Italy at a remarkable 8.2% and 5.7% respectively.

Strong retailer demand, proactive asset management initiatives and steady leasing activity led us to bring occupancy up 50-basis points year-on-year at 94.7%. This translated into an occupancy cost ratio of 12.4%, 20 basis points below the level of December 31, 2021. Among others, we signed multiple deals with leading brands in all segments such as Inditex, Primark, Calzedonia, H&M, Nike, Adidas, JD Sports, Sephora but also with innovative retailers like Jimmy Fairly, Miniso or Ali Express. Value retailers like Normal, Pepco and Half Price also chose Klépierre to pursue their development.

We were also pleased to accelerate our marketing and loyalty efforts to reengage with our customers through online and offline campaigns. We launched a new loyalty program, in more than 30 malls across Europe, now gathering more than 130,000 new members. Social medias, one of our strategic milestones to increase brand awareness have been accelerated. As of today, we count more than 5 million followers on Facebook and Instagram, an increase of 24% compared to 2021, and we plan 25 malls to be active on TikTok by year end.

Consequently, on the back of higher footfall and increasing sales, our variable revenues generated by parking, specialty leasing and sales-based rents, surged by 77% compared to 2021.

Before turning to development and balance sheet I would like to highlight that we pursued deploying our Act for Good® CSR strategy. Daily, our teams work to make shopping malls more environmentally and socially responsible. As such, our global leadership in sustainability is widely recognized internationally, especially by GRESB, CDP, MSCI and SBTi, that attribute highest scores and ranking to Klépierre. Since February 24, 2022, we have been deeply committed in providing support to Ukrainians and refugees. Klépierre teams promptly organized clothes, food and healthcare products collection from retailers, visitors and associations in all its malls in Europe. All items were shipped to Sadyba Best Mall in Warsaw, which became a logistic hub to transfer these donations to Ukraine.

Additionally, in a context of tension on energy supply and increasing related costs, Klépierre is also committed to further reduce its energy consumptions. As a reminder we have reduced our energy consumption by 45% and our carbon emissions intensity by 84% since 2013.

Turning to development, we are highly selective on capital expenditures, focusing only on accretive projects, with a clear target to limit the cash out for Klepierre.

The major highlight is the successful opening of Gran Reno extension in Bologna early July, the final step of a full makeover. It was 98% let at opening and delivers a 7.6% yield on cost far above initial target. This flagship mall displays 145 stores with an outstanding set of retailers such as all Inditex brands, Primark, H&M, Sephora, New Balance, JD Sports or Tommy Hilfiger. As such, I invite you to watch the movie available on our website, showcasing our first customers enjoying this new place of shopping, last Saturday.

The Group also delivered 4 new Primark megastores in France and Italy. In total, Klépierre will have developed 6 new Primark by the end of 2023. With 17 stores in total, Klépierre will become the first lessor of the international retailer.

Now turning to the balance sheet, we have been very active. Since January 2022, we have closed or signed €470 million of disposals with a NIY of 6.0%, 0.4% below book value. This is a further step in our asset rotation strategy. Over the last 18 months we managed to close transactions for a total amount of €1.3 billion. Deals were made at an average yield of 5.6%, near or at appraised values.

Proforma the disposals made in July, this translated into a sizable decrease in net debt with solid financing metrics such as a net debt to EBITDA of 8.6 x and an ICR of 10.0x. Our Loan-To-Value ratio reaches 38.8%, stable compared to 2021 year-end. On top of a 6.5-year average debt maturity and a 1.1% cost of funding, the hedging profile remains solid with 88% of net debt hedged this year. The liquidity position stands at €2.3 billion, after €400 million of debt repayment in the beginning of the year.

As a consequence, S&P confirmed our BBB+ rating with a stable outlook in May.

We have also paid in cash this year a €1.70 per share, i.e. 78% of the 2021 net courant cash flow per share.

We therefore deploy our financial strategy for 2022, based on a combination of asset rotation, deleveraging, best-in-class cash distribution to our shareholders, in order to make Klépierre the most resilient platform to face the coming challenges of retail real estate in Europe.

This solid set of results, coupled with the ongoing positive operational trend, lead us to revise upwards our net current cash flow guidance to at least €2.45 per share, a 5.4% increase compared to the midpoint of our initial guidance. This assumes that operations are not impacted in H2 2022 by new Covid-related disruptions nor major deterioration in the geopolitical situation. It does include disposals closed to date and a €0.12 profit per share booked in H1 2022 relating to higher rent collection for 2020 & 2021.

I would like to conclude by saying that since the outbreak of the pandemic, Klépierre was proud to serve its shareholders, paying €1.4 billion dividends in cash while reducing its net debt by €1 billion. I think this proves the resilience of our business model and the dedication of our teams to deliver value.