

RESULTS PRESENTATION



FEBRUARY 2020



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OVERVIEW AND STRATEGY

A man in a dark suit and glasses is seated at a desk, looking at a laptop. He has a thoughtful expression, with his hand near his chin. The desk also holds a mug and some papers. In the background, a large window looks out onto a bright, leafy outdoor scene. The overall image has a dark, moody aesthetic with a yellow text overlay.

THE YEAR IN REVIEW



Portfolio value: R205m
Growth of 30%



Net asset value: R91m
Growth 20%



Net asset value per share: R0.71
9% increase



Loan to value: 51%



Weighted average lease expiry: 5.05

OVERVIEW AND STRATEGY



Heartwood develops high quality, sustainable buildings, underpinned by solid property fundamentals to achieve superior returns for shareholders.



Heartwood is focused on the office and warehouse sectors; on buildings that are in-line with our strict development criteria.



A new policy of selling some assets after a 4-5 year initial period will be implemented and returning cash back to shareholders in the form of a special dividend, while still maintaining a base portfolio of assets.

SOUTH AFRICA / UNITED KINGDOM

SOUTH AFRICA

- 📍 Development of niche office buildings of 2000-3000m² in key positions
- 📍 Tenant driven warehouse / distribution developments
- 📍 Tenant joint venture ownership developments
- 📍 Continued focus on established successful entrepreneurs as tenants



UNITED KINGDOM

- 📍 Co-investment with local strategic partners
- 📍 Only developments with a clear exit strategy
- 📍 Office and warehouse sectors



TIMELINE



2011

APRIL 2011

Incorporation of private development company



2012

DECEMBER 2012

Completion of Willow Wood Office Park Block A for the Business Centre



2013

DECEMBER 2013

Completion of Willow Wood Office Park Block C for Cronimet SA



2015

SEPTEMBER 2015

Completion of warehouse and office for The Media Connection in Lanseria Corporate Estate



2017

SEPTEMBER 2017

Completion of Willow Wood Office Park Block B



2018

MARCH 2018

Heartwood Properties Limited listed on the 4AX Exchange



2018

NOVEMBER 2018

Completion of warehouse and office for D4 Electrical in Lanseria Corporate Estate



2019

MARCH 2019

Completion of Willow Wood Office Park Block D with Genesys as the anchor tenant



2019

OCTOBER 2019

Investment into Blythswood Quarter development in Glasgow, UK



2020

MARCH 2020

Completion of Soleil multi tenanted office in Bryanston



ECONOMIC CLIMATE IN SOUTH AFRICA

- South Africa has implemented a phased lockdown strategy, by gradually easing lockdown restrictions and slowly allowing economic activity to resume.
- The South African Government has introduced unprecedented levels of economic stimulus, coupled with SARB interest rate easing. However, the economy is still expected to contract significantly in 2020, with the latest estimate from the SARB, of the GDP shrinking by 7% this year.
- The growth outlook for South Africa remains very uncertain and is also dependent on the recovery of the global economy.

IMPACT OF COVID-19 ON THE SECTOR

- The risk posted by the pandemic will impact real estate in the short term, with prior structural trends still being in place through this period and beyond.
- More flexibility will be required in the office sector, especially with lease length and value offering.
- Decentralised, well positioned offices in mixed use precedents will attract tenants.
- More local manufacturing to mitigate imported supply side risks.
- Increased e-commerce adoption, with more businesses implementing e-commerce systems following the impact of the lockdowns.

IMPACT OF COVID-19 ON HEARTWOOD

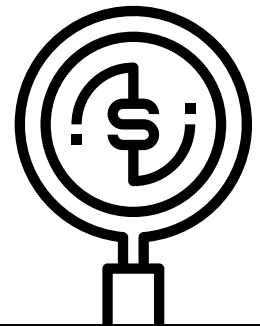
- The lockdown measures imposed by the SA government had a significant impact on the ability of our tenants to access our office parks, with all our buildings closed during the initial 21 day lockdown period.
- All our tenants have remained operational through the lockdown period, although most of them worked remotely, as required by the law.
- The Soleil development was completed in the week prior to the lockdown period, resulting in a delay in the take on of tenants.
- A delay in the start of the Build it development in Somerset West, until level 3 at a minimum.
- Total rental reductions offered to tenants will amount to 11% of the contracted annual turnover. We have maintained a strategy of working closely with our tenants, focusing on long term retention.
- Impact of the interest rate reductions are approximately equal to the rental reductions.

RESPONSE TO COVID-19



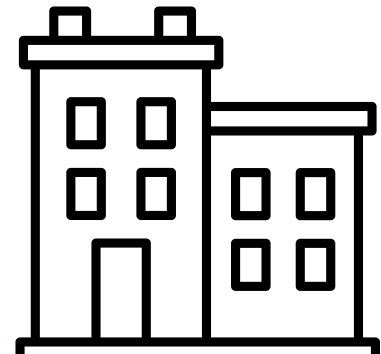
FINANCIAL

- 📍 Daily management of cash flow and liquidity
- 📍 Re-evaluating of all expenses and deferment of costs
- 📍 Currently hold R18,9m of cash, approximately 12 months of rental income
- 📍 No funding risk or expiring debt commitments
- 📍 Full advantage of interest rate reductions flow through to bottom line



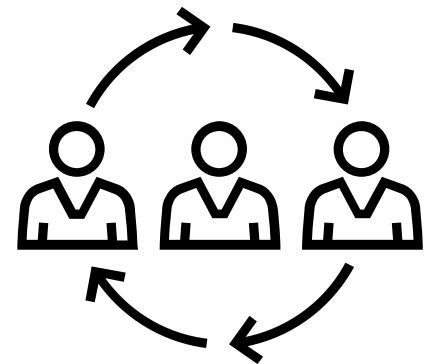
PORTFOLIO

- 📍 Ability to support tenants with cash flow relief and rent reductions
- 📍 Relatively resilient tenant profile of successful, medium sized businesses
- 📍 Most tenants able to continue operating remotely
- 📍 Delay in the start of new developments
- 📍 No developments under construction during lockdown period, either 100% complete or not yet started

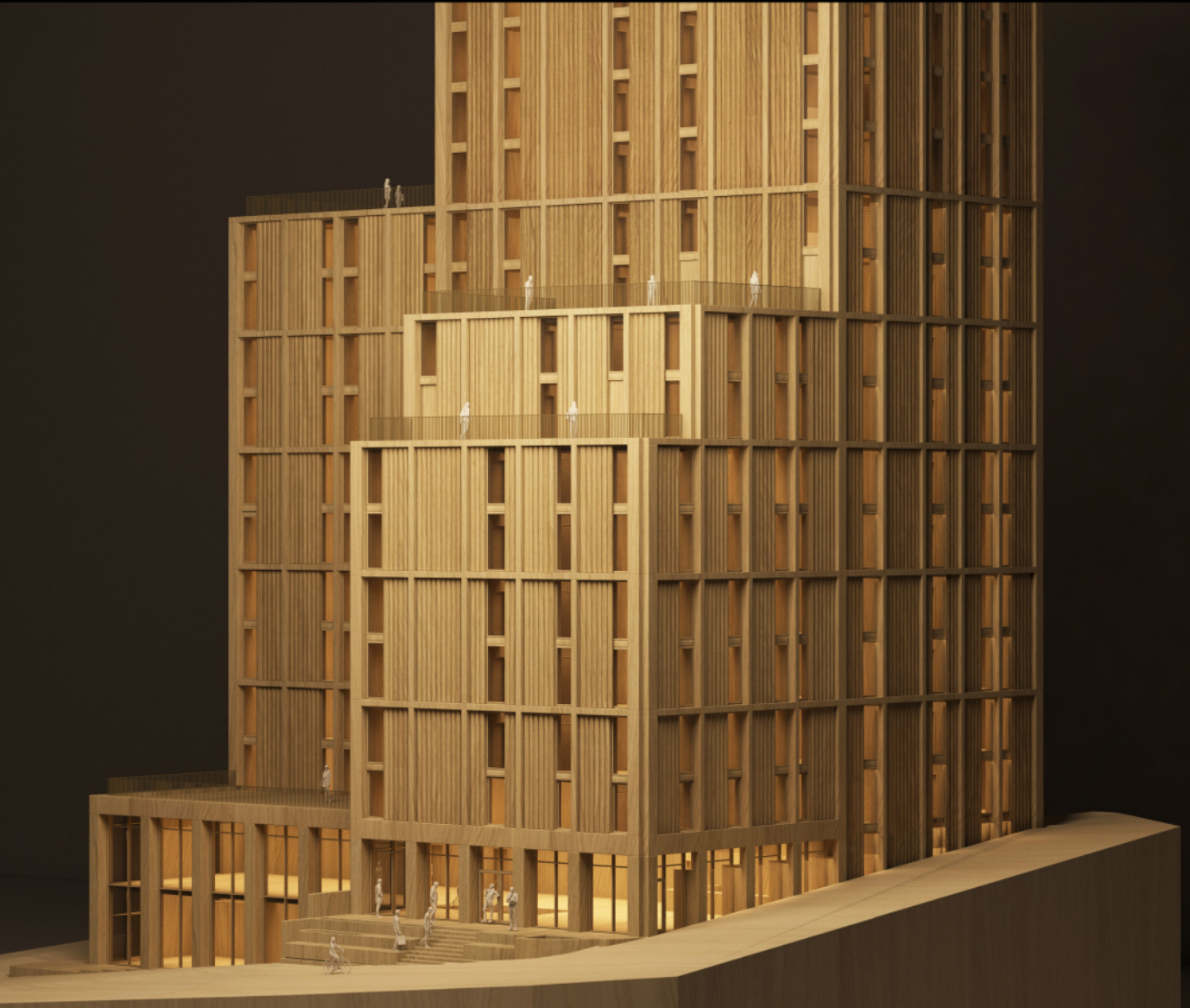


SOCIAL

- 📍 All employees able to work from home
- 📍 Full and on time payment to all our service providers and suppliers
- 📍 Cash donation to feeding scheme to assist improvised households in SA



OUR DEVELOPMENTS



OUR DEVELOPMENTS

- Our vision is to develop high quality, sustainable buildings underpinned by solid property fundamentals to achieve superior returns for shareholders
- Completed the Soleil Office development in Bryanston, Gauteng
- Co-investment with UK strategic partners into the Blythswood Quarter development in Glasgow
- Build It retail / distribution development ready to start post lockdown
- All development deals to be reassessed in the new post Covid-19 environment

COMPLETED DEVELOPMENTS



SOLEIL OFFICE DEVELOPMENT

OFFICE BUILDING

Description

Premium office development located on the periphery of Sandton, offering panoramic views

Physical Address

Cnr Peter Place & Brian Street,
Bryanston, Gauteng

Development cost

R45 million

GLA (m²)

2 560m²

Marketing strategy

Targeted up and coming successful young businesses

Year of completion

Feb 2020

Features

Class A office building, 10 minute drive to Sandton. Development completed below budget resulting in improved returns on equity.



DEVELOPMENT IN PROGRESS



BUILD IT DEVELOPMENT

OFFICE BUILDING

Description

Retail and distribution development
for Build it in Somerset West

Physical Address

Somerset West

Development cost

R40 million

GLA (m²)

2 600m²

Year of completion

Due to start after lockdown

Features

Centrally located, long lease with
established tenant

DEVELOPMENT IN PLANNING



BLYTHSWOOD QUARTER, GLASGOW

OFFICE BUILDING

Description

Small co-investment with strategic development partner in UK hotel. Development in very well located position in Glasgow, United Kingdom

Physical Address

St Vincent Street, Glasgow

Investment

Heartwood has taken an equity position in the developments of £200 000

Expected IRR

20%

Marketing strategy

Lease is in place, development to be sold to investment fund before construction starts

Start of construction

Early 2021

UK STRATEGY

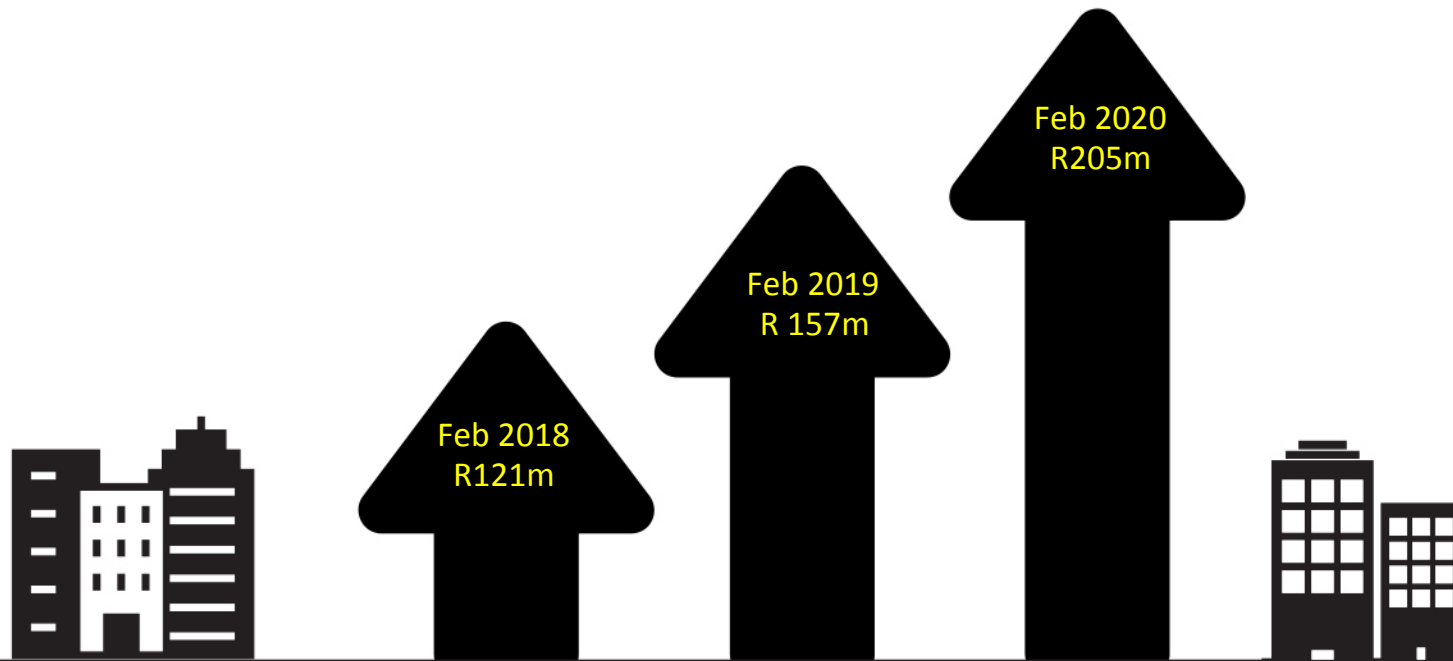
- UK strategy is to co-invest with strategic partners into office and warehouse developments that have exit strategies from day one. The develop / refurbish and sell strategy produces excellent returns on equity for us in the low interest rate environment.
- Currently reviewing a potential new development opportunity in the UK.



OPERATIONAL HIGHLIGHTS



PORTFOLIO VALUE



OPERATIONAL HIGHLIGHTS



Number of
properties: 7



Occupancy
rate: 100%



Weighted average
lease expiry:
5,05 years



Completed
development value:
2020 R49m



Weighted average
lease escalation:
7,85%



% of total revenue from
large / medium tenants
(target tenants): 90%



Portfolio value:
R205m

DEVELOPMENT PIPELINE

- One of our primary goals is to continue to find exceptional value enhancing developments that align with our strategy of achieving superior returns, within the office and warehouse sectors
- Our risk driven development approach focuses on tenants requirements and limited commitments are made before tenants are in place.
- Land is only purchased when we have a clear top structure strategy with tenant take off in place.
- Heartwood does not take any land rezoning risk and any land purchased must be fully zoned and ready for construction.
- The focus is on successful, medium sized businesses with excellent track records within the office and warehouse sectors. We do envisage more tenant joint venture developments in future.

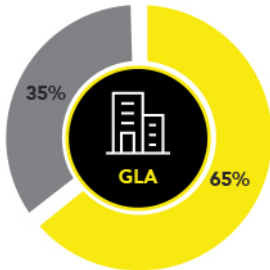
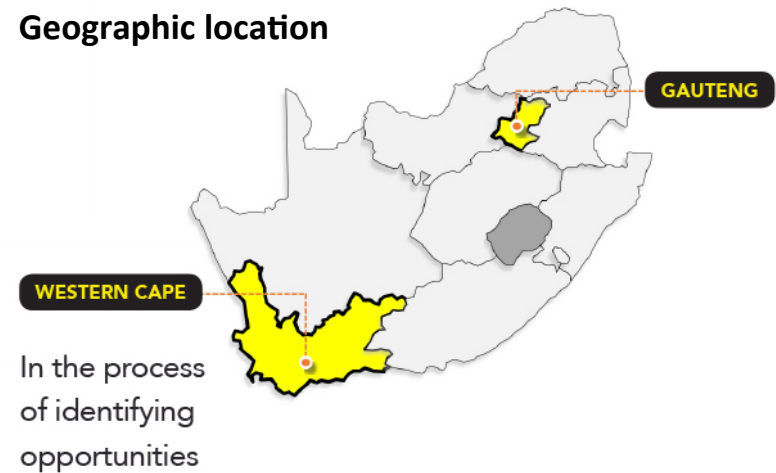
DEVELOPMENT PIPELINE

- The Build it development in Somerset West fits our development strategy and tenant profile. This development comprising of 2600m² of space with a total value of R40m is set to start after the lockdown period.
- All potential developments will be completely re accessed post lockdown to ensure that all new risks are accounted for.
- Building to be sold within 4-5 years after initial period of maximum value extraction and cash will be returned to shareholders via a special dividend.

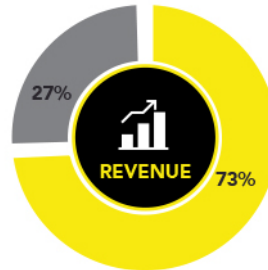
HEARTWOOD AT A GLANCE

NUMBER OF PROPERTIES	7
PORTFOLIO VALUE	R205million (including inventory)
WEIGHTED AVERAGE LEASE EXPIRY ("WALE")	5,05 years
AVERAGE PROPERTY VALUATION PER M ²	R17 149 m ²
AVERAGE ESCALATIONS	7,85%
GROSS AVERAGE YIELD	10%
OCCUPANCY RATE	100%
RENTABLE AREA ("GLA")	11 337

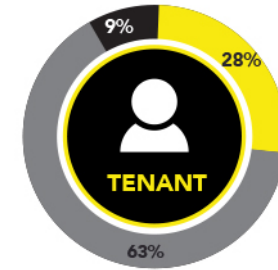
Geographic location



COMMERCIAL
 WAREHOUSE



COMMERCIAL
 WAREHOUSE



LARGE
 MEDIUM
 SMALL

FINANCIAL PERFORMANCE



SUMMARY BALANCE SHEET

- Investment property increased by 24% due to a development project in Bryanston, Gauteng which was 90.5% complete at year end. Included in inventory is an amount of R9 861 569 (at cost) which relates to a portion of the development which was pre-sold.
- An investment of 4.76% was made in a property development project based in Glasgow, through a newly incorporated UK based subsidiary.
- Additional cash resources of R13,8 million are available in an access facility held with Standard Bank.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*

	Group Audited 28-Feb-19	Group Audited 29-Feb-20	Variance	%
ASSETS	162 930 900	217 122 584	54 191 684	33%
Non-current assets	157 275 282	199 339 341		
1 Fair value of investment property portfolio	157 146 904	195 112 611	37 965 707	24%
Goodwill	19 110	19 110	0	0%
Property, plant and equipment	109 268	196 300	87 032	80%
2 Investment - Glasgow	0	4 011 320	4 011 320	100%
Current Assets	5 655 618	17 783 243		
Other financial assets	88 942	0	-88 942	-100%
Trade and other receivables	1 128 187	2 848 660	1 720 473	152%
1 Inventories	0	9 861 569	9 861 569	100%
3 Cash and cash equivalents	4 438 489	5 073 014	634 525	14%
*restated				

The full published financial statements of Heartwood Properties can be found on the company's website:

www.heartwoodproperties.co.za

SUMMARY BALANCE SHEET (CONTINUED)

4. Total equity has increased 20% due to a capital raise by way of a private placement (a total of R7.7million was raised during March 2019 and December 2019). The fair value uplift in the portfolio amounted to R6.1million.
5. Loans and borrowings increased 45% mainly due to a property development project in Bryanston, Gauteng and the re-financing of an existing facility for one of the Lanseria properties.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*

	Group Audited 28-Feb-19	Group Audited 29-Feb-20	Variance	Variance %
	162 930 900	217 122 584	54 191 684	33%
Equity and Reserves	76 664 545	91 665 071	15 000 526	20%
4 Equity attributable to the parent	76 070 205	91 062 914	14 992 709	20%
Non-controlling interest	594 340	602 157	7 817	1%
Liabilities	86 266 355	125 457 513	39 191 158	45%
5 Loans and borrowings	71 468 715	103 437 564	31 968 849	45%
Deferred Tax	11 439 883	14 022 740	2 582 857	23%
Trade and other payables	3 357 757	7 997 209	4 639 452	138%
<i>*restated</i>				

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SUMMARY INCOME STATEMENT

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*

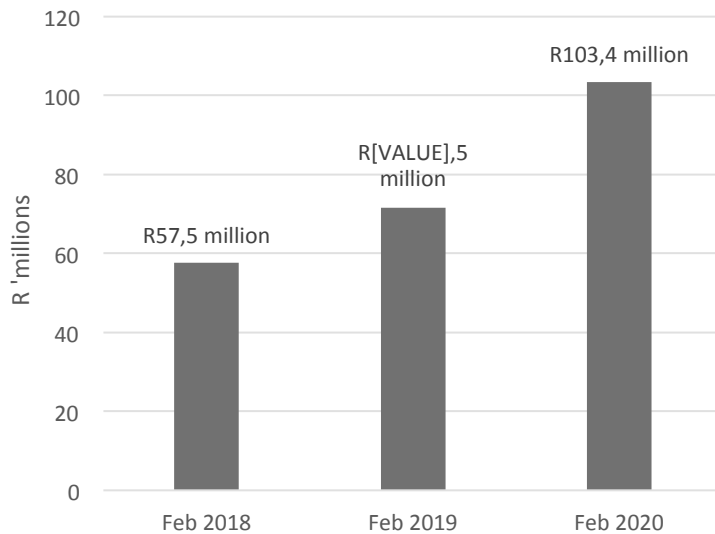
	Group Audited 28-Feb-19	Group Audited 29-Feb-20	Variance	Variance %
Revenue	16 471 337	21 845 084	5 373 747	33%
Other operating income	79 402	102 695	23 293	29%
Fair value gains	4 798 691	6 139 317	1 340 626	28%
Other operating expenses	-8 749 351	-11 769 242	-3 019 891	35%
Operating profit (loss)	12 600 079	16 317 854	3 717 775	30%
Finance income	266 713	176 464	- 90 249	-34%
Finance costs	-5 289 717	-6 861 024	- 1 571 307	30%
Profit before tax	7 577 075	9 633 294	2 056 219	27%
Income tax expense	-2 216 332	-2 587 673	- 371 341	17%
Profit and total comprehensive income for the year	5 360 743	7 045 621	1 684 878	31%
<i>*restated</i>				
Profit and total comprehensive income for the year attributable to:				
Owners of the parent	5 236 377	7 037 804		
Non-controlling interest	124 366	7 817		

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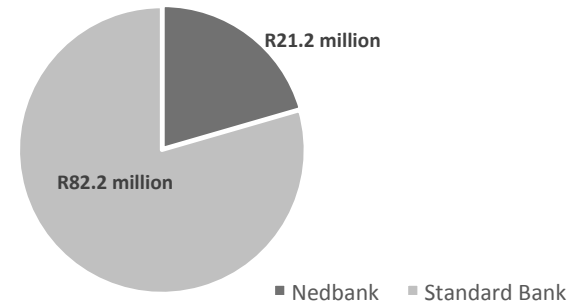
www.heartwoodproperties.co.za

DEBT FUNDING PROFILE

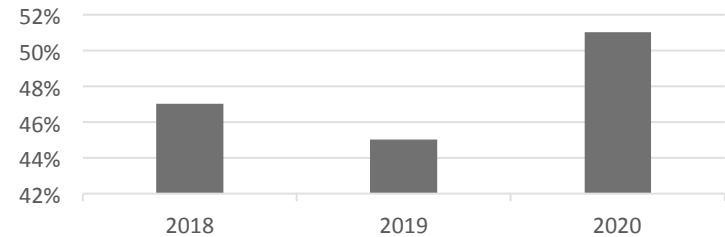
TOTAL BORROWINGS ¹



FUNDING BY BANKS ¹



LOAN TO LONG-TERM ASSET VALUE ¹



DEBT EXPIRY PROFILE ²

	Less than 1 year	1-2 years	2-5 years	Over 5 years
Borrowings	5 127 043	29 105 061	73 535 263	7 955 963

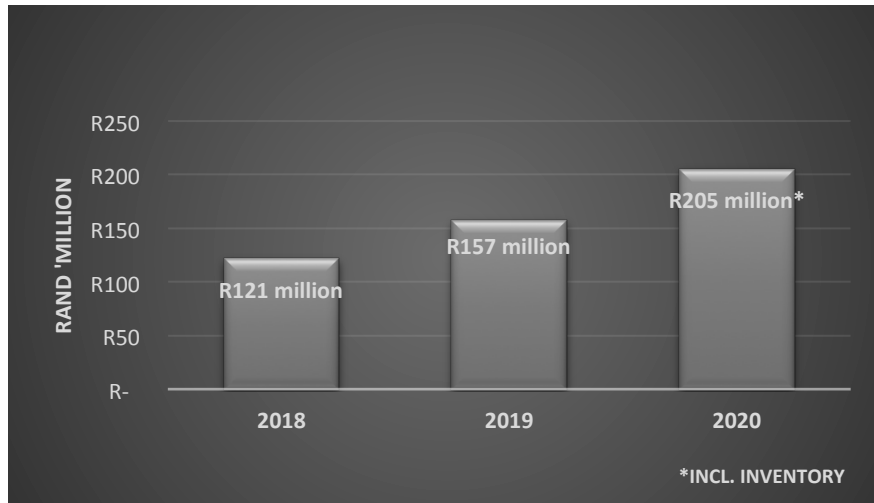
Note:

1. As at the year ended 29 February 2020;
2. Capital and interest repayments as at 29 February 2020.

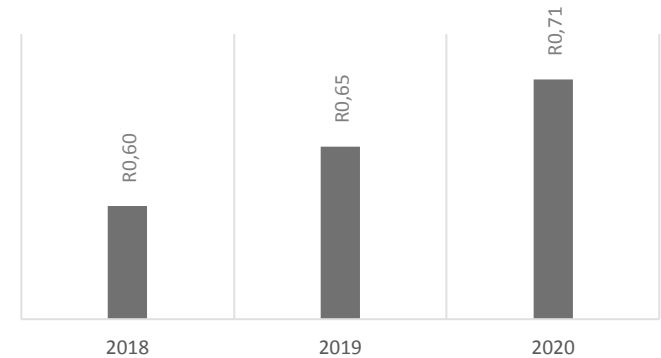


KEY FINANCIAL METRICS

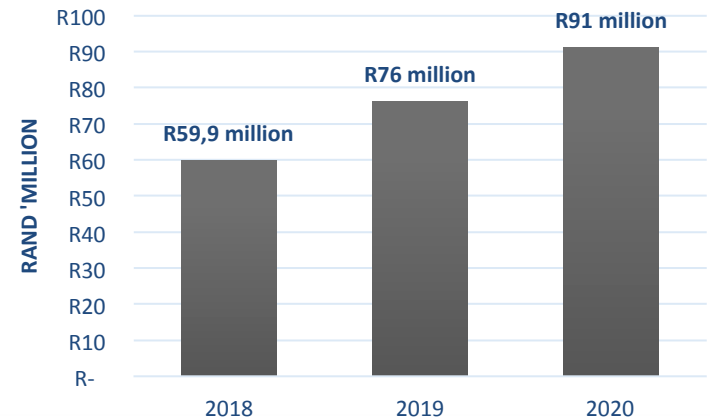
PORTFOLIO VALUE



NAV PER SHARE



NET ASSET VALUE






PROSPECTS



PROSPECTS

Heartwood has built a quality resilient portfolio, by:

-  Focusing on our core strengths and experience as developers
-  Aligning with our tenants by building strong, long term tenant relationships
-  Conserving cash and maintaining a very strong balance sheet

We do not underestimate the impact that Covid-19 will have on the South African and global economies, which is not yet fully understood.

We continue to hold discussions with our current tenants and review the risks of all our potential new developments.

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