ARCONA CAPITAL

# ARCONA PROPERTY FUND N.V.

## COMPANY UPDATE

## 5 OCTOBER 2021

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# 1. Opening

# 2. Future strategy | Steps taken

- Priority was and is to refinance the short-term bank and fund-level loans.
- Sold non-core real estate assets :
  - Q1/2020 Kalisz (Poland);
  - Q4/2020 Krivá 18 +23 (Slovakia);
  - Q2/2021 Kysucká 16 (Slovakia);
- In 2020 and the first half of 2021, the managing board succeeded in refinancing most of the maturing loans.
  - Maturity increased in 2021 from 1.60 to 2.84 years as at end Q3.

# 2. Future strategy | Steps taken

- The following options for the future of the Fund were discussed in detail between the managing board and the supervisory board:

  A. Continuation of current growth and dividend strategy;

  B. A formal liquidation of the Fund;

  C. Sale of the Fund to a third party;

  D. Controlled real estate sales and share repurchases.

# 2. Future strategy | A | Continuation

**A. Continuation of current growth and dividend strategy.**

- Growth strategy is very difficult to execute when the difference between the NAV and the share price is high.

- It is challenging to issue new shares to grow the Fund as, at current share price levels, it will substantially reduce the NAV per share.

    - Current NAV is EUR 11.91
    - Stock price is EUR 7.25 as at 4/10/2021

- Growth (acquisitions of new properties) requires new equity issuance.

# 2. Future strategy | A | Continuation

- The acquisition of additional assets by the issuance of shares at NAV, as in the SPDI deal, is non-dilutive.
- Opportunities such as SPDI are good to pursue, but this will not grow the Fund to EUR 500 million in the medium term.
- The market´s response to the regular dividend distribution between 2016 and 2019 did not result in a significant rise in the share price.

# 2. Future strategy | B | Formal liquidation

**B. The Fund could be liquidated over a three-to-four-year period.**

- If a formal liquidation would be proposed by the Priority Share and approved by the shareholders, the following will happen:
  - Trading in the shares will be halted and shareholders will be "locked in".
  - Refinancing of any existing loans will be challenging. This creates an insolvency risk, which will destroy shareholder value.
  - During the liquidation process creditors will be prioritized for repayment and distributions to shareholders will be last in line.
  - Expected proceeds can be (estimated) between EUR 8 - 9 per share.

# 2. Future strategy | B | Formal liquidation

- There is a contractual obligation from the Fund to SPDI to issue another tranche of 605,000 shares for the completion of Phase 2.
- If the Fund is placed into formal liquidation, it cannot issue these shares:
  - If not possible to issue, it could lead to juridical actions/claims from SPDI for failure to complete on a EUR 12 million acquisition;
  - There is also a commitment from the Fund for the ca. 146,000 warrants already issued to SPDI, which may impact the estimated liquidation value of EUR 8 – 9 per share.

# 2. Future strategy | C | Sale of Fund

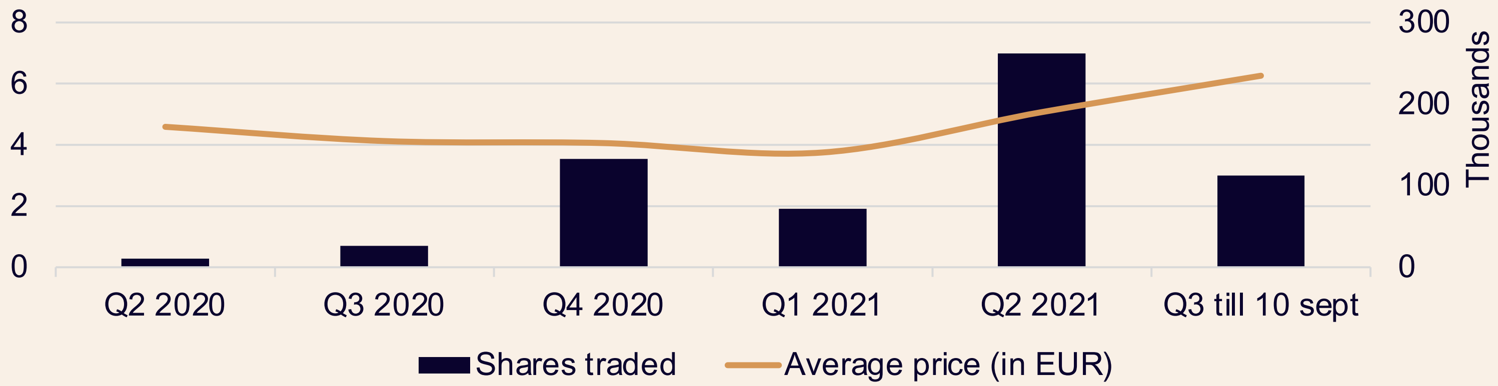
C. **Sale of the Fund** in its entirety to a third party has been investigated in recent years. Feedback has been negative due to :
  - concentration of assets in Košice, Slovakia (seen as illiquid/risky)
  - the price expectations of existing shareholders.

- A price achievable through a sale and de-listing will be:
  - substantially lower than the NAV per share;
  - potentially lower than the outcome from a formal liquidation.
- The buying party usually has a yield requirement and would only be prepared to offer around the current stock market price or slightly higher.
- A sale would offer a potential faster exit than achievable through a formal liquidation and avoids the risk of insolvency.

# 2. Future strategy | D | Share buyback

## D. Controlled real estate sales and share repurchases

- The last few months have shown the impact on the share price of a sustained buying programme by some individual parties.
- Illustrative is that since March 2021 the share price has increased from EUR 3.84 to EUR 6.45 mid June 2021 with a turnover of 245,000 shares.
- The total volume traded was EUR 1.2 million. This is only 6.5% of outstanding shares. The share price increased over that time by 68%.



# 2. Future strategy | D | Share buyback

- A share buyback programme by the Fund should continue to narrow the gap between share price and NAV.
- A share buyback progamme:
  - shows the Fund believes its shares are undervalued;
  - is an efficient method of returning money back to shareholders;
  - reduces the number of existing shares. The stock's EPS increases while the price-to-earnings ratio (P/E) decreases or the stock price increases.

# 2. Future strategy | D | Share buyback

- To fund a share buyback programme with for example EUR 2 million, it will be necessary to sell (non-core) assets
- Current priority is to repay the loans at NV level (currently EUR 5 million).
- A sale programme of non-core real estate must therefore generate at least EUR 7 million of liquidity to fund NV-level loan repayments and a buy-back.

# 2. Future strategy | D | Share buyback

- It may be a quicker method to realize a higher value than the current stock price.
- Trade in the shares of the Fund is still possible.
- The aim is to achieve this in a one-year timeframe, while a liquidation would take three to four years.
- It should be possible to repay the NV level loans and create a stable debt situation going forward.
- The market price of a real estate fund active in Central Europe has a market standard discount of approx. 25% to the NAV

# 2. Future strategy | Conclusion


- The managing board and the supervisory board are of the view that a controlled asset sale and share repurchase programme is the best option for the (current) shareholders considering:
  - It creates **liquidity** for the Fund and the shareholders;
  - It creates the **opportunity** for current shareholders to **exit**;
  - It does **not lock-in** current shareholders;
  - This strategy creates the environment for:
    - refinancing of remaining loans;
    - further optimization of the real estate portfolio;
    - further increases in share price.

# 3. Share buyback | Programme

- For implementing the strategy, the following steps need to be taken:

  I. Controlled sales programme for assets in Slovakia, Bulgaria and Ukraine;

  II. Use proceeds to install short-term loans:

     - Three investor loans | **NV level** : EUR 1.5 million
     - Convertible bond | **NV level** : EUR 3.5 million

  III. Use rest of the proceeds to fund the share buyback programme.

# 3. Share buyback | Timeline

- After the repayment of the NV level loans, the proceeds of the sales programme will be reserved for a share buyback.

- The proposed **timeline and structure** of the programme depending on the realization of the asset sales plan is:

| | |
|---|---|
| Q4/2021 - Q4/2022 | sale of lump risk and/or non-core real estate assets |
| Q4/2021 – Q1/2022 | install/refinance short term loans |
| Q1/2022 – Q4/2022 | use liquidity to fund share buyback programme |
| Q4/2022 | the share buyback programme is anticipated to be completed. |

# 3. Share buyback | Voting item

- Share buyback as proposed by the management

# 4. Questions

# 5. Closing

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