WDP

WRITTEN QUESTIONS GENERAL MEETING D.D. 28 APRIL 2021

The written questions we received are reproduced below verbatim (free translation of the original Dutch version) and provided with an answer. Please note that all questions were asked by the Vereniging van Effectenbezitters (Dutch Investors' Association).

Agenda item 1: Acknowledgement of the reports from the Board of Directors concerning the statutory and consolidated financial statements of the Company as at 31 December 2020.

1. Due to increasing competition and ever-scarcer building land, the initial yield on logistics property in the Benelux and France has fallen substantially in recent years.
    a. Does WDP have a level of initial yield in mind where the yield no longer outweighs the risk and how far are we from this point?

Given the importance of logistics and the related investment interest among institutional investors, initial yields are indeed under strong pressure with prime yields of up to 3.5% in West Europe. For some market transactions, WDP believes that the yield is no longer in proportion to the risk, although this depends on all of the factors of each transaction. WDP is of the opinion that investor interest will continue. However, the long-term development of initial yields will be driven by the development of interest rates and the availability and cost of capital.

WDP invests with a view to long-term leasing and so is very sensitive to its investments' value retention. The purchase market has become rather expensive in recent years, so for several years, WDP has now been focusing on pre-let project developments where it can achieve a higher yield and also invests at replacement value (i.e. the land price plus the construction costs). With the current development pipeline of 552 million euros as of 31 March 2021, an average initial yield expected to be generated is 6.6% (8.4% in Romania and 6.1% in West Europe).

For each individual investment, a cost-benefit analysis is made where we analyse all the different parameters including initial yield, land value, re-usability, re-lettability, client risk, rental level, investment per square metre, replacement value, cost of capital, etc. – where the initial yield is only one of the factors involved. So, our cash flows and value creation are analysed over the long term with a focus on IRR (internal rate of return), which is offset against the company's long-term cost of capital.

b. The logistics property market quickly came of age. Can WDP provide insight into the opportunities it sees to grow profitably after completion of the 2019-23 roadmap?

Over the past decade, logistics real estate has indeed evolved into a fully-fledged asset class. Moreover, the coronavirus pandemic and its sudden impact on contemporary life has revealed the importance of logistics and supply chain in general to society and has accelerated the key drivers within the logistics sector.

WDP publishes a multi-year guidance with a lot of underlying details, both qualitative and quantitative, that provides earnings guidance to investors up to and including 2024. The intention is to continue to grow thereafter and make the company ready for it. However, the initial focus should be on the further implementation of the current growth plan.

c. To what extent does WDP believe that the risk profile of the company is influenced by shifting investments to Romania and more focus on (large-scale) redevelopment?

Romania is a complementary growth market and serves as a gateway for supplying south-eastern Europe. Romania has a fast-growing economy with a strongly emerging consumer market (historically a manufacturing market) where the importance of logistics continues to grow. As a company, we control the Romania concentration risk by limiting it to 20% of the fair value of the total property portfolio (16% as of 31 December 2020). In addition, we are optimally committed to a highly diversified client base with mostly large international companies, euro denominated leases, and strong locations with access to infrastructure. WDP's intention is to maintain a 'core Western European risk' with the positive addition of a growth market like Romania. Note that this is not a 'shift' of investments to Romania. Rather, it is a broadening of activities. Moreover, 75% of the investment pipeline is located in West Europe. Only Romania's relative share increases because it has historically occupied a smaller part of the portfolio.

WDP believes this is not the case for the focus on 'large-scale redevelopments': WDP is growing at a rate of approximately 10% a year with all kinds of projects (large, small, new construction, redevelopment, etc.). In any case, the proportion of redevelopment will increase due to the scarcity of land. WDP is of the opinion that, in view of the sharp initial yields, acquisitions currently entail more risk than (re)developments. Moreover, the risk of (re)development is mitigated by the years of experience of an in-house project management team and the focus on pre-letting.

2. WDP recently increased its investment budget by 500 million euros for its 2023 plan.
    a. How does WDP assess the risk of overcapacity in logistics property in the Benelux?

We refer you to the discussion of the logistics property market on page 99 of the annual report. Currently, WDP considers the risk of overcapacity low in the Benelux given that the effective vacancy rate is 1% to 2% in Belgium and 5% in the Netherlands. The continuing demand for modern logistics space is supported by players committed to omni-channel, the food and pharma sectors, and the crucial role of logistics service providers. Speculative developments occasionally occur. However, many of the logistics projects currently being advertised are mostly 'projects on paper', i.e. not yet in the construction phase as they are still in the commercialisation phase. Also note that, unlike other sub-segments in real estate, the construction time for a logistics project is relatively quick, at one to one and a half years (depending on the degree of automation), and so there is no risk of a 'multi-year supply overhang' – during historical crises, logistics property developers were quite quick to stop activity when demand cooled.

WDP is very sensitive to vacancy risk and, as a commercial enterprise, also has the strategy of reasoning from the client's perspective. Which is why WDP is focusing on pre-let projects.

    b. How does WDP weigh the substantial discrepancy between the share price and the intrinsic value of the share in case of private placements?

WDP obeys the principle of 'never argue with the ticker' and makes no statements about the share price or valuation. That said, based on recent placements, WDP is still noticing strong interest in its share and logistics property in general. To this end, investors take various parameters into consideration (including premium to intrinsic value, price/earnings, dividend yield, market implied portfolio yield, dividend yield, risk, growth prospects, etc.).

3. The gearing ratio is relatively high compared to other listed real estate funds. In your opinion, what conclusion should WDP shareholders draw from this?

   WDP believes it is just ahead of other European listed property funds with a loan-to-value of 40% (based on a conservative valuation of the portfolio compared to transactions in the investment market) and a net debt/EBITDA adj. of 7.5x as of 31 March 2021. Moreover, the balance sheet is not only solid in terms of solvency, but also highly liquid with 850 million euros in undrawn credit lines available.

   WDP will continue its years-long consistent strategy of proactive management of the capital structure by combining the investment rhythm with synchronous issuance of debt and equity capital (on a 50/50 basis) and stable capital structure based on a net debt/EBITDA adj. of approximately 8x and a gearing ratio <50% (based on current portfolio values).

4. The tenant base of WDP is quite diversified as shown in the table on page 92 in the annual report. However, logistics property is becoming increasingly complex and this encourages specialisation, for example, a focus on medication or fresh food. Does WDP believe it will remain a broad logistics player or is it inevitable that – in time – a selection of a few niches must be made.

   WDP will remain a pure logistics property player. And, it is precisely the strength of logistics property to have a broad product range and be able to offer the full spectrum to clients. The advantage of growth is that WDP can also acquire knowledge in these different segments so that it can continue serving its clients. As part of that, WDP wishes to guard against broad diversification (sub-segments, clients, buildings, sectors, geography, etc.).

5. The e-commerce sector is trending towards concentration and integration, for example, Ahold Delhaize and bol.com. To what extent does this lead to a deterioration of the negotiating position of WDP towards clients?

   As you yourself point out, the WDP portfolio is highly diversified and the maximum customer risk is <5% and the largest individual building risk is <3%. The trend towards the scale of the client does not lead to a disruption in negotiations. It can also be beneficial due to further professionalisation and profitability within the e-commerce sector and further growth opportunities.

   Today, the most important driver in a negotiation is land ownership because it is becoming scarcer. So, it is the most important factor in winning the client for a project.

6. Approximately 6 per cent of WDP's turnover comes from the sale of electricity generated by means of solar panels at the centres. Does WDP expect this source of income to remain stable in light of (unfavourable) new regulations still to be expected with regard to feed-in prices to the mains grid in the Netherlands?

   This is indeed the expectation and all the more so because most of this income source comes from green certificates.

Agenda item 2: Acknowledgement of the reports from the statutory auditor concerning the financial statements referred to under item 1.

7. Does WDP have a vision with regard to an optimal capital structure?

   See question 3.

Agenda item 7: Approval of the remuneration report, which forms a specific part of the corporate governance statement in the annual report of the Company.

8. WDP does not provide insight into exact target levels (threshold, at target and maximum) in terms of short-term variable remuneration in the remuneration report. This means that the company is lagging behind the standard complied with by the majority of European listed companies, which originated in the guidelines of the European Commission. VEB encourages WDP to improve its disclosure next year in the area of remuneration.

   WDP takes note of this comment.

9. WDP decided at the start of this year that the finance director would receive exactly the same salary package as the co-CEOs. Why did WDP choose not to present this change in policy to shareholders in a separate item on the agenda?
   First of all, we refer to the detailed explanations in the annual report (pages 132 and 138).

   For additional information: as provided for in 7.5.1 in the Corporate Governance Charter the Board of Directors analyses the remuneration policy on an annual basis - and on the advice of the Remuneration Committee. In case of a material change to the remuneration policy, it must be submitted again to the general meeting for approval.