IEX forum WH
February 14, 2020

To: Shareholders and RvC Wereldhave

Subject: 20-20 Vision LifeCentral

1. Executive Summary

In essence, LifeCentral is about the future of selected Dutch malls. Management proposes to invest there the net proceeds of the sale of French malls – around e350 mln. That generates a ROE of 5% overall and only 3% there. The execution focus isn't well defined so as Moody's stated in its downgrade – despite the intended risk reduction -, the risks are elevated.

Our Vision 20-20 is to improve LifeCentral: sell French, non-core and Belgian assets and thus return within two years 110% of shareprice – currently e15 – to shareholders. The investments in Dutch malls would be funded by the sale proceeds of their 20% of m2 intended for – in our opinion non-core - offices and residential. Not only is this a healthy ratio, but it ensures focus and accountability.

Sadly, both the original LifeCycle and the our added 20-20 Vision lead to a shrinking of M2 at the expense of shareholders. But ours adds tremendous value immeditaly, thus reduces execution risks and ensures focus and accountability. It focuses solely on the longevity of the critical LifeCycle concept i.e. WH afterwards. And it dramatically improves shareholder returns overall.

		LifeCentral		**LifeCentral 20-20**
	Assets*	1,500		900
	EPS*	1.5		1.04
13	P/E value share	20		13
	Asset sales*:			
	France			19.9
	WHB			9.9
	NL underperf.			5.7
	Debt reduction			-19.0
	Total Value	0		16.5
	Value in 2022	20		30
	Return in 2022*	5	**Delta:**	15
		30%	**333%**	100%

Assets*:	In NL offices/residential are sold (20%), and reinvested in same malls
EPS*:	In 20-20 vision +15% yield as no residential or offices, HQ rightsized, more focus
Asset sales*:	Values copied from LifeCentral
Return 2022*:	Base: current shareprice euro: 15

2. <u>Geography</u>
   - ✓ **France**
     - We agree with the phased sale of all assets. The EPRA NIY of 4.6% matches the recent URW transaction so:
     - **KPI: sale at bookvalue e800 mln in 2020-2022 (as proposed).**

   - ✓ **Belgium**
     - As WHB has no material synergies with NL, has a great market valuation at NAV, much higher NIY (lower Cost of Capital), a lower finance cost and a much lower LTV coupled with easy access to financial markets, thanks to stock listing the 66% shareholding should be sold in 2020.
     - **KPI: sale at NAV e400 mln in 2020**

   - ✓ **Netherlands**
     - Selling above and Dutch underperformers will allow the LifeCentral vision to be focused on just a single digit number of Dutch centers, as proposed by Mr. Storm.
     - **KPI: sale non-core, implement LifeCentral in 2020-2023.**

   - ✓ **Headquarters**
     - Given the above reduction a right-sizing can take place. Additionally and importantly, location can be shifted from expensive (500 e/m2) Schiphol to a LifeCentral location (now 188 e/m2) thanks to its mixed use. This will reduce costs (for HQ), increase revenues (occupancy on location) while allowing HQ staff to have 'feet on the floor'.
     - **KPI: As soon as possible relocate HQ to a LifeCentral center**

3. <u>LifeCentral: a deeper dive financially</u>

Currently the NL rents are amongst lowest in the market and occupancy stands at 95% (temporary down due to Hudson Bay).

LifeCentral views to:

- decrease m2 by exactly the vacancy percentage, and additionally
- allocate 20% to residential/offices,
- allocate additional 5% to F&B,
- allocate undefined but significant additional % to entertainment,
- allocate additional 18% to health etc.

➔ result: current tenants go from 95% to 40% of m2.

It is thus clear that immediately there will be **a significant upward pressure on rents** from current tenants based on halving of space and attractivity of LifeCentral vision.

The LifeCentral strategy views to own the offices and residential spaces created. In line with the pre-Storm strategy, we view these activities as non-core. Moreover, we believe based on calculations outlined in the LifeCentral presentation that the proceeds of the sale of this non-core business (20% of current m2) should more than suffice to fund the LifeCentral capex for the core 80% of space.

N.B.: In the unlikely event there would be temporary cash mismatches between sale (while upfront) and modernization capex, the refined per location plan to be worked out should highlight these.

KPI: Our Vision 20-20 thus foresees:

- ✓ **a finance plan per location that should be cash / CAPEX neutral or positive for WH.**
- ✓ **based on input per location a timetable can be established. From the presentation we are under the impression most could be done before 2022.**

4. Making LifeCentral sustainable

Based on the almost existential success of the above and the LifeCentral concept, in 2022 at the end of his current term Mr. Storm would be offered an additional four years. His mission would be to separate the physical centers from the asset and operational management (i.e. his vision: the LifeCentral added value).

The physical assets could be sold to investors at much lower NIY than current, thus realizing a tremendous uplift for shareholders - thanks to LifeCentral.

The new WH would thus be asset light and can focus fully on marketing its added value LifeCentral to the wide market of asset owners. Significant economies of scale cq. commercial margins can thus be achieved. This is in line with current standard practice in the hotel industry and allows WH to capture an oversized percentage of the margin.

5. Shareholder returns

Currently WH is trading at e15, grossly undervalued compared to NAV. The old LifeCentral strategy targets an EPS of 1.5, thus not providing much of an uplift. The current discount for NL is even 80% after deducting France and WHB (see below).

In 2022 when all non-core assets have been sold, and LifeCentral capex has been invested - but the NL assets (currently valued at e900 mln) are still owned - we would strive for a conservative LTV of 35% of current low valuations. This would allow sufficient headroom for fluctuations (to be confirmed by LifeCentral plans per center). Remaining debt would thus be e320 mln.

The benefits of the 'refined LifeCentral' strategy

Sale France:	e800
Sale WHB:	400
Sale Dutch underperformers:	230 mln
Total proceeds:	1.430 mln

After deducting the e200 mln debt owed by WHB, the current debt stands at e1.1 bln. To reach the desired 35% LTV or e320 mln, e780 mln of the proceeds will thus be used to repay debt.

The excess liquidity of e650 mln can now be distributed to shareholders as a superdividend or buy-back, representing as much as e16+ per share: a 100% return!

Including dividends the shareholders thus stand to earn 120% over the next two years, depending on speed of execution.

The new WH would be worth e10 per share at current low taxation valuation with EPRA NIY of 6.8%, **and potentially the current valuation of e15** if well implemented and EPRA NIY at around market rate of 4.5%.

We suggest you compare the above returns to shareholders to the existing strategy, the difference is baffling. In our opinion it leaves WH no choice but to consider it through a deep dive, to be presented to you and to be reported to shareholders.

6. <u>Financial execution</u>

We propose to appoint an accountable person dedicated to the asset sales in phase 1 and 2. From the above it is clear that this would be a tremendous step forward.

Additionally, the benefit is that the going concern WH can now **focus 20-20** on its future: LifeCentral.

Sincerely yours,

The Third Way…
Input Appendix: Gya

APPENDIX: ROE calculation LifeCycle strategy

One of the most important questions to ask ourselves as shareholders is the following: what are we getting for the €300-350 mln (roughly €8 per share) that management is planning to spend on redevelopment CAPEX for the Dutch operations? In other words, what is the total ROE on the Dutch part of Wereldhave given the above mentioned investment CAPEX?

In order to calculate the ROE we use management's guidance for the direct result of €1.50 per share, or about €60 mln in total, assuming 40.3 mln shares of Wereldhave outstanding. Of this total of €60 mln in direct result about €30 mln is generated by Wereldhave's 66% stake in Wereldhave Belgium. This €30 mln corresponds to 2/3 of Wereldhave Belgium's direct result of €45 mln as was reported by the Belgian company for FY 2019.

So what we are left with now is €30 mln of direct result coming from the Dutch operations. As per the original LifeCentral plan this €30 mln will be generated by €900 mln of Dutch assets. Now assuming that the LTV will have been lowered to 35% by the assets sales as described in Wereldhave's FY 2019 press release, this implies that €30 mln in direct results has been generated by circa €590 mln of equity in Dutch assets. Knowing this amount we are able to calculate the ROE for the Dutch assets by straightforward division resulting in a ROE of 5%. However, we are forgetting something in this calculation, namely the extra CAPEX of, let's say €350 mln of redevelopment CAPEX. By adding this amount to the €590 mln of Dutch equity we ultimately obtain a much lower ROE, namely 3.2%.

Calculated differently, when subtracting the FY 2019 66% equity of WHB from the group we obtain €865 of equity invested in NL. The €30 direct profit thus indeed represents more or less same, 3.4% ROE (0.2% difference explained by 35% LTV assumption in first calculation).

This below hurdle return of 3.3% will only be realized if every aspect of the original LifeCentral strategy is executed exactly as planned (or better) as there is little, actually no room, for mistakes on part of the management. Based on the conservative calculations presented above we, the shareholders, believe that the decision to allocate €300-350 mln in precious shareholder capital to redevelopment of Dutch assets for such a low return on Dutch equity, while leaving no room for error, a grave misallocation of said capital.

Moreover, the inferiority of this capital allocation decision should be obvious in the light of other capital allocation opportunities that create not only extraordinary, but also more certain amounts of shareholder value, either directly in the form cash dividend to shareholders, or indirectly through share buybacks. Especially the latter will, when implemented in significant amounts lead to enormous creation of shareholder value given the current dramatically depressed share prices of Wereldhave.

N.B.: A final comment is on the relationship with WHB, a separate stock-listed company. Out of the above follows that in the original LifeCentral plan WH will own 66% of an entity that has is not only much more profitable with a ROE of 6.6%, but also 50% larger in terms of profitability. From many angles we don't think this is ideal.