Investor open day

31 July 2018

CALGRO M3 Group

www.calgrom3.com

Building legacies. Changing lives

Agenda

- The Environment
- Residential Property Development
- Memorial Parks
- Residential Rental Investments
- Looking forward



Level 1 BEE Contributor

Calgro M3 is a property and property related investment company

that is a market leader in the development of Residential Developments, Residential Rental Investments as well as the development and management of Memorial Parks



1

THE ENVIRONMENT

2018 theme:

The challenge for business in the economic world we live in, is compounded by an unstable and changing political landscape.

How we adapt to the times will define us going forward.



2019 theme:

Maturing our current businesses to deliver consistent results which enable and support the Group to diversify further.

We will be defined by how well we adapt and embrace the every-changing needs of the people we serve.





Residential Property Development

2

Typical Integrated Development

CALGRO M3 Group



Typical Integrated Development (continued)

CALGRO M3 Group



Brand awareness

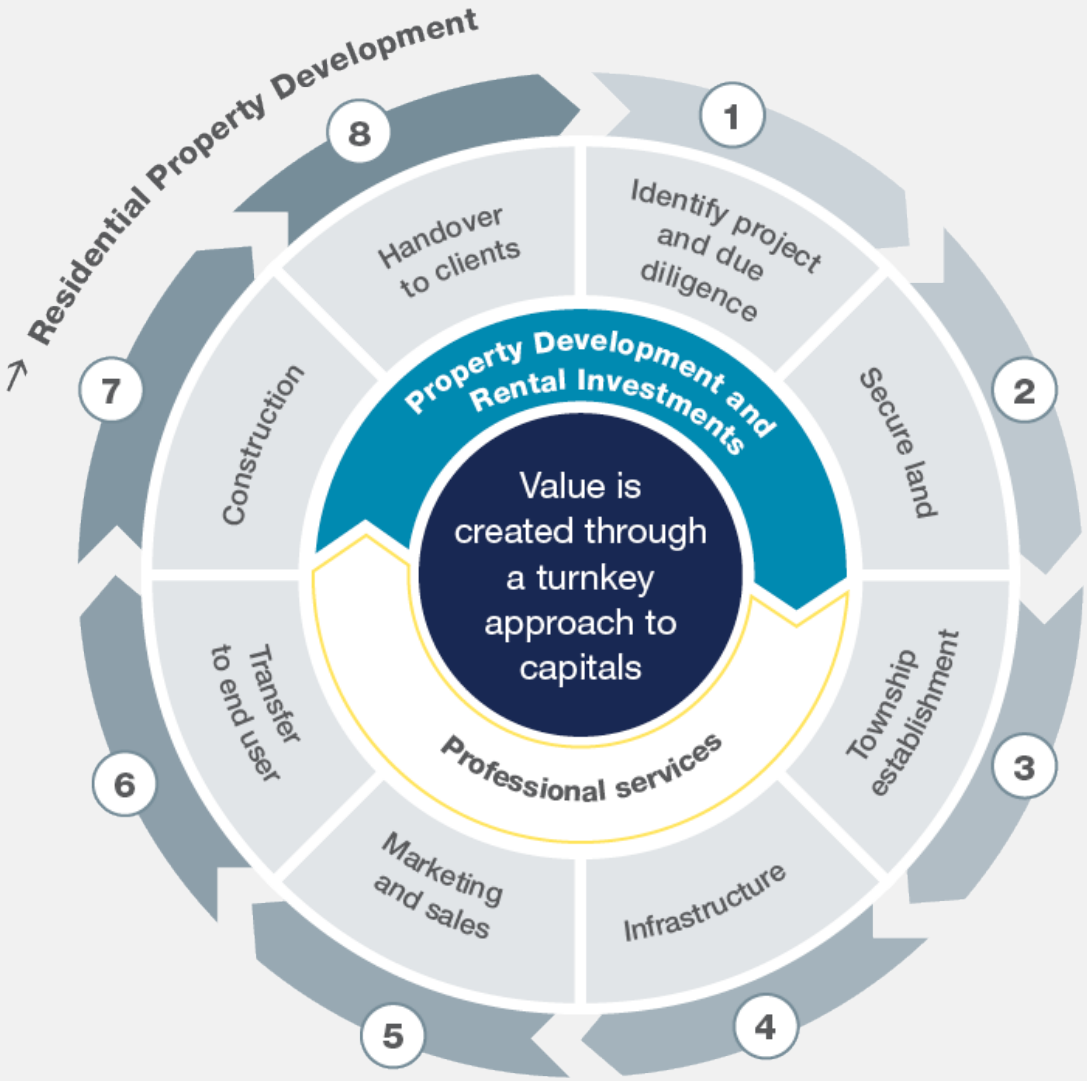








Residential property development business model



Integrated Developments – The year to date

- Difficult political and trading conditions continuing
- Sentiment is however higher, but a lot of change is required
- Various project delays
  - Fleurhof: Power and attempted illegal occupation
  - Scottsdene: Attempted illegal occupation
  - Belhar: Water shortage
- Health, Safety and Environmental audit concluded
- Sales performance under pressure
  - Group still have sufficient units sold to not affect development
  - 124 sales at Belhar in 18 days

Integrated Developments

Units under construction (delays experienced on 2,111 due to electrification, water and illegal occupations)	5 093
Handed over to customers	826
Serviced opportunities completed and in progress	circa 9 000
Sold to commence construction (delays experienced on 1,900 due to electrification, water and illegal occupations)	circa 4 300



Supports strong **pipeline**

Delayed projects	• Fleurhof • Scottsdene • Belhar

Projects in operation	• South Hills • Witpoortjie • La Vie Nouvelle • Summerset • Jabulani Hostels • Jabulani CBD



Multiple projects in ground for **risk mitigation**

Design, green, and service initiatives

- New building system currently being investigated and piloted
  - reducing construction periods for walk-up blocks (Res 3)
- The new system also reduces the Group's carbon footprint as it will enhance our greening initiatives during the construction phase of the development
- The benefit – shorter construction timelines at a similar price due to the reduction in time related costs
- Village concept
- Green initiatives include Jojo tanks, Gas reticulation, Window shutters, placement of buildings

Targets

- Continue transition from public to private sector
- Return current month to month sales to growth
- Two projects secured in KZN with imminent commencement
- Continue capacity building
- Efficiency drive
- ISO 9000 registration
- CIDB and CE rating of 9 (highest rating)
- Complete project management restructure



Calgro M3 provides homes, not merely houses, in a constant drive to change lives and provide South Africans with an asset and a lifestyle to support economic dignity

Integrated Developments

Challenges

- Continued slowdown in public sector spend
- Cash flow constraints resulting from increased exposure to private sector
- Changing political landscape
- Challenging South African labour market
- Regulatory changes in the development space (Interpretation differences)
- Community unrest
- Attempted illegal land grabs

Accounting – Previous accounting standards

IAS 18 – Sale of goods & rendering of services

- Revenue @ Point of sale / transfer
- Cost of sales (inventory)

IAS 11 – Construction contract accounting

- Contract with customer?
- Can customer make structural changes?
- Revenue % completion
- Example

IAS 11 – Construction contract example

- Estimated Revenue R100
- Estimated Cost R70
- Estimated profit R30

- Year 1 actual cost R40
- % completion (R40/R70) 57.14%
  - Revenue recognised R57.14 (57.14% x R100)
  - Cost of sales recognised R40
  - Gross profit R17.14

Unit typologies - Accounting

Unit Typology	IAS 18	IAS 11
Fully subsidised (RDP/BNG)		✓
Subsidised Rental - CRU - Social Housing		✓ ✓
Bulk buyer / REIT / Funds		✓
GAP / FLISP	✓	
Affordable housing	✓	✓
High-end units	✓	✓

Integrated Developments

- 66.67% of development fully and partially subsidised units
- Cross subsidisation of revenue and cost
- Subsidies on infrastructure (Bulk / Link / Internal)
- Reduction in timelines to obtain infrastructure availability
- Public amenities not otherwise available

<u>Result:</u>

No accurate allocation of revenue / cost to individual components

IAS 11 – Ability to combine contracts - economics of transaction

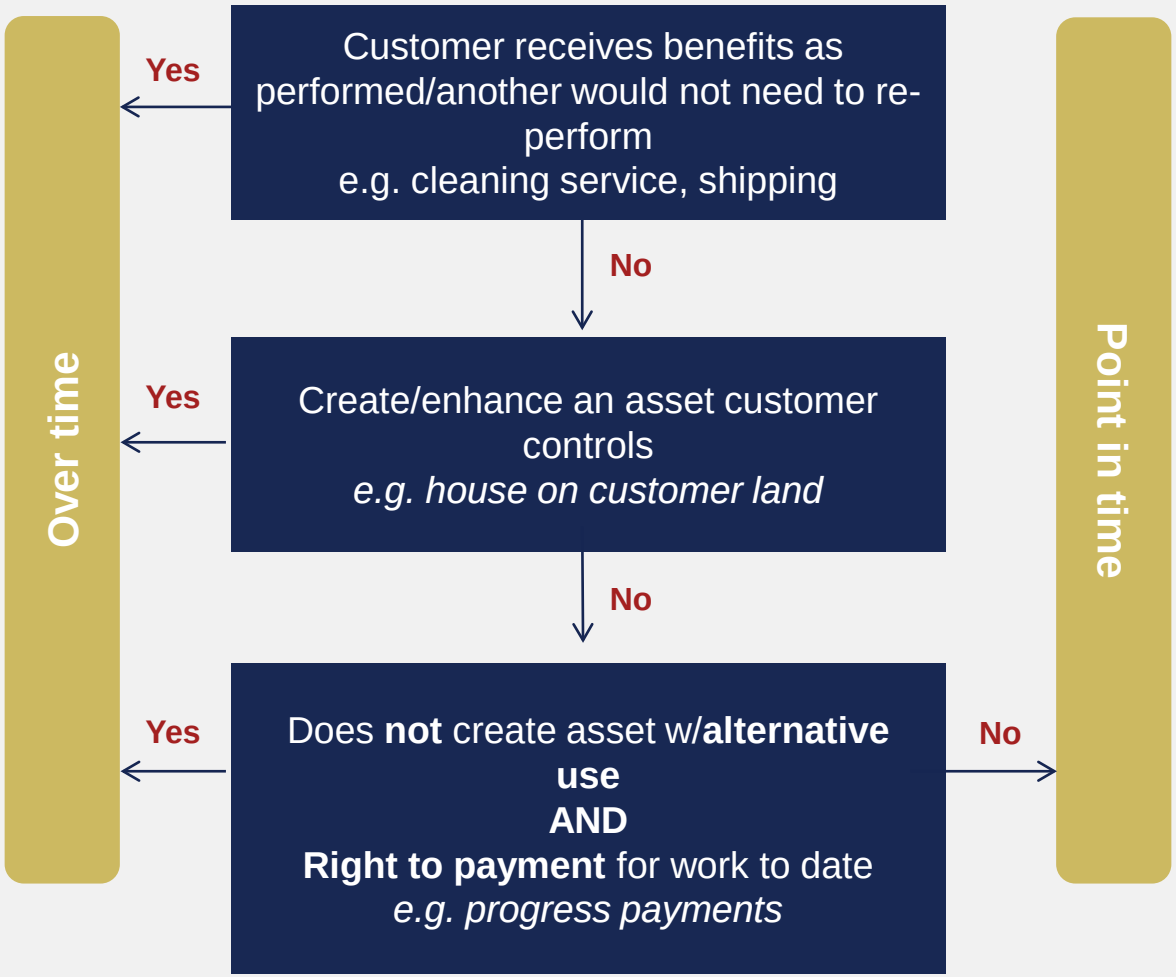
Single contract (combining all units) - % completion revenue

New accounting standards

IFRS 15 – Revenue from contracts with customers

- Rule based (less interpretation room)
- 5 step approach
  - Identify **contract** with customer
  - Identify **performance obligation** (PO)
  - Determine **transaction price**
  - **Allocate** transaction price to PO
  - Recognise revenue when (as) **control** over PO transfer

IFRS 15 – Timing of revenue recognition



Unit typologies – Accounting IFRS 15

Unit Typology	Point in time	Over time
Fully subsidised (RDP/BNG)		✓
Subsidised Rental - CRU - Social Housing		✓ ✓
Bulk buyer / REIT / Funds	✓	✓
GAP / FLISP	✓	
Affordable housing	✓	✓
High-end units	✓	✓



3

Memorial Parks

Memorial Parks

CALGRO M3 Group

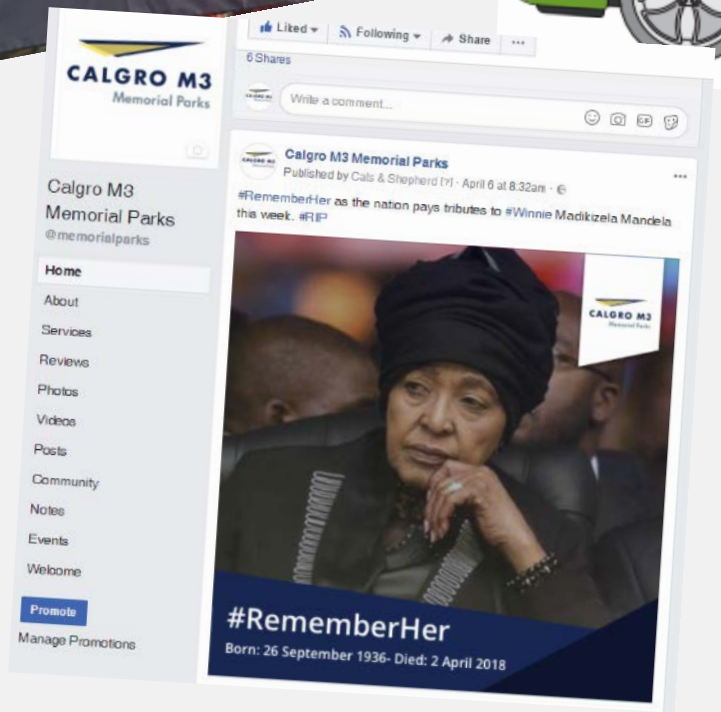


Brand awareness

CALGRO M3
Group

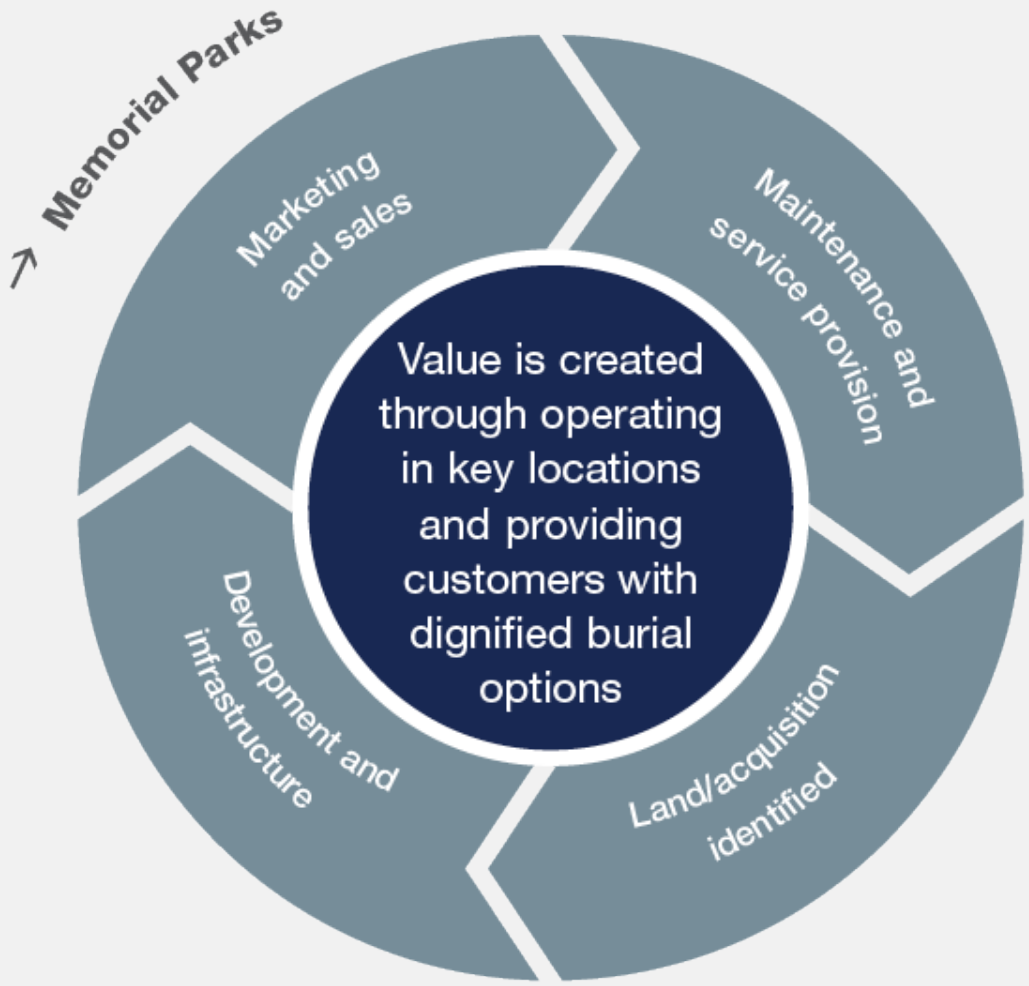








Memorial Parks business model



Memorial Parks – The year to date

- Expanded the business into two new provinces
  - Western Cape 1 March 2018
  - Free State 1 June 2018
- Exited Nexus Capital for R63,5 mil payable in four equal instalments, interest free
- Increased monthly sales
- Built relationships with local communities where parks are located
- Enhance brand awareness
- More cost effective operating model

Memorial Parks – Business model improvements

- New pricing structure tiers of silver, gold, platinum and diamond - introduced and effective 1 June 2018
- Crematorium development with prominent national funeral director where Calgro M3 will receive rental income – No operating risk taken
- Continuous review of site development plans (SDP) to optimise parks
- Inhouse development of staff to minimise cost outsourced
- Investigation of various technologies to assist operationally and provide better management

Targets

- Target >10% contribution for 2019 financial year
- Crematorium facility to be finalised – Calgro M3 to not carry operational risk and receive rental income
- Complete installation of the free wireless network at Nasrec Memorial Park, “Calgro M3 Connect” – Direct marketing



Memorial Parks

Challenges

- Market acceptance and education (as alternative to traditional cemeteries)
- Ensuing greater brand awareness and aspiration
- Policy sales

Nasrec Memorial Park won the “Landscape Construction” and the “Landscape and Turf Maintenance” Water-Wise Awards at the 2017 South African Landscapers Institute Awards. The Group will continue to develop and implement water-saving initiatives throughout the project cycle.



Accounting – IFRS 15 aligned

Rendering of service (interment)

- Stand alone selling price (cost + margin)

Rendering of service (maintenance)

- Cost of maintenance per annum
- Capitalise fund to return annual maintenance + CPI
- Revenue – cost + 10% margin
  - Burial – (amortise 10 years)
  - Reservation – Amortise (life expectancy + 10 years)

Sale of goods (burial plot)

- Residual value



4

Residential Rental Investments

Residential Rental Investments

CALGRO M3 Group



Residential Rental Investments

- 1 140 of the 3 852 units in first phase completed and handed over
- Staggered handover over coming months
- Fleurhof, Scottsdene and Belhar delayed
- Jabulani and South Hills to be handed over before end September
- Acquisition in Ruimsig
- Further acquisitions and expansions negotiated
- Green, top security, technologically advanced



Residential Rental Investments

Challenges

- Lack of available properties in well located metropolitan areas
- Remaining at the forefront of innovative product offerings
- Diversification across markets and geographic locations
- Balancing yield targets with escalating costs





5

Looking forward

Project pipeline

CALGRO M3 Group

Residential Property Development

Project	Municipality	Region – Province	Government/Private	Progress update	Number of units/ Remaining units	Anticipated turnover for remaining units Rands
32-On-Pine Witkoppen Ext 142	City of Joburg	Gauteng	Private	Awaiting town planning approval	59	146 693 371
Belhar CBD	City of Cape Town	Western Cape	Private	Under development	3 558	1 235 536 601
Bridge City	eThekwini	KwaZulu-Natal	Private	Commence in three months	356	132 665 217
Fleurhof	City of Joburg	Gauteng	Private/Public	Under development	5 380	3 134 841 209
Jabulani CBD	City of Joburg	Gauteng	Private/Public	Under development	672	191 241 319
Jabulani Hostels	City of Joburg	Gauteng	Private/Public	Under development	325	119 071 102
Jabulani parcel K	City of Joburg	Gauteng	Private/Public	Under development	1 410	482 916 306
KwaNobuhle	Nelson Mandela Bay Metropolitan Council	Eastern Cape	Private/Public	Awaiting town planning approval	12 964	5 342 360 323
La Vie Novelle	City of Johannesburg	Gauteng	Private	Under development	193	403 284 175
Remaining Cluster portfolio/Storage units for sale	City of Joburg	Gauteng	Private	Awaiting town planning approval	255	313 000 000
Scottsdene	City of Cape Town	Western Cape	Private/Public	Under development	1 035	215 630 770
South Hills	City of Joburg	Gauteng	Private/Public	Under development	4 523	2 484 167 404
Summerset	City of Joburg	Gauteng	Private	Under development – near completion	32	19 521 951
Tanganani Ext 14	City of Joburg	Gauteng	Private/Public	Awaiting town planning approval	11 624	4 790 157 081
Umhlanga Hills	eThekwini	KwaZulu-Natal	Private	Awaiting town planning approval	1 376	1 206 880 947
Vista Park Ext 3	Mangaung Metropolitan Council	Free state	Private/Public	Awaiting town planning approval	5 320	1 781 194 737
Vredehoek	City of Cape Town	Western Cape	Private	Commencement towards end of 2019	260	734 929 201
Witpoortjie	City of Joburg	Gauteng	Private/Public	Under development	5 034	2 567 297 154
					54 376	25 301 388 868

Memorial Parks

Project	Municipality	Region/Province	Number of units	Anticipated project turnover Rand
Nasrec	City of Joburg	Gauteng	41 832	942 544 835
Fourways	City of Joburg	Gauteng	13 247	396 126 404
Enokutula	Springs	Gauteng	11 346	142 959 600
Avalon	Bloemfontein	Free State	46 500	504 385 965
Durbanville	City of Cape Town	Western Cape	14 500	171 271 930
			127 425	2 157 288 734

Residential Rental Investments

Project	Municipality	Region/ Province	Partner	% share-holding	Number of units	Anticipated project turnover Rand	Commencement date
Fleurhof	City of Joburg	Gauteng	AFHCO	49%	828	318 242 400	Under construction
Jabulani CBD	City of Joburg	Gauteng	AFHCO	49%	288	104 630 400	Under construction
South Hills	City of Joburg	Gauteng	AFHCO	49%	892	485 835 640	Under construction
Belhar CBD	City of Cape Town	Western Cape	AFHCO	49%	1 000	447 300 000	Under construction
Scottsdene	City of Cape Town	Western Cape	AFHCO	49%	844	317 114 231	Under construction
Ruimsig	City of Joburg	Gauteng	To be determined	To be determined	480	402 400 000	Under construction
					4 332	2 075 522 671	

Our expectations going forward

- Political and economic conditions to improve but remain subdued in the short term, business and consumer confidence phase
  - Partial uncertainty both locally and internationally
    - Less jobs being created than anticipated
    - Decrease GDP growth forecast
    - Delayed recovery in property sector towards end - 2020
- Government budget shortfall will take long time to recover
- More community and labour unrest expected as “man on the street” voices unhappiness and needs to be heard



Our market

- Housing and burial site shortfall not to disappear
- Consumer under financial pressure
- New consumer funding decrease by up to 10%
- Greater indebtedness in mid-income market
- Expect no further interest rate changes (increase or decrease)

Despite the desperate need for housing close to places of work, it is unlikely that over the next 12 – 18 months government will be able to spend sufficiently to impact the gap in even a small way

What we continue to work on

- Economic and political landscape
- How do we assist public sector without reliance?
- Illegal land grabs
- Remain relevant to customers
- Modularity
- Most efficient and best in class team
- How do we source funding and control funding risk?

Commitment to shareholders

Our medium to long-term **commitment to shareholders**

Management strategically aligned the Group to ensure we remain committed to the targeted return on equity ("ROE") of 30% over the medium term.

Our commitment is based on the following:



Residential Property Development pipeline of **R25.3 billion** with a targeted ROE of 30%



Memorial Parks pipeline increased to **R2.2 billion** with a targeted ROE > 30%



Real Estate Investment ("REIT") with a targeted ROE of **20.5%** (annual rental yield plus revaluation growth) on an estimated **Group** equity investment of **R4 billion**

Thank you

Wikus Lategan (CEO) – Email: wikus@calgrom3.com
Waldi Joubert (FD) – Email: waldi@calgrom3.com

Tel: +27 11 300 7500
www.calgrom3.com

Keyter Rech Investor Solutions – Vanessa Rech
Tel: 083 307 5600
vrech@kris.co.za



Disclaimer

Calgro M3 has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of the information contained in this presentation, including all information that may be defined as 'forward-looking statements'.

Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'. By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future, involve known and unknown risks, uncertainties and other facts or factors which may cause the actual results, performance or achievements of the Group, or its sector to be materially different from any results, performance or achievement expressed or implied by such forward-looking statements.

Forward-looking statements are not guarantees of future performance and are based on assumptions regarding the Group's present and future business strategies and the environments in which it operates now and in the future. No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements.

Calgro M3 does not undertake to update any forward-looking statements contained in this document and does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party thereon.