Tritax Big Box REIT plc
(the "Company")
2021 Annual General Meeting

Shareholder Questions

The Company received the following questions from one private shareholder, ahead of the AGM.

Question 1 (two parts)

Part 1

Question 3 of the Q&A with the Fund Manager relates to remuneration. The answer includes the phrase "the fees we receive are simple, transparent". If that is the case, why is there no mention of the quantum of fees in the Management Engagement Committee Report? Shareholders, and other interested parties, have to head off to note 8 of the accounts to find the following:

Investment management fees - £17.9m (FY19 - £17.5m)
Development management fees - £0.7m (FY19 - £0.7m)
Corporate administration fees - £0.5m (FY19 - £0.5m)

Can I assume that the development management fees and the corporate administration fees are paid to third parties other than Tritax? Out of curiosity, what do corporate administration fees consist of?

Company's response

The Management Engagement Committee Report sets out the terms of the Management fee as shown in the table on pg 80. When we refer to the arrangement being transparent, the report sets out the full fee structure and therefore having this visibility on fees into the future, we believe this is one of the advantages of an externally managed arrangement. The level of fees paid to the Investment Manager can be found on the following pages and we will look to include the fees in the Management Engagement Committee report next year:

- Directors Remuneration Report – pg 84
- Note 8 to the financial statements – pg 107

The corporate administration fees are paid to third parties (Link Asset Services Ltd and Ocorian Ltd) for their corporate finance and administration services provided to the Company. The development management fees are due to the Tritax Symmetry development team.

-

Part 2

Incidentally, I am surprised that within the three page report of the Management Engagement Committee, there appears to be no mention of ASI buying a 60% stake in fund manager Tritax. If there is mention, apologies, but could you point out where in the report.

Tritax Big Box REIT plc
3rd Floor, 6 Duke Street St James's, London SW1Y 6BN
T: +44 (0)20 7290 1616 E: bigbox@tritax.co.uk www.tritaxbigbox.co.uk

Company's response

There are references to ASI acquiring a 60% stake in the Manager on the following pages of the Annual Report:

- Chairman's Statement – pg 11
- Strategic Report – pg 31
- Chairman's Governance overview – pg 59
- Nomiation Committee report – pg 73
- Management Engagement report – pg 80

The other point to note here is that as at the date of publishing the 2020 Annual Report, the transaction had not completed. The 60% acquisition completed on 31 March 2021 and therefore you should expect to see greater disclosure around the ASI interest in the Manager in future publications.

Question 2

The company lists 13 risks in the Principal risks and uncertainties section. I am surprised that there is no mention of development completion risk. If BBOX's development partner ceased to trade, I guess that would create problems. I see that BBOX's (only?) development partner is Bericote, some information on this company would be welcome. For instance, is Bericote a small private family firm consisting of say ten employees?

Company's response

This risk is included within the wider development risk – Risk 5, which includes the risk of '*general construction risks, delays in the development or the development not being completed, cost overruns or developer/contractor default'.* Whilst we pay very close regard to the covenant strength of our development partners, we view the ultimate credit risk as sitting with the contractor(s). We structure our development arrangements so that we have step in rights, should the developer get into financial difficulty. We have an experienced team who could step in and manage the development process. We carry out full due diligence on both developers and contractors before entering into contracts and typically work with some of the largest logistics contractors in the UK with robust balance sheets, strong cash flows and excellent reputations.

Because most of our development focus is now on land that we own or control and which is managed by Tritax Symmetry (a development team exclusively mandated to Tritax Big Box REIT plc), the amount of third party developer interaction has reduced, such that Bericote is the only external developer with which we are currently active, although we do continue to monitor the market for attractive opportunities with 3rd party developers.

In terms of Bericote, they have also previously acted as developer for the Company on several forward funded developments including at Ocado in Erith and Rolls Royce Motor Cars in Bognor. They manage the Littlebrook development site for us and introduced the site to us. This particular development is progressing well, following the securing of Amazon on a 20-year pre let agreement across 2.3m sq ft in 2020. Whilst its true that they operate with a small number of employees, we have built a strong relationship with main the Shareholders/Directors over a number of years and they have a strong track record in the UK logistics market. We have generated a lot of shareholder value through the sites/assets that we have worked with Bericote to construct and are comfortable doing more business with them.

TRITAX BIG BOX

Question 3

I am bemused that improved cash flow is not a priority for BBOX for FY21. In FY20, cash flow wasn't sufficient to cover the dividends paid. Per the cash flow statement, operating cash flow for FY20 was £137.6m, deducting bank interest of £35.5m, leaves a net operating cash flow for FY20 of £102.1m. Dividends paid in FY20 were £109.6m. The picture for FY19 was even more bleak. I hope at some stage, the directors and management team do focus on cash.

Company's response

We can assure you that the cash earnings of the business is a focus of both the Management team and the Board. As it is of such high importance that the Company chooses to report 'Adjusted Earnings', which is disclosed within Note 13 on pg 109 o the Annual Report. Essentially, this earnings measure reported is the Company's own measure for reporting recurring cash earnings, and as noted within Note 13 - *Adjusted earnings is a performance measure used by the Board to assess the Group's dividend payments*.

The Adjusted earnings for 2020 was £122.6m, the total dividends paid in the year was £109.2m. We have also publicly stated that we will be looking at a future pay-out ratio (Dividend / Adjusted earnings) of at least 90%, this should ensure that we are generating a sufficient operational cash surplus over the longer term.

The cash flow statement is a useful guide to monitor operational cash flow and dividends paid, but there are a few technical points that you should be aware of when looking at our cash flow statement for 2020/2019.

i) The tax paid in the year (2020 £16.8m / 2019: £22.6m) is not tax paid on our operational profits. This is tax that was crystallised as a result of the Symmetry corporate acquisition in 2019. The full tax amount was provided for within the overall purchase consideration and therefore deducted from the purchase price, therefore whilst a cash flow, this is not a cost that was borne by the Company.

ii) On some of our development sites, we receive an income return from the third party developers we work with whilst they are constructing our assets, labelled a 'Licence fee'. This typically mirrors the quantum of rent that we would expect to receive from a tenant once the building has been constructed. This sits below the operational activities within the cash flow statement but we very much view this as a cash flow that is available for distribution as dividends.

Question 4

One last comment on cash flow: a valiant attempt to support management with regard to the importance of cash flow, but I continue to read the FY20 financial statement as talking about everything apart from cash flow.The KPIs detailed on page 22 don't mention cash flow, even though there are eight KPIs for BBOX. The Group's strategy as set out on page 24 doesn't mention meeting financial commitments and dividend out of operational cash flow. The (perceived) lack of focus on cash is unfortunate as BBOX now seems to be positioning itself as part property investment company, part development property company, the latter introduces risk, which in turn means, rightly or wrongly, that BBOX is seen by many as higher risk than, say, SHED or WHR. It is a shame that BBOX management didn't attempt in the FY20 accounts to reassure shareholders that cash flow is treated seriously unless, of course, management sees BBOX struggling going forward to pay dividends out of operating cash flow less bank interest because of its development programme.

Company's response

Both the management team and the Board place a high degree of importance on the operational cash flow of the business. The Company has reported Adjusted earnings as its primary earnings measure since IPO and bases its dividend making decisions around the Adjusted earnings of the business. Within the glossary of the FY20 annual report the definition of Adjusted earnings is as follows: Post-tax earnings attributable to shareholders, adjusted to include licence fees receivable on forward funded development assets and adjusts for other earnings not supported by cash flows. This is the Company's earnings measure that best reflects earnings that are supported by recurring cash flows.

Adjusted earnings is noted as one of the Company's key performance indicators on page 22 of the annual report. There are many other references to Adjusted earnings throughout the report and to reiterate that we see our dividends being fully covered by Adjusted earnings moving forwards.

The Company takes a disciplined approach to capital allocation, this is set out within the Group's strategy. Capital more broadly comes from many sources, including capital recycling and bank leverage. We aim to maximise shareholder returns through this disciplined approach. The Company has a very attractive development pipeline, which is the largest in the UK for big box logistics purposes. This has an attractive returns profile, which includes a target 6-8% yield on cost across the development pipeline. With the strong market backdrop that we have and increasing levels of e-commerce penetration, which led to record levels of tenant demand in 2020, we believe that we are very well positioned to deliver growing dividends and attractive levels of total return to shareholders over the long term.