

Activity at end-September 2020

**Encouraging summer trends,
but vigilance required with the epidemic accelerating again**

Retailer activity levels for July and August reflecting high conversion rates

Improving trend for the rent recovery rate

**But a fragile overall economic context, consolidating the priority focus
on safeguarding balance sheet positions**

Vincent Ravat, Mercialys' Chief Executive Officer: "Mercialys' centers recorded a satisfactory level of activity overall during the third quarter of 2020. Footfall shows a limited contraction of around 9% compared with 2019, while retailer sales for July and August were in positive territory thanks to high conversion rates. Mercialys' sites once again clearly outperformed the national indexes, and specifically all the high-street formats, highlighting consumers' loyalty to peri-urban centers serving day-to-day needs. While this summer made it possible to remove the uncertainty surrounding consumers' interest in physical retail and real-world interactions, vigilance is required as the epidemic has been gaining pace again since early September."

I. Rental revenues down -2.6%

At end-September 2020, Mercialys' **invoiced rents** totaled Euro 136.4 million, down -2.4% on a current basis (vs. -3.3% at end-June 2020) and -0.5% like-for-like (vs. -0.8% at end-June 2020) compared with the end of September 2019.

(In thousands of euros)	Year to end-September 2019	Year to end-September 2020	Change Current basis (%)	Change Like-for-like basis (%)
Invoiced rents	139,739	136,382	-2.4%	-0.5%
Lease rights	2,311	1,925	-16.7%	
Rental revenues	142,050	138,308	-2.6%	

These changes reflect the following elements:

	Year to end-September 2020		Year to end-June 2020 (for reference)	
Indexation	+1.6 pp	+€2.2m	+1.6 pp	+€1.5m
Contribution by Casual Leasing	-0.3 pp	-€0.5m	-0.8 pp	-€0.8m
Contribution by variable rents	+0.1 pp	+€0.1m	-0.1 pp	-€0.1m
Actions carried out on the portfolio	-0.5 pp	-€0.8m	-0.2 pp	-€0.2m
Accounting impact of "Covid-19 rent relief" granted to retailers	-1.3 pp	-€1.8m	-1.3 pp	-€1.2m
Like-for-like growth	-0.5 pp	-€0.7m	-0.8 pp	-€0.8m
Asset disposals	-1.8 pp	-€2.5m	-2.3 pp	-€2.2m
Other effects	-0.1 pp	-€0.2m	-0.2 pp	-€0.2m
Growth on a current basis	-2.4 pp	-€3.4m	-3.3 pp	-€3.1m

Invoiced rents continued to benefit from indexation in similar proportions to the first half of 2020. Business excluding indexation began to normalize in the third quarter of 2020, illustrated in particular by the upturn in the contribution by Casual Leasing, after this activity was shut down completely from March 15 to May 11, 2020. However, rental activity remained slow, continuing to show time lags with the actions carried out on the portfolio (renewals and relettings).

At this stage, Euro 7.1 million of rent relief has been granted to retailers by Mercialys as part of “Covid-19 negotiations”, for a total estimated budget, by the end of the discussions that are still underway, of Euro 13.5 million. In the accounts, these relief measures are spread over the remaining firm term of the corresponding leases, in accordance with the treatment of leases under IFRS 16, resulting in a difference between the accounting impact in profit or loss and the cash flow impact. This negative accounting impact in profit or loss represents a total of Euro 1.8 million at September 30, 2020.

The discussions with retailers concerning the treatment of 2020 second-quarter rent are continuing to move forward in a constructive spirit, and arrangements have been adopted in exchange for these measures in the majority of cases with a view to ensuring the sustainability of commercial activities. Extending the firm term of leases is one of the main arrangements requested by Mercialys from its tenants in exchange for the rent relief granted. Most of the firm lease term commitments that have already been agreed to have been extended by 20 months, up from 28 months previously to 48 months, extending the average firm term across Mercialys’ entire portfolio by more than five months. This trend is expected to be further strengthened by the discussions underway with the remaining tenants. The impact of rent deductibles being spread in the accounts, for both the current financial year and subsequent years, will therefore continue to evolve until the current discussions have been finalized.

Alongside this, commercial portfolio rotation actions are picking up again, with an increase in the number of renewals and relettings signed, covering two priority aspects: 1/ further strengthening the diversification of Mercialys’ retail mixes, with a continued reduction in textiles exposure in particular; 2/ ensuring a strong focus on the selection of day-to-day products offered at affordable prices.

In line with this approach, Mercialys has signed a lease for a second store in its portfolio with the Danish retailer Normal, which offers consumer brand products at attractive prices. At the Nîmes site, it will replace the textiles banner Guess, which has given notice to leave in January 2021. The lease signed includes various support measures, with Mercialys notably offering a two-month rent free period while work is being carried out. In return, this Mercialys center will be able to welcome an original and distinctive retailer that is not yet widely known in France and offers competitively priced products, which will further consolidate this site’s appeal and support its value, given that this operation ensures the sustainability of the current rent level.

The recovery rates also reflect the gradual normalization of relations with retailers. To date, 56% of the full amounts billed for the second quarter of 2020 have been recovered (of which 86% of service charges and 49% of rents), and this is expected to increase significantly by the end of 2020. In accordance with the principles of the charter set up between landlords and tenants, supported by the French Ministry for the Economy, recovery procedures for second-quarter rent were only able to start up from October 2020.

The recovery rate for the amounts billed for the third quarter of 2020 represents 86%. Lastly, the rate for the fourth quarter, with calls just issued to all tenants for the full amounts due for this three-month period, is 70% to date.

Lease rights and despecialization indemnities received over the period, after factoring in the deferrals required under IFRS, came to Euro 1.9 million, compared with Euro 2.3 million at September 30, 2019.

Rental revenues totaled Euro 138.3 million at end-September 2020, down -2.6% from the end of September 2019.

II. Customers loyal to Mercialys sites, making it possible to contribute to retailers' sustainability

Mercialys' portfolio primarily includes 47 shopping centers, located almost exclusively at out-of-town sites in mid-size cities, with 86%¹ of them in their catchment area's leading or joint number one retail hubs.

Their diverse retail mixes, focused on a range of consumer products to meet essential day-to-day needs, with affordable pricing, which is a key driver behind consumers' choices, represent a powerful factor for ensuring an attractive positioning and resilience.

Illustrating this, even during the lockdown period, all of Mercialys' assets remained open, as 40% of its rental base is made up of "essential" stores, thanks in particular to their systematic anchoring with a large food store.

These specific commercial features, combined with the architectural configuration of the sites, with their single-floor design and extensive outdoor areas, as well as easy access to the entire center, once again contributed, in an unprecedented context, to a good relative performance for Mercialys' asset portfolio.

The Company's centers once again very clearly outperformed the national indexes, and specifically all the forms of high-street retail, including both ground-floor retail units and urban shopping centers, which offer structurally more concentrated buying experiences, in more confined spaces, with higher density levels, which therefore involve people being in closer proximity.

For July and August 2020, the average footfall in Mercialys centers² came to -9.0% and -8.9% respectively versus the same period in 2019, compared with -15.9% and -12.3% for the France panel³ overall. It is important to note that these consolidated figures mask diverging trends between tourist sites, particularly in coastal areas in the south of France, which were negatively affected this summer by the low numbers of foreign tourists (-13.9% on average over the two months for Mercialys' scope), and the rest of France. In September, the average footfall level was stable at -8.9% despite the context of an acceleration in the epidemic, while the France panel recorded a performance of -13.6%.

The drop in footfall seen for the centers since the lockdown was lifted is linked primarily to the reduction in the number of people accompanying shoppers. Over the past few months, buying experiences have been thought out to be more efficient, with a limited number of family members visiting stores at the same time. However, the number of effective buyers does not seem to have decreased significantly, as shown by the improvement in conversion rates (proportion of buyers in relation to the number of visitors), enabling retailers to achieve positive trends for their revenues over the summer period. Their average revenues increased by +1.9% in July and +5.8% in August 2020 compared with the same periods in 2019. For comparison, the CNCC indexes were down -8.8% and -0.5% respectively. September's preliminary sales figures for Mercialys' portfolio seem to indicate a stable trend year-on-year.

Mercialys is continuously working to consolidate its centers' leading positions, by supporting both its tenant retailers and end customers with their retail journeys. In the third quarter, it continued ramping up Ocitô, its last-mile logistics solution, and this physical retail digitalization tool has now been rolled out across 14 of its shopping centers. For reference, the Ocitô ecosystem includes three solutions serving convergence between physical and digital retail:

- Ocitô.net, a web and mobile marketplace enabling retailers in Mercialys centers to benefit from an additional channel for offering food and non-food products to consumers;

¹ In terms of portfolio value

² Mercialys' large centers and main convenience shopping centers based on a constant surface area, representing over 85% of the value of its centers

³ Source: Quantaflow France Panel

- Ocitô.logistique, which groups together all the services for retailers in centers to facilitate the consolidation and shipping of packages with a ship-from-store model (dedicated logistics unit, provision of consumables, centralized postage franking and collection);
- Ocitô.transport, which comprises the suite of last-mile delivery solutions, enabling more efficiency and effectiveness for retailers and consumers: immediate delivery, home delivery within two days, click and collect, drive-through, parcel collection lockers, etc.

This new ecosystem is generating interest among retailers, particularly local firms. It will become clear over the coming quarters whether it will be able to be adopted on a wide scale by retailers and end customers. In any event, the development investments that have been made are limited (less than Euro 1 million), and the remaining operating costs to be covered by Mercialys for this solution in 2020, its ramp-up period, are also limited (less than Euro 0.3 million).

III. Dividend and outlook

Mercialys updated its 2020 full-year guidance when it published its half-year results on July 27, 2020. This new guidance took into account the estimated impact of the health crisis wave seen in the second quarter and excluded the potential impact of further outbreaks with the health crisis.

In the last few weeks, the number of cases throughout France has increased significantly. While this acceleration of the epidemic, which could potentially be unfavorable for economic activity and consumption, is worrying, it has already led the French government to deploy new localized restrictions to stem the growth in cases.

In this context, with the same reservations, Mercialys is reaffirming its 2020 full-year guidance:

- Funds From Operations (FFO) per share to contract by 10% to 15% compared with 2019;
- Dividend to range from 70% to 95% of 2020 FFO;

As organic growth no longer seems to be a relevant indicator for 2020, no new guidance has been set.

Moreover, Mercialys would like to highlight that at June 30, 2020 its balance sheet structure was under control, with an ICR of 10.6x and a LTV ratio excluding transfer taxes of 41.1% (38.6% including transfer taxes); based on a standard level of rent recovery for the second quarter, this would represent 40.0%. The partial bond redemption and refinancing operation carried out at the start of July made it possible to further consolidate the Company's cash position, while it also still has Euro 410 million of undrawn financing as part of its liquidity arrangements.

Lastly, Mercialys is once again confirming its absolute priority to protect its balance sheet positions, with efforts focused on:

- Optimizing the recovery of rent due for 2020;
- Controlling costs, covering both shopping center operations and the head office's operational management;
- Carrying out portfolio arbitrage, continuing to move forward with asset disposals and scaling back investments very significantly until further notice.

Mercialys' Board of Directors, which will be meeting on Wednesday 21, 2020, will decide, in view of these elements, on the relevance of paying out or not an ordinary interim dividend for 2020. The Company will report on this decision to the market on Wednesday 21, 2020 after trading.

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This press release is available on www.mercialys.com

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About Mercialys

Mercialys is one of France's leading real estate companies, focused exclusively on shopping centers and high-street retail assets. At June 30, 2020, Mercialys had a portfolio of 2,111 leases, representing a rental value of Euro 182.3 million on an annualized basis. At June 30, 2020, it owned properties with an estimated value of Euro 3.5 billion (including transfer taxes). Mercialys has had "SIIC" real estate investment trust (REIT) tax status since November 1, 2005 and has been listed on Euronext Paris Compartment A (ticker: MERY) since its initial public offering on October 12, 2005. At June 30, 2020, there were 92,049,169 shares outstanding.

IMPORTANT INFORMATION

This press release contains certain forward-looking statements regarding future events, trends, projects or targets. These forward-looking statements are subject to identified and unidentified risks and uncertainties that could cause actual results to differ materially from the results anticipated in the forward-looking statements. Please refer to Mercialys' Universal Registration Document available at www.mercialys.com for the year ended December 31, 2019 for more details regarding certain factors, risks and uncertainties that could affect Mercialys' business. Mercialys makes no undertaking in any form to publish updates or adjustments to these forward-looking statements, nor to report new information, new future events or any other circumstances that might cause these statements to be revised.

MERCIALYS RENTAL REVENUES

2019	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2019	Q1	Q2	Q3	Q4
Invoiced rents	46,312	93,843	139,739	188,849	46,312	47,531	45,896	49,110
Lease rights	820	1,644	2,311	3,003	820	824	667	692
Rental revenues	47,132	95,487	142,050	191,853	47,132	48,355	46,563	49,803
Change in invoiced rents	+2.5%	+2.7%	+2.4%	+2.0%	+2.5%	+2.9%	+1.8%	+0.7%
Change in rental revenues	+3.5%	+3.6%	+3.1%	+2.4%	+3.5%	+3.8%	+2.1%	+0.5%

2020	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Q1	Q2	Q3	Q4
Invoiced rents	46,518	90,732	136,382		46,518	44,214	45,650	
Lease rights	632	1,271	1,925		632	639	654	
Rental revenues	47,150	92,003	138,308		47,150	44,853	46,305	
Change in invoiced rents	+0.4%	-3.3%	-2.4%		+0.4%	-7.0%	-0.5%	
Change in rental revenues	0.0%	-3.6%	-2.6%		0.0%	-7.2%	-0.6%	