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Embassy Office Parks REIT

1Q FY2020 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good day and welcome to this Embassy Office Parks REIT Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ritwik Bhattacharjee – Head of Investor Relations, Embassy Office Parks REIT. Thank you and over to you, sir.

Ritwik Bhattacharjee

Head – Investor Relations, Embassy Office Parks REIT

Thank you, Rayomand, and good evening everyone. Welcome to the first quarter FY 2020 Earnings call for Embassy REIT.

A short while ago, Embassy REIT released its financial results for the quarter ending June 30th, 2019. You can find the condensed standalone and consolidated financial statements, an Investor Presentation discussing our performance for the quarter and supplemental, financial and operating data book on the investor relations portion of our website at ir.embassyofficeparks.com.

In particular, we have published the data book to give the financial community a closer look at the metrics we consider important to our business, and we have created it with global best-in-class REIT reporting practices in mind.

Before we begin, we would like to inform you that management may make certain comments on this call that one could deem forward-looking statements. Please be advised that the REIT's actual results may differ from these statements. Embassy REIT does not guarantee these statements or results and is not obliged to update them at any time.

Joining me on the call today are Mike Holland, the CEO, Vikaash Khdloya, the Deputy CEO and COO, and Aravind Maiya, our Deputy CFO. Mike will begin by giving you our highlights since listing. He will also provide some thoughts on the macro environment. Vikaash will provide an overview of the leasing, operating and development performance for the quarter. And Aravind will run through our basis of reporting & the numbers in general. We will then open the call up to Q&A.

Over to you, Mike.

Michael Holland

Chief Executive Officer (CEO), Embassy Office Parks REIT

Great. Thank you, Ritwik.
Good evening - thank you all for joining the call.

It's been a very solid first quarter with revenue and NOI both up 19% and we will be distributing Rs.417 Crs distribution – we'll cover the details in our Business & Financial updates.

Since this is our first earnings call following the successful listing and commencement of trading on 1st April 2019, we will begin with a quick background on the REIT after which I will cover Strategy & Key Developments.

1. Embassy REIT is the first listed REIT in India and the largest REIT in Asia by area. The REIT was sponsored by Embassy Group, one of the leading property developers in India, and The Blackstone Group, the largest private equity real estate manager globally.

2. The months prior to the listing, in late '18 / early '19 were turbulent – at a domestic level there were uncertainties around the NBFC situation and the forthcoming Union Government election. Internationally, end 2018 saw a flight of capital from Emerging Markets and a significant downturn in markets across the globe, and even while we witnessed a bounce back in Q12019 in international and India markets, domestic certainties / uncertainties continued. We also saw increasing escalations on matters of global trade particularly between US and China.

3. Notwithstanding that backdrop, our Public Issue in March for Rs.47.5 bn (approx. $680 mn) was oversubscribed 2.6 times. After a successful listing, investors continue to see value in our business and, as at the end of the quarter, June 30, 2019, we were trading at Rs.367 per unit, up 22% since listing, implying a market capitalization of over Rs.280 bn (circa $4 bn – Rs28,000 Crs).

4. So, with 22% returns since listing in Q1FY20, Embassy REIT outperformed both the Sensex and the BSE Realty Index which saw returns of 2% & 6% respectively over the same period.

5. It's clear that the markets understood and appreciated the simple model on which Embassy REIT is established. Predictable and sustainable cashflows, generated under long term contracts from international corporations located in high quality office assets in India's leading commercial centers provide a clear line of sight to the embedded rental growth. In addition, growth in leasable area due to on-campus development and, given the strength of our balance sheet, the potential to add properties through third party acquisitions, offer additional avenues for growth. When combined with our experienced and proven management team, all working under a strong governance framework one can understand why the offering resonated strongly with investors.

6. On strategic issues:

    a. I mentioned the uncertainties in the months prior to listing on April 1. The outcome of Indian elections in May 2019 in favor of the incumbent Government provides policy continuity to the economy.

    b. And on the economy, the IMF recently confirmed the growth estimate for FY'20 at 7.0% with projections of 7.2% for FY'21. India remains one of the world's fastest growing large economies despite the prevailing challenges and uncertainties. There has been a great deal of coverage around the overhang of residential property supplies and tight liquidity in the banking sector which should not cloud the view of our office REIT. With zero residential component in Embassy REIT and c.11% of debt and 94.3% occupancy across our portfolio, we believe that our business is well insulated from issues of trade wars, NBFC liquidity crunches and short-term market swings. That's because our occupiers, the 160+ corporations who pay the rent, are here, in India, primarily because the required skills, in technology as well as other varied sectors, are available at scale and at reasonable cost in India. This, at a time when many developed economies are operating with record levels of employment indicating that people with the right skills are simply not available in many home markets at the scale required.

c. And we continue to encounter new market entrants, companies who are setting up new facilities in India where the trend has been away from outsourcing and into captive centers, executing on sophisticated projects in diverse sectors – tech, e-commerce, fintech, AI, R&D, aerospace and so on. Our existing tenant base with whom we are in regular dialogue indicate that their businesses are stable, or in fact for the most part, that they continue to grow. By way of example, over 56.7% of our new leasing of 595,000 sf in Q1FY'20 was from our existing tenant relationships.

d. Post mid-year, reports were published by leading property consultants which highlighted record take up across the Indian office markets, up 40% YoY at 30 msf in H1. There is strong hiring momentum in the tech sector, office demand remains healthy and there is plenty of evidence, anecdotal and actual pipeline, indicating continued strong leasing traction.

e. We are often asked about where we see the market cycle and concerns on reported supply side pipeline. We've studied that carefully, examining data points from multiple property consultants on three-year projections of approx.160 msf in over 300 projects across the 7 key cities in the country. Now our conclusion is that competing supply over the next three years or so in our markets is nicely balanced with projected demand. Any significant development that is to be delivered within the next three years must be under construction today. So in analyzing the supply, we have evaluated projects to understand probability of completion as well as parameters of quality, timing, location, product, ownership and so on. Through analysis of the headline 160 msf, we have concluded that only 12% or 20 msf over these three years is directly comparable competition in the markets in which we operate.

f. So, we are comfortable with both demand and supply over the next three years and we will continue to closely monitor this data. We continue to believe that demand-supply fundamentals are favorable particularly for institutional quality landlords and assets of scale and quality.

g. Another key theme we have heard over the past quarter has underlined for us our existing focus in relation to environmental issues. We have multiple initiatives in this space some of which we'll touch on our Operational Update. Solar energy, electric vehicles, water sustainability are all on our agenda and we continue to have all our new buildings certified at least to a Gold Standard on the (LEED) Leadership in Environment & Design benchmark system. Environment is also important to our corporate occupiers and so our focus on this area resonates well with our core customer base

7. And so, against this backdrop, we concluded 1QFY20 on June 30, 2019, our first quarter as India's first and Asia's largest office REIT by size.

8. The operating and financial detail of our Q1 results will be covered in detail on this call by Vikaash Khdloya our Deputy CEO and COO followed by our Deputy CFO Aravind Maiya. Vikaash.

Vikaash Khdloya

Dy CEO and Chief Operations Officer (COO), Embassy Office Parks REIT

Thanks, Mike. Good evening, everybody.

You will be happy to know that we had a strong quarter of performance. Business highlights for the quarter include:

- new lease-up of 595k sf with a strong forward pipeline of 500k sf;
- 2 quarters ahead-of-projected delivery of our 1.4 msf near-term office developments at Embassy Manyata and Embassy Oxygen;
- launch of our new 230 key Four Seasons Hotel in May'19 and
- continued focus on hands-on asset management and infrastructure upgrade initiatives across our portfolio.

As a result, both Revenue from Operations and NOI grew 19% YoY.

In addition, we are on the look-out for potential acquisition opportunities for inorganic growth. Clearly, we will maintain a patient and disciplined approach in identifying only those that have the potential to fit our criteria of large scale, high quality properties in the right micro-markets and those that are accretive to our REIT.

Let me now share the LEASING updates for this quarter…

Our portfolio is in four gateway cities of India namely Bengaluru, Mumbai, NCR and Pune. These markets represent 75% of India's office absorption market. While Bengaluru continues to lead office absorption globally, we also witnessed increased levels of activity in Pune driven by strong technology sector hiring. We also observe a clear trend of increased occupier preference for higher quality product in Mumbai and NCR markets.

- As of June 30, 2019; our portfolio remained stable with 24.8 msf completed area leased to 166 marquee occupiers with a weighted average lease expiry of 7 years. Our portfolio occupancy was stable QoQ at 94.3% and continues to track 918 bps ahead of occupancy at comparable properties across our key markets.
- We renewed 226k sf with 5 existing tenants during the quarter at 29% renewal spreads.
- Through our disciplined and hands-on operating expertise, we successfully executed new leases totaling 595k sf with 51% re-leasing spreads to occupiers across technology and co-working sectors.
- 57% of our lease-up was with our existing tenants demonstrating the depth of our customer relationships. We engage with senior leadership within our existing tenant base allowing us an insight into their space needs for the immediate as well as medium term.
- Given that market rents are 31% higher than current in-place rents, we view expiries and tenant churn as an opportunity to increase in-place rentals, thereby enhancing NOI growth. To illustrate this, during the quarter, tenant churn resulted in vacancy of 609k sf mainly due to exit of a significant 480k sf IT services tenant at Embassy TechZone at Pune resulting from this tenant's global M&A activity. With our agile and customer focused leasing teams, we have been successful in backfilling 75% of this unscheduled vacancy with no rental void period and at rents which were approximately 37% higher than the in-place rent.
- So, on the leasing front, tenant demand continues strong, our leasing pipeline of 500k sf remains healthy across various sectors such as technology, healthcare, telecom, consulting and research and the lease-up of recently launched Embassy One remains our priority.

Moving on to updates on our DEVELOPMENT Projects

As you may recollect, we have a 7.9 msf on-campus development potential in 3 of our existing properties which enables us to cater to growth needs of our tenants. Of this total 7.9 msf potential, 3.3 msf is under various stages of development and pre-construction.

- Our near-term delivery projects comprise 800k sf Embassy Manyata NXT commercial blocks and 580k sf at Embassy Oxygen Tower 2. I am happy to share that both these projects totaling 1.4 msf are tracking 2 quarters ahead of scheduled delivery date with anticipated completion of Embassy Oxygen Tower 2 in Dec of 2019 and Embassy Manyata NXT in Mar’2020 respectively.
- In-line with our philosophy of de-risking new deliveries, we have in early August’2019 pre-leased 246k sf or 42% of the U/C 580k sf at Embassy Oxygen a full 5 months before our early delivery timeline of Dec’19. This pre-lease is to a Fortune 50 insurance corporation who chose to partner with us owing to Embassy Oxygen’s superior masterplan and quality specs, state of the art food court and our ability to be nimble and provide a customized solution to suit their business needs.
- In addition to the near-term delivery projects, we have an additional 1.9mm sf office space under various stages of design, excavation and pre-construction. This comprises the 1mm sf M3 Block at Embassy Manyata and 900k sf Hudson and Ganges Blocks at Embassy Techzone. The Hudson Block at Embassy Techzone was initially envisaged as a 300k sf office block but given the leasing traction in Hinjewadi micro-market combined with technology sector hiring outlook and the c.5% vacancy, we plan to increase the area of Hudson Block to 450k sf and plan to bring forward the proposed development timelines of the adjoining 450k sf Ganges Block.

<u>Moving onto our HOSPITALITY portfolio</u>

Providing ancillary amenities such as hotels and conferencing facilities within our properties to our office users provides a competitive advantage in attracting and retaining corporate occupiers.

Our portfolio comprises 4 hotel properties in Bengaluru totaling 1,096 keys which together represents approximately 5% of the portfolio value. Of these, 2 hotels totaling 477 keys are currently operational while 619 keys are under development.

- The 230 key Four Seasons hotel at Embassy One opened for business on May 1, 2019. While it is still early days, we have to-date signed over 60 corporate accounts and focus is on ramping up occupancy.
- This new Four Seasons Hotel is in addition to our fully operational 247 key Hilton at Embassy Golflinks wherein occupancy for this quarter was at 70.2%, 680 bps higher compared to the comp set.
- Given the substantial benefits of having hotels in our large-scale infrastructure-like office properties, we have designed and initiated development of 619 keys of dual branded Hilton hotels at the entrance of Embassy Manyata. In addition, it has 58k sf retail and convention center facilities. This development is progressing on schedule, we expect to top out by December 2019 and the hotel is targeted to open for business in late FY2022.

<u>Moving on to our ASSET MANAGEMENT initiatives</u>

As corporate occupiers in India move up the value chain, hiring and retaining talent has become a priority. Occupiers today use quality and location of workspace to attract and retain the best people in this war for talent. At Embassy REIT, we were one of the first to identify this trend and have continuously been focused on undertaking select infrastructure and upgrade projects to further enhance our competitive position.

- During the quarter, we commissioned the 220KVA sub-station at Embassy Manyata, thereby further strengthening the power infrastructure and offering to our tenants. Other infrastructure initiatives include construction of a new flyover and masterplan upgrade – both well underway at Embassy Manyata; as well as other asset upgrades such as façade repositioning, the revamp of sports facilities, lobbies and food courts at select properties etc., all of which continue to be on track.

- Our on-ground teams continue to be focused on operational excellence – whether it is zero down-time for our tenants through preventive maintenance or health & safety of our park employees, we are committed to provide consistent and secure end user experience at each of our properties.

Lastly, I will briefly touch upon our TENANT ENGAGEMENT, ENERGY SUSTAINABILITY & CSR initiatives

- Our Occupier engagement program, Energize, continues to be popular with the 200,000 people working on our parks. During the quarter, we undertook activities around Environment Day, International Day of Yoga, Football tournaments, Cricket leagues and self-defense workshops – these programs saw encouraging footfalls and participation from all our key occupiers.
- We continue to focus on environmental sustainability. Our green energy initiative is helping offset an estimated 200 Metric Tons (Mt) of carbon emissions every year. In addition to our popular app based car-pooling service 'Green Rider' at Embassy Manyata, we have also introduced 100% electric vehicles in Embassy Golflinks in partnership with Lithium Urban Technologies and we continue to have all our new buildings certified at least to a Gold Standard on the LEED Benchmark system.
- On the CSR front, we actively support primary education in communities surrounding our properties. During the quarter, Embassy REIT in partnership with ANZ and the Government of Karnataka inaugurated a state-of-the-art primary school building for 650 pupils at Hegde-nagar, Bengaluru. We also continue to look for opportunities to support water sustainability projects as part of our CSR program.

As you can see, there are multiple developments at our properties each quarter. We have comprehensive programs to oversee leasing, development, tenant engagement, ancillary amenities, energy conservation and the many other activities that go into running a large-scale portfolio such as ours. Our teams are experienced, operating procedures are meticulous and we place high emphasis on safety and governance. That's it from me, the business continues to be in good shape, we continue to manage each asset as if it's our only asset and our talented team, supported by our strong culture, is fully committed to deliver on all our business plans. Over to Aravind for the financial updates.

Aravind Maiya
Dy CFO, Embassy Office Parks REIT

Thanks, Vikaash. Good evening, everybody.

I am going to take you through the details of our financial performance for this quarter. Before I get into the details for the quarter, I do want to start with a couple of housekeeping items.

First, given Embassy REIT acquired shares in all SPVs in the last week of Mar'19 and the REIT listed on 1 April 2019, previous year comparative numbers presented in the standalone and consolidated quarterly financials may not be comparable. However, we have provided additional disclosures on financial numbers for June 2018 quarter of the previous year in the Supplemental data book basis unaudited combined financial statements prepared as if the REIT held stake in these entities at that point in time.

Apart from comparative financial numbers for previous year, we have also included additional disclosures around financial and operational metrics in this supplemental data book which may help in detailed analysis.

Let me now quickly move to our first quarterly results post listing.

We are pleased with the financial results and key financial highlights during the first quarter include:

- Increase in Revenue from Operations by 19% YoY to Rs. 5,351 mn as compared to Rs. 4,494 mn for the quarter ended June 30, 2018, driven by continued leasing momentum across the portfolio
- Increase in Net Operating Income (NOI) YoY by 19% to Rs. 4,528 mn as compared to Rs.3,818 mn for quarter ended June 30, 2018 with NOI margin for the quarter at 85%
- We have successfully raised Rs.30 bn of rupee-denominated listed non-convertible debentures with yield to maturity of 9.4% maturing in Jun'22; and
- The Board of Directors of the Manager have declared Rs. 4,167 mn as first quarter distribution. This represents a payout ratio of 99.7% of the Net Distributable Cash Flow or NDCF and translates to Rs. 5.4 per Unit.

Let me now share the INCOME STATEMENT updates for this quarter in a little more detail:

A. In relation to Revenue from Operations

- As I mentioned, our Revenue from Operations was up Rs.857 mn or 19% YoY. This is mainly on account of lease-up of about 1.4 msf vacancy mainly across Embassy Manyata, FIFC and Embassy 247 properties, the ramp up in solar power generation at Embassy Energy and lease-up for the recently delivered Tower 3 at Embassy Oxygen.
- Our commercial office segment contributed 89% of our Revenue from Operations during the quarter underlying the philosophy of primarily being a commercial office focused REIT.
- In terms of revenue drivers for the quarter, lease escalations and other contracted revenue contributed 60% of the YoY revenue increase while lease-up and renewals as the second significant contributor was at 30% of YoY revenue increase. While new development and hotels contributed a smaller proportion to the revenue increase, we believe the proportion will increase given the efforts towards ahead of schedule delivery on near-term projects, as spoken by Vikaash.

B. Now coming to Net Operating Income

- Our Net Operating Income for the quarter was up Rs.710 mn or 19% YoY. This is in-line with increase in our YoY revenues
- Our NOI margin for the quarter was healthy at 85% which reflects our commitment to business efficiency.
- While we incurred additional operating costs during the quarter due to recent launch of our Four Seasons hotel which is under stabilization, we have also looked at ways to optimize other operating expense given our scale.

C. Coming to EBITDA:

Our EBITDA margin stood at 82%. However, on a YoY comparative, our EBITDA for the quarter was up by only Rs.431 mn or 11%. This was due to higher one-off interest income in corresponding quarter of previous year relating to certain inter corporate deposits which were subsequently repaid fully in Mar'19, prior to listing. Adjusted for this one-off item, EBITDA margin for corresponding quarter of previous year was 81%, in-line with 82% margin for current quarter.

D. Now to talk briefly about Other Income Statement Items:
Amongst other material Income statement items, our finance costs for the quarter stood at Rs.832 mn which included Rs 533 mn of redemption premium accrual on our recently raised Rs.30 bn bond and finance costs on the earlier outstanding debt at listing on April 1, 2019 which was repaid subsequently through the bonds raised in early May'19. Apart from above, Rs.395 mn is recognized as equity pick-up from our 50% stake of profit in Embassy Golflinks Investment assets. Our cash taxes of Rs.369 mn for the quarter represents 17% of our Profit before taxes.

E. To sum up our Income statement, we have earned a net profit after tax of Rs. 2,220 mn for the quarter which represents Earnings Per Unit of Rs 2.88.

Next, let me now share some BALANCE SHEET updates as at June:

1. Our total assets as at June 30, 2019 stood at Rs. 325 bn. Of this Investment Properties and PP&E representing the various properties owned by REIT SPVs along with the related goodwill and other intangible assets totaled Rs.274 bn, while our equity investment in Embassy Golflinks stood at Rs.24 bn.

Our net receivables as at end of quarter stood at Rs.440 mn which represents 8% of Revenue from Operations for the quarter, reflecting the underlying credit quality as well as our robust collection management. In addition, our cash and bank balance and short-term treasury investments stood at 1.9 bn and Rs.6.0 bn respectively.

2. Our liabilities as of June 30, 2019 mainly comprised of gross debt of Rs.39.3 bn and tenant deposits of Rs.8.74 bn. As you may recollect, we raised Rs.47.5 bn as part of our IPO. Of this raise, in line with stated use of proceeds, we have utilized Rs.37.1 bn towards repayment of SPV level debt existing at the time of listing. We also utilized the remaining Rs.10.4 bn IPO proceeds towards acquisition of Embassy One assets, issue related expenses and other general corporate purposes.

Post repayment of existing debt from IPO proceeds, we maintain a conservative Balance Sheet with Net Debt to TEV of 11% and Net Debt to EBIDTA of 2x, thereby providing significant flexibility for future growth. Should new accretive investment opportunities emerge, we have the capacity to take advantage. However, we will maintain our capital allocation discipline.

3. As you may be aware, in May'19 we successfully raised Rs.30 bn NCDs amidst tough market conditions. This NCD was rated AAA Stable by CRISIL, priced at 9.4% YTM, with premium payable on redemption in Jun'22. This NCD was utilized to repay existing debt and for general corporate purposes. As we look forward, we expect to raise construction finance later this year to fund ongoing capex needs as detailed earlier by Vikaash, discussions for this are currently underway with various banks and financial institutions.

Lastly, I will touch upon our Distributions for this quarter

Our Net Distributable Cash Flow at REIT level stood at Rs 4.18 bn. The Board of Directors in their Board Meeting held earlier today declared a quarterly distribution of Rs 4.17 bn or Rs. 5.4 per Unit, representing a distribution payout ratio of 99.7% of our NDCF. Of the Rs 5.4 DPU, Rs 2.3 per Unit is towards interest receipts and the balance Rs 3.1 per Unit is towards amortization of SPV level debt. As a quick recap, while SEBI REIT Regulations mandate a six-monthly distribution, Embassy REIT has undertaken to go further than mandated with distributions each quarter. The record date for the distribution is August 21, 2019 and the distribution will be paid on or before August 27, 2019.

To conclude my remarks, Embassy REIT had a strong performance for the quarter, Revenue from Operations increasing at a robust 19% YoY, our NOI and EBIDTA margins were healthy at 85% and 82% respectively for the quarter, our Net Debt to TEV was at c.11% and our first quarter DPU at Rs 5.4 per Unit. I now hand it back to Mike for his concluding remarks.

Michael Holland

Chief Executive Officer (CEO), Embassy Office Parks REIT

Thank you, Aravind.

I trust that Aravind's report on the financials and Vikaash's account of the Business & Operations have demonstrated to you that we have delivered on the key metrics for the business in our first quarter post listing particularly with regard to:

a. Revenue and NOI up 19% and our Rs.4.17 bn first quarter distribution

b. But also, the delivery of 595k sq. ft of new leasing with 51% re-leasing spreads and a strong forward pipeline of 500k sq.ft of new deals under discussion. The closure of 246k sq.ft pre-lease in our under-construction block at Noida is a big win for us as is

c. Our announcement that we are on track to deliver a total of 1.4 msf in Noida and Bengaluru two quarters earlier than original projections

So, for the balance of FY20, our key focus areas are to:

i) drive performance in recently completed assets – particularly Embassy One in Bengaluru including the Four Seasons hotel.

ii) Continue with vacancy lease up and development pipeline at the core of our business execution and continue the preparations for launch of upcoming buildings – Embassy NXT in Bengaluru and Tower 2 at Embassy Oxygen in Noida.

iii) And also continue to assess acquisition opportunities for inorganic growth

So, to conclude, the business continues to be in robust shape, we have had strong lease up arising from continuing corporate demand and balanced comparable supply. Our total business ecosystem offering remains that which is most efficient and preferred by the best tenants in our core Indian markets. We continue to have a high level of repeat leasing from our existing customers. We continue to achieve our contracted rental upticks; and to deliver mark to market on new leases and we're ahead of schedule on with respect to addition of new premises in the next 12 months. With our revenue and NOI up 19% YoY and our Rs.4.17 bn quarterly distribution, it's been a solid quarter for India's first and only listed REIT.

Thank you for your patience. We will now hand back over for questions.

QUESTION & ANSWERS SESSION

Moderator: Sure. Thank you very much. We will now begin with the questions-and-answer session. The first question is from the line of Saurabh Kumar from JPMorgan. Please go ahead.

Saurabh Kumar: Thank for this update. And thanks for the supplementary sheet, looks quite comprehensive. Sir I had four questions, firstly on this supply of 20 million square feet. So, essentially this looks to be a bit low if you just take a listed developer and I think you just compared supply in your markets, but let's say the supply which gets added in Gurgaon and Hyderabad, will that not impact? Because demand can be flexible across these markets as well. So, what's your thought on the supply which is coming up in those markets and how it impacts demand in your core areas?

Secondly on this, what will be the year end debt and CAPEX for the full year? And just lastly on the solar EBITDA, is this the run rate we should look at? I have a few follow-ups, I will back.

Mike Holland: Thank you, Saurabh. So, supply of 20 million square feet, one, year-end debt and CAPEX; and third point solar. Let me take this issue about supply. So, yeah, Saurabh, we have done a lot of analysis on this, I mentioned about 160 million square feet of potential new build supply over the three years. That represents about 300 projects across the country. And of course, we are not operating in the market, particularly Hyderabad, Calcutta and Chennai. If you strip those markets out, you actually end up with less than half of that potential supply, about 78 million square feet, 151 projects. So, the first thing to take away from that is there is a skewed supply stat, particularly with regard to Hyderabad. Typically, that market is accounted for 15% of absorption in the country, and it amounts to a third of the supply in that overall number. So, first off, we take that away, then we bring it down to schemes that are actually up in under construction, as you know, to be delivered they need to be under construction today. That takes us down to about 70 million square feet. We look at the average supply and absorption over the last three years, we take out schemes that are not comparable in terms of quality, or that we believe either already have stalled or have a high probability that they will struggle to find funding, which as you know in this market liquidity is there. We certainly in a market like Noida we particularly look at strata sold buildings, which are generally of a lower quality, we know that the tenants prefer institutional landlords. We are happy to walk you through the detail on it, but ultimately, we end up with that 20 million square feet across 34 projects. So, we have looked line by line at each of those projects, we can name the projects that we believe are our direct competition. Yeah, there's a lot of detailed data behind that statement.

And also, Saurabh, can I just sort of balance with that, is the data around the demand side, which you all have seen whether it be a CBRE report of that 30 million in the first half of the year or reports from JLL looking at 42 million square feet, this is across on a pan-India basis, the demand side continues to be to be strong. So, I will leave it at that. Happy to take it offline and go through more and more detail in due course when we meet. Vikaash, can I ask you to take the year-end questions?

Vikaash Khdloya: Sure Mike. Saurabh, thanks for the questions. On your question on debt, if you see slide number 38 of our investor presentation, our net debt as of 30th June is approximately Rs. 3,512 crores. And if I can refer you to the page number 16 of our supplemental package, our total balance cost to be spent both on a base built projects as well as the upgrade projects is approximately Rs. 2,032 crores. So, roughly we anticipate approximately half of the base built project costs to be incurred by the end of the year, and roughly one third of the upgrade projects by the end of the year, March 2020. So, roughly we think our additional CAPEX would be Rs. 1,000 crores by March of 2020 given that these base built projects are in advanced stages, and the debt at that point in time would be approximately Rs. 4,500 crores. This is the net debt figure. Aravind, would you want to take the question on the solar EBITDA?

Aravind Maiya: Sure. Okay. In terms of solar EBITDA, while we might have a little bit of efficiency in cost, our EBITDA is expected to be around the same range for the next few quarters.

Saurabh Kumar: Okay. And sir just one last thing, so you have given the schedule of the leases expiring and the mark-to-market on those years. So, I was just wondering how does a seven-year weighted average lease period work, because you just have about 20% expiring in the next three years. So, is it like a significant back ending into the leasing or?

Vikaash Khdloya: Sure Saurabh, so if I can refer you to slide number 25 of the investor deck, you are absolutely correct, FY23 onwards we have couple of large anchor tenant leases which come up for expiry, including one of our top tenants. And hence we think that we have a balanced expiry profile, with a large chunk coming in FY23 and FY24.

Moderator: The next question is from the line of Tanuj Makhija from Bank of America. Please go ahead.

Tanuj Makhija: I will restrict to two questions for now. Question one is that your dividend for this quarter was Rs. 4167 million. And your guidance at the time of the prospectus for dividend for FY20 was Rs. 1,9103 million. Just want to check with you, would you still adhere to your pre-IPO guidance for dividend for FY20?

Vikaash Khdloya: So, in our prospectus we had laid down a dividend of Rs. 1,910 crores, and we continue to be guided by that number. Clearly business is not linear quarter-on-quarter and we do not manage our distributions quarter-on-quarter, so we look at the full year numbers. And we are still guided by the numbers we laid out in the prospectus.

Tanuj Makhija: Okay, great. And my second question is on the occupancy levels at Embassy One and

FIFC. The occupancy at FIFC was 61%. But I thought that there was a committed occupancy at 77%. So, when will get committed occupancy flow into the numbers? That is Part A. And Part B, now that you have commissioned your Four Seasons Hotel, can you please comment on your outlook for leasing out office space at Embassy One?

Vikaash Khdloya: Sure Tanuj. On your first question on FIFC, which is our property in BKC, Mumbai. Just to give a quick background, we are currently occupied 60.8%. What we did post listing, Tanuj, is that we changed the methodology of reporting to only report those leases where we get binding documents signed. So, even if there's an LOI which is in place, we would wait till the binding document is executed before we report on those leases, just to be conservative. And hence you see this occupancy number on slide #7 of the supplemental package, we are under advanced negotiations / LOI with couple of our existing marquee tenants at FIFC. And in the coming quarter we would be happy to share with you some of those results as and when we execute binding contracts.

Mike Holland: I will take the second question, Tanuj, about Embassy One. So, as you are aware, it's a relatively small part of our overall portfolio, 2% or 3% in all. And we leased, as you are aware, to an Asian trade organization, we have also leased some of that premises to a consulate recently, we have some good pipeline from an A grade financial services tenant. The key on that asset is it is probably the best quality office product in the Bangalore market at present, a competitor building, it has now been fully leased at prices in line with our original forecast on rental with patience around that asset. We are striving to reach or exceed original forecast rentals on that building. And that's something that we are now beginning to see momentum now that the Four Seasons Hotel, which is part of the complex, is up and running and compliments the office. We believe it will take about another 12 months to reach a level of high occupancy in that building. But it really is a great property in the city now, and we will be patient to achieve our pricing. Thank you.

Tanuj Makhija: Thanks, Mike. If I could just squeeze one more question. If I look at your key leases signed for this quarter, your top two tenants are actually Indian IT firms, HCL and Infosys. Can you just walk me through on increased traction from domestic IT firms for leasing out office space? And if yes, which parts of your of your portfolio? Thanks. That's my last question.

Mike Holland: Yes, that is a great question, and there's a few trends on that. We have certainly seen an increase in traction from large-scale domestic occupiers. We believe that that's a part of an overall policy in those top-five tenants moving away from an asset heavy ownership structure and directing their growth to a leasing model, that's for sure. We have certainly seen that those companies are increasing their hiring, there's several reports that have come out recently showing the services sector growth within India in terms of hiring at 14% to 16%. These as you know are top-tier A grade tenants supporting international companies. In fact, one of those tenants that you mentioned is supporting a large US financial services company. So, we have a strong pipeline from the technology sector, and we expect that to continue.

Moderator: Thank you. The next question is from Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just to tie up with the previous participant on the quarterly NDCF versus the full year projection. I am on Slide #47. I just want to check if there are any one-off in the quarter, especially looking at working capital and external debt lines?

Aravind Maiya: So, if you are just looking at the walk down of the financial metrics, largely our numbers in terms of revenue, NOI and EBITDA are in line. We have had some efficiencies in terms of how we realize the working capital balances, and that kind of has led to our overall NDCF number. And we do not have any one-off expenses or income which are there.

Sameer Baisiwala: No, so the question here is, the working capital adjustment Rs. 85 crores, is it a recurring item? And second is the external debt, which is interest and principal, I think you mentioned that there was someone one-off, so I just want to check of this Rs. 66 crores there is any one-off over here?

Aravind Maiya: Sure. In terms of the working capital adjustment that is not expected to recur quarter-on-quarter. And in terms of the external debt repayment as I spoke in my speech, we had external debt balances for about a month on which we have paid out interest, which is not expected to recur.

Sameer Baisiwala: Okay, great. That's fine. Thanks for this. The second question is, I thought that we had planned that entire, like you said, gross debt was meant to be NCDs with zero coupon on a yearly payment basis. So, you have stopped at Rs. 30 billion, are you going to take this up to make it for the full, full debt outstanding?

Vikaash Khdloya: Thanks, Sameer, that's a great question. So, we had set out for a debt raise of Rs. 3,650 crores. What we did is, we did a tranche one which we utilized to repay all the existing debt at the SPV level in the early month of May, and we do have plans to raise the balance tranche too sometime in the coming quarter. We will keep you posted as and when we do raise that.

Sameer Baisiwala: Okay, fantastic. One last question, if I may, which is Manyata, next two upcoming buildings. Any pre-releasing that you have started on these 0.8 million square feet?

Mike Holland: Sameer, it's not 8 million square feet, it is 0.8 million square feet, its two towers of approximately 400,000 square feet each. So, we are in several discussions, as one would expect. We are tracking two quarters ahead of schedule for delivery on that. As I mentioned, we have got a comfortable 0.5 million square foot of pipeline across the portfolio. So, we feel positive about all the new premises that we are bringing to the market, both in terms of timing, and lease up, until we reach a stage where we have a contractually binding agreement, we won't comment.

Vikaash Khdloya: Just to add to that, Sameer, as Mike mentioned, we plan to pre-launch this NXT Manyata block some time in end of September. As we come closer, we believe that we will be able to fetch more attractive rentals.

Moderator: Thank you. The next question is from the line of Siddharth Malhotra, who is an individual investor. Please go ahead.

Siddharth Malhotra: My question is on the NDCF. Now, is it realistic to expect a 15% year-on-year jump in that income, bearing in mind the existing contractual escalations that would happen, and the new lease that are coming up?

Vikaash Khdloya: So, I will just comment, what we would like to mention is that we had laid down the projections for the NDCF for the next two years in our prospectus, and we continue to be guided by those projections, which is Rs. 1,910 crores for FY19-20. And subsequently we have a number which we have put out in the prospectus for the next year. So, again, our business has multiple levers of growth and we as management continue to work to ensure we optimize each of these levers to maximize the NDCF for unit holders.

Moderator: Thank you. The next question is from the Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, this thing on the dividend, so the breakup between SPV, the interest and the amortization of the SPV debt, can we assume that there won't be any SPV level dividend which will flow back to the unit holders in the foreseeable future?

Vikaash Khdloya: So, again, here as we had mentioned in line with our philosophy earlier, we would look at optimizing the distributions. Every quarter we will have a look at what's the best way to extract cash from the underlying asset SPVs. We believe that the split of interest versus repayment of proceeds from the loans to SPV/dividends would be roughly 50:50. But again, how it will pan out depends on a host of circumstances, including the prevailing tax laws and the Companies Act and how much we can declare as dividend. We are conscious that dividend distribution is tax free for a single layered 100% owned asset. So, we would look at every quarter, we will look at how best we can optimize the same.

Saurabh Kumar: Okay. No, but amortization of the SPV debt you can pay out as much as you want. So, I don't think anything prevents you on that.

Vikaash Khdloya: Yes, but what we want to do is we want to see if we can first prioritize dividend, if the prevailing Companies Law regulations permit at each of the asset SPVs, then go to the repayment of principle, and obviously interest will continue.

Saurabh Kumar: Okay. And just in your supplementary update, there is these 1.4 million square feet of upcoming area which you have given, there is a 0.6 million square feet of second-generation leases which you said expired, on page #8. What does this refer to exactly, these second-generation leases?

Vikaash Khdloya: So, what we have done is, just in in line with what some of the global REITs do, the first generation leases we refer to, as we have defined the terminology 'lease of new area which comes up', the new deliveries which come up or buildings such as Embassy One which has never been leased earlier and we are in the process of stabilization and lease-up. And second-generation leases refer to those areas where there was an existing tenant who has either vacated or the lease has expired for us, because we want to achieve mark-to-market, we have re-leased that to a new tenant. That's just to give a distinction and a flavor of how much proportion the first-generation lease is, and how much proportion the second-generation leases constitute in our overall gross lease up.

Saurabh Kumar: And just one last thing on the acquisition. So, you mentioned acquisition, is it fair to say that this was still driven by the ROFO pipeline, which was laid out at the time of IPO and whatever Blackstone has done post listing in the market, that's not part of the pipeline?

Mike Holland: So, yes, we are looking at acquisitions. I think you will recollect prior to IPO we were talking about having a high level of focus on business as usual, which is what we have delivered in the last quarter. We do have several people looking at acquisitions outside of those ROFO assets, as well. As you know there have been many press reports about Blackstone, and indeed Embassy acquisitions, those are not at present something that has come to the REIT. So, we are aware of everything that's in the public domain. And we probably got to leave it to that.

Moderator: Thank you. The next question is from the line of Tanuj Makhija from Bank of America, Merrill Lynch. Please go ahead.

Tanuj Makhija: Thank you for taking my follow up question. Just one thing, you briefly mentioned that one of your tenants at Tech Zone vacated 609k square feet. Could you please talk to us about which tenant vacated and what was the reason for tenant to locate the space?

Mike Holland: Thanks, that's a great question. In a moment, I am going to ask Vikaash just to talk you through a slide which I believe is slide 40 on the deck.

Vikaash Khdloya: So, Tanuj, if you refer to slide 40 of the investor presentations, firstly I would want to kind of clarify that it was 480,000 square feet, key tenant in Embassy Tech Zone. And due to its global M&A activity, it will be relocated to its own premises in external peripheries of Pune. What we did though at that point in time, given the fact that we were aware of the strong hiring trends in the IT sector as well as very low levels of ready available supply in the Hinjewadi micro market, we entered into a discussion with them and initiated conversations to backfill that space to tenants who wanted space on an immediate basis. So, we have today been able to backfill 75% of that space at 37% higher than in place rents. And we have active discussions with lot of tenants for the balance 120,000 square feet, given both the quality of Embassy Tech Zone and the fact that there's very little institutional quality health space in this micro market.

Mike Holland: I just want to underline some key takeaways to that. A key issue is that vacancy can be a great opportunity for us to achieve those mark-to-markets that we often speak about. Vikaash mentioned that 37%, and to pre-pone the end of the lease and bring that rental uptick forward. And you do that because we have got a very agile team who is working hard and out there in the market to get these premises leased quickly. So, it's a great outcome.

Tanuj Makhija: And was there any penalty imposed on this tenant for suddenly vacating a relatively larger space?

Vikaash Khdloya: Tanuj, as you would understand, we do not want to discuss individual tenant leases and disclose contractual terms because we are bound by confidentiality clauses. But let me put it this way that we had zero rental void period between agreeing to let this tenant relocate and having the same space backfill at 37% mark-to-market upside to a new tenant.

Moderator: Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

Adhidev Chattopadhyay: I had a couple of questions. Firstly, just wanted to know the housekeeping question, whenever a new property is coming up when you are signing a lease, so does the rent start directly on the first day where it occupies, or do you have NFC period? And secondly, we have seen recently co-working spaces have been a big disruptor in terms of office space leasing. So, could you please elaborate on the industry trend and how are you seeing it as a positive or a negative influence on the demand for your spaces across your campus? Thank you.

Mike Holland: Yes, great. Thank you for the question. Mike here. So, the first one you say hygiene type of question. New leases, we tend to look at lease commencement data to rent commencement date. Tenants will usually require a fit-out period that's usually around about three months. For larger tenants and more strategic tenants that may range between four and six months. So, lease commencement date is the date on which they take possession of the premises, rent commencement date, depending on the size scale and strategic importance, as judged by us, up to four to six months. So, a key issue for us is also about giving them time to do their tenant improvements. Tenants are spending sometimes as much as or more on their tenant improvements than on the base building. And that makes them very sticky in our premises. So, we take a view on that on the deal. But the answer is there's two ways.

The co-working question, you will be aware that we talk about our portfolio, particularly our large-scale parks, as providing a total business ecosystem to our existing and new tenant. So, the way in which we provide hotels or conferencing centers on the park, the sports zones and so on, we see co-working spaces as absolutely in the same league, they are ancillary amenities that help our tenants gives more flexibility on our parks, it also allows new entrants to come into our parks. And as they grow, our experience shows that they will grow within our parks. Now, co-working spaces represent less than 1% of our overall portfolio. We would expect that to increase. But it would still be low single digits in the foreseeable future. But we see them as a positive in the context about total business ecosystem.

Moderator: Thank you. The next question is from the line of Akshay Agarwal who is an individual investor. Please go ahead.

Akshay Agarwal: I would like to know about the taxation of the distribution income, because there is very conflicting opinion available online. So, if you could shed some guidance on that?

Aravind Maiya: Thanks, Akshay. So, largely there would be three components, one is what we call dividends. The second one is interest on the loan. And lastly, it is the repayment of SPV level debt. In terms of interest, it is taxable, it is taxed at the REIT level and hence it is taxable in the hands of the unit holder. The dividend as well as the SPV level debt amortization are not subject to tax in the hands of the unit holder. On overall principal what the REIT's stance is, it is just taxed in one hand, either at the REIT level or in the unit holder's hands.

Vikaash Khdloya: And just to add to that, on the interest from the shareholder debt, which Aravind mentioned, the tax would be applicable based on the category of the investor. So, it depends for different investor categories the withholding tax would be different.

Mike Holland: Thank you. We just want to point out there is an FAQ document on our website that might help you with some more detail on that.

Moderator: Thank you. The next question is from the line of Shashank Salva from Lion Trust. Please go ahead.

Shashank Salva: My first question is on the zero-coupon bond. If you had to pay out as cash interest, how much would the distribution have reduced by in this quarter?

Vikaash Khdloya: So, just to give you a background on the philosophy of a zero coupon bond, as we have mentioned earlier, including at the time of the IPO, what we have done is we have replicated the under construction or the proposed development portfolio value which was approximately 11% to 12% as of March-end, with the bond of approximately Rs. 3,650 crores which we have raised / are in the process of raising its tranche two. So, our philosophy is that we do not want the yields to be negatively impacted because development does add to the overall IRR and is accretive. Now, in that sense from an NDCF perspective, what I would want to mention is that this zero-coupon bond is similar to the interest which is capitalized on construction debt, and hence the entire NCD, including the accrued interest would be redeemable along with the premium as of end June 2022.

Shashank Salva: But just in terms of figures, I am trying to understand how much of the Rs. 4.1 billion is because of the non-cash element of the interest expense?

Vikaash Khdloya: So, Shashank, if you see the financials, at the investor deck we have currently raised Rs. 3,000 crores of NCD at 9.4% yield to maturity. So, if you do the math, we raised this on 3rd of May, and if you do the math you will get the number that you are looking for. Philosophically, we don't look at it that way because we think it is like capitalized interest on under construction debt, as we would do in the case of debt when we avail at the SPV level.

Shashank Salva: Great. Okay, the other question was, if I understand correctly, you have paid 99.7% of the distributable cash flows. So, is it correct to assume that the CAPEX which you will be doing will be done by increasing the debt going forward?

Vikaash Khdloya: Shashank, that is correct. We view this CAPEX as accretive to the overall return. And given that we are lowly levered at a gearing ratio of 11%, we also stated at the time of the listing, that we intend to fund all our CAPEX projects through additional debt at the REIT level.

Moderator: Thank you. The next question is from the line of Chandrashekhar Shridhar from Fidelity Investment. Please go ahead.

Chandrashekhar Shridhar: Just sort of housekeeping, on the P&L and the cash flow, the interest payments, the numbers are different. I gathered from what you said earlier that on the P&L its basically the maturity premium you are sort of expensing and I would presume the cash flows interest payment is largely because of the delay in raising the zero-coupon bond. Is that right?

Aravind Maiya: Yes, that's correct. That's the right way to look at it. So, what is coming into cash flow is the actual cash outflow, which is being paid on the construction debt, which was there for a short period of time, and SPV level debt.

Vikaash Khdloya: And Chandra, just to add to that, this was our plan, the zero-coupon bond and then the subsequent repayment of debt. And this was more of a transition item, and for one month we incurred the interest on the then existing debt.

Chandrashekhar Shridhar: Okay. So, the redemption premium is going to be expensed to the P&L. I just wanted to check on that?

Aravind Maiya: Yes, you are right. But there is a portion which is getting capitalized also basis whatever accounting standards permit us to capitalize.

Chandrashekhar Shridhar: Sure. And the second question was just on the solar plant EBITDA, just correct me if I am wrong, the 220KVA which has come up in Manyata, wasn't this part of the 100 megawatt which was already operational? Which was supposed to be, I mean, is it part of the 100 megawatts?

Mike Holland: So, Chandra, so they are really two completely separate issues. The 220KVA substation at Manyata has been put there in order to increase the potential supply, whether that be solar or traditional through BESCOM. So, it comes through the grid to increase the capacity of Manyata to take power it's completely independent from the 100 megawatts solar, which is operating, generating an offtake over 97% at present. It just enhances the electrical infrastructure to Manyata, being the largest business park in the country. So, it's really part of the long-term infrastructure enhancements.

Moderator: Thank you. The next question is from the line of Kunal Lakhan from Axis Capital. Please go ahead.

Kunal Lakhan: Sir quickly, currently in Q1 we don't have a dividend component in our distribution. When do we start seeing the dividend component coming through in a FY20 or even in FY21?

Vikaash Khdloya: As we have mentioned during the start of the call of the Q&A session, every quarter we look to optimize the distributions to maximize the post-tax distributions to the unit holders. So, this quarter, as you rightly mentioned, there is no dividend component. As we move forward, we will take that call quarter-on-quarter. However, in our estimate, roughly the split, as we indicated earlier, at least for the next one or two years, will be 50:50 between the first 50 being the interest component, and the balance 50 being a combination of principal repayment proceeds as well as dividend.

Kunal Lakhan: Sure, that's helpful. The reason why I was asking was because of the total two tier structure that we have with Manyata and the energy SPVs, I believe like at the time of IPO you mentioned that it will take about 12 months or 18 months for us to collapse that structure. Could we see a situation where the dividend component starts to come through and the structure still remains which could have some leakage in terms of taxation?

Vikaash Khdloya: That's an interesting question, Kunal. So, currently we are in the process of exploring various options to collapse the two-tier structure to then ensure that dividend distributions are efficient from our SPVs which had these two-tier structures. As of now the thought process is that any distributions from these SPVs which have the two-tier structure, the repayments or the distributions would be made both in terms of interest component as well as principal amortization, as we are conscious of the dividend tax leakage, if we do declare dividends. So, for the short-term, 15 to 18 months till we do collapse the structure, we would opt for both interest as well as principal repayment in these two-tiered SPVs.

Kunal Lakhan: Sure, that's helpful. My second question was on the opportunities in the market right now, in terms of inorganic acquisitions. Have you seen in the last six months or since our IPO, because of the liquidity stress aggravating in the system, are we seeing opportunities on better terms versus like what it was six months back, if you could comment on that?

Mike Holland: For sure we are seeing plenty of opportunities. I think the issue is to make sure that they are at the right quality and are at the right price. We clearly are looking for assets that are accretive to the REIT, our criteria are that they should be synergistic with our existing portfolio that might be in relation to our occupier base, it may be in relation to the geography. But obviously, it would need to be in terms of the quality of the product. So, we will be patient, there are opportunities out there that we have looked at, there are a number that we have rejected, and we are continuing to look at potential opportunities. And we believe that the current liquidity situation is going to drive more opportunities as we go forward. And we will be patient to get the right assets for the REIT.

Moderator: Thank you. We will take the last question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Thanks for the follow-up. Just on the interest expense, once you have the entire external debt by way of zero coupon and CAPEX through, obviously, CAPEX financing. Would you have any interest passing through A, P&L? Or B, even on a cash basis?

Aravind Maiya: So, in terms of the additional debt we will take on through construction financing, we expect that largely to be capitalized and should not be hitting the P&L. In terms of the zero-coupon bond, we expect a similar trend what is there in this quarter in terms of capitalization versus expensing it in P&L.

Sameer Baisiwala: Okay. And just final on Rs. 53 crores I think you had redemption premium, how much you have capitalized, how much you have passed through P&L? Just a broad breakup, I mean, 50:50 or whatever, I don't want exact number.

Vikaash Khdloya: I think it's about 25%, which is capitalized, and balance has been included through P&L.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference over to Mr. Mike Holland, CEO Embassy Office Parks REIT for closing comments.

Mike Holland: Well, I think we have covered a lot, so thank you very much for your patience. I am sure the responses have helped all of us to understand the nature of our business, current and future and our key business drivers. I would also like to thank the 70 plus people in our management team for their contributions to making this a great first quarter for us. So, thank you all. Good evening.

Moderator: Thank you very much. On behalf of Embassy Office Parks REIT, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.