Event: 9M 2020 Results

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Speakers: Mr. Claudio Albertini, CEO

OPERATOR: Good afternoon. This is the Chorus Call operator. Welcome to IGD's Conference Call Presenting 9M 2020 Results. Let me remind you that all participants are in listen-only mode. After the presentation, a Q&A session will be held. To be assisted by an operator during the conference call, please press "*" followed by "0" on your keypad.

Let me now turn the conference over to Mr. Claudio Albertini, CEO of IGD. Mr. Albertini, you are on.

CLAUDIO ALBERTINI: Thank you very much. Good afternoon to all of you. And I am sure as you've seen from our press release and from the subsequent presentation, we have issued that this morning the Board of Directors approved our accounts for the first 9 months of 2020. Before looking into into the presentation that was released to you, let me give a few words of introduction.

The results as of end of September are now somehow overcome by the events that have in the meantime happened at least in Italy since mid-October, as we've had a growing number of contagion and we are witnessing a number of restrictive measures, first at regional level and now at national level through the new Law Bill issued by the Prime Minister a couple of days ago. And this is just to tell you that we were facing a positive outlook, I'll go back to this when I'll tell you about the outlook. It's the last page in the presentation. But unfortunately, we are now dealing with a different situation from what we had throughout the quarter Q3.

And let me now move to the actual presentation, the results as at end of September. We start from the economic highlights, Page 3 of the presentation. And this is not just the quarter; these are the data for the first 9 months of 2020, compared to the first 9 months of 2019. Rental income is €109 million, down only 6.1% versus 2019. And then net rental income, so net of direct cost landed at slightly less than €90 million down 12.2%, and a similar trend we see for the core business EBITDA down 12.3% and landing at slightly less than €83 million.

FFO, funds from operation lands at €53.4 million down 15%. And here, let me go back to the guidance that we provided you with at the end of the 6 months report. The first guidance we gave you in February was up 2% to 3%, and it was then revised during the half year report, and it's down 25 to 28.

So Q3 was already showing an improvement versus the guidance we provided you, although being in negative territory. And the note at the bottom of the page is very important. We've mentioned this during the half year report presentation in August. These results factor in the full effect stemming from the COVID-19 one-off impact. And so, there is no drag on there. And no further impacts on the subsequent years. We could have done on the basis of the IAS principles, but we decided to take on the full impact of the COVID-19 one-off impact and have no drag on to the next year.

Next page, Page 4 in the presentation. As you can read in the title our portfolio has proven to be highly resilient in the wake of the lockdown, and occupancy stayed high landing at 95.7%, footfalls in Q3 versus Q3 2019 went down 16.9% and in September the decline was only 13.3%, while the last week of September and the first week of October recorded a 5% to 6% decline only. So, in the last 10-15 days of September, we had a definitely improving trend in footfalls.

Q3 as you can see witnessed a decline of 4.9% in tenant sales and in September we had even better results. In September there was a no sales effect, that meant the performance was even better than expected, and then during the next slides, I'll tell you more about. More than 90% of the negotiations with tenants about the March-May lockdown period are already closed and another 10% will be closed soon, and exception made for what happened or over the last few days. And then we got discounts or reduction equal to 1.7 months, so less than the 2 months that were provided by our comparables, our peers especially in Europe and Italy as well.

So the collection rate for hypermarkets and malls net of reductions, the collection rate is still at 87% and is constantly improving.

Let's move on to Page 5. Indeed, we keep our focus very, very strong on how the scenario is evolving. Starting from October the 23rd, there were some restrictions in some regions such as Lombardy, Piedmont and Sicily, and I am talking about regions where we have shopping centers. We have malls in 12 out of 20 Italian regions. So some of our shopping centers were affected by the decision made by the government to close shopping center during the weekends. We had 3 shopping centers in Lombardy. We have the same in Piedmont and 2 in Sicily, even though in Sicily the restriction would only apply to Sunday afternoon.

And then, on the 25th of October, the Italian government issued another provision the so-called DPCM, which introduced restriction for the entire territory. So gyms were closed, bars were closed, restaurants were closed, restaurants you see are in bold letters, because that has an impact on our portfolio, even though we have 4 cinemas as well. But they were already working at a very slow pace, so to say. And that provision was introduced starting from October the 26th until November the 24th, but these are the latest restrictions, the day before yesterday and yesterday, and they are going to effective as of November the 6th, that is to say tomorrow until December the 3rd.

Another law decree was issued, and our Prime Minister explained the content of the law decree yesterday. And let me tell you something, this is a summary, a snapshot especially for foreign investors who have to deal with a number of countries, and therefore they would like to understand, what is happening in Italy as well. So it's a snapshot. Italy was divided into 3 areas, and to each area color has been applied, so it's orange and red for instance. And the restrictions are applicable, the more general one applicable for all industries at national level.

So you see the map of Italy and on the map, you see the regions where we have shopping center, and you see the color of the restriction of the area. So we have 2 regions that are considered to be a red area, while Sicily it's orange. It's the second level of severeness. And then there's a pool here but we don't have any shopping center there. And all the rest is yellow areas, yellow regions and where the national measures apply.

And there's a curfew. We don't like the word curfew, but it gives you the idea. And it's from 10 PM to 5 AM. Restrictions apply only to shopping centers, so not other stores. So we're not talking about the closing of other stores or outlets. Only the shopping centers are closed, because shopping centers are closed buildings, but we say it's completely safe because we have been making investments to keep it safe from thermal cameras to the strengthening of surveillance and etc. And that applies to all weekends, all over Italy, regardless of the areas, be it orange or yellow or red. And then at national level, again, restaurants and bars were closed at 6 PM.

So as you see, there are 3 areas, red area, which is the one with the highest risk, and then you have orange and yellow; in the red areas, all retail business is closed, all restaurants are closed, and movements in and out of the very same region is prohibited even between one municipality and the next.

So for us, it's 2 regions, Lombardy and Piedmont, where we have shopping centers. So only essential operations and activities can be kept open, well hypermarkets will be kept open, but they will only be able to sell food and pharmacies. News agents will be open and drugstores, and so whatever is defined as essential services. And then in orange areas, for us, it's only Sicily, all restaurants are closed. And all movements in and out of the regions are banned are prohibited. And the fact that people cannot move from one area to another, then people used to go to the neighboring municipalities. But now, they're not allowed to.

In the yellow areas instead, you only have national measures being applied, the ones we've looked into a few minutes ago, in one of the centers, as a 3 numbers, 2 in Piedmont. So red areas and the orange is Sicily, all the rest is yellow for us. So 13% of our portfolio is in the red area, and then roughly 5.6% is in the orange areas. And the remaining is in the yellow area, the remaining portion.

Please remember that 27% of our revenues are generated by hypermarkets that are not affected by the restrictions. And as we said before, during the lockdown in April and May was the same thing. And rents were "granted" and essential services were granted, and the percentage weight is about 7% to 8%. And Romania, of course, so far, they don't have any type of restrictions applied so far. The weight of Romania is about 5.4%. So some portion of our revenues is still ensured granted, but the others are not granted, but they might go up or down depending on the region we are talking about. So there will be limitations to be taken into account.

Let me move on with the presentation. We've reversed the order of the presentation, before hand we used to give you the financial first, and then the operating performance. We start here with the operating performance; because we think it's more interesting for you to focus on the operating performance first.

So we are on Page 8 of the presentation. This is Italy, we're looking at malls, shopping centers, they account for 2/3rd of our total rental income 67.8%, and the negotiations we have ongoing and that we have started so to say at the end of the lockdown. So second half of May and then June and July. We closed agreements and negotiations for about 90% of our contracts 1,443 contracts, you see them in the left box on the slide, 711 tenants with 1,443 contracts, 2 contracts per tenant on average, even though there are tenants who have 10 contracts and other tenants who have only one contract. So it's a 90% closing and with no modification to the existing contracts, but granting extensions and temporary reduction.

So at the same time we had contracts expiring, over these 9 months sorry. We've renewed more than half of those contracts, 58% with a downside of only 1.3% despite all the events we have been witnessing over the last few months. And then 12 months extended maturity to look at the renewals later on to put it off, and they will be extended or deferred to next year when hopefully the situation will be quieter. The one-off impact at the end of September on this part of the portfolio that is malls, between reductions and provisions was about €7 million that will be updated in the full year when we have a clear picture on negotiations and indeed it will be more.

On hypermarkets, which are accounts for 1/4th of our rental income, and they've always been up and running, operating over the last 9 months. They were reference point in their catchment areas, and we have quarterly early invoices and we've collected 100%. So no effects on the existing contract and that is indeed a positive piece of information.

On Page 9, we have operating performance for Romania. All negotiations with tenants have been concluded, 547 contracts, 379 tenants, all negotiations were closed, 100% of them. In general, well no changes to the existing contracts, and we've also managed renewal of existing contracts: 68% were renewed with a 0.4% upside and we still have 32% about to expire. The financial occupancy stayed high, almost 94%, of course, it was higher before the lockdown; it was about 97% before the lockdown. And we are confident; we'll take it back to the prior levels with post-lockdown footfalls in excess of 88%. The one-off COVID impact with temporary reductions on April and May rents landed at €1.1 million. So between Romania and Italy it's about €8.1 million, that's the one-off effect for 2020.

If we look at rent collection in Italy and Romania, it's Page 10 in the presentation. So collected turnover is divided per quarter. So the first quarter has a very high collection level, because invoices were issued in the beginning of January. And in the second quarter, the situation somehow was different. Also, in view of the extensions, we had the deferrals given to tenants, and waiting to see what the government provisions would be for tenants, rent and lease wise. And then we are back to 83% collection in the third quarter. Net of the reductions granted at a group level, it's 88%, also it includes Romania, which has a higher level of collection.

As you can see, you have a picture of collected turnover, deferred collection, and unpaid turnover. So collected, deferred and unpaid, it's updated up to yesterday. What happened in our shopping centers, we found new ways for people to experience, to live in the shopping centers. Consumers have adapted their habits to the post-lockdown situation. So those who go to the shopping centers are more selective. They target their visit and the decline in footfalls, I would have been very happy to have that post-lockdown, it was only at 13.3% lockdown in September.

And the last 2 weeks in September were even better between the penultimate and the last September week, the decline was only 5% to 6%. But there was an increase in the average ticket, look at the figure. And the average ticket was €26, so up €3.2, up till 14.1% versus September 19.

So always talking about September, it's the final figures. But, the quarter was not too bad. So we have a reduction in purchases, tenant sales were down slightly less than 3%. So they almost broke even.

And look at Page 12, Q3 accounted for a decline in tenant sales of less than 5% versus Q3 2019. If we talk about the first or H1 results, it sounds like ages ago, but it's only a few months ago. And product categories, we are showing the best performers and the struggling performers. Indeed electronics is up 6.9%, but also household goods did very well up 14.1%, and still struggling are restaurants with a table service and between 2 and 4 'o clock, this is the most suffering part of the day timeframe, because no events can be organized. Last year, we organized about 700 events in our shopping centers. And now, due to either regional or national restrictions, we can no longer organize them. And our centers which are close to offices on the outer belt of towns, of course, they are affected by smart working.

Shoes went down 8.6%, but of course, it's within the clothing segment that however performed well, because clothing only went down by 2.1%, says Mr. Albertini.

Page 13, footfalls, this is the trend from March the 12th to May the 17th, we opened the first week with footfalls down 31%, and then CAGR improved 2% per week. We landed at a cumulative figure of 17.7% end of September. But the last week in September was only down 6.3%. And then, footfalls per timeslot telling you what happens in the morning, lunch break, afternoon, and then later afternoon, and in the morning, and in the evening, there are better footfalls.

Tenants still believe in our format; they still rely on the format of our mall. So we started negotiations with the tenants before the lockdown, so we had a number of openings, both in Italy and Romania. You see the pictures, the tenant opening the store in our malls.

And then Page 15, we also had new promotional activities to keep the shopping mall alive. I'm trying to speed up, because I took up too much time.

Page 16, you'll find a new Code of Conduct, we've revised it and updated it this morning; we introduced it in 2006, first review 2010. And this morning, the Board of Directors approved the new review of our Code of Conduct. We joined the United Nations Global Compact, the most international standard concerning human rights, labor environment, sustainability and fight against corruption. We got the best the maximum award from EPRA the EPRA Gold Award for the third year in a row, but also for our consolidated financial statements. And then we are strengthening our role in supporting sustainable mobility. We have 2 Tesla charging stations in our Puntadiferro and Maremà shopping centers in Forlì and Grosseto.

Let's move on to the financials, Page 19 in the presentation. We started last year with €116 million worth of rental income. And then we moved to without taking the one-off effect into account. We landed at €112.7 million. negative impact, lower revenues because of what happened during the lockdown and after the lockdown to get to estimate of one-off COVID impact of €8.1 million landing at €104.6 million rental income with a decline of €11.4 million, 9.9% net rental income have the same trend from €102 million we went to €97.7 million this year first 9 months of 2020 net or stripping off the €8.1 million the estimate we have as COVID impact we land at €89.7 million that is to say down 12.12% end of September 2020.

Core business EBITDA more or less €94.4 million end of 2019, I am doing this very quickly to give you room for questions. We went from €94.4 million to €90.8 million end of September 2020. Stripping off the COVID one-off, we land at €82.8 million. EBITDA margin is above 70%: 72.4% EBITDA for core business, and 73.6% from freehold always the EBITDA margin.

Financial management, we are on Page 22 and 23 of the presentation. Net of the accounting items, one-off and negative carry, and the IFRS 16 on non-recurring charges is €21.9 million down about 6% over the same timeframe in 2019.

Next page, loan to value below 55%, as you say, in our strategic plan, we have the objective to reduce the loan to value to 45. We are still aimed at hitting that target. And of course, now everything is a bit frozen waiting for better time, so lot of value is below 50%. The average cost of debt, which is basically flat versus end of June this year, so 2.3%. And first and foremost, however, you see it in the bottom of the slide we still have €151 million uncommitted and available credit lines and €60 million worth of committed credit line, we've newly renewed them with a 3-year duration.

Next page, we have an update on the financial management, these are the debt maturity profiles. In 2020, we only have €12 million worth of maturities. And then, we have a bond that was not switched [ph] in November, so it's €71 million plus €57 million of amortization on existing loans, amortization payments on existing loans, if we look at €87 million in '19 sorry, then EPS funding already issued in October, that's a loan plus the cash flow we will be generating in next few months. It will mean that 2021 will generate enough cash to cover our financial needs and partly cover them for 2022 as well because 2021, another €200 million will be freed up as worth of assets. We already have €1.4 billion worth of unencumbered assets, they will lead up to €1.6 billion, so we will be able to have a mortgage loan to cover 2022, but the idea is to go to the market to refinance through an issuance. And we'll be able to issue through if we retain our rating; Fitch confirmed the investment grade, changing their outlook from stable to negative.

Funds from operations, as I said during the highlights, went down to point 2.2%, so basically flat, but including the one-off effect of COVID it's down to 54 and down 15%.

Let's have a look at the outlook Page 27. Until no many days ago we wanted to give you a new outlook and guidance with an improvement somehow versus the minus 25%/28% versus full-year 2019. However, the way things evolved and the way the pandemic evolved in Europe and in Italy and the provisions taken or issued by the government to make us be more cautious in our outlook. So, this guidance, we reconfirm our guidance, minus 25% to minus 28%. We had already factored in 5 or 6 percentage points of improvement in view of what happened before, but given the last couple of weeks, we retain this guidance from here to year-end.

I think that's it from my part. I did not mention that I'm here in Bologna with colleagues from the headquarters and other colleagues and our Chairman, Mr. Gasperoni, who also sends his regards. We are here ready to take your questions or requests for clarifications.

Q&A

OPERATOR: This is of Chorus Call operator. Let's now start the Q&A session. If you wish to ask a question, please press "*", followed by "1" on your phone keypad. In order to be removed from the Q&A queue, press "*" followed by "2", on your phone. Please use your headsets when asking your questions. So if you want to ask a question, press "*" followed by "1" now.

First question comes from the line of Simonetta Chiriotti with Mediobanca. Go ahead, madam.

SIMONETTA CHIRIOTTI: Good afternoon to all of you. I have a couple of questions.

CLAUDIO ALBERTINI: We can't hear you very well, Simonetta. Could you speak louder, please?

SIMONETTA CHIRIOTTI: Can you hear me better?

CLAUDIO ALBERTINI: That's better. Much better, Simonetta.

SIMONETTA CHIRIOTTI: I have a couple of questions. The first question is about direct cost performance. If I'm not mistaken, the direct costs that were accounted for in Q3 were very low. So if we compare the first 9 months with the half year, in Q3 there only seems to be €1 million direct costs, what is the explanation for that? Could you elaborate on this trend?

And then, another question, and the new scenario, we're now witnessing, the new backdrop we're now witnessing, it's not comparable to national level with what happened in April, or in May, but in some regions, this is still the case and now in other regions we don't know where we are heading. So, what are your expectations and do you think there'll be new negotiation that will be requested by the tenants? Can we expect a minor adjustment, a further adjustment versus what you've done so far? Thank you.

CLAUDIO ALBERTINI: On direct costs, let me hand it over to Raffaele Nardi. Of course, we expect an increase in direct costs, so I am answering your question in the light of the still pending negotiations with the tenants.

RAFFAELE NARDI: This is Raffaele Nardi speaking. Hello, Simonetta. This is an accounting theme as in the first-half, we had recorded the COVID impact, but with estimates, making provisions. So it was one line item among direct costs. In Q3 now, one part of that estimate was then moved to a reduction, as a reduction as discount in the first 9 months, so that’s a reduction in that line item that you see between the first 6 months and the last quarter with the IMU taxation, and the same in the first-half of the Q3 of 2020. And then, we'll see the recording, so the accounting records will make in Q4, because of course, it will no longer be a COVID impact estimate, but it will be an actual figure accounted for because the calculations will be closed.

In the meantime, in the first-half and in Q3, we have €8 million roughly as one-off due to COVID impact, but we had appraisals from beginning of July onwards, we’ve another €9 million worth of impacts driven by reductions and discounts or rebates, so it was a direct impact between reductions and rebates and €9 million in the appraisals and evaluations. And part of those €9 millions of course it'll be either direct cost or management costs.

And then, the last couple of months of reductions that will have to be factored in last couple of months of this year, and what we've shared with you, it has just happened the last law decree, the latest law decree, we're getting phone calls from tenants from the red areas, where the restrictions are stronger, we are expecting reduction requests from the tenants and also the government promised to issue subsidies and grants, they're going to give tax credit, or some kind of subsidy will be granted.

And if we had a guidance for 5.6 lower percentage point there versus the previous guidance, it's because we want to keep that buffer because we expect tenants, managing restaurants that are closed, both in the orange and red areas to ask for further discounts or rebates and there are restaurants in some areas that they have to close after 6:00 PM., so we expect them to come up with requests, we are only at the beginning of these requests coming in. Something has come in already, but we expect something else to come in too.

But if we look at the estimates, I don't want to say too much, but we should stay within the guidance range we disclosed in August also because we had at the time kept the buffer through negotiations and that was only a couple of months after the lockdown with provided reduction, last 2 months going to be 1.7 with all direct costs that were passed through to tenants. So we still have little buffer, but we'll see whether or not on December the 3rd this law decree will be closed, and if some regions will manage to go back to get their green light somehow to open up again. Thank you.

OPERATOR: Let me remind you, that if you want to ask a question, you have to press "*" followed by "1" on your phone keypad. Next question comes from the line of Leonardo Coccia with Clearance Capital.

LEONARDO COCCIA: Good afternoon to all of you. I have a couple of questions. And when it comes to portfolio evaluation and financial leverage, I would like to ask the management to see how the portfolio will be going towards the yearend. Will there be pressure put on the portfolio appraisals and as we approach yearend. How did your European peers behave and then write-downs of 4%-5% when it comes to the portfolio appraisal. Did you factor that in, what do you think, and how can we interpret that when it comes credit rating, especially, as far as, Fitch is concerned.

CLAUDIO ALBERTINI: Indeed, we are soon going to start the negotiation with the appraisers. So we open up a table with the appraisers. The 4 independent appraisers, it is the Big 4, CBRE, REAG, Jones LangLasalle and Cushman and we will start talks with them. And it is a real estate portfolio that will appraised. And I will hand it over to Roberto Zoia, who is really focusing on the relationships with the appraisers.

So the time horizon starts from yearend. So January 2021 and then for 10 years, it is a discounted cash flow model they will be applying. So he market risk it is mainly on the normalization or on the discount rates so to say. And our portfolio proved to be very, very resilient, and that is proven by the occupancy rate, and that is still very high. And the level of footfalls was about to go back to pre-lockdown levels also, and also that showed that our portfolio is very reactive, if I put that in perspective with an appraisal that has a 10-year time horizon, of course, I can say that it's not going to be the case for the next 10 to 18 months. But I am sure they will slowly go back to normal. This is what we will have to discuss with our appraisers, because the lack of stability will have an impact on the discount rates, that won't to depend on us. So the second half of November we are going to have talks with the appraisers, maybe Roberto would like to add, something, Roberto Zoia. And in the meantime, Roberto was appointed, let me tell you for those of you who are not aware, Chairman of the National Council for Shopping Center, the CNCC and we are very proud of, and it is very important for us to have one of our managers to have that role.

ROBERTO ZOIA: Good afternoon to all of you. This is Roberto Zoia, speaking. If we look at the appraisals, and we look at them again through the yearend backdrop, we start from year number one which will be 2021, January the 1st, 2021. As we explained during today's presentation, the COVID impact on 2020 was embedded in the appraisal starting from June already, so part of the reductions were already included in the discounter cash flow model in June. So netting what has been happening on the last few months. The first year of the new appraisal timeframe should not have had any major impact. So we have looked at footfalls and tenant sales from May to end of September, and it was looking good also for yearend appraisals and valuations. And then the financial occupancy as well that stayed at high levels. If you remember when we were locked up in April and May, we were concerned that not all stores would open up, all tenants would reopen, that shopping malls would be empty and that was not the case today, it is November 5th, and we cannot somehow only think of the past. We have to look ahead into the future as well. And I started organizing meetings with the appraisers as of next week, but I think that until December the 3rd which is the timeframe were restrictions apply…hard restrictions apply. It is going to be very difficult to come up with an estimate, of course, there are no comparable to play or compare against.

So also for appraisals, it won't be easy to talk about the discount rate looking at the cost of discounting; the cost of money has no evidence leading to think that it should be increased when it comes to the cost of money component. As to the discount rate, and I hope, I will dispelled out, I will be proven wrong. I don't think there will be a lot of retail transaction from here to yearend. So it is going to be difficult to have a comparable when it comes to evaluations and appraisals so to say.

So another important thing that came out in June and that is still to be seen, and it is not stated by us, but by our peers as well. If you've read the press over the last few days, you have surely read, and maybe you were made aware by the fact that proximity stores and not jumbo centers. Proximity stores are the ones that are suffering less, because it is still a mall format, with a hypermarket that is still visited by consumers and with a number of stores that is not too many, but that still offers a lot of services. This mall format is the one that's most successful and all retailers and [indiscernible]. All the authorities are saying, the trade associations are saying that the the jumbo centers are the ones that are struggling most now a day, and that was factored into the reports that were issued by the appraisers. If you were the CB, Cushman, JLL et cetera, they were...in their report they are saying those who are being affected by the greatest pressure are the largest malls and centers. So of course, we hope it won't be a very dramatic impact. But until early December, it's going to be difficult to have a complete visibility of the phenomena.

Let me add something to what Roberto said. Let us not make comparison to eBay, with eBay. It's…they have a Jumbo and Big it may [indiscernible] ECP, that's size-wise, all the ones I mentioned, that all…they will have hypermarkets. These are the real peers and comparables, either that is a different thing, completely different things.

CLAUDIO ALBERTINI: Are there any other questions?

OPERATOR: The next question comes from the line author of Davide Candela with Intesa Sanpaolo. Go ahead, sir.

DAVIDE CANDELA: Good afternoon to all of you. Thanks for taking my question. I have a question on Slide #10. And I'd like to know, if the percentages that that you have highlighted in red, are driven by the difficulties experienced by the tenants to pay their rents? And if so, can we expect for the full year 2020 further provision on bad debt for un-cashed?

CLAUDIO ALBERTINI: It's clear that, the time we've been through, has been hitting some of the tenants in our shopping malls. And so some of them find it hard to have enough cash to meet all their…to pay-up all of their commitments. But, remember that we've made…we've granted payment extensions throughout the year, to make life easier for our tenants, to support them at a hard time. So there are payments that were deferred. And I must say that over the last few weeks, there's been a strong recovery. These figures are as off October the 25, after October 25th, we recovered a lot more, a lot, a big chunk of many of the payments due also because many of the agreements we've made or contracts, or negotiations made were completed. So even over the last few days, we've signed something with the tenants.

The main tenants of course, the big ones, well, we had to negotiate a bit more, but the values are higher. So over the last few days, we've made this gap, this collected [ph] turnover, we've increased it. And in October, so October invoicing is already around 75% of collections. So tenants we're going to be up and running. And I use the simple path because of course the situation seems to be changing over the last few days. But we were up and running, and with the necessary cash flow, so that the tenants could meet their commitments also collection wise. And we have some recovery, and collection plans that we've agreed with, agreed to with some of our tenants, we've granted some extensions also to make their business more sustainable.

We have the situation under control and we monitor the situation. So if I may, we cannot expect any further prudential provision for what has not been collected in 2020. We expect as we were saying before, so we have 2 impacts to be accounted for end of June, and end of September, €8.1 million between provisions and reductions and €9 million, if we look at the appraisals that are frozen, end of September some of them will be transferred to the P&L, so in the top part of the P&L. And so we expect reduction/provision in a rage, so pre-last provision, it was a…we expected a €15 million to

€16 million range. So a larger range than end of June or end of September, this is something we'd already announced as of the end of the first half. Otherwise, it was not explainable how we moved from 15% to 25%, 26% of FFO, over '21-'22, but we still have to factor in the effect of this latest provisions. And then you know that appraisals do not affect FFO, but provisions do affect FFO.

DAVIDE CANDELA: Thank you. That was very clear.

OPERATOR: Next question comes from the line from the English line Alvaro Mata with Trea Asset Management. Go ahead, sir.

ALVARO MATA: Hello, good afternoon. Thanks for taking my questions, just one from my side. And on Page 8 of the presentation, you showed there that the one-off impact as of the end of September was approx €7 million between reductions and provisions. But, then on Page 10, which you just talked about, you show a graph where you show the unpaid rate of 12% year-to-date. And I am assuming that 12% is 12% of gross rental income, which is 12% of the €109 million, hundred and nine million. This is €13 million. So my question is, what is the total impact year to-date? Is it just €7million? Is it €13 million? It is €7 million plus €13 million? And how have you reported these on the P&L, both the €7 million and the €13 million? Thank you.

CLAUDIO ALBERTINI: We answered in the previous question. These are receivables because we just gave the source, where it's not losses or uncollected. On Page 8, its losses, so that forecast of not collecting that's €7 million, if we also include Romania, its €8.1 million because we have about €1 million in Romania too. Whilst on Page 10, you see, we have receivables that we still have to use, we just granted reductions and defaults. So, one is, it goes to the P&L and the other one is a receivable.

ALVARO MATA: Okay, okay. So the €13 million goes receivables and nothing on the P&L. Okay, understood. Thank you very much.

OPERATOR: Let me remind you that, if you want to ask a question, you may press "*" followed by "1" on your phone keypad. For further questions, please press "*", followed by "1" on your phone keypad. Mr. Albertini, so far there are no more questions in the queue.

CLAUDIO ALBERTINI: Very well. Thank you. I would like to thank all of you, and we'll resume end of February. We'll talk again end of February 2021, when we will be presenting full year results. Hoping, we'll be disclosing good news to all of you. Thank you very much for logging-in.