



PALACE CAPITAL plc

Uniquely positioned Regional Focus

Neil Sinclair
Chief Executive

Stephen Silvester
Finance Director

Richard Starr
Executive Director

Full Year Results Presentation
12 months to 31 March 2018



www.palacecapitalplc.com

**Palace Capital is a
property investment
company that focuses
on commercial real
estate outside London**



Introduction

Finance Review

Property Review

Looking to the Future

Appendices



NEIL SINCLAIR
Chief Executive

Palace Capital is well positioned for growth following a transformational year

Key achievements:

- £70m new equity to fund RT Warren portfolio acquisition
- £67m new debt facilities to support acquisitions
- £88m of acquisitions
- £9m of disposals recycling capital
- Move to the Main Market from AIM & joining the FTSE Small Cap & All Share Indices
- Proven business model involving careful stock selection
- Clear strategy for each asset of our diversified portfolio



OUR STRATEGY / PROVEN BUSINESS MODEL

We invest in regional commercial property outside London

- Opportunistic acquisitions –corporate & direct
- Diversified portfolio - deliberately limited exposure to structurally challenged retail sector
- Affordable rents - underpin the sustainability of our cashflows
- Active Asset Management - we enhance income returns and reduce vacant costs
- Capital value - growth opportunities through refurbishment and development
- Recycle capital – property disposals release equity for further investment





HIGHLIGHTS FOR THE YEAR

Active asset management approach delivering growing income & capital returns

- Adjusted profit before tax up 27% to £8.5m
- Ordinary dividend per share increased 2.7% to 19.0p; fully covered by adjusted earnings
- FY18 Q4 dividend of 4.75p/share, ex-div 5 July 2018, payable 31 July 2018
- £5.7m revaluation gains achieved in the year, resulting from growth in capital value of portfolio

Growing income streams through corporate opportunistic acquisitions & recycling capital through disposals

- Acquired St James Gate, Newcastle for £20m in August 2017
- Acquired RT Warren portfolio for £68m in October 2017
- 10 assets with limited growth prospects sold for £9m, releasing funds for further investment



Successful equity raise of £70m & new debt facilities of £67m

- Completed £70m equity raise in October 2017 at 340 pence per share
- Arranged £67m of new debt facilities
- LTV reduced to 30% and debt maturity increased to 4.7 years
- Move to the Main Market and joining FTSE Small Cap & All Share Indices

Strength of available capital

- £19m cash in the bank
- £14.5m unutilised debt facilities

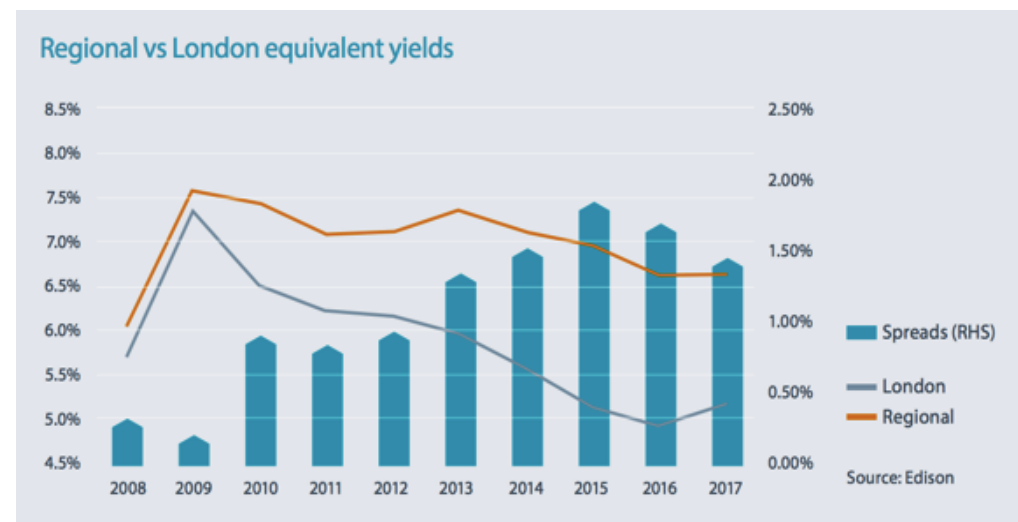




OPERATING IN REGIONS OUTSIDE LONDON

Regional commercial property market remains an excellent opportunity supported by economic fundamentals

- Regional economy continues to grow
- Regional unemployment remains consistently low
- Less exposed to financial services than Central London
- Limited new build office space in recent years
- Reduction in office stock due to Permitted Development
- Rising rents across the regional office & industrial sectors

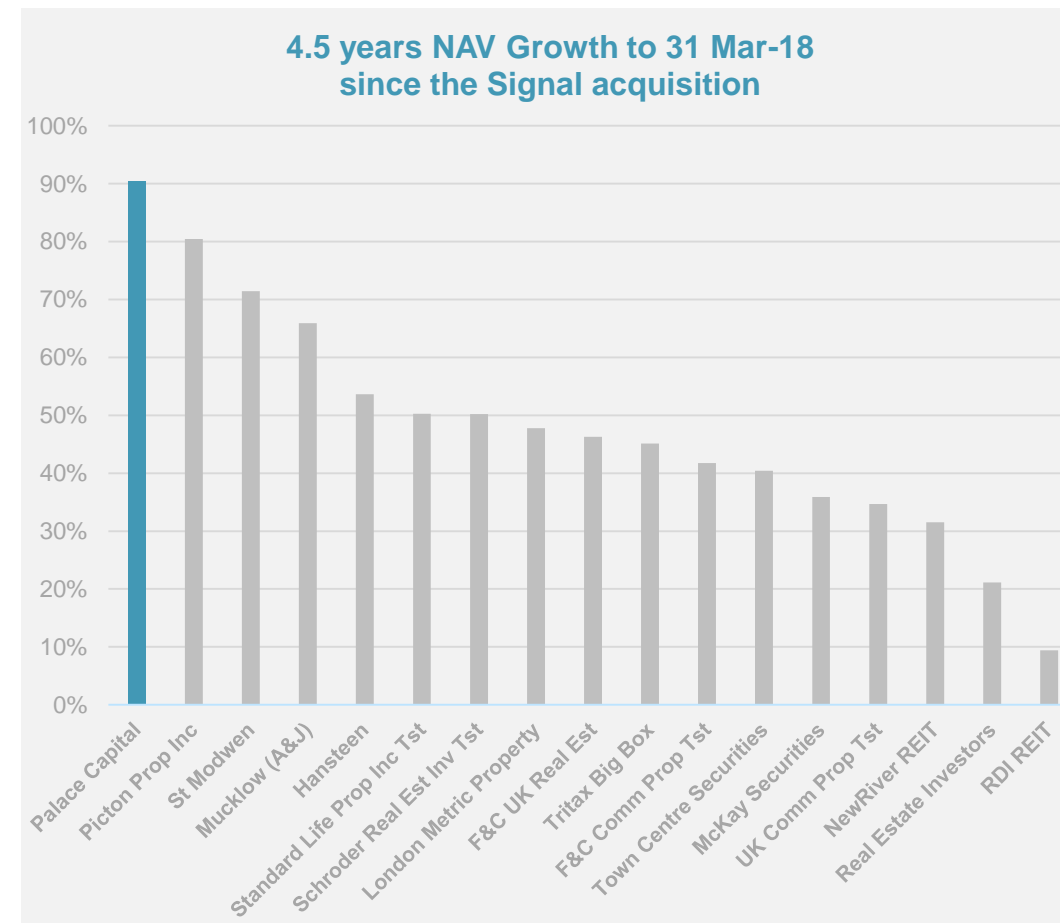




TRACK RECORD OF OUTPERFORMING UK REAL ESTATE SECTOR

What makes Palace Capital different?

- Investment in the right sectors in the right locations
- Active Asset Management strategy growing income streams and NAV
- Diversified portfolio outside London
- Entrepreneurial & opportunistic approach to acquisitions to keep purchase costs low
- Experienced and aligned internal Management Team



Source: Arden Partners, Broker



STEPHEN SILVESTER
Finance Director



SIGNIFICANT ACHIEVEMENTS RAISING FRESH CAPITAL

£137m of capital raised during FY18

£70m equity raised

- 12% discount to prevailing share price of 385p
- Provided capital to complete acquisition of RT Warren (Investments) Ltd

£67m debt raised

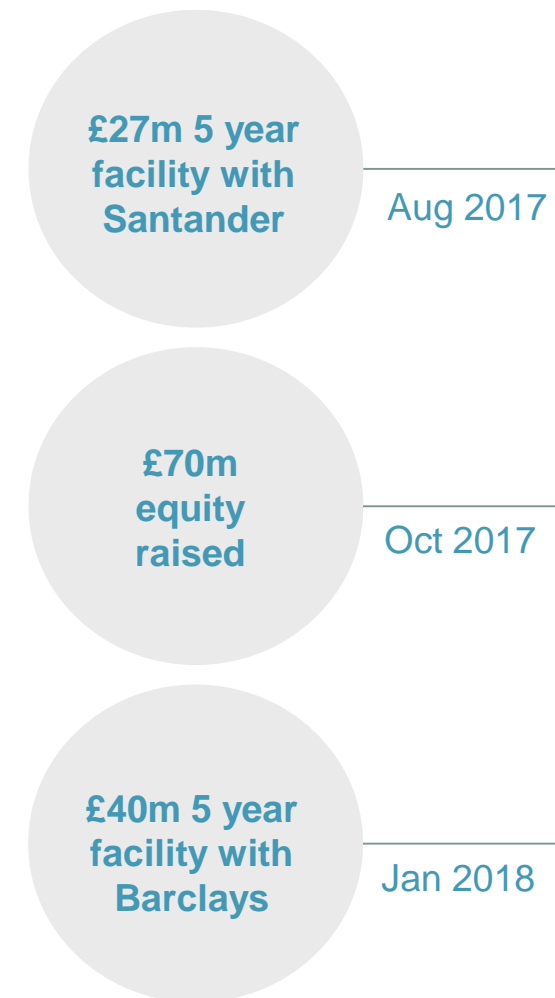
- to refinance existing facilities & support acquisitions
- LTV of 30% at 31 March 2018 vs target of <40%

£70m hedging facilities now in place

- Reduced interest rate exposure
- Average cost of debt remains low at 3.4%
- Increased average debt maturity to 4.7 years

Increased scale and surplus funds

Conservatively geared balance sheet well positioned



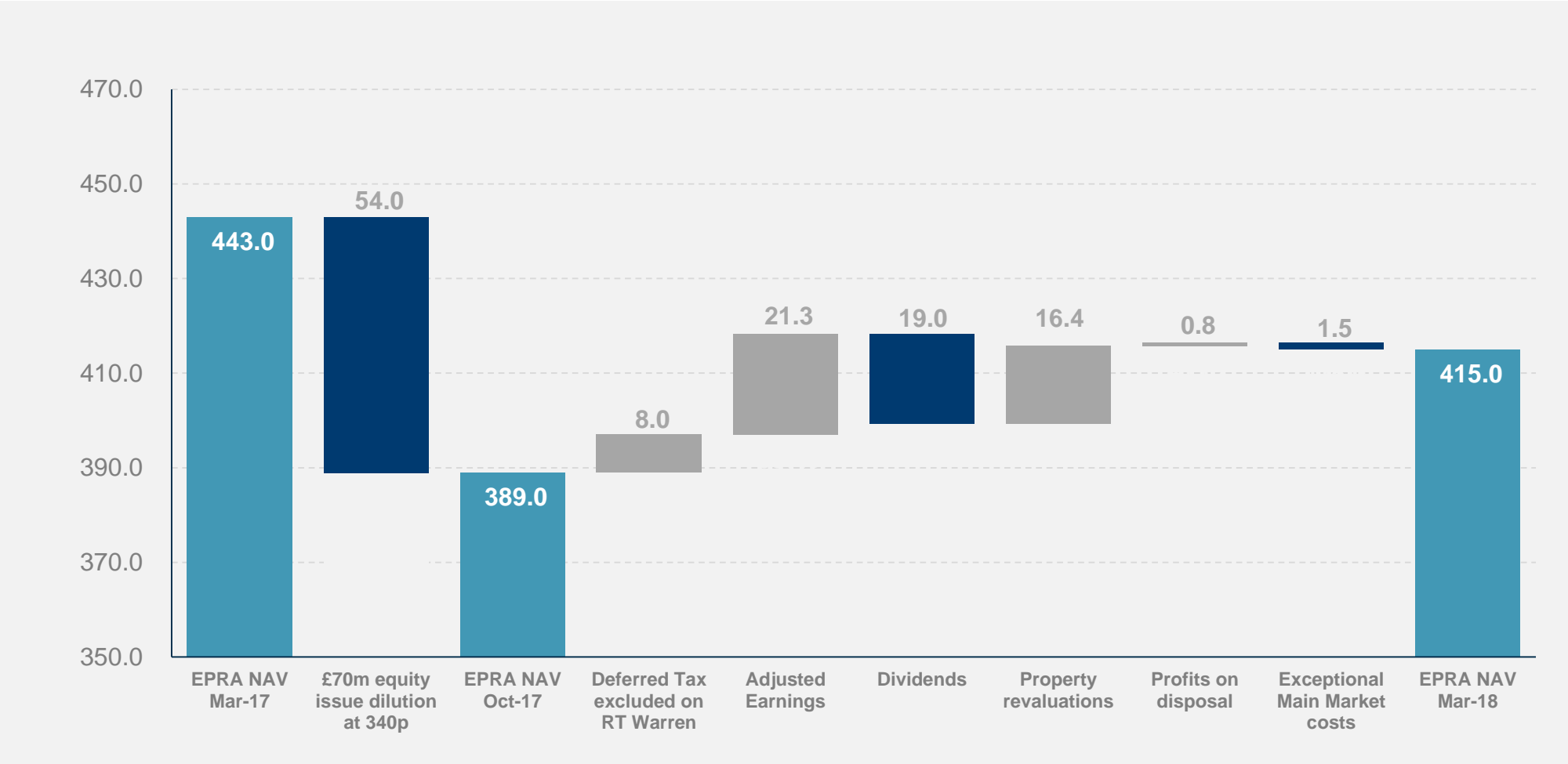


BALANCE SHEET POSITIONED FOR GROWTH

- Property portfolio fair value increased to £276.7m at 31 March 2018
- £19.0m cash in the bank and a further £14.2m borrowing facilities undrawn at year-end available for future acquisitions
- IFRS net assets increased by 67% to £183.3m
- EPRA NAV of 415p per share reflecting dilution from equity raise at 340p and subsequent 7% increase from pro-forma base of 389p in October 2017
- LTV of 30% at 31 March 2018

	Mar-18 £m	Mar-17 £m
Property Portfolio	276.7	183.9
Cash	19.0	11.2
Other assets	4.5	2.6
Borrowings	(99.8)	(77.8)
Deferred tax liabilities	(6.5)	(2.2)
Other liabilities	(10.6)	(8.1)
Net Assets	183.3	109.6
EPRA NAV per Share*	415p	443p
Loan to Value	30%	37%

*EPRA is the European Public Real Estate Association.





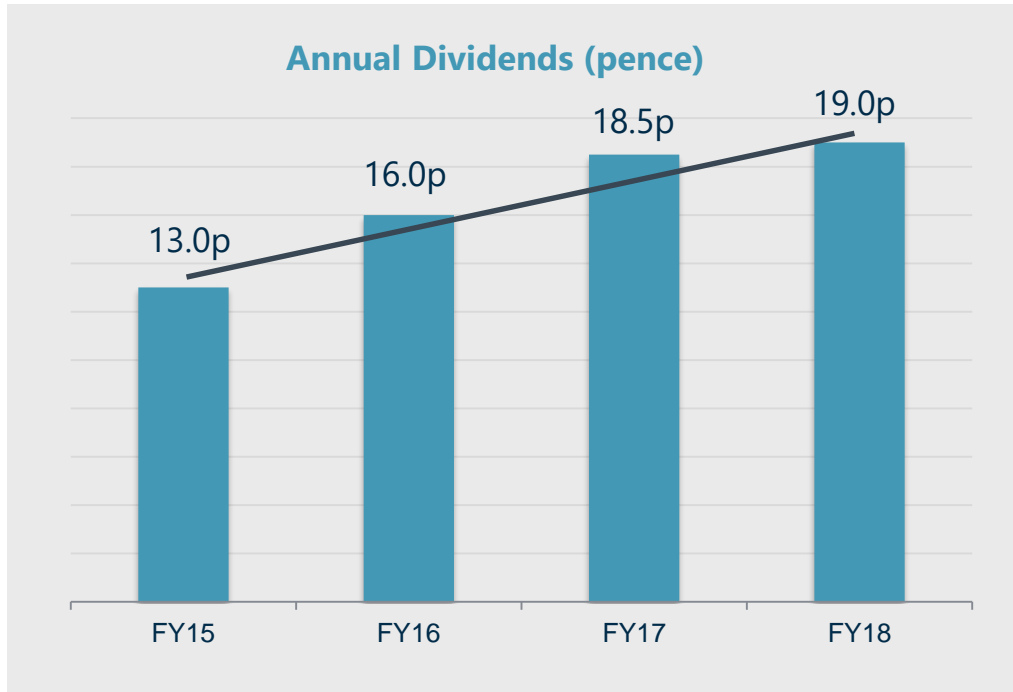
CONTINUED GROWTH IN RECURRING EARNINGS

- Adjusted profit before tax increased 27% to £8.5m (FY17: £6.7m)
- Adjusted earnings per share of 21.2p (FY17: 22.2p) following issue of 20.8 million shares in Oct-17
- Fully covered ordinary dividend per share of 19p +2.7% (FY17: 18.5p)

	FY18 £m	FY17 £m	Movement
Gross property income	16.7	14.3	
Property operating expenses	(1.8)	(2.1)	
Net property income	14.9	12.2	+22%
Administrative expenses*	(3.3)	(2.7)	
Net Finance costs**	(3.1)	(2.8)	
Adjusted PBT	8.5	6.7	+27%
Adjusted PBT per share	21.2p	22.2p	
Dividend per share	19.0p	18.5p	
Dividend cover	112%	120%	
Weighted average no. shares	34.9m	25.7m	

**Administrative expenses adjusted to exclude £0.7m one-off exceptional costs relating to the move from AIM to the Main Market and fair value adjustments*

***Net finance costs exclude debt termination costs and derivative fair valuations*



INCOME

Track Record of delivering progressive dividend

- Quarterly dividends commenced Apr-18
- Proposed final dividend FY18 Q4: 4.75p
- Payable 31st July, ex-div date: 5th July
- Dividend Yield > 5.3%
- Dividend cover: 1.1x for FY18



RICHARD STARR
Executive Director

PORTFOLIO OVERVIEW

Contractual Rental Income	£17.9m p.a.
Estimated Rental Value	£20.8m p.a.
WAULT (to break)	5.3 years



OFFICE

Number of properties

32



INDUSTRIAL

Number of properties

13



LEISURE

Number of properties

2



RETAIL

Number of properties

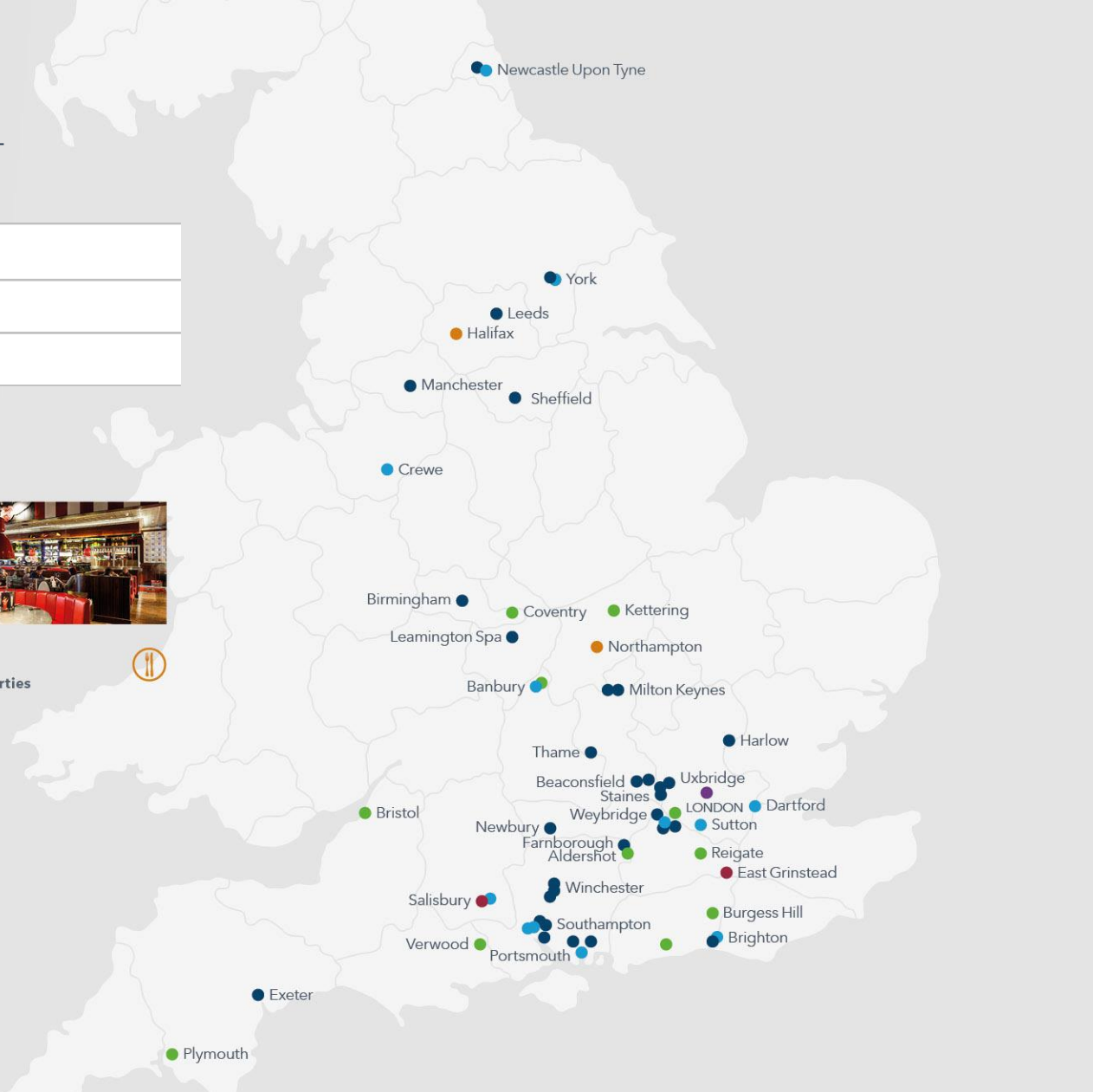
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RETAIL WAREHOUSE

Number of properties

2















PORTFOLIO METRICS

The portfolio is diversified by both sector and geography and has no exposure to Central London

The top 10 tenants contribute 26.5% of all contractual income, providing security of income streams on the basis of strong credit ratings and low risk of default.

TOP 10 TENANTS

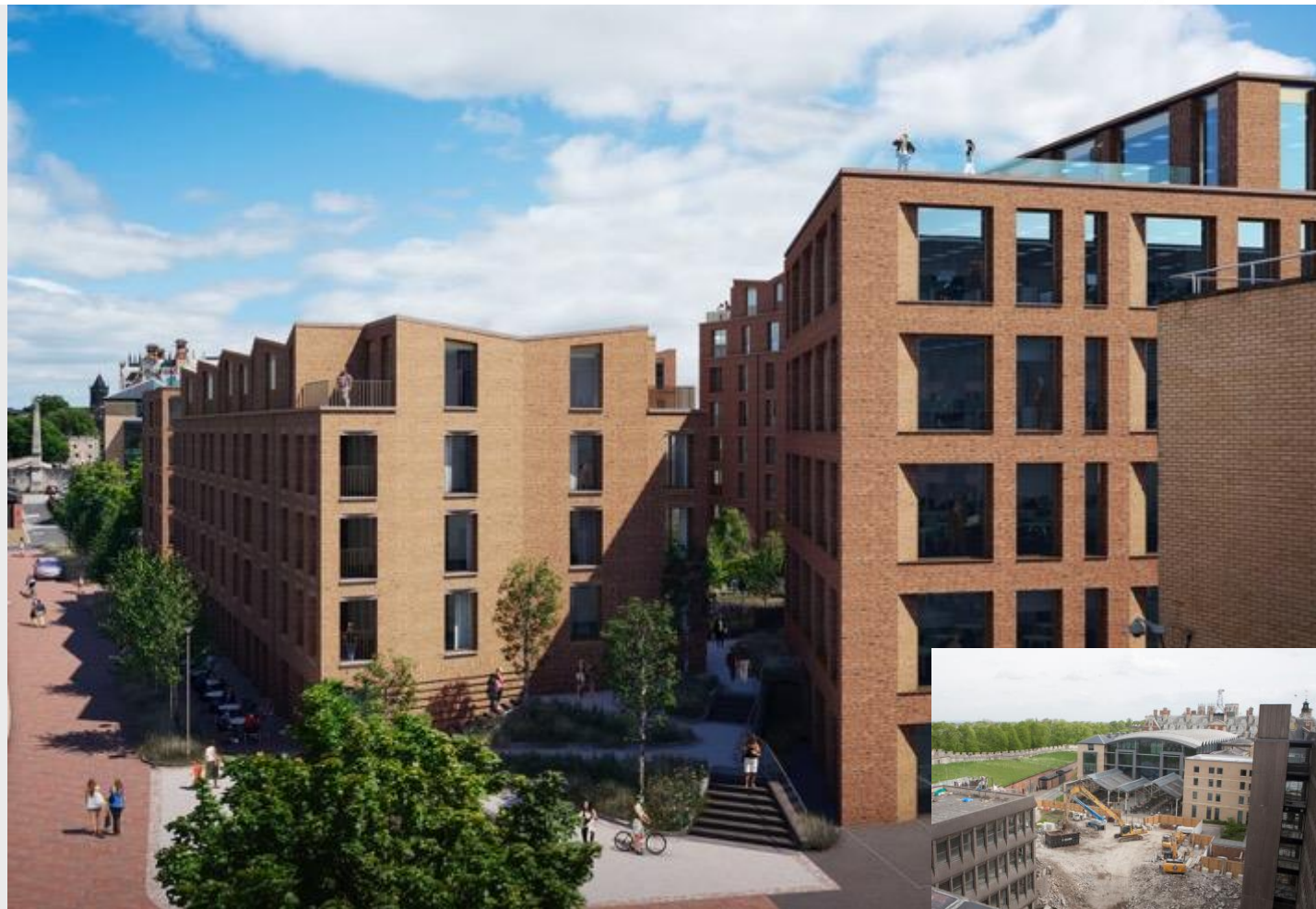
Tenant	Industry	Passing Rent £'000
	Leisure	913
	Charity	595
	Legal	568
	Hotel	510
	Insurance	408
	Retail	401
	Auto	399
	Legal	360
	Car Parking	345
	Auto	325
TOTAL		4,824

GEOGRAPHY

Location	Exposure
North East	30.6%
North West	9.8%
South West	4.9%
South East	49.8%
Midlands	4.9%

York – Hudson House

- Planning consent achieved for 127 apartments, 34,000 sq ft offices, 5,000 sq ft of commercial and car parking
- Demolition commenced in February 2018, expected to be completed September 2018
- Demand for residential & Grade A office space strong
- York voted by the Sunday Times as the Best Place to Live 2018
- Plans to commence construction in January 2019





Manchester – Boulton House

- Purchased August 2016 for £10.6m
- 75,000 sq. ft.
- City centre multi-let offices
- 18,000 sq ft vacant space & ground floor reception refurbished
- Since purchase new lettings of 6,500 sq ft at £17.25psf and post the year end 2,120 sq ft let at £18.95psf



Leeds – Bank House

- Purchased April 2014 for £10m
- 88,000 sq ft
- City centre multi let offices
- Medium term refurbishment opportunity
- New letting agents appointed to market the vacant space



Newcastle – St James' Gate

- Purchased August 2017 for £20m
- 82,500 sq ft
- City centre multi let offices, all let and occupied
- Serco extended their lease at 10% higher rent
- Ground floor entrance and landscaping to be upgraded



Bristol – Point Four Industrial Estate

- Purchased in Sequel portfolio in 2013
- 83,100 sq ft, multi-let estate in established location
- Now fully occupied and let
- Rental values increased by 20% during the year to over £6psf



Verwood – Black Moor Road

- Purchased in RT Warren portfolio
- 65,700 sq ft, multi-let estate in established location
- Average rents at purchase of £5.25psf
- New letting to an existing tenant at £7psf



Coventry – Courtauld House

- Purchased in Sequel portfolio in 2013
- 77,500 sq ft single let distribution unit
- Passing rent of £4.20psf significantly below market level
- Lease expiry in June 2019 with negotiations for a renewal already underway



Halifax – Broad Street Plaza

- Purchased March 2016 for £24.12m
- City centre multi let scheme generating £1.7m annual income with anchor tenants trading well
- The Piece Hall has recently undergone a £20m renovation.
- 1m visitors to Halifax since August 2017
- New letting agents appointed and new marketing initiatives undertaken to boost footfall and to let the vacant space



Northampton – Sol Central

- Purchased in May 2015 for £20.7m
- The casual dining sector has been going through challenging times
- External lighting and roof repairs completed
- New letting agents appointed to market the vacant space
- Income from car park increasing with new ANPR system
- Additional turnover rent from Accor Hotels of £0.1m p.a.



York – Lendal / Museum Street

- Purchased in RT Warren portfolio
- Centrally located retail & offices
- Vacant offices to be refurbished
- Lease renewals on retail units being negotiated



East Grinstead – A&B Bridge Park

- Purchased in PIH portfolio
- Prime South East location
- Both tenants recently completed improvements including new mezzanines
- 3 months rent paid to Pets At Home to remove break option in 2022
- £0.5m p.a. minimum income receivable for next 10 years



Milton Keynes – Solaris House

- Purchased in Sequel portfolio 2013
- 14,500 sq ft refurbished office building
- In April 2018 let to Monier Redland for 10 years with a rent review after 5 years
- Headline rent of £0.24m p.a. (£16.50psf) reduced to £0.12m p.a. for 40 months in lieu of rent free
- Adjoining offices let at £10.50 psf with rent review in December 2018



Milton Keynes – Midsummer Boulevard

- Purchased in March 2016 for £7.225m
- Refurbishment work completed on vacant second floor & ground floor reception
- Average rent at purchase in February 2016 of £13psf
- Letting agents advise that £18psf is now achievable



Leamington Spa – Imperial House & Court

- Purchased in Sequel portfolio in 2013
- City centre multi let offices with medium term development potential
- Average passing rent is £14psf which is below market value



Southampton – Kings Park House

- City centre multi let offices fully refurbished in September 2017
- 1 floor remains available for letting
- Rent, rates and service charge guarantee from vendor until March 2019



Winchester – Regency House

- City centre, listed office building
- Consent to convert upper parts to residential or refurbish to high specification offices
- Permitted Development has reduced immediate supply and rental values increasing
- Residential conversion now not in shareholder interest





Winchester - Hyde Abbey House

- Agreement of outstanding dilapidations
- Interest from potential tenants as an office HQ or residential home



LOOKING TO THE FUTURE

- Significant opportunity currently exists in regional commercial real estate market
- Palace Capital is uniquely positioned to deliver sector-leading income & capital returns as a result of its focus outside London
- Continue to source and execute off-market corporate transactions
- Large number of opportunities in the portfolio to apply our brand of active asset management
- Recycling of capital from disposals into selective new opportunities
- Confident in our continuing ability to deliver resilient and growing income and capital returns
- Established a top class team and platform with a scalable business model and ambition to match

Uniquely positioned 
Sector-leading returns 



BIOGRAPHIES

Neil Sinclair **Chief Executive**

Chartered Surveyor RICS

Neil co-founded Palace Capital and has over 50 years' experience in the property sector. He was a founder of Sinclair Goldsmith Chartered Surveyors which was admitted to the Official List in 1987 and subsequently merged with Conrad Ritblat.

Stephen Silvester **Finance Director**

Chartered Accountant ACA

Stephen joined Palace Capital in 2015 and brings over 10 years' experience as a finance professional in real estate. He previously held the role of Group Financial Controller at NewRiver REIT for 3 years.

Richard Starr **Executive Director**

Chartered Surveyor RICS

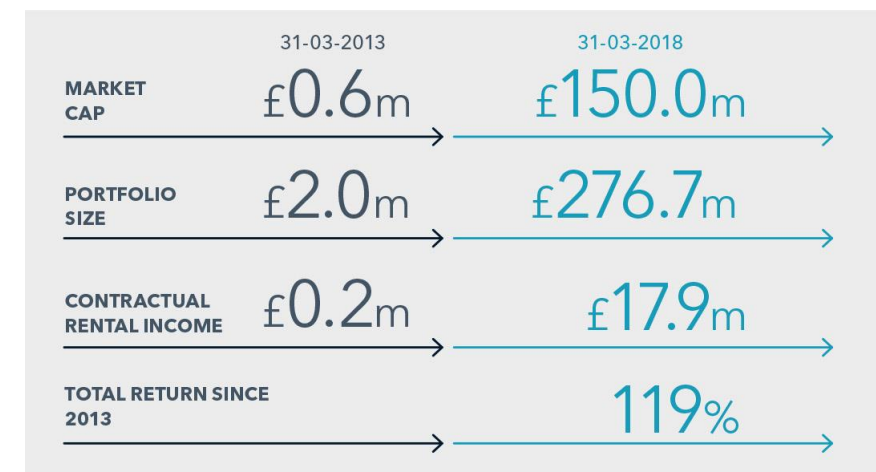
Richard joined Palace Capital in 2013 on the back of the Sequel acquisition and related equity raise. He has extensive experience sourcing and managing commercial investments from his previous role running his own successful boutique property consultancy and before that, four Central London property firms.





OUR STORY SO FAR

- **July 2010** – Management taking Board control of the Company valued at £0.1m with a vision to invest in the regional property market.
- **October 2013** – Sequel portfolio consisting of 24 properties across office, industrial and retail sectors acquired for £39.25m.
- **August 2014** – Property Investment Holdings portfolio acquired for £32m consisting of 17 commercial properties across office, industrial and retail sectors.
- **June 2015** – Sol Central in Northampton acquired for £20.7m.
- **2015-17** – Five individual property acquisitions at values ranging between £4m and £24m focused in the office and leisure sectors. Locations included Halifax, Leeds, Manchester, Milton Keynes and Sutton.
- **October 2017** – Acquisition of the RT Warren Portfolio costing £68m and consisting of 21 commercial and 65 residential properties.
- **March 2018** – Completed move from AIM to a Premium Listing on the Main Market of the London Stock Exchange





FINANCIAL TRACK RECORD

BALANCE SHEET	FY15	FY16	FY17	FY18
Property Portfolio	£102.8m	£173.4m	£183.2m	£276.7m
Net Assets	£80.0m	£106.8m	£109.6m	£183.3m
EPRA* NAV per Share***	393p	414p	443p	415p
Loan to Value	23%	37%	37%	30%

INCOME STATEMENT				
IFRS Profit Before Tax	£13.9m	£11.8m	£12.6m	£13.3m
Adjusted PBT**	£4.8m	£5.6m	£6.7m	£8.5m
Adjusted EPS	28.3p	18.9p	22.2p	21.2p
Dividend per share	13.0p	16.0p	18.5p	19.0p
Dividend cover	2.1x	1.2x	1.2x	1.1x

* EPRA is the European Public Real Estate Association.

** Excludes non-recurring income and expenditure, revaluation gains on properties and realised profit on disposals

*** EPRA NAV in FY18 diluted as a result of £70m equity fundraise at 340p – October 2017

DEBT SUMMARY

Lender	Debt Facility (£m)	Debt Drawn (£m)	Debt Maturity	
Barclays	40.0	35.8	Jan-2023	£35.7m fixed
NatWest	30.4	20.4	Mar-2021	Includes £20m RCF
Santander	26.7	26.7	Aug-2022	£20.0m fixed
Lloyds	3.8	3.8	Apr-2019	100% floating
Scottish Widows	14.6	14.6	Jul-2026	100% fixed
	115.5	101.4	4.7 years	

	Mar-18	Mar-17
Property Portfolio	£276.7m	£183.2m
Gross Debt	£101.4m	£78.7m
Debt net of cash	£82.4m	£66.6m
Weighted average cost of debt	3.4%	2.9%
Loan to Value (LTV)	30%	37%
Fixed Debt	70%	32%
Interest cover	3.5x	3.5x

£115.5m
debt facilities

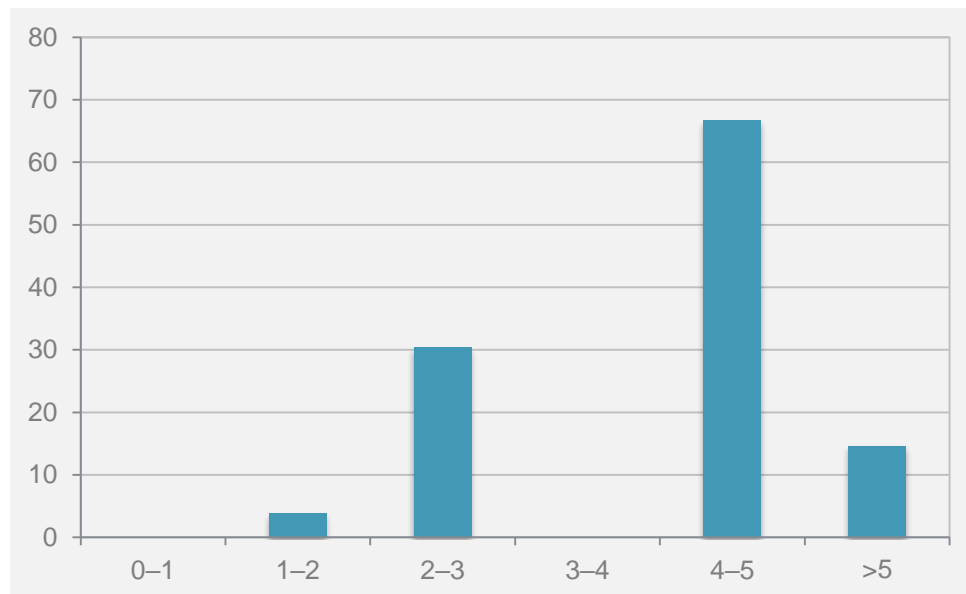
- Strong relationship with existing lenders.
- Low cost of debt maintained and LTV reduced.
- 70% debt fixed to mitigate interest rate risk.





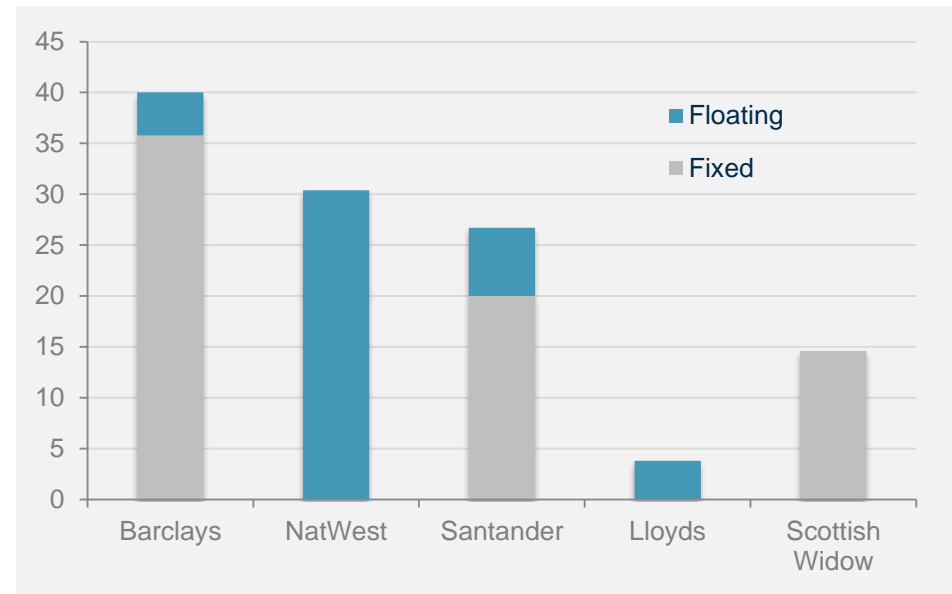
DEBT CHARTS

Debt maturity



The average debt maturity is 4.7 years, providing support to the business in the medium term.

Fixed/Floating



70% of the debt drawn at year end was fixed, reducing the Group's exposure to movement in future interest rates.

SELECTION FROM THE PORTFOLIO



OVEST HOUSE, BRIGHTON



WINCHESTER STREET, SALISBURY



SANDRINGHAM HOUSE, HARLOW



HARNHAM BUSINESS PARK, SALISBURY



FRASER HOUSE, STAINES



WARREN HOUSE, THAME



MILLBARN MEDICAL, BEACONSFIELD



ALDI, GOSPORT



WESTMINSTER HOUSE, GERRARDS CROSS



HIGH STREET, UXBRIDGE



LONDON COURT, SOUTHAMPTON



HARBOUR COURT, PORTSMOUTH



PELHAM SQUARE, BRIGHTON



TOP 10 ASSETS BY VALUE

Property Name	% of Portfolio by Market Value	Market Value 31 March 2018 (£)	Area (sq ft)	Gross rental income (£)	Net Initial Yield	Reversionary Yield	WAULT to Break (yrs)
Broad Street Plaza, Halifax	8.4%	23,195,000	117,768	1,710,070	6.15%	7.11%	13.2
2&3 St James Gate, Newcastle	7.2%	20,000,000	97,696	1,735,594	8.05%	8.10%	3.9
Sol Central, Mare Fair, Northampton	6.8%	18,875,000	129,704	1,689,159	7.45%	7.69%	7.9
Hudson House, York	5.8%	16,000,000	n/a	n/a	n/a	n/a	n/a
Boulton House, 17-21 Chorlton Street, Manchester	5.2%	14,300,000	74,713	592,779	2.87%	8.04%	1.3
Bank House, 27 King Street, Leeds	3.9%	10,900,000	88,037	697,094	5.26%	9.34%	2.3
Kiln Farm, 2-4 Pitfield, Milton Keynes	3.0%	8,360,000	52,818	398,228	3.73%	8.39%	8.7
Units A & B, Imberhorne Lane, East Grinstead	2.9%	8,100,000	30,672	514,018	5.95%	5.62%	9.3
249 Midsummer Boulevard, Milton Keynes	2.9%	8,000,000	49,980	529,243	5.32%	8.06%	1.5
Point Four Industrial Estate, Avonmouth, Bristol	2.5%	7,050,000	84,749	371,519	4.73%	6.54%	4.2
Total	48.6%	£134,780,000	726,137	£8,237,704			

SECTOR SPLITS

	Market Value 30 March 2018 (£)	% of Portfolio by market value	No. Properties	No. Leases	Area (sq ft)	Current passing rental income (£)	ERV (£)	WAULT (yrs)	Total ERV of Void (£)
Offices	134,233,600	48.5%	32	111	722,977	8,034,789	10,541,820	2.73	1,447,740
Leisure	42,070,000	15.2%	2	22	247,472	3,399,229	3,341,875	10.60	420,950
Industrial	36,440,000	13.2%	13	44	427,789	2,303,990	2,736,524	3.61	53,200
Retail Warehouses	11,440,000	4.1%	2	3	59,478	759,964	679,800	9.32	-
Retail	30,265,000	10.9%	11	64	147,940	2,367,722	2,566,250	4.50	154,300
Residential	22,282,500	8.1%	62	62	39,655	754,060	890,380	1.02	-
Total	276,731,100	100%	122	306	1,645,311	17,619,754	20,756,649	5.3	2,076,190



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