



PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

# **PALACE CAPITAL PLC FINAL RESULTS**

YEAR ENDED 31 MARCH 2022

# Agenda

Corporate update

Key highlights

Financial review

Operational review

Outlook

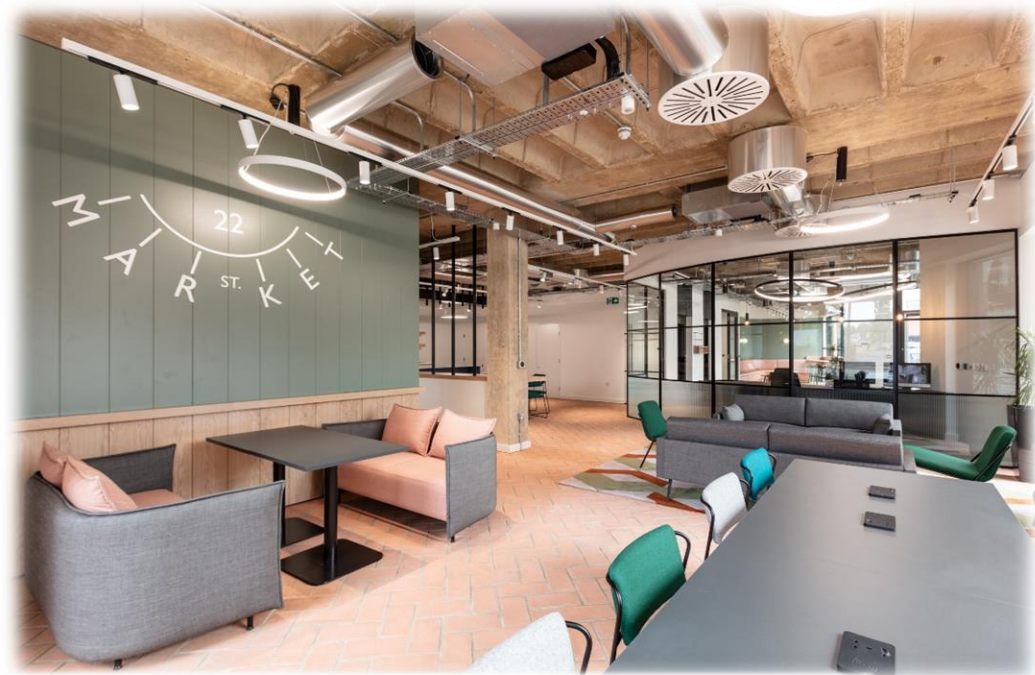
Appendices

# Corporate Update

- The Board announced on 14 June that CEO Neil Sinclair had stepped down and that Steven Owen, previously Non-Executive Chairman, would assume the role of Interim Executive Chairman with immediate effect
- The Board announced in the Trading Update on 6 April that, in consultation with shareholders, it was considering a range of strategic options to further unlock value in the business. The Board expects to update the market on the strategic options it will pursue before the Annual General Meeting in July 2022
- The Board remains committed to maximising value for shareholders and closing the current share price discount to NAV
- The Group has delivered a positive set of results driven by the execution of its strategy

# Key Highlights

- Total property return +12.5% (2021: +1.0%)
- Total accounting return +14.8% (2021: -1.2%)
- Adjusted profit before tax +4.0% to £7.8m (2021: -6.3% to £7.5m)
- EPRA NTA + 11.4% to 390p per share (2021: -3.8% to 350p)
- Like for like portfolio valuation gain +3.9% (2021: -4.0%)
- Dividends paid or declared per share +26.2% to 13.25p (2021: -12.5% to 10.5p)
- LTV reduced to 28% (2021: 42%) due to successful disposal strategy
- Improved rent collection (FY22: 98%) and EPRA occupancy (FY22: 88.5%) metrics



**Acquisition January 2022: Market street, Maidenhead**

# Key Financial Highlights

A strong performance underpinned by the resilience of our portfolio

ADJUSTED PROFIT  
BEFORE TAX

**£7.8m**

**+4.0%**

FY21: £7.5m

IFRS PROFIT  
BEFORE TAX

**£24.6m**

**Up £30.1m**

FY21: (£5.5m)

EPRA NTA  
PER SHARE

**390p**

**+11.4%**

FY21: 350p

ANNUAL  
DIVIDEND

**13.25p**

**+26.2%**

FY21: 10.5p

NET LTV

**28%**

FY21: 42%

ADJUSTED EPS

**16.9p**

**+3.0%**

FY21: 16.4p

BASIC EPS

**53.1p**

**Up 65.1p**

FY21: (12.0p)

TOTAL ACCOUNTING  
RETURN

**14.8%**

FY21: (1.2%)

DIVIDEND  
COVER

**128%**

FY21: 156%

NET DEBT

**£73.6m**

**-38.0%**

FY21: £118.9m

# Financial Performance

## Year ended 31 March 2022

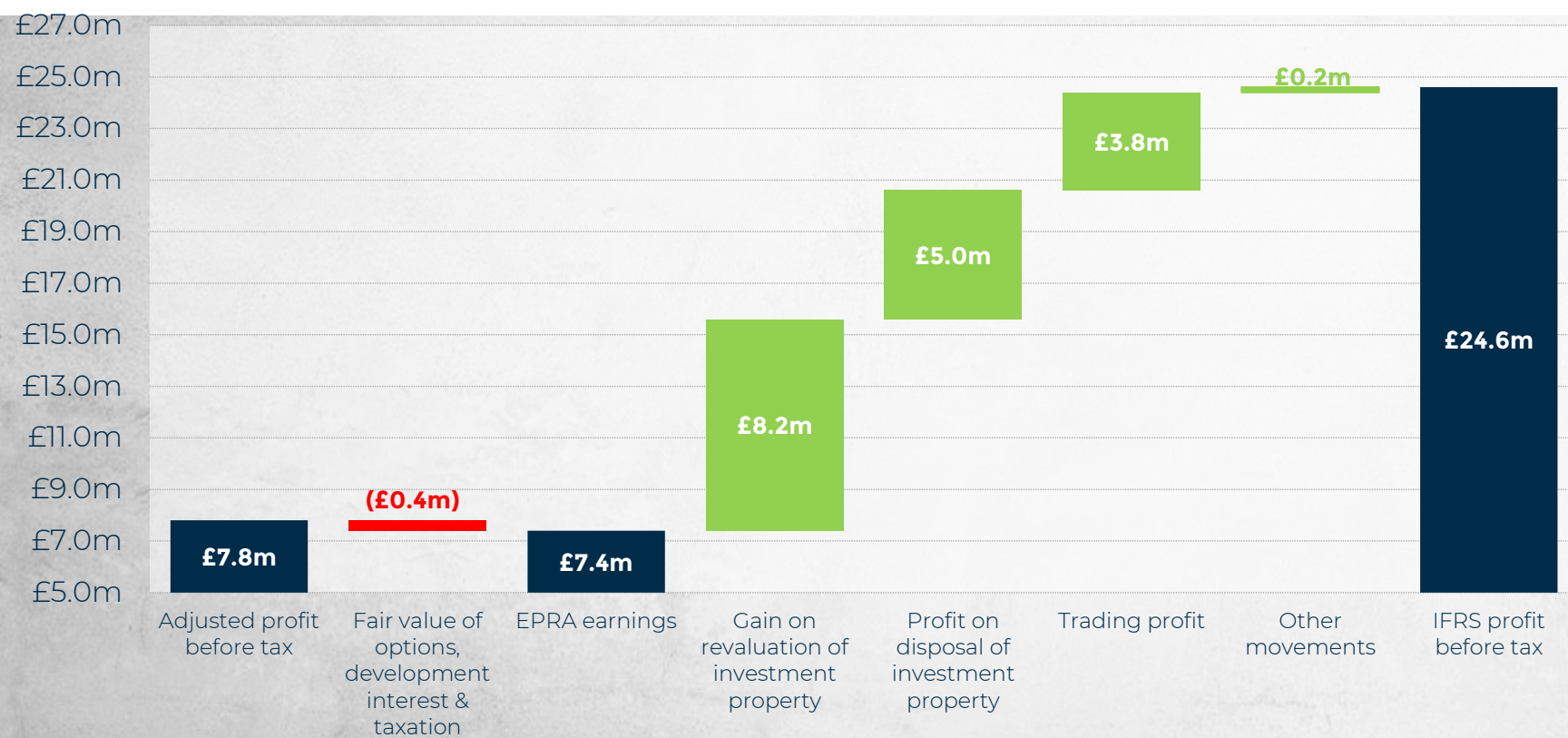
	FY22	FY21	Change
<b>INCOME STATEMENT</b>			
Gross property income	<b>£17.5m</b>	£17.3m	+1.2%
Trading property revenue	<b>£27.4m</b>	-	
Other income*	<b>£4.2m</b>	£5.0m	
Total income	<b>£49.1m</b>	£22.2m	
IFRS profit before tax	<b>£24.6m</b>	(£5.5m)	
EPRA earnings	<b>£7.4m</b>	£7.2m	
Adjusted profit before tax	<b>£7.8m</b>	£7.5m	+4.0%
Basic EPS	<b>53.1p</b>	(12.0p)	
EPRA EPS	<b>16.0p</b>	15.7p	
Adjusted EPS	<b>16.9p</b>	16.4p	+3.0%
Dividend per share	<b>13.25p</b>	10.5p	
Dividend cover	<b>128%</b>	156%	

\*Other income includes service charge income

	FY22	FY21
<b>BALANCE SHEET</b>		
Portfolio value	<b>£259.0m</b>	£282.8m
Cash	<b>£28.1m</b>	£9.4m
Drawn debt	<b>£101.8m</b>	£128.3m
Net debt	<b>£73.6m</b>	£118.9m
IFRS net assets	<b>£177.2m</b>	£157.8m
Basic NAV per share	<b>383p</b>	343p
EPRA NTA per share	<b>390p</b>	350p
Loan to value	<b>28%</b>	42%
NAV gearing	<b>41%</b>	74%

# Income Statement Review

Execution of business strategy producing strong profits



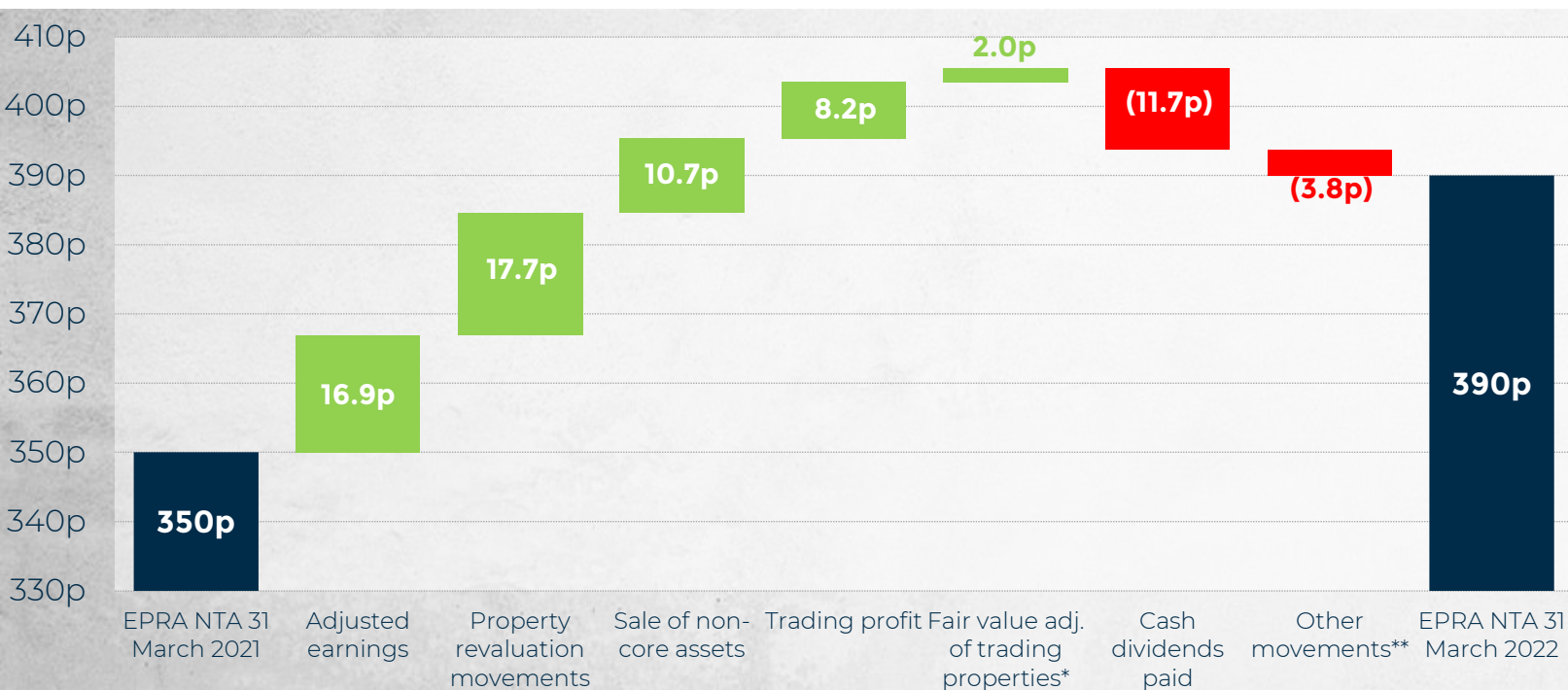
IFRS profit before tax increased to £24.6m (FY21: £5.5m loss) as a result of:

- Increase in our property valuations of £8.2m
- £5.0m profit from disposal programme
- £3.8m trading profit
- Strong letting activity

\*Other movements includes loss on disposal of equity investments, debt termination costs and derivative fair value movements

# Balance Sheet Strengthened

## EPRA NTA per share movement in the year



	March 2022	March 2021	Change
EPRA NTA	<b>£180.6m</b>	£161.3m	+12.0%
EPRA NTA per share	<b>390p</b>	350p	+11.4%
Total accounting return	<b>14.8%</b>	(1.2%)	+1,600 bps
Total property return	<b>12.5%</b>	1.0%	+1,150 bps

\*Hudson Quarter York residential development is carried in the books at lower of cost and net realisable value (NRV) and as the NRV was higher than the cost at half year, EPRA NTA adjusts for the variance

\*\*Other movements includes cost of derivatives, debt termination costs, disposal of listed equity investments and the effect of shares issued in the year

# Capital Structure

## Significantly reduced debt with conservative gearing

- Cash and cash equivalents of £28.1m at 31 March 2022, at 10 June £22.7m\*
- Debt reduced by £26.5m in the year, including £20.6m of the development facility repaid in the year
- Loan to value ratio reduced to 28% (2021: 42%)
- Santander facility refinanced post year end, reducing the margin from 2.5% to 2.2% on a new 5-year facility
- Lloyd's facility extended for a further year to March 2024, post year end
- Debt maturity of 1.9 years, post the refinancing and extension this increases to 2.9 years
- Average cost of debt 3.2% (2021: 3.0%) due to increase in interest rates

Lender	Debt Facility (£m)	Debt Drawn (£m)	Debt Maturity	Hedging
Barclays	29.2	29.2	Jun-2024	£33.8m fixed
NatWest (RCF)	40.0	32.0	Aug-2024	100% floating
Santander	24.8	24.8	Aug-2022	£18.6m fixed
Lloyds	6.8	6.8	Mar-2023	100% floating
Scottish Widows	9.0	9.0	Jul-2026	100% fixed
	<b>109.8</b>	<b>101.8</b>	<b>1.9 years</b>	<b>60% fixed</b>



\*As a result of paying £5.0m to the NatWest Revolving Credit Facility (RCF). This can be drawn down immediately.

# Property Portfolio – Overview

Portfolio repositioning underway

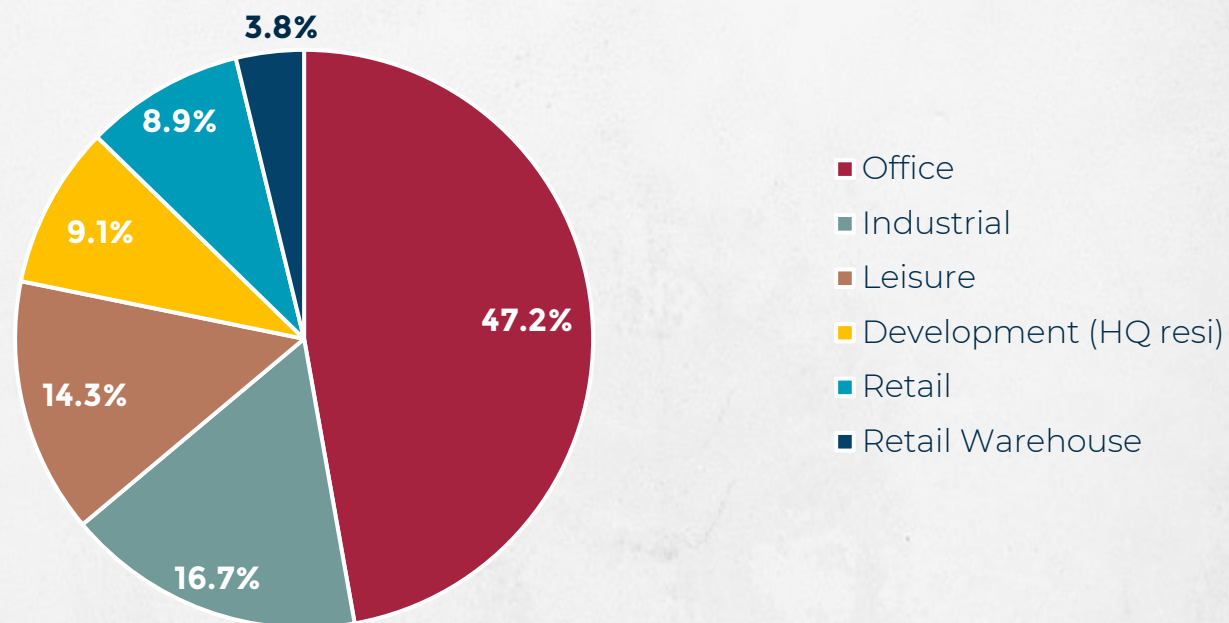
	March 2021	March 2022
Portfolio value	£282.8m	<b>£259.0m*</b>
Net initial yield**	5.6%	<b>5.6%</b>
Reversionary yield	7.3%	<b>7.5%</b>
Contractual rental income**	£16.4m	<b>£15.9m</b>
Estimated rental value***	£20.6m	<b>£19.4m</b>
WAULT to break	4.8 years	<b>4.7 years</b>
EPRA vacancy rate	13.6%	<b>11.5%</b>

	March 2021	March 2022	TARGET
Core	28%	50%	50%
Value add	51%	40%	40%
Development (including HQ resi)	21%	10%	10%

\*Reduced as a result of the £30m disposal strategy and Hudson Quarter residential sales.

\*\*Excludes all tenant incentives

\*\*\*Independent assessment from Cushman and Wakefield



# ESG Focus

## Playing our part in being a responsible business

TCFD\* working group has assessed the potential physical and transition risks associated with a 2 degrees warming scenario

Collecting / reporting Scope 3 emissions in place to better understand carbon footprint



Stakeholder feedback incorporated into Purpose and Strategy

Dedicated engagement & action programme with tenants

Recommendations from Workforce Advisory Panel fed directly to the Board

Charitable donations and engagement with local causes

ESG Board Committee actively progressing strategy

Looking to secure CDP\*\* and EPRA accreditation

Climate Change included as a Principal Risk & corporate purpose

Detailed consideration of Net Zero Pathway during second half 2022 for disclosure in 2023

\*Taskforce on Climate-Related Financial Disclosures

\*\*Carbon Disclosure Project



# Implementing ESG

## Future Proofing Our Portfolio

E

- Overall upgrade of portfolio
- 89% of portfolio with ratings of A-D
- £5m capex FY22. £10m allocated by FY24
- 99% of landlord-controlled properties use renewable electricity

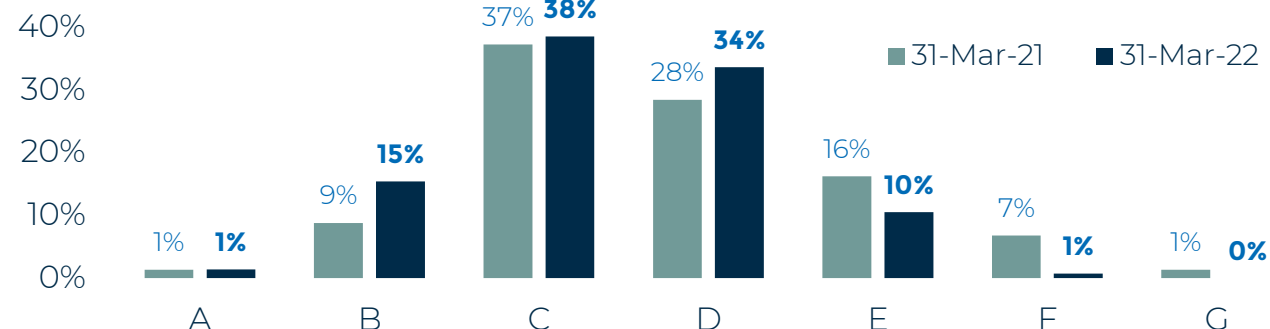
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- Developing partnerships with charities – including SASH youth homeless charity
- Electric car scheme introduced for employees
- Workforce Advisory Panel enhances employee engagement
- Flexible working model

G

- Business plans for all properties incorporate ESG initiatives
- Commenced Scope 3 emission data collection from tenants

### Portfolio EPC rating



### CASE STUDIES:



#### CORE:

**MAIDENHEAD:** Acquisition supports revised investment criteria – EPC B or better or viable for improvement



#### ASSET MANAGEMENT:

**AVONMOUTH:** £0.6m spent refurbishing industrial units improving EPC ratings from F/G to C



#### DEVELOPMENT:

**HUDSON QUARTER:** Newly built Hudson Quarter Grade A office space with BREEAM excellent and EPC A rating

# Valuations

Improved valuations following completed asset management initiatives

	Market value 31 March 2021 (£)	Market value 31 March 2022 (£)	Gain/(loss) %	Net Initial Yield	EPRA topped up Net Initial Yield***	Reversionary Yield
Offices*	110,754,133	111,875,000	1.0%	4.7%	5.7%	8.0%
Industrial*	35,515,000	43,345,000	22.0%	4.5%	4.5%	5.5%
Leisure	35,455,000	36,990,000	4.3%	8.4%	8.7%	8.2%
Retail*	20,755,000	23,265,000	12.1%	7.2%	7.4%	7.8%
Retail Warehouses	9,200,000	9,840,000	7.0%	7.2%	7.2%	5.7%
<b>Total market value</b>	<b>211,679,133</b>	<b>225,315,000</b>	<b>6.4%</b>	<b>5.6%</b>	<b>6.2%</b>	<b>7.5%</b>
Capital expenditure**		(5,457,554)				
<b>Total like for like</b>	<b>211,679,133</b>	<b>219,857,446</b>	<b>3.9%</b>			

- Like for like valuations up 3.9%
- Valuations increased across all sectors
- 22.0% uplift in industrial valuations

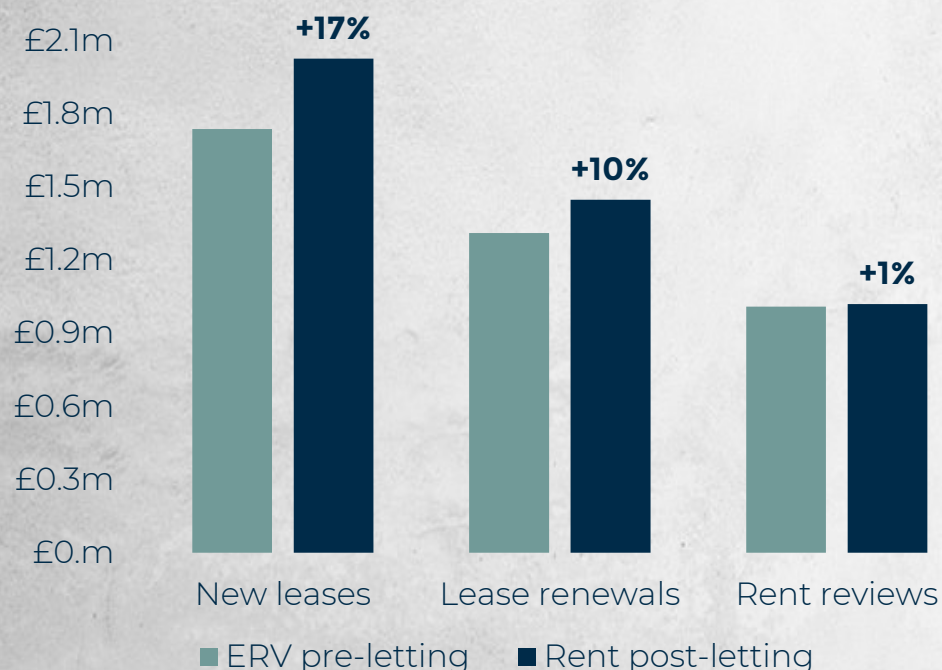
\*Excludes properties disposed of in FY22

\*\*Includes all capital expenditure on like for like developments, refurbishments, and capitalised legal and letting fees incurred in FY22

\*\*\*This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

# Asset Management

## Strong letting activity in the year

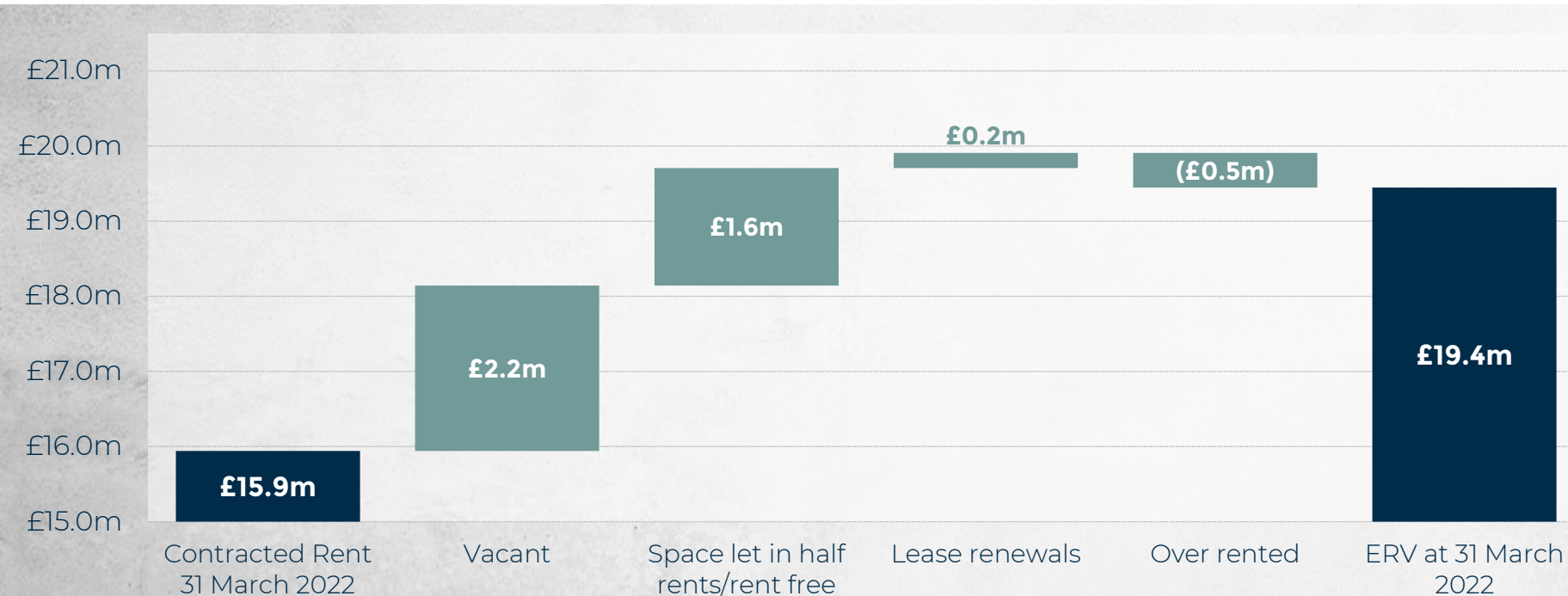


- **55** lease events to 31 March, providing additional income of **£1.9m** pa made up of:
- **22** new leases: **17%** ahead of ERV, providing additional income of **£1.6m** pa
- **22** lease renewals: **10%** ahead of ERV, providing additional income of **£0.1m** pa
- **11** rent reviews: **1%** ahead of ERV, providing additional income of **£0.2m** pa
- Strong letting activity continued with **7** lease events agreed providing additional income of **£0.2m**, post 31 March

**Adding value  
to our  
portfolio  
through  
active asset  
management**

# Portfolio Growth Potential

## +22% potential uplift



- Majority of reversion is through letting vacant space
- Dedicated resource in the team focused on letting vacant units
- 123,400 sq ft of new lettings in the financial year
- Increase in new lettings in FY22 vs FY21

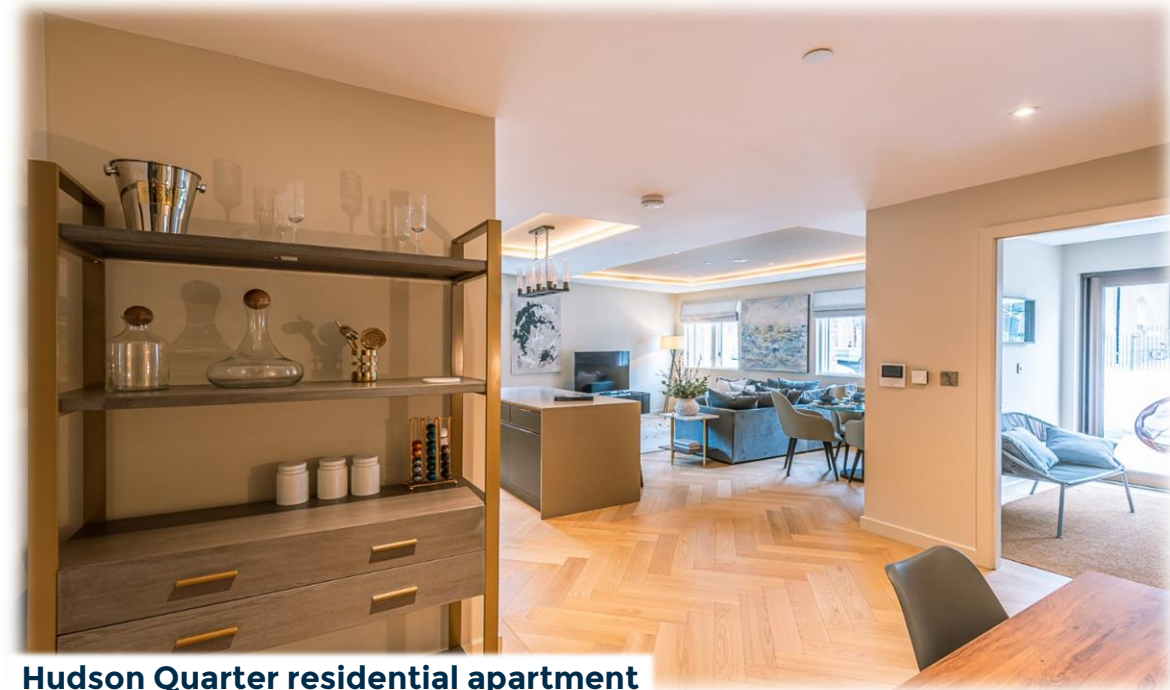
# Hudson Quarter

## Strong residential sales & office lettings

- 84 apartments completed or exchanged for a total of £29.1m, 7 under offer to the value of £2.9m and 36 units remaining
- £26.5m development loan repaid 8 months ahead of schedule
- Over 18,000 sq ft of office space let, with 9,700 sq ft currently under offer and 6,300 sq ft of Grade A space remaining
- Industry recognition:
  - Winner of Best Residential Development of the Year for over 50 units at Yorkshire Insider Property Awards
  - Winner of the Game Changer award at Yorkshire Property Awards
  - Winner of Best Commercial Development at RICS Awards 2022



Hudson Quarter scheme



Hudson Quarter residential apartment

# Disposal Strategy

**£30m of disposals completed, ahead of target**

**£31.5m**

SALES PROCEEDS

**19%**

ABOVE FY21 BOOK  
VALUE

**12%**

ABOVE PURCHASE  
PRICE

**£15.4m**

NET EQUITY  
RECEIVED

**11%**

UNGEARED IRR

- Higher quality portfolio of 37 properties at 31 March 2022, with improved EPC ratings
- Higher occupancy
- Rebalancing of portfolio
- Two properties completed post year for £2.5m, 28% above book value and ungeared IRR of 18%. One property exchanged post year end for £2.0m
- All proceeds to be recycled into accretive opportunities in line with our acquisition strategy

## HISTORIC DISPOSAL PERFORMANCE

- Buildings sold to date: **43**
- Total purchase prices: **£58.2m**
- Total income produced: **£23.2m**
- Net sales proceeds: **£70.2m**
- Total cash return: **£33.4m**
- Total return generated: **57%**
- Average ungeared IRR: **15%**

# Strategy in Action

## Maidenhead office acquisition

- In line with our disciplined investment strategy focused on good quality regional towns and city centres with rental growth
- Highly accessible enhanced by opening of new Elizabeth line
- Town centre benefiting from significant development and regeneration
- Improved portfolio lot size, portfolio EPC ratings and core weighting to strengthen the balance sheet further

<b>Sector:</b>	Office
<b>Location:</b>	South East
<b>Size (sq ft):</b>	21,852
<b>Price:</b>	£10.25m
<b>Yield:</b>	6.83%
<b>Lease term:</b>	5 years
<b>Current EPC:</b>	B



**22 Market Street, Maidenhead - Outside**



**22 Market Street, Maidenhead - Reception**



**22 Market Street, Maidenhead - Inside**

# Outlook

- ✓ Macroeconomic and geo-political uncertainty likely to constrain UK economic growth
- ✓ Well placed with regional portfolio set to benefit from Levelling Up agenda
- ✓ Further disposals of non-core assets and Hudson Quarter apartments to generate cash and improve overall portfolio quality
- ✓ Continued asset management activity to increase income through various initiatives, including letting vacant space with an ERV of £2.2m
- ✓ Maintaining focus on ESG initiatives, particularly improving EPC ratings, as part of asset and portfolio management strategies
- ✓ Updating the market on the strategic options to be pursued before the AGM in July 2022



PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

# APPENDICES

# Income statement & dividends

Year ended 31 March 2022

	FY22 (£'m)	FY21 (£'m)
<b>INCOME STATEMENT</b>		
<b>Adjusted profit before tax</b>	<b>7.8</b>	7.5
Fair value of options, development interest & taxation	<b>(0.4)</b>	(0.3)
<b>EPRA earnings</b>	<b>7.4</b>	7.2
Revaluation gains/(losses)	<b>8.2</b>	(14.0)
Profit on disposals	<b>5.0</b>	0.9
Trading property profit	<b>3.8</b>	-
Derivatives fair value movement	<b>0.3</b>	(0.2)
Disposal of equity investment	<b>(0.1)</b>	-
Debt termination costs	<b>(0.1)</b>	(0.1)
Equity investment revaluation	<b>-</b>	0.7
<b>IFRS profit/(loss) for the year</b>	<b>24.5</b>	(5.5)

	FY18	FY19	FY20	FY21	FY22
Adjusted EPS	21.2p	17.3p	17.5p	16.4p	16.9p
<b>Dividend per share</b>	<b>19.0p</b>	<b>19.0p</b>	<b>12.0p</b>	<b>10.5p</b>	<b>13.25p</b>
Dividend cover	112%	91%	146%	156%	128%
Dividends paid	£6.7m	£8.7m	£5.6m	£4.8m	£6.1m

**Cash covered dividends at a sustainable level, 128% covered**

**Proposed final dividend of 3.75p per share supported by strong rent collection**

# Rent collection and bad debt provisions

Year ended 31 March 2022

FY22 Rent collection	Rent Demanded	Cash Collected	Collection rate
Office	£8.16m	£8.04m	<b>98%</b>
Industrial	£2.47m	£2.42m	<b>99%</b>
Leisure	£3.24m	£3.10m	<b>98%</b>
Retail Warehouse	£0.76m	£0.76m	<b>100%</b>
Retail	£1.86m	£1.79m	<b>98%</b>
<b>TOTAL</b>	<b>£16.49m</b>	<b>£16.11m</b>	<b>98%</b>

**Strong rent collection with 98% of all rents collected in the year to 31 March 2022**

**This continued post year end with 98% of all rents collected for the March 2022 quarter**

BY ACTIVITY	31 March 2022	31 March 2021
CVA/administration	-	£0.5m
Other leisure and retail	£0.5m	£0.5m
Other provisions	£0.4m	£0.3m
<b>Bad debt provision</b>	<b>£0.9</b>	<b>£1.3m</b>

**£0.4m of provision released in the year, following strong rent collection and improved assessment of tenant risk**

**47% of the provision relates to the leisure and retail sector**

# Top 20 Tenant Rent Collection

Sustainable income: 41% of passing rents from top 20 tenants

100% of rent secured from Top 20 Tenants

Tenant	Location	Industry	Contracted Rent pa (£'000)	FY22 rent collection
	Halifax	Leisure	913	100%
	Maidenhead	Power Tools	718	Rent free
	Milton Keynes	Auto	544	100%
	Northampton	Hotel	510	100%
	Newcastle	Charity	487	100%
	Coventry	Auto	432	100%
	Harlow	Technology	424	100%
	Newcastle	Insurance	409	100%
	East Grinstead	Retail	401	100%
	Halifax	Car Parking	345	100%

Tenant	Location	Industry	Contracted Rent pa (£'000)	FY22 rent collection
	Leamington Spa	Retail	294	100%
	York	Tour Operator	293	100%
	Gosport	Retail	291	100%
	Sutton	Local Authority	283	100%
	Burgess Hill	Aviation	280	100%
	Halifax	Health	262	100%
	Burgess Hill	Retail	246	100%
	Milton Keynes	Construction	240	100%
	Leeds	Central Bank	232	100%
	Brighton	Charity	219*	100%

# Regional portfolio

Focused on office & industrial growth sectors

- Balanced portfolio of **37** properties
- Diversified granular income
- **164** tenants in the portfolio
- Top 20 tenants represent **41%** of portfolio
- WAULT to break of **4.7** years
- Low risk & defensive characteristics
- Located close to transport hubs



# Sector splits

## Regional Office and Industrial focus

	Market value 31 March 2021 (£)	% of Portfolio by market value	No. properties	No. leases	Area (sq ft)	Contractual rental income p.a. (£)	ERV (£)*	WAULT to break (yrs)	Total ERV of void (£)
Offices	122,125,000	47.2%	19	93	633,591	7,486,455	10,952,762	1.5	1,814,157
Industrial	43,345,000	16.7%	7	28	345,586	2,219,534	2,608,500	3.0	138,800
Leisure	36,990,000	14.3%	2	22	303,993	3,546,465	3,270,645	10.2	170,202
Development (incl. HQ resi)	23,475,000	9.1%	-	-	-	-	-	-	-
Retail	23,265,000	8.9%	7	43	115,892	1,928,213	1,983,376	7.2	102,390
Retail Warehouses	9,840,000	3.8%	2	3	53,870	759,964	602,900	5.3	-
<b>Total</b>	<b>259,040,000</b>	<b>100%</b>	<b>37</b>	<b>189</b>	<b>1,452,932</b>	<b>15,940,631</b>	<b>19,418,183</b>	<b>4.7</b>	<b>2,225,549</b>

\* Based on Cushman & Wakefield estimated rental values

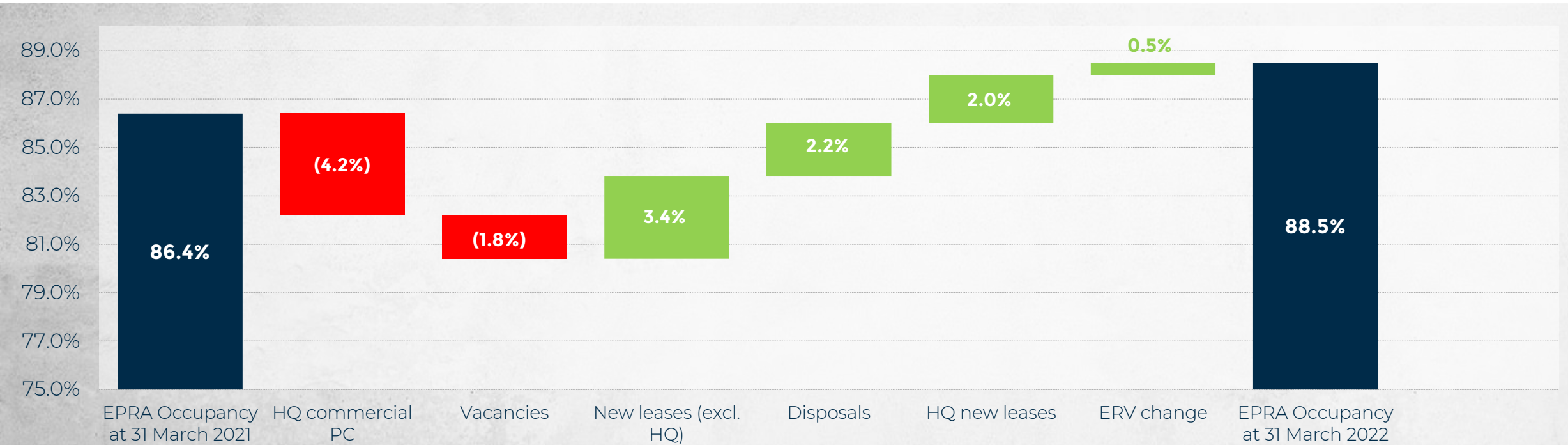
# Top 10 assets by value

58% of total portfolio

Property Name	Sector	Area (sq ft)	Gross rental income p.a. (£)	Reversionary yield*	WAULT to break (yrs)
Hudson Quarter, York - Residential	Development	n/a	n/a	n/a	n/a
Broad Street Plaza, Halifax	Leisure	117,767	1,829,618	7.33%	10.1
2 & 3 St James Gate, Newcastle	Offices	99,125	1,157,192	9.03%	3.0
Sol, Northampton	Leisure	186,226	1,716,847	9.10%	10.1
HQ, York - Commercial	Offices	38,606	322,237	6.83%	11.4
Boulton House, 17-21 Chorlton Street, Manchester	Offices	74,648	1,004,276	8.35%	1.5
One Derby Square, Liverpool	Offices	70,163	938,403	7.54%	4.1
22 Market Street, Maidenhead	Offices	22,919	28,900	6.78%	4.3
Bank House, 27 King Street, Leeds	Offices	88,905	699,312	7.54%	1.5
Point Four Industrial Estate, Avonmouth	Industrial	81,338	430,299	5.98%	3.3
<b>Total</b>		<b>779,697</b>	<b>8,127,084</b>		

\* Based on Cushman & Wakefield estimated rental values

# EPRA Occupancy



# Biographies



## **STEVEN OWEN**

Interim Executive Chairman

Steven is the Non-Executive Chairman of FTSE 250 property investment group Primary Health Properties plc ("PHP") having been appointed Chairman in April 2018. Steven began his earlier career with KPMG before moving into property with Brixton plc where he became Finance Director and subsequently Deputy Chief Executive. Steven is a Fellow of the Association of Corporate Treasurers.



## **MATTHEW SIMPSON**

Chief Financial Officer

### **Chartered Certified Accountant FCCA**

Matthew is a Chartered Certified Accountant, with 15 years of experience and has been with the Company since 2016. Previously holding the position of Head of Finance and Operations, Matthew was appointed Finance Director Designate on 13 August 2021, and subsequently Chief Financial Officer on 11 November 2021.



## **RICHARD STARR**

Executive Property Director

### **Chartered Surveyor MRICS**

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.

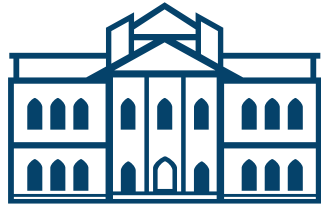


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