PALACE CAPITAL plc

Driving value
Delivering returns

Half Year Results Presentation
6 months to 30 September 2018

Neil Sinclair
Chief Executive

Stephen Silvester
Finance Director

Richard Starr
Executive Director

MAIN MARKET LONDON STOCK EXCHANGE

www.palacecapitalplc.com

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PALACE CAPITAL plc

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

London Stock Exchange Group
1000 COMPANIES TO INSPIRE BRITAIN 2017

INTRODUCTION

NEIL SINCLAIR
Chief Executive

STEPHEN SILVESTER
Finance Director

RICHARD STARR
Executive Director

INVESTMENT CASE

PALACE CAPITAL plc

Palace Capital plc (LSE: PCA) is a Main Market, premium listed property investment company that has a £283.3 million diversified portfolio of UK regional commercial real estate.

The Company maintains a disciplined investment strategy focused on towns and cities outside of London that are characterised by thriving local economies and strengthening fundamentals.

Within those locations, the highly experienced management team selects assets that provide opportunity to drive both capital value and long term rental income through tailored active asset management programmes, ultimately delivering attractive shareholder returns.

OPERATING IN REGIONS OUTSIDE LONDON

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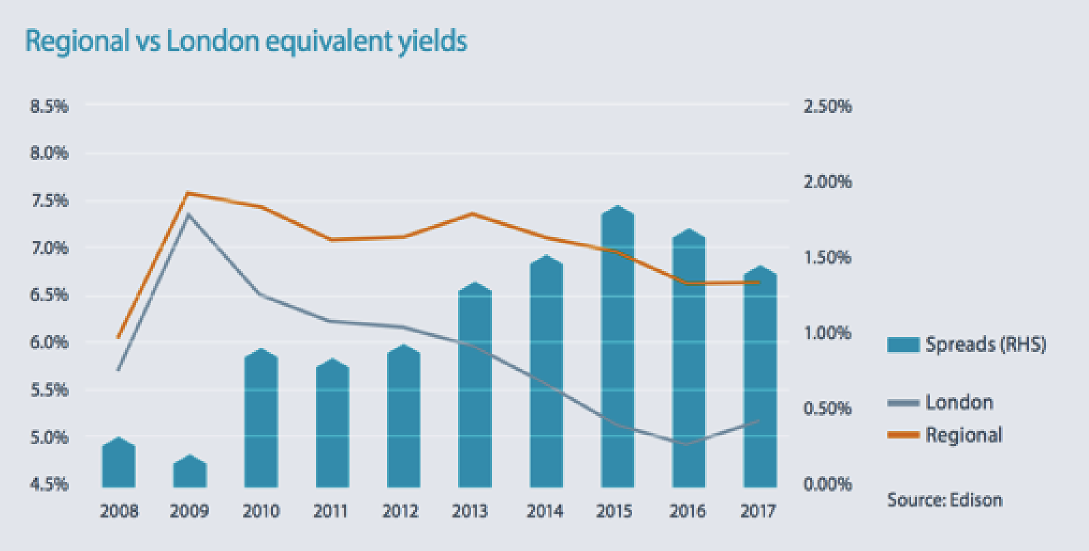
The regional UK commercial property market remains an excellent opportunity, supported by economic fundamentals

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

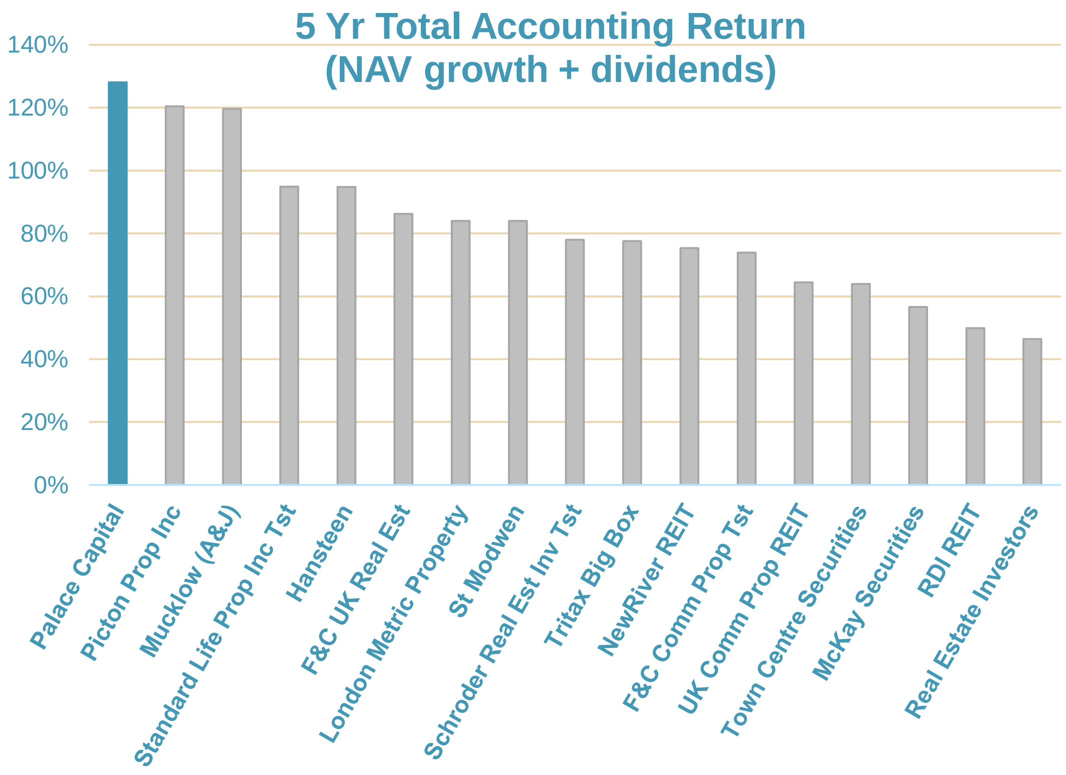


TRACK RECORD OF OUTPERFORMING UK REAL ESTATE SECTOR

PALACE CAPITAL plc

What makes Palace Capital different?

- Investment in select towns & cities with supply-demand dynamics exhibiting fundamental growth characteristics
- Active asset management strategy using leasing & letting activity to drive income and capital growth across portfolio
- Diversified portfolio outside London, with exposure to a range of locations, sectors and tenants
- Corporate acquisitions using expertise to maximise value-add and limit purchase costs, enhancing total returns
- Highly experienced and aligned internal management team motivated to outperform on a total return basis



Source: Arden Partners, Broker

HY19 30 SEP 2018 - HIGHLIGHTS

PALACE CAPITAL plc

Income and capital growth, following a transformational FY18

Operational highlights:

- Total property return of 5.3%, outperforming the MSCI IPD Quarterly Benchmark of 3.3%
- Like-for-like valuation increase of 1.7%, driven by industrial and office sectors
- Annualised contracted rental income £17.4m per annum (ERV: £21.1m p.a.) with significant reversionary potential
- Demolition of the 2-acre Hudson Quarter site in York due to be completed next month, ready for construction to start in 2019
- One disposal for £0.95m, 30% ahead of March 2018 valuation
- 22 lease events* totalling 140,000 sq ft generating £2.0m annual rental income, averaging 8.6% ahead of ERV.
- Overall EPRA occupancy remains high at 88% (31 March: 90%) with a sustainable tenant base
- WAULT of 5.5 years to break and 7.3 years to expiry

*lease events include rent reviews, letting vacant space and lease renewals

HY19 30 SEP 2018 - HIGHLIGHTS

PALACE CAPITAL plc

Financial highlights:

- Joined FTSE SmallCap and FTSE All-Share Index in May 2018 following the March 18 premium listing on the Main Market
- EPRA NAV per share up 1.4% to 421p (Mar-18: 415p)
- Total accounting return for the period of 4.0% (NAV growth plus dividends paid)
- Portfolio valuation £283.3m up 2.4% from 31 March 2018
- Gross rental income £9.2m up 29% (Sep-17: £7.1m)
- IFRS Profit after Tax of £7.3m, up 67% (Sep-17: £4.4m)
- Quarterly Dividends maintained at 4.75p per quarter
- Adjusted EPS 8.0p, 0.84x covering dividends of 9.5p for the 6 months (uncovered due to increased equity base following £70m raise in October 2017 and a disciplined approach to acquisitions)
- Net debt £84.0m maintaining conservative net LTV of 30% (Mar-18: 30%)
- Average cost of debt 3.5% with 70% fixed (Mar-18: 3.4% and 70% fixed)

BALANCE SHEET POSITIONED FOR GROWTH

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- Property portfolio increased to £283.3m at 30 September 2018
- £13.8m cash in the bank and a further £15.0m undrawn facilities available for further investment
- IFRS net assets increased by 1.8% to £186.6m
- EPRA NAV of 421p per share increased by 1.4% from 415p
- LTV of 30% at 30 September 2018 reflecting a conservatively geared balance sheet
- 50 residential units now exchanged for £18.2m. Sale proceeds, along with existing cash and debt, provide sufficient resources for the next stage of growth.

	Sep-18 £m	Mar-18 £m
Property Portfolio	283.3	276.7
Cash	13.8	19.0
Other assets	4.4	4.5
Borrowings	(97.8)	(99.8)
Deferred tax liabilities	(7.0)	(6.5)
Other liabilities	(10.1)	(10.6)
Net Assets	**186.6**	**183.3**
EPRA NAV per Share*	**421p**	**415p**
Loan to Value	**30%**	**30%**

**EPRA is the European Public Real Estate Association.*
EPRA NAV is basic NAV adjusted for deferred tax and financial derivatives

EPRA NAV PER SHARE

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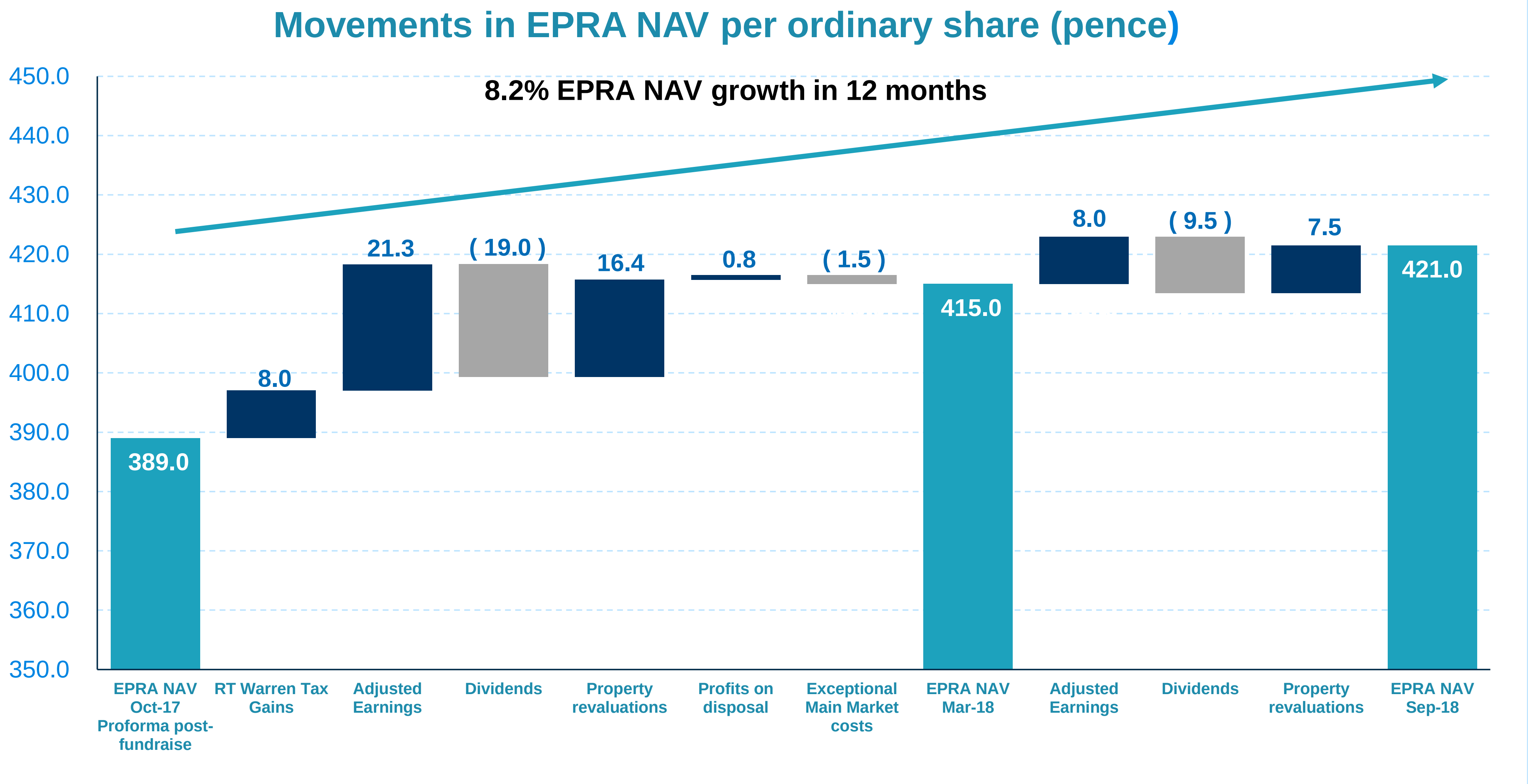

CONTINUED GROWTH IN RECURRING EARNINGS

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- Gross property income increased 29% to £9.2m p.a.
- Adjusted profit before tax increased 16% to £4.3m (HY18: £3.7m)
- Adjusted earnings per share of 8.0p (HY18: 12.8p) reduced following increased equity base from the issue of 20.8 million shares in October 2017
- Dividend cover reduced to 0.84x for the interim period, on the back of the £70m equity raise in October 2017 with funds available for further deployment
- Opportunity to grow current passing rent at £17.4m p.a. with a current portfolio ERV of £21.1m p.a.

	HY19 £m	HY18 £m	Growth	FY18 £m
Gross property income	9.2	7.1	+29%	16.7
Property operating expenses	(1.1)	(0.6)		(1.8)
Net property income	**8.1**	**6.5**	+26%	**14.9**
Administrative expenses*	(1.9)	(1.4)		(3.3)
Net Finance costs**	(1.9)	(1.4)		(3.1)
Adjusted PBT	**4.3**	**3.7**	+16%	**8.5**
Adjusted PBT per share	8.0p	12.8p		21.2p
Dividend per share	9.5p	9.5p		19.0p
Dividend cover	0.8x	1.3x		1.1x
Weighted average no. shares	45.8m	25.2m		34.9m

**FY 18 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*

TRACK RECORD OF DELIVERING PROGRESSIVE DIVIDEND

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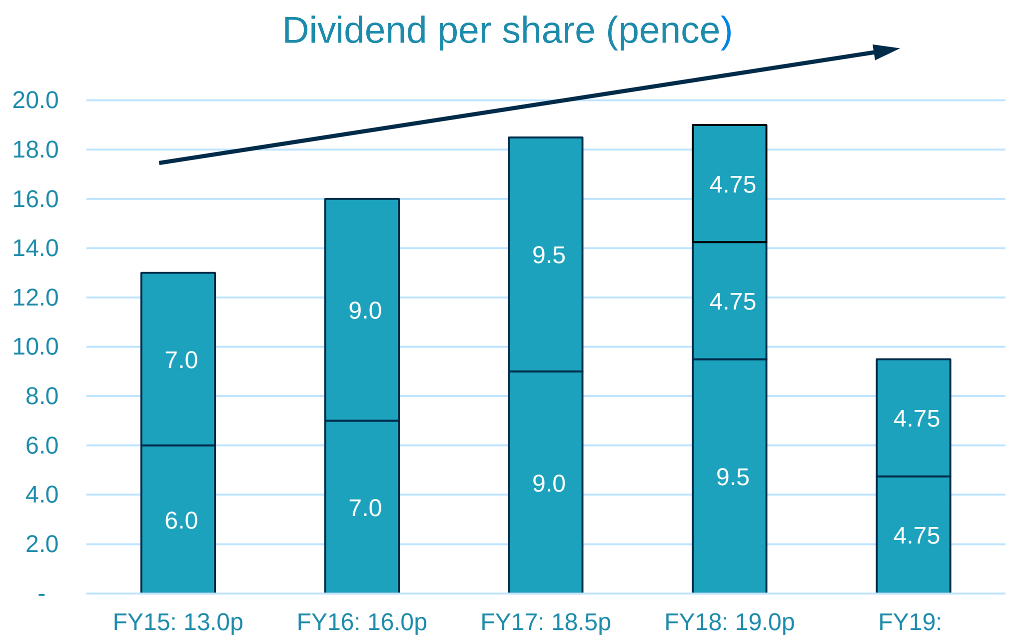

- Quarterly dividends commenced April 2018
- FY19 Q2 proposed interim dividend of 4.75p, Ex div 6/12, Payable 28/12
- Dividend Yield on NAV > 4.5%
- Dividend yield on 30-Sep-18 share price of 304p > 6.2%
- Dividend cover: 0.84x in current period (FY18: 1.1x)

UK PROPERTY MARKET – outlook supports Palace strategy

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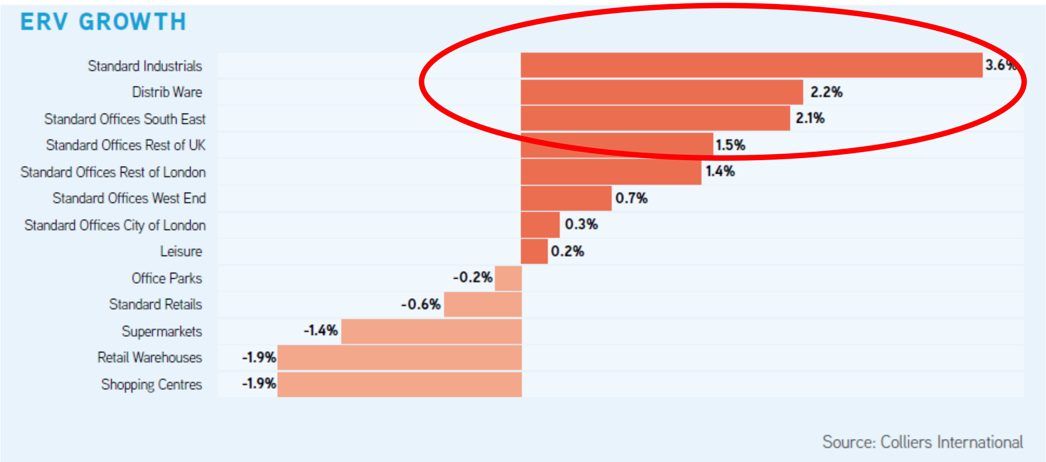
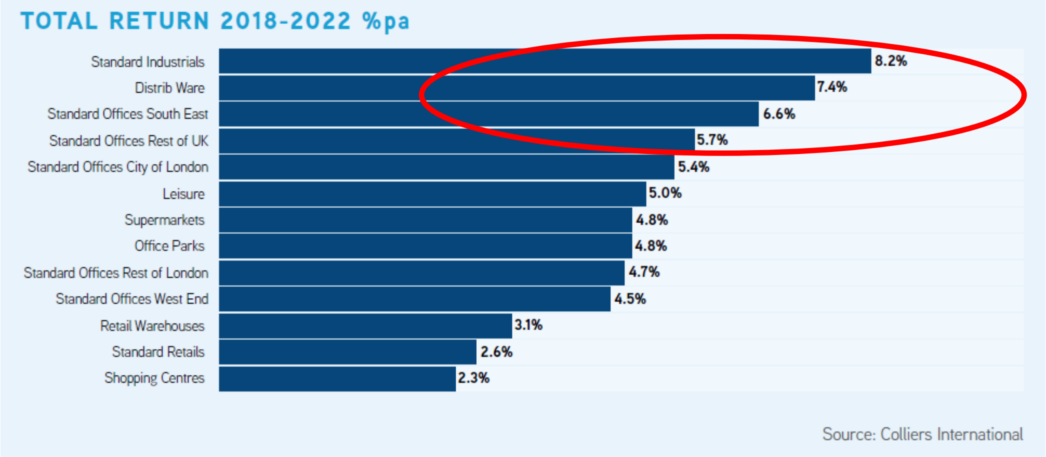
- Market outlook to 2022 supportive of the Palace strategy of focusing outside London, majoring on regional office and industrial assets in growth locations and minimising exposure to the retail sector.

- The benefit of a diversified portfolio should not be under-estimated: providing exposure to the strong industrial, distribution and regional office sectors, whilst limiting risk to the centre of London and under-pressure retail sector.

- We believe that above and beyond the UK-wide forecasts, the Palace portfolio will outperform, on the basis of careful stock selection and our focus on growth locations across the UK.





PERMITTED DEVELOPMENT IMPACT ON REGIONAL OFFICE STOCK

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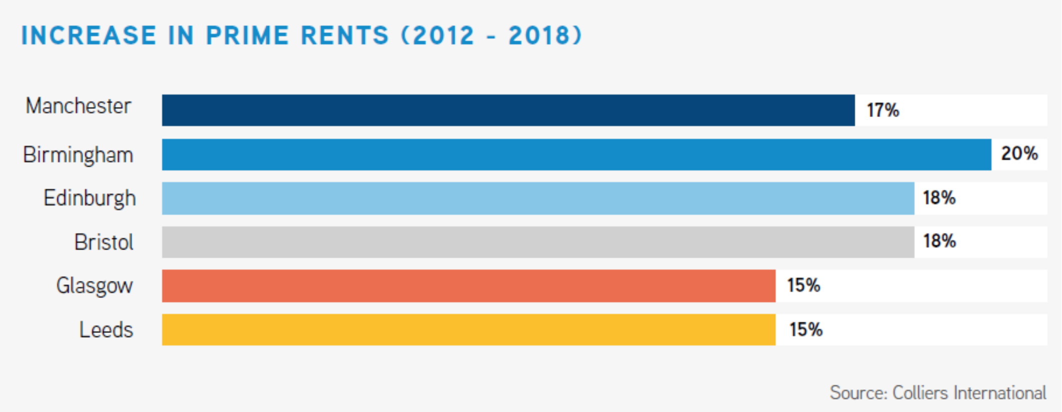
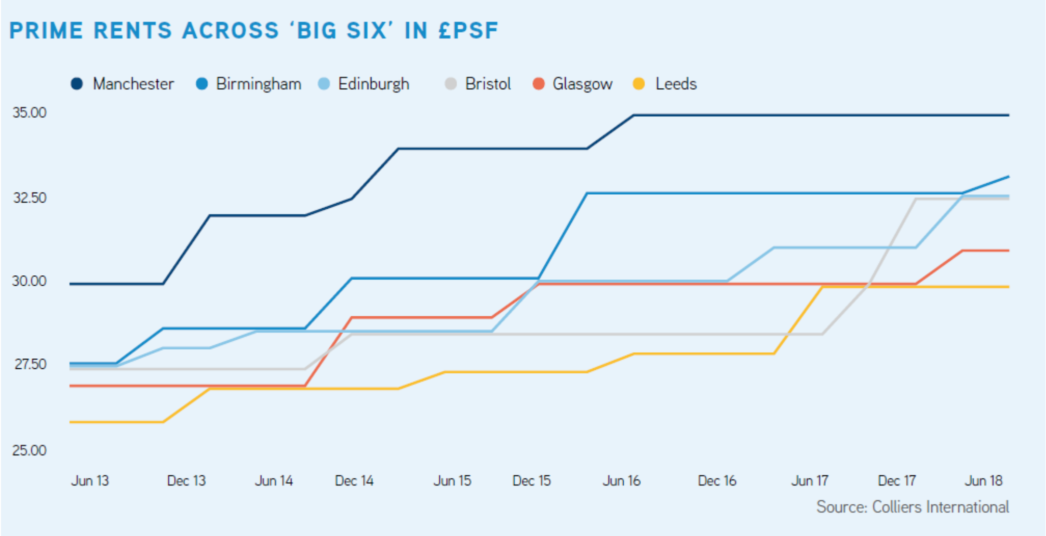
- Permitted development (P.D.) legislation was brought into recycle empty office space into alternative residential use to meet the needs of housing across the country.
- Due to the level of capital values required to make conversion projects viable this conversion has generally happened in more affluent areas where we have focused our acquisition strategy.
- We have built up a substantial office portfolio benefitting from a supply-demand imbalance in strong regional towns and cities due to P.D. combined with the lack of speculative office development in the regions since the financial crisis.
- Prime rents have increased between 15-20% across the 6 major regional cities in the UK in the past 6 years and Palace has exposure to 3 of these cities as well as significant representation in the equally strong Home Counties and the South East.





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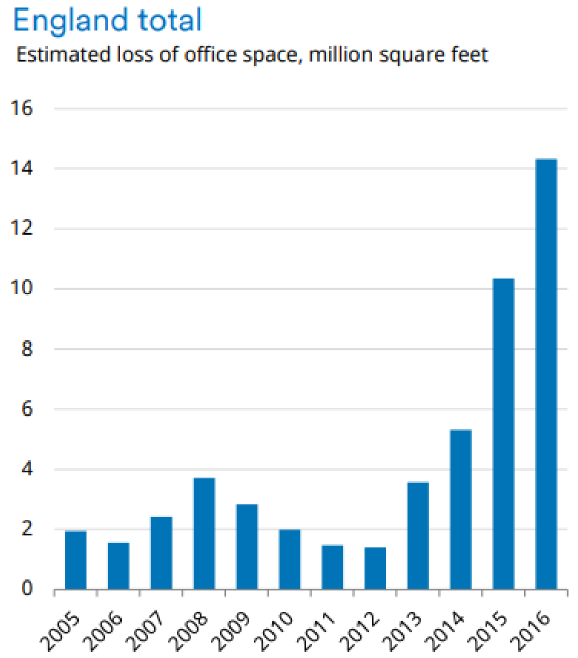
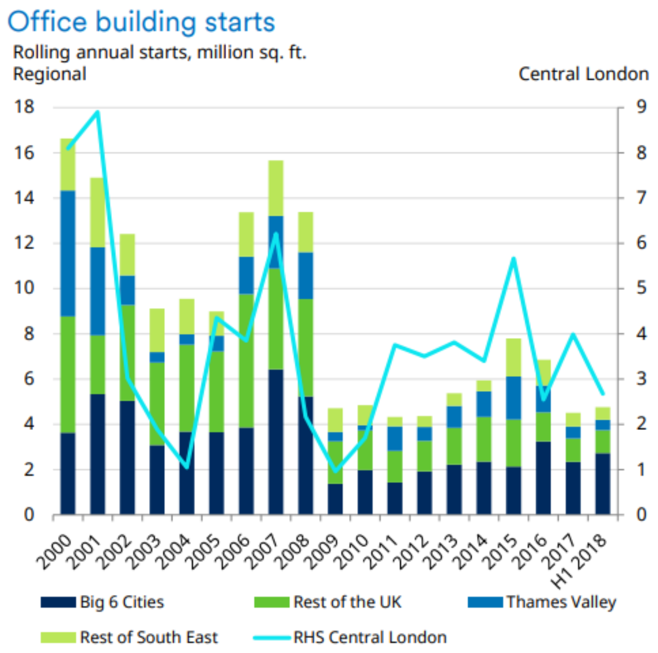
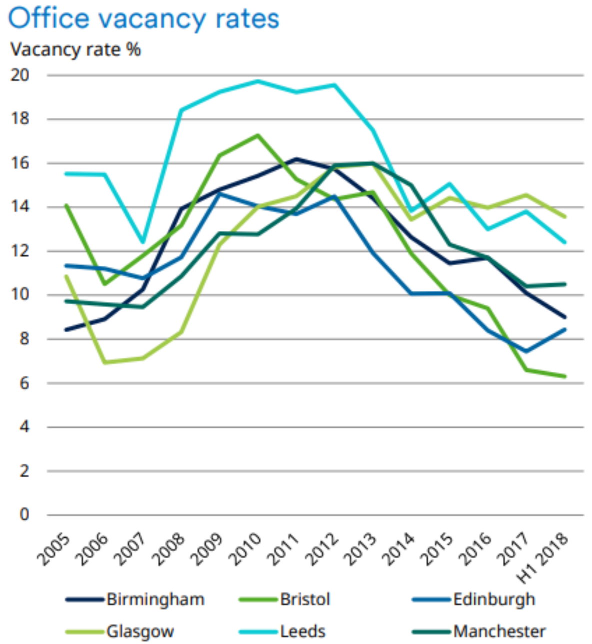
Sharp increase in conversions after the introduction of Permitted Development Rights (2013) resulting in significantly reduced regional office supply







Source: Centre for Cities, ONS Additional Dwellings

URBANISATION AND CONNECTIVITY – improvements underpin investments

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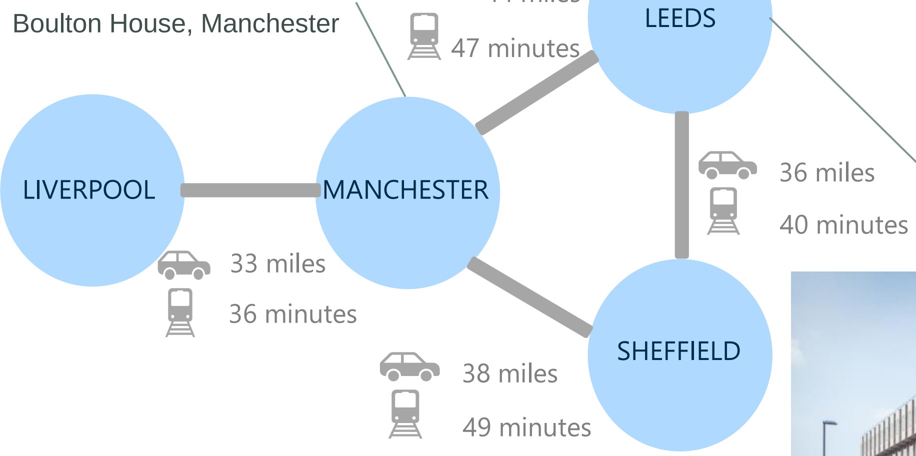
Boulton House, Manchester




St James' Gate, Newcastle


Bank House, Leeds

The Palace Capital acquisition strategy to date has been to focus on city centre offices in university towns and cities where a supply-demand imbalance exists. This provides significant income and capital growth opportunities.

The Northern Powerhouse is a prime example of a growth hub, and we own offices in 4 of the 5 cities.

HS2 High Speed Rail

- London to Birmingham. Possible completion 2026.
- Two spurs from north to Birmingham to a) Manchester and b) Leeds. Possible completion by 2033.

London Crossrail (Elizabeth Line)

- Connect Liverpool Street to Paddington and Heathrow.
- Phased opening through 2018-2019

London Crossrail 2

- To run from south west to north east London, connecting with HS2 at Euston.
- Possibly opening in 2030

Lower Thames Crossing

- Road tunnel connecting M25 in Essex to A2 in Kent.
- Provisional completion date 2025.

Varsity East – West Rail

- Oxford to Bedford via Bletchley, MK, to complete in 2019.
- Eventual plan to link Bedford to Cambridge via Sandy.

PORTFOLIO OVERVIEW

PALACE CAPITAL plc

OFFICE
34

INDUSTRIAL
14

RETAIL
11

LEISURE
2

RETAIL WAREHOUSE
1

DEVELOPMENT
1

RESIDENTIAL
62

TOTAL PROPERTIES
125

Portfolio value	£283.3m
Contractual Rental Income	£17.4m p.a.
Estimated Rental Value	£21.1m p.a.
WAULT (to break)	5.5 years (7.3yrs to expiry)
Occupancy	88%

DIVERSIFIED TENANT BASE WITH STRONG COVENANTS

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

The top 20 tenants contribute 44% of all contractual income. The majority are household names, providing secure income streams with strong credit ratings and low risk of default.

TOP 20 TENANTS

Tenant	Industry	Contracted Rent £'000
vue	Leisure	913
LOTTERY FUNDED	Charity	595
WALKER MORRIS	Legal	568
ACCOR HOTELS	Hotel	510
Eldon	Insurance	408
Wickes	Retail	401
Rockwell Automation	Auto	399
BLAKE MORGAN	Legal	360
exela TECHNOLOGIES	Technology	355
APCOA PARKING	Car Parking	345
brose Technik für Automobile	Auto	325
The Forensic Science Service	Government	322
D YOUNG & CO INTELLECTUAL PROPERTY	Legal	310
BRAVISSIMO	Retail	294
ALDI	Retail	291
Sutton	Local Authority	282
Calderdale and Huddersfield NHS Foundation Trust	Health	262
BOOKER	Retail	246
Redland	Construction	240
QUADRANT SYSTEMS	Aviation	240

Total Top 20 Tenants: Contracted Rent - £7.6m p.a.

GEOGRAPHY

Location	Exposure
North East	9.9%
North West	20.7%
South West	6.8%
South East	48.1%
Midlands	14.5%

RESIDENTIAL SECTOR

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- 65 properties acquired as part of the RT Warren in October 2017
- 3 properties sold in April 2018
- 2 properties retained for strategic reasons

- Contracts exchanged for the sale of 50 properties for £18.2m (reflecting 97% of book value) with completion by 31 March 2019

- 10 remaining properties to be marketed in January 2019

REGIONAL DEVELOPMENT

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York – Hudson Quarter

- Planning consent granted for 127 apartments, 34,500 sq ft offices, 5,000 sq ft of commercial and car parking within the city walls
- Demolition to complete in December 2018
- Plans to commence construction in February 2019
- Contractor to be appointed and development facility to be secured by the end of December
- Demand for residential & Grade A office space remains strong
- York voted by the Sunday Times as the Best Place to Live 2018
- Marketing & sales to be launched in June 2019 – website & re-branding launched October 2018: www.hudsonquarteryork.com

REGIONAL OFFICE SECTOR

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Manchester – Boulton House

- Purchased August 2016 for £10.45m
- 75,000 sq. ft. of multi-let offices in City Centre
- 18,000 sq ft vacant space & ground floor reception refurbished with 10,700 sq ft let at headline rentals of £18.50 psf
- Further refurbishments planned
- Since purchase new lettings of 10,700 sq ft completed

Milton Keynes – Kiln Farm

- Purchased in Sequel portfolio in 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. (£16.50 psf) 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

Newcastle – St James' Gate

- Purchased August 2017 for £20m
- 82,500 sq ft offices
- City centre multi let offices
- Recently vacated 3rd floor to be refurbished as well as the ground floor entrance and landscaping upgrade during Q1 2019 for £2m
- Limited new build offices in city centre

REGIONAL INDUSTRIAL SECTOR

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Bristol – Point Four Ind. Estate

- Purchased in Sequel portfolio in 2013
- 83,100 sq ft, multi-let estate in established location
- Expectation that rental values will remain over £6 psf
- Refurbishment of unit 8b following a tenant liquidation to complete December 2018

Verwood – Black Moor Road

- Purchased in RT Warren portfolio in 2017
- 65,700 sq ft, multi-let estate in established location
- Average rents at purchase of £5.25 psf
- Two lettings complete at £7psf ahead of anticipated rental tone.

Coventry – Courtauld House

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

REGIONAL LEISURE SECTOR

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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 and increased the footfall to the locality
- New centre manager appointed and marketing strategies initiated to boost interest in the 4 vacant units

Northampton – Sol Northampton

- Purchased in May 2015 for £20.7m & producing £1.4m per annum net income
- The casual dining sector is going through challenging times but green shoots are appearing
- External lighting and roof repairs completed
- New branding and marketing campaign launched
- New letting & managing agents appointed

REGIONAL RETAIL SECTOR

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York – Lendal / Museum Street

- Purchased in RT Warren portfolio in 2017
- Prime location within the City Centre
- 5,500 sq ft of lettable office space being comprehensively refurbished for £0.5m to complete in February 2019
- New letting of unit 3 completed & tenant trading
- Lease renewals on other retail units also completed

Gosport - Aldi

- Prime location in town centre
- New lease completed for 20 years at 17% increase in passing rent, now £291,000p.a.
- Secure income with the benefit of minimum uplifts every 5 years providing long term growth

LOOKING TO THE FUTURE

PALACE CAPITAL plc

- Significant opportunity remains in UK regional commercial real estate market
- Palace Capital is uniquely positioned to deliver sector-leading income & capital returns as a result of its disciplined investment strategy and careful stock selection
- Continue to source and execute off-market corporate transactions
- Large number of asset management opportunities in the portfolio to further drive income and values
- Patient approach to investment of available capital into opportunities that meet our strict investment criteria
- Confident in our continuing ability to deliver resilient and growing income and capital returns
- Established, experienced team and a high quality platform with a scalable business model and ambition to match

Driving Value ☑
Delivering returns ☑

APPENDICES

BIOGRAPHIES

Neil Sinclair
Chief Executive

Chartered Surveyor FRICS

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 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.

OUR STORY SO FAR

PALACE CAPITAL plc

- **July 2010** – Management taking Board control of the Company valued at £0.1m with a vision to invest in regional property.
- **October 2011** – Hockenhull Estates portfolio acquired for £1.8m consisting of nine properties.
- **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**– Six individual property acquisitions at values ranging between £4m and £24m focused in the office and leisure sectors. Locations included Halifax, Leeds, Manchester, Milton Keynes, Sutton and Newcastle.
- **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.
- **May 2018** – Joined FTSE Small Cap index subsequent to premium Main Market listing.

	31-03-2013	30-09-2018
MARKET CAP	£0.6m	£140.0m
PORTFOLIO SIZE	£2.0m	£283.3m
CONTRACTUAL RENTAL INCOME	£0.2m	£17.4m
TOTAL RETURN SINCE 2013		128%

FINANCIAL TRACK RECORD

PALACE CAPITAL plc

BALANCE SHEET	FY15	FY16	FY17	FY18	HY19
Property Portfolio	£102.8m	£173.4m	£183.2m	£276.7m	£283.3m
Net Assets	£80.0m	£106.8m	£109.6m	£183.3m	£186.6m
EPRA* NAV per Share***	393p	414p	443p	415p	421p
Loan to Value	23%	37%	37%	30%	30%

INCOME STATEMENT					
IFRS Profit Before Tax	£13.9m	£11.8m	£12.6m	£13.3m	£8.4m
Adjusted PBT**	£4.8m	£5.6m	£6.7m	£8.5m	£4.3m
Adjusted EPS	28.3p	18.9p	22.2p	21.2p	8.0p
Dividend per share	13.0p	16.0p	18.5p	19.0p	9.5p
Dividend cover	2.1x	1.2x	1.2x	1.1x	0.84x
Revaluation Gains	£9.8m	£3.6m	£3.1m	£5.7m	£3.9m

* *EPRA is the European Public Real Estate Association.*

** *Excludes non-recurring income and expenditure, revaluation gains on properties, realised profit on disposals and fair value movements on derivatives.*

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

DEBT SUMMARY

PALACE CAPITAL plc

Lender	Debt Facility (£m)	Debt Drawn (£m)	Debt Maturity	Hedging
Barclays	39.8	39.8	Jan-2023	£35.6m fixed
NatWest	29.9	14.9	Mar-2021	Includes £20m RCF
Santander	26.5	26.5	Aug-2022	£19.9m fixed
Lloyds	3.7	3.7	Apr-2019	100% floating
Scottish Widows	14.4	14.4	Jul-2026	100% fixed
	114.2	**99.2**	4.3 years	

	Mar-18	Sep-18
Property Portfolio	£276.7m	£283.3m
Gross Debt	£101.4m	£99.2m
Debt net of cash	£82.4m	£84.0m
Weighted average cost of debt	3.4%	3.5%
Loan to Value (LTV)	30%	**30%**
Fixed Debt	70%	70%
Interest cover	3.1x	3.2x

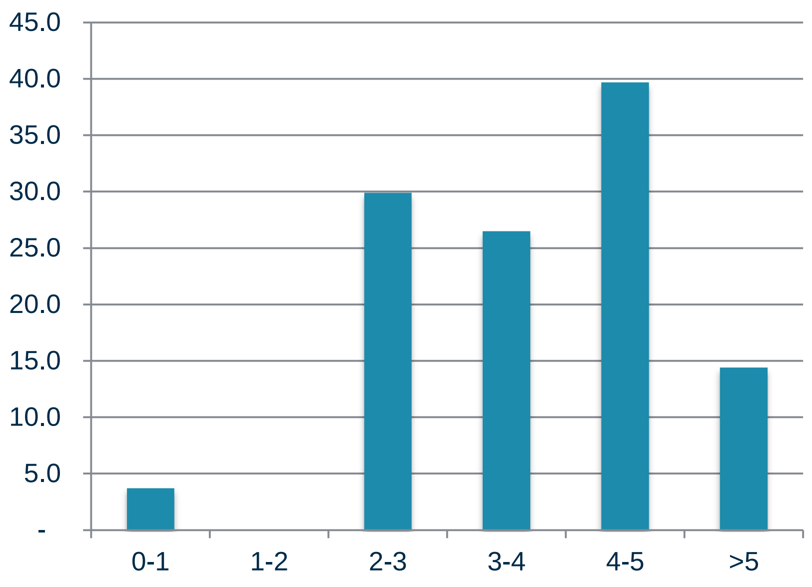
£114.2m
debt facilities

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

NatWest LLOYDS BANK Santander BARCLAYS SCOTTISH WIDOWS

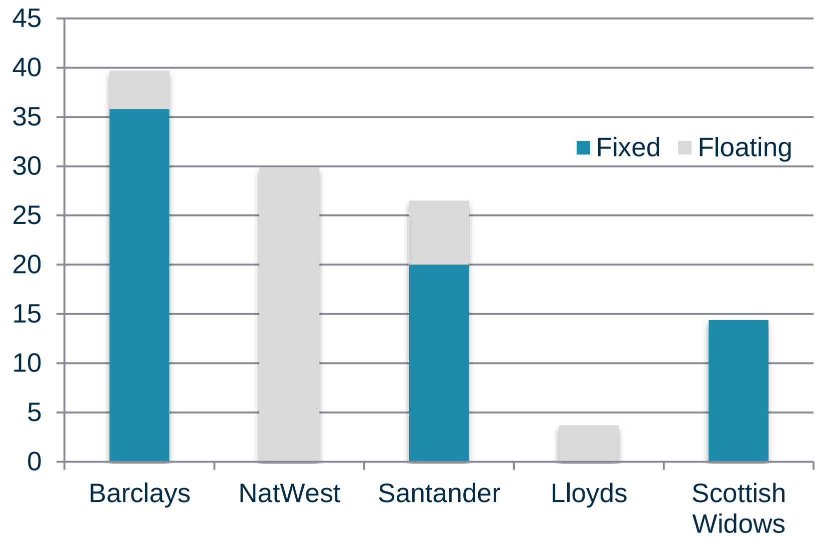
DEBT CHARTS

Debt maturity



The average debt maturity is 4.3 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.

A SELECTION FROM THE PORTFOLIO

PALACE CAPITAL plc

OVEST HOUSE, BRIGHTON

THE FORUM, EXETER

HARNHAM BUSINESS PARK, SALISBURY

SANDRINGHAM HOUSE, HARLOW

MIDSUMMER BLVD, MILTON KEYNES

FRASER HOUSE, STAINES

BRIDGE PARK, EAST GRINSTEAD

TOP 10 ASSETS BY VALUE

PALACE CAPITAL plc

Property Name	% of Portfolio by Market Value	Market Value 30 September 2018 (£)	Area (sq ft)	Gross rental income (£)	Net Initial Yield	Reversionary Yield*	WAULT to Break (yrs)
Broad Street Plaza, Halifax	8.2%	23,190,000	117,767	1,710,070	6.17%	7.11%	12.7
2 & 3 St James Gate, Newcastle	7.1%	20,000,000	97,695	1,756,272	8.17%	8.13%	3.4
Sol, Northampton	6.6%	18,875,000	129,703	1,789,991	7.43%	7.74%	7.6
Hudson Quarter, York	5.9%	16,850,000	n/a	n/a	n/a	n/a	n/a
Boulton House, 17-21 Chorlton Street, Manchester	5.1%	14,450,000	74,653	619,332	2.49%	7.98%	1.5
Bank House, 27 King Street, Leeds	3.8%	10,900,000	88,036	700,374	5.68%	9.34%	1.8
Kiln Farm, 2-4 Pitfield, Milton Keynes	3.2%	9,200,000	52,818	518,228	5.26%	8.26%	8.5
Units A & B, Imberhorne Lane, East Grinstead	3.0%	8,450,000	30,672	514,018	5.70%	5.39%	8.8
249 Midsummer Boulevard, Milton Keynes	2.8%	7,930,000	49,980	429,493	3.42%	8.16%	2.0
25 & 27 Black Moor Road, Verwood	2.6%	7,350,000	65,765	323,330	3.76%	5.87%	3.1
Total	**48.4%**	**137,070,000**	**707,087**	**£8,361,108**			

*Based on Cushman & Wakefield rental values

SECTOR SPLITS

	Market Value 30 September 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	123,595,000	43.6%	34	137	733,805	8,244,942	10,884,440	2.50	1,499,220
Industrial	40,595,000	14.3%	14	44	448,032	2,256,779	2,946,080	3.30	193,160
Retail Warehouses	8,450,000	3.0%	1	2	30,672	514,018	485,400	8.84	0
Retail	29,620,000	10.5%	10	67	142,684	2,133,110	2,540,222	7.08	314,300
Leisure	41,940,000	14.8%	2	31	247,470	3,500,061	3,341,875	10.10	428,350
Residential	22,282,500	7.9%	62	59		754,060	890,380		0
Development	16,850,000	5.9%	1	0					0
Total	**283,332,500**	**100%**	**124**	**340**	**1,602,663**	**17,402,970**	**21,088,397**	**5.5**	**2,435,030**

DISCLAIMER

PALACE CAPITAL plc

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