



PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

PALACE CAPITAL PLC INTERIM RESULTS

PERIOD ENDING 30 SEPTEMBER 2019

Palace Capital are experts in regional property investment.

Focused on unlocking value to deliver attractive total returns.

HIGHLIGHTS | STRATEGY | FINANCIAL REVIEW | PROPERTY REVIEW | CONCLUSION | APPENDICES

Introduction



NEIL SINCLAIR
Chief Executive



STEPHEN SILVESTER
Finance Director



RICHARD STARR
Executive Property Director

Regional focus continues to deliver positive performance

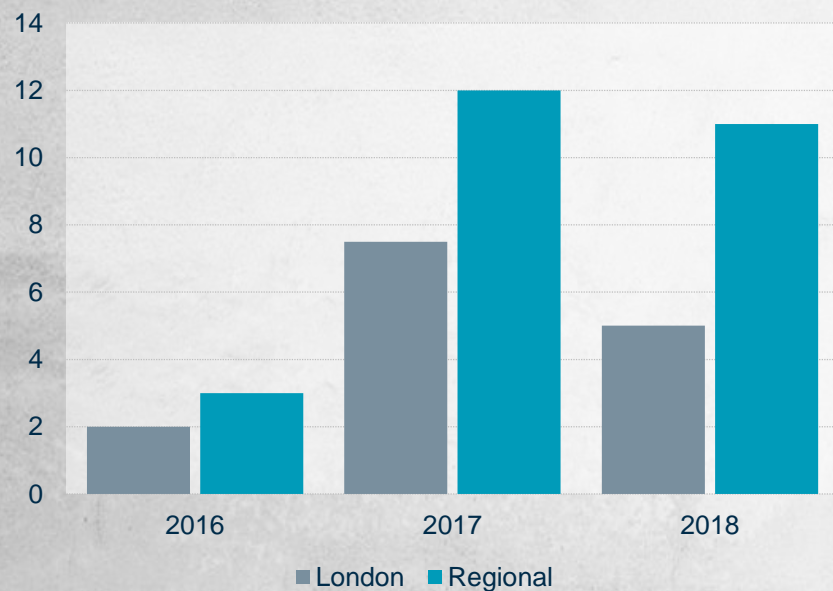
- Total property return of **1.5%** (MSCI Benchmark: 0.8%), 3 years of continued out-performance
- Hudson Quarter flagship development scheme in York, which includes 127 apartments with over **20%** already sold or under offer, on track for completion in January 2021
- Passing rent of **£16.3m** pa with significant reversionary potential (ERV: **£21.2m** pa)
- **26** lease events across **299,000** sq ft generating **£3.4m** annual rental income, an **uplift of £1.0m** on passing rent and averaging **6%** ahead of ERV
- WAULT increased to **5.2** years to break and **6.6** years to expiry (31 March 2019: 4.5 years to break) as a result of lease renewals and new lettings
- EPRA NAV per share **391p** (FY19: 407p) reduced by 3.9%
- Dividend maintained, Q2 dividend of **4.75p** declared and payable in December 2019
- REIT conversion on 1st August 2019 already delivering benefits

Supportive Regional Market Backdrop

- UK regional office market remains buoyant
- Manchester office take up for HY20 up 7% on HY19
- Leeds saw record take up in HY20, 41% ahead of HY19
- York office market remains tight, Hudson Quarter includes the first speculative office redevelopment in York over 30,000 sq ft this century
- Ever increasing activity in Liverpool with trend for occupiers relocating from out of town to city centres e.g. Sony, along with 1m sq ft of office space lost since 2014
- Investment market has remained subdued, with lower transaction volumes supporting our strategy to invest heavily in our portfolio

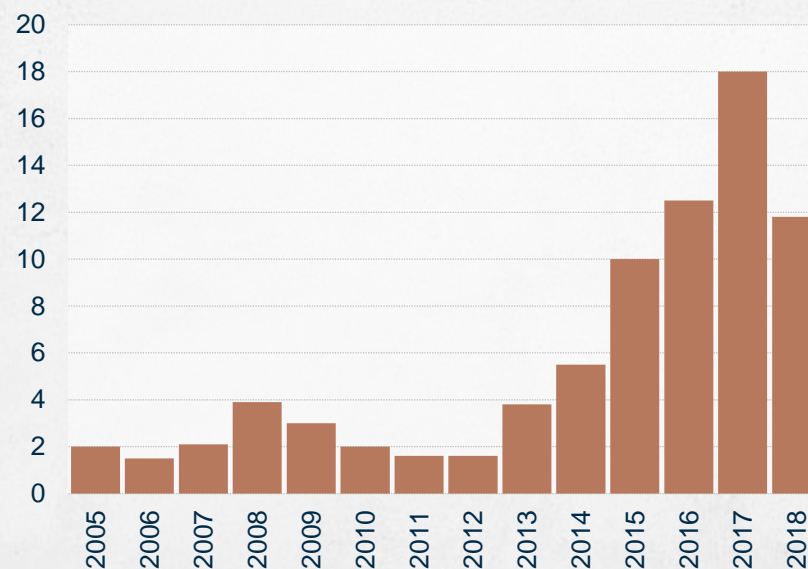
Regional returns outperforming London

London vs. regional UK office
(% p.a. total property returns)



Source: MSCI

Office conversion to residential
(England) (million. sq. ft.)



Source: Ministry of Housing, Communities, Local Government

Regional office returns have exceeded those generated by London every year since 2016.

Regional offices (48% of our portfolio) provide the strongest, risk-adjusted sector in the UK.

Reduction in office supply is driving rental value.

Supported by structural drivers and accelerating urbanisation trends.

Experts in regional property

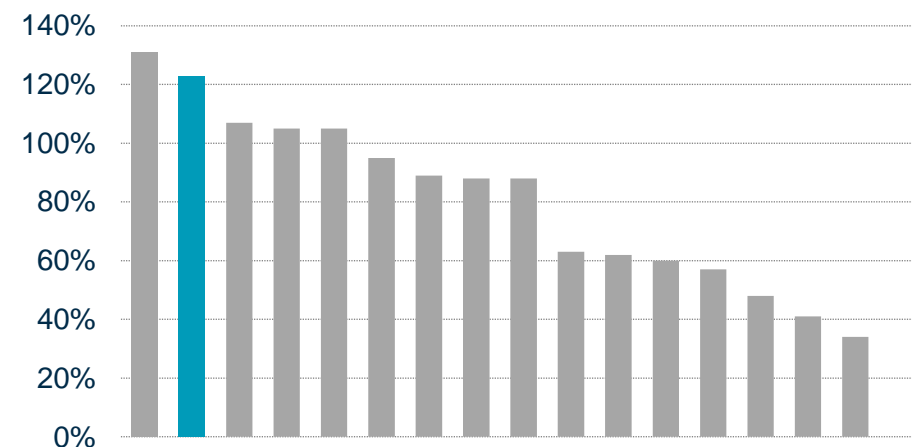
Palace Capital plc (PCA) is a property investment company with a regional focus delivering attractive total returns

- Management has a deep knowledge of the UK regions focusing on office and industrial sectors
- We drive income and capital growth through refurbishment and redevelopment
- Occupational market has been strong, driving our letting activity
- Limited investment opportunities in current market
- £9.7m equity invested in our portfolio in HY20 to unlock value and drive income and capital gains
- Strong track record delivering attractive returns



6 Year Total Accounting Return vs peer group

(EPRA NAV growth + dividends as at 30 September 2019)



Source: Arden Partners plc

Stephen Silvester
Finance Director

HY20: FINANCIAL REVIEW

Financial highlights

Robust financial performance

	HY20	HY19	FY19	Growth
INCOME				
Net property income	£10.7m	£8.1m	£16.4m	+32%
EPRA earnings	£6.7m	£3.5m	£7.6m	
Adjusted profit before tax*	£3.9m	£4.3m	£8.9m	
Adjusted EPS**	8.5p	8.0p	17.3p	+6%
Dividend per share	9.5p	9.5p	19p	
CAPITAL				
Property portfolio	£275.8m		£286.3m	
EPRA NAV per share	391p		407p	-3.9%
Net assets	£178.7m		£180.3m	-1%
Group LTV	34%		34%	
Average cost of debt	3.2%		3.3%	

*Excludes non-recurring income and expenditure, property revaluations, profit/losses on disposal and fair value movements

**Adjusted profit before tax less corporation tax charge (excluding deferred tax movements) divided by the weighted average number of shares in the period.

REIT conversion

1st August 2019

- Supports our total return strategy by maximising dividends
- Eliminates tax on rental profits, saving over £1m pa, adding +2 pps to earnings
- Expected to broaden shareholder base and increase liquidity in shares
- £3.7m credit to the income statement for REIT exempt deferred tax previously recognised
- First PID payable 27 December 2019



Regency House, Winchester

Balance sheet

Well positioned to support growth

	HY20 £m	FY19 £m
Property portfolio	275.8	286.3
Cash	14.0	22.9
Other assets	8.8	7.1
Borrowings	(106.8)	(118.0)
Deferred tax liabilities	(0.2)	(5.6)
Other liabilities	(12.9)	(12.4)
Net assets	178.7	180.3
EPRA NAV per share	391p	407p
Group LTV	34%	34%

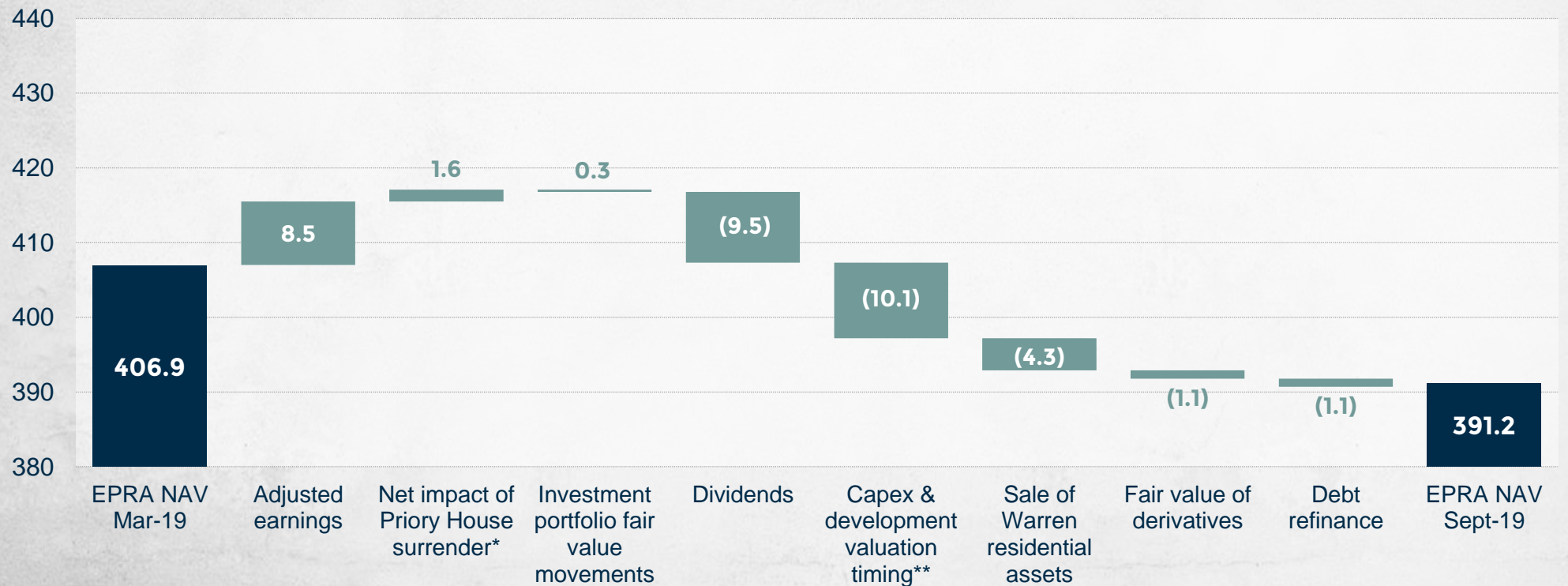
£14.0m cash available and
£20m RCF facility undrawn

Group LTV of 34% and within
our target range of 30-40%

£3.7m of deferred tax liability
wiped off the balance sheet on
REIT conversion

EPRA NAV per share

Movements
in EPRA NAV
per share for the
period ending
30 September 2019
(Pence)



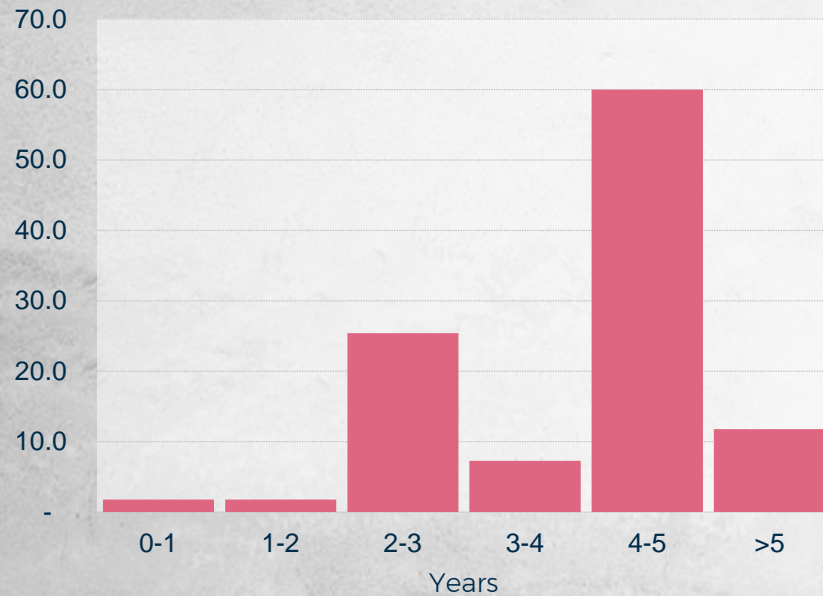
*Surrender premium received of £2.85m less fair value revaluation loss of £2.1m: net impact +£0.75m = +1.6p

**Time lag between completing capital works and letting refurbished space/completing development

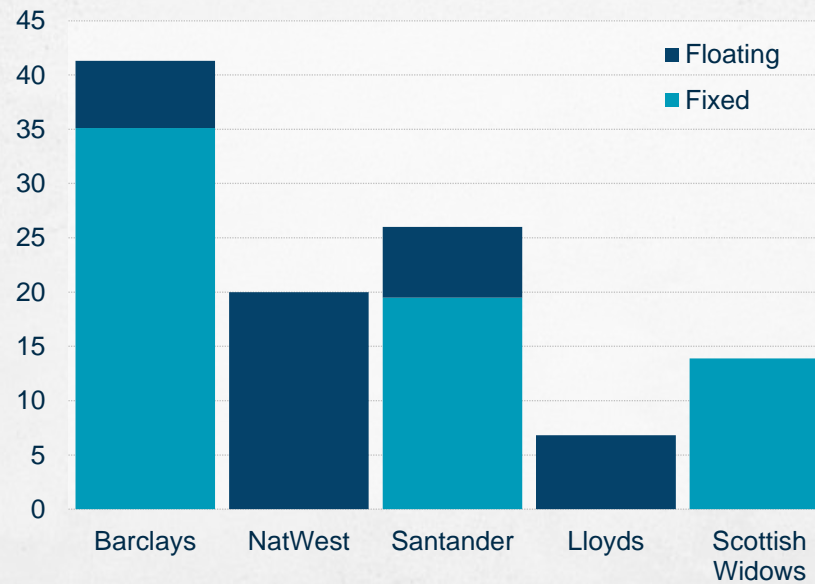
Debt maturity & hedging

Sustainable capital structure

Debt maturity
(£m)



Fixed/Floating
(£m)



Group LTV at 34% within target range

Average debt maturity of 4.5 years

Average cost of debt 3.2%

Fixed/hedged: 63%

Headroom on debt covenants

Recurring earnings supporting dividend

	HY20 £m	HY19 £m	Growth	FY19 £m
Recurring rental income	9.1	9.2	-1%	18.8
Property operating expenses	(1.2)	(1.1)		(2.4)
Recurring net rental income	7.9	8.1	-2%	16.4
Administrative expenses*	(2.1)	(1.9)		(3.8)
Net finance costs	(1.9)	(1.9)		(3.7)
Adjusted profit before tax	3.9	4.3		8.9
Adjusted EPS**	8.5p	8.0p	+6%	17.3p
Dividend per share	9.5p	9.5p	-	19.0p
Dividend cover	0.90x	0.84x		0.91x
Weighted average no. shares	45.9m	45.8m		45.9m

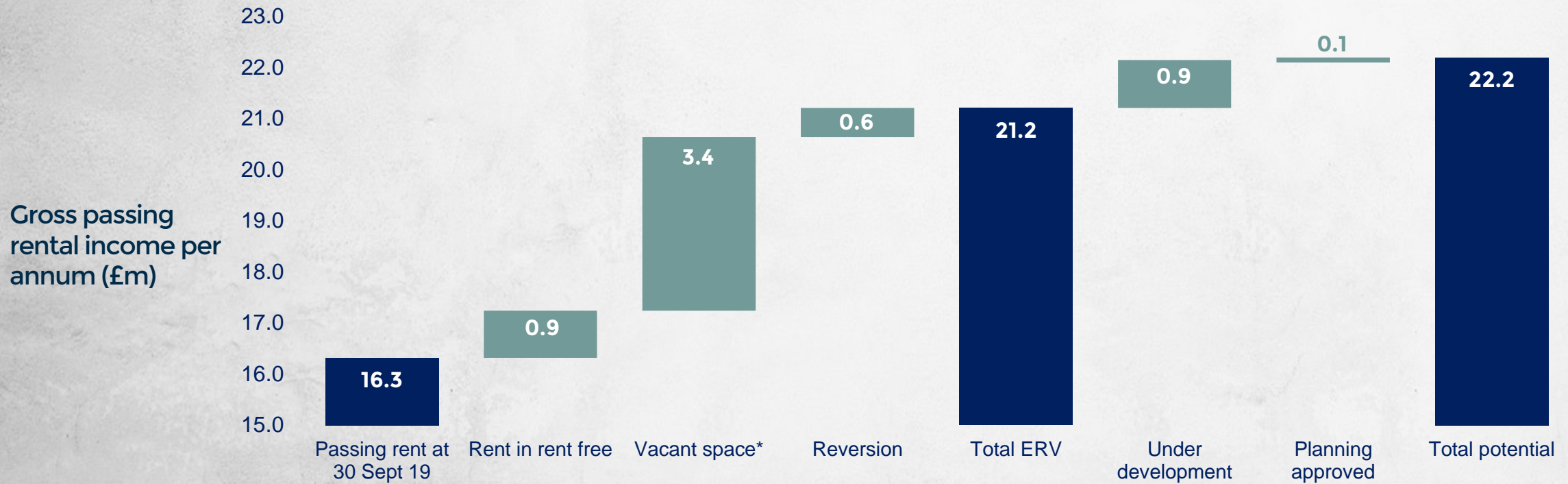
*Administrative expenses increased in period as a result of an accounting adjustment relating to the new IFRS 16 standard on our head office lease and professional fees for advice on REIT conversion

**Adjusted profit before tax less corporation tax charge (excluding deferred tax movements) divided by the weighted average number of shares in the period.

Adjusted EPS increased 6% to 8.5p

Dividend maintained at 9.5p, 90% covered

Substantial opportunity to grow rental income by +30%



Source: Cushman & Wakefield

*Vacant space increased from £2.8m since 31 March 2019 as strategic decision to take back space and refurbish to capitalise on rental growth

PROPERTY REVIEW

Richard Starr **Executive Property Director**

PROPERTY REVIEW

Active Management Strategy

Unlocking portfolio value

- Hudson Quarter, York: Development commenced February 2019, remains on time and on budget. Over **20%** of residential units sold or under offer
- Planning consent secured for **28** apartments & 4,000 sq ft of retail space at High Street, Weybridge
- **£13.2m** of disposals including remaining non-core residential units from Warren portfolio
- **£9.7m** capital expenditure delivering long term portfolio improvement
- **26** lease events (12 lease renewals, 5 rent reviews & 9 new leases) across **299,000 sq ft** generating **£3.4m** annual rental income, an **uplift of £1.0m** on passing rent and averaging **6%** ahead of ERV
- Lease surrender with premium of **£2.85m** received in Birmingham
- Overall EPRA occupancy reduced to **84%** (FY19: 87%) through active refurbishment strategy
- Adjoining site to our 28,000 sq ft holding in Aldershot acquired for £0.2m and new 10 year lease completed, resulting in value uplift of **52%** (£0.98m)



Regional portfolio

Focused on office & industrial growth sectors

Core Sectors



Geography

● South East	30.2%
● Midlands	19.0%
● North East	21.9%
● North West	19.1%
● South West	9.8%



How we deliver value: Hudson Quarter Development

- Construction of 127 apartments, 35,000 sq ft offices, 5,000 sq ft of commercial and car parking
- On time and on budget - expected to complete January 2021
- GDV £69m – expected surplus +£10m
- Development facility secured with Barclays for £26.5m
- Demand for residential & Grade A office space remains strong
- York voted Best Place to Live 2018 by Sunday Times

www.hudsonquarteryork.com



Alternative Use: Commercial → Mixed use

- Full evaluation undertaken to maximise shareholder value in wealthy Surrey commuter town
- Planning consent granted in July 2019 for a development of 28 apartments and 4,000 sq ft of retail space
- The apartments will either be 1 or 2 bedroom, which have strong demand
- GDV of £13.5m



High Street, Weybridge

Refurbishment:

- 44% valuation uplift since acquisition in August 2016 for £10.6m, (£4.6m uplift including £0.8m part-refurbishment)
- Average rents of £12 psf at purchase, Headline rentals now £18.50 psf following refurbishment
- Since purchase, increase of WAULT to break from 1.72 years to 2.03 years
- Medium term development opportunity with leases expiring during 2024



Boulton House, Manchester






Repositioning:

- Challenging leisure market for last 3 years
- 90% let following new lettings to Soo Yoga and Gravity Fitness in 2019
- £226,000 per annum added to the annual rent roll, reflecting a 14% uplift on previous net passing rent
- Transformational refurbishment plans being finalised to complete turnaround of asset
- 21,000 sq ft remains available with improving occupier demand



Value creation

Future upside within the portfolio

	Status	Historic Performance	Future Potential	Timing	
	Hudson Quarter, York	Construction of new development of 127 apartments, 35,000 sq ft offices, 5,000 sq ft of commercial and car parking on time and budget	Acquired in 2013 for £3.8m. Uplift in value to date: £20.4m	GDV £69m Development profit £10m forecast +20pps to NAV	Forecast to complete during year end 31 March 2021
	High Street, Weybridge	Planning consent achieved for development of 28 residential units and 4,000 sq ft of retail space	Acquired in 2014 for £3.5m. 5 years of income, now predominantly vacant and being stripped out	GDV £13.5m	Forecast to complete during year end 31 March 2022
	Boulton House, Manchester	Centrally located office of 75,000 sq ft 18% vacant space refurbished available. Further common area upgrade to be carried out.	Acquired in 2016 for £10.6m +44% uplift in value to date	£1.36m ERV vs £0.87m passing net rent received showing +56% potential rental growth and positive impact on capital value	Within the next 18 months
	249 Midsummer Boulevard, Milton Keynes	City centre offices. Lease expiries in June 2020 provides opportunity for refurbishment and increasing ERV	Acquired Feb 2016 for £7.2m +6% uplift in value to date	£0.63m ERV vs £0.43m passing rent showing +47% potential rental growth and positive impact on capital value	Within the next 18 months
	Sol, Northampton	City centre leisure scheme of 190,000 sq ft	Acquired in 2015 for £20.7m. £4.0m surrender received, with current value of £16.5m	£1.65m ERV vs £1.34m passing rent. Occupancy up from 70% at the start of the year to 90% following new lettings in 2019. Transformational refurbishment plans being finalised to complete turnaround of asset	Within the next 18 months

Planned Non-Core Disposals:

- Non-core assets (predominately vacant) earmarked for disposal in H2. These are all uncharged:
 - London Court, Southampton comprising 11,684 sq ft
 - Meadowcourt I & III Sheffield comprising 16,161 sq ft (under offer)
 - Priors House, Birmingham comprising 63,112 sq ft (under offer)
 - 124 – 126 Above Bar Street, Southampton comprising 9,449 sq ft
-
- These disposals will increase the portfolio occupancy to **87%**, reduce our shortfalls by **£0.5m** per annum, and generate **£2.75m** of equity



London Court, Southampton

Confident outlook for regional strategy

Income and capital growth

- Significant capex & development of **£9.7m** in our portfolio HY20 as confident we hold the **right assets** in the **right locations** in the **right sectors** with value-add potential
- **£13.2m** of disposals including remaining non-core residential units from Warren portfolio completed
- **+30%** income reversion within portfolio:
 - Repositioning city centre office assets with short WAULT of **3.2yrs**
 - **+£5.0m pa** potential future income growth
- Capital growth upside:
 - **£10m** surplus forecast at HQ York
 - Planning granted on High Street, Weybridge
- Q2 Dividend of **4.75p** payable 27 December 2019, annual level maintained at **19.0p** (6.5% yield on recent share price)

**Regional
expertise
continues to
deliver**





PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

APPENDICES

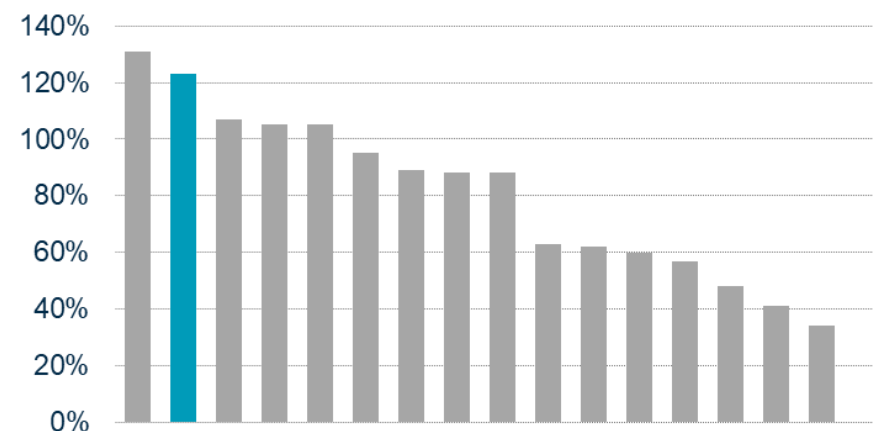
Our story so far

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
2015-2017	Seven individual property acquisitions at values ranging between £4m and £24m focussed in the office and leisure sectors.
October 2017	Acquisition of the R.T. Warren Portfolio for £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 and All Share indices
December 2018	One Derby Square, Liverpool acquired for £14.0m
August 2019	Converted to a UK REIT on 1 st August 2019

	31-03-2013	30-09-2019
Net asset value	£0.6m	£178.7m
Property portfolio	£2.0m	£275.8m
Contractual rental income	£0.2m	£16.3m
Total Accounting Return since 2013		123%

6 Year Total Accounting Return vs peer group

(EPRA NAV growth + dividends as at 30 September 2019)

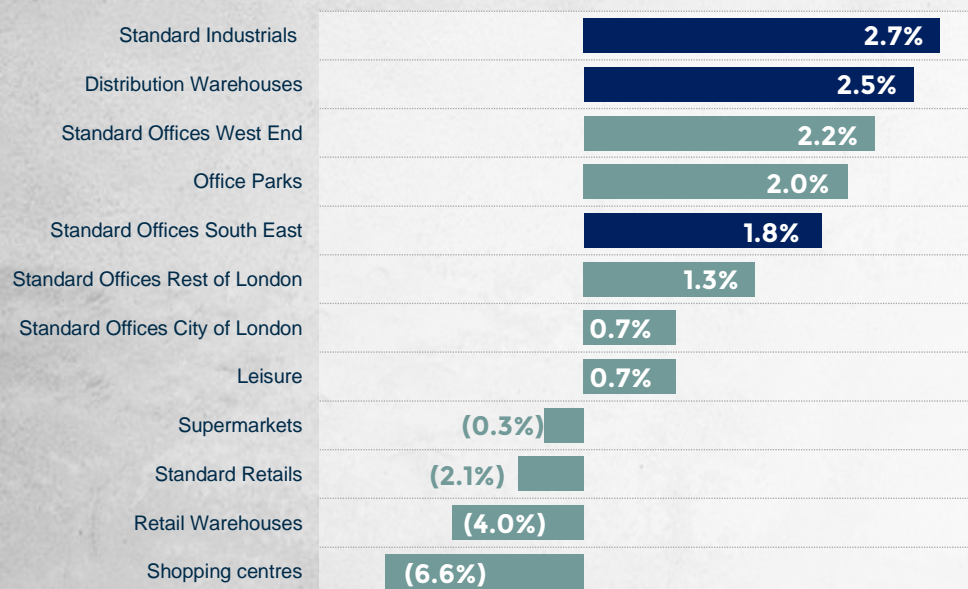


Source: Arden Partners plc

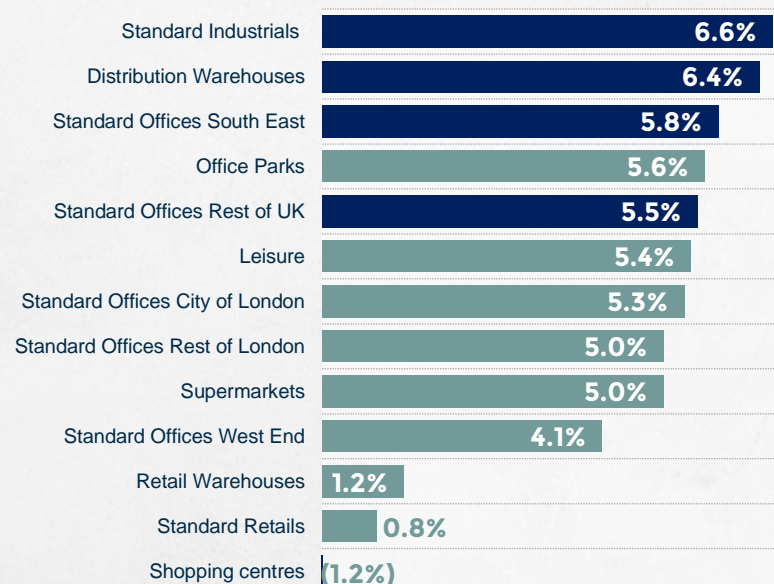
Outlook supports regional strategy

Focus on office and industrial sectors

ERV Growth 2019 - 2023 % pa



Total Return 2019 - 2023 % pa



Market outlook supports Palace Capital regional strategy.

Focus on regional office and industrial sectors which show strong forecast returns.

Our portfolio has limited exposure to retail.

Source: Colliers International 2019

■ Palace Capital focus

Positive impact of Urbanisation and increased connectivity

The Northern Powerhouse is a prime example of a growth hub, where investment in road and rail connectivity is expected to support rising rents and growth.

Graduate retention is high in strong regional cities and we are seeing a definite trend for companies moving into strong inner-city locations as staff turnover is far lower than out-of-town locations.

Palace has targeted acquisitions to capitalise on these trends, with office buildings in city centres across the Northern Powerhouse.

BOULTON HOUSE, MANCHESTER



ONE DERBY SQUARE, LIVERPOOL



ST JAMES' GATE, NEWCASTLE



BANK HOUSE, LEEDS

Financial track record

Balance Sheet	FY16	FY17	FY18	FY19	HY20
Property portfolio	£173.4m	£183.2m	£276.7m	£286.3m	£275.8m
Net assets	£106.8m	£109.6m	£183.3m	£180.3m	£178.7m
EPRA NAV per share	414p	443p	415p	407p	391p
Group LTV	37%	37%	30%	34%	34%
Income Statement					
Adjusted profit before tax*	£5.6m	£6.7m	£8.5m	£8.9m	£3.9m
Adjusted EPS	18.9p	22.2p	21.2p	17.3p	8.5p
Dividend per share	16.0p	18.5p	19.0p	19.0p	9.5p
Dividend cover	1.2x	1.2x	1.1x	0.9x	0.9x

* Excludes non-recurring income and expenditure, property revaluations, profit/losses on disposal and fair value movements

£154.6m debt facilities

Strong relationship with existing lenders.

Low cost of debt maintained and conservative LTV.

63% debt fixed/hedged to mitigate interest rate risk.

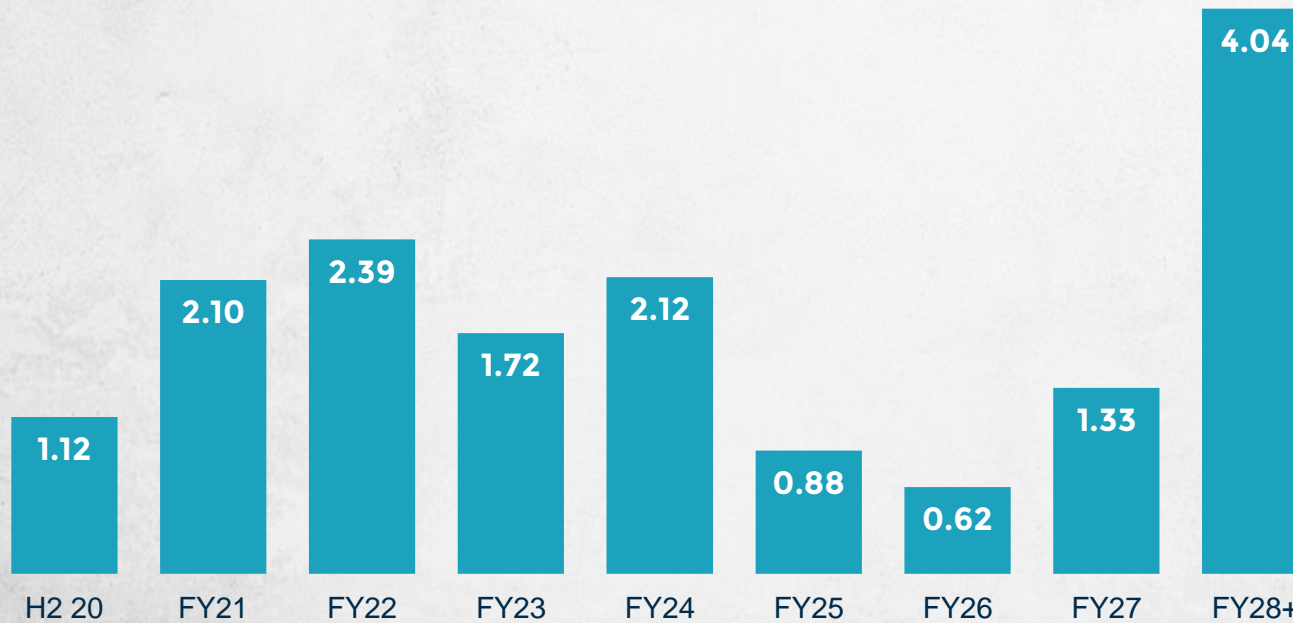
Lender	Debt Facility (£m)	Debt Drawn (£m)	Debt Maturity	Hedging
Barclays	41.3	41.3	Jun-2024	£35.1m fixed
NatWest (RCF)	40.0	20.0	Aug-2024	100% floating
Santander	26.0	26.0	Aug-2022	£19.5m fixed
Lloyds	6.9	6.9	Mar-2023	100% floating
Scottish Widows	13.9	13.9	Jul-2026	100% fixed
Barclays (development facility)	26.5	0.0	Oct-2021	100% floating
	154.6	108.1	4.5 years	

	Mar-19	Sept-19
Property portfolio	£286.3m	£275.8m
Gross debt	£119.4m	£108.1m
Net debt	£96.5m	£94.1m
Average cost of debt	3.3%	3.2%
Group LTV	34%	34%
Fixed debt	59%	63%
Interest cover	3.3x	4.5x



Income security supported by diversified portfolio

Lease expiries to first break by gross rental income (£m)























Clear income visibility with WAULT of 5.2 years to first break.

Diversified and sustainable portfolio

By tenant and industry

Top 20 tenants
make up 45% of
passing rents

Tenant	Industry	Contracted Rent £'000
 Vue	Leisure	913
 Rockwell Automation	Auto	544
 ACCOR HOTELS	Hotel	510
 LOTTERY FUNDED	Charity	444
 brose Technik für Automobile	Auto	432
 Eldon INSURANCE GROUP	Insurance	409
 Wickes	Retail	401
 BLAKE MORGAN	Legal	360
 exela TECHNOLOGIES	Technology	355
 APCOA PARKING	Car Parking	345

Tenant	Industry	Contracted Rent £'000
 D YOUNG & CO INTELLECTUAL PROPERTY	Legal	310
 BRAVISSIMO	Retail	294
 ALDI	Retail	291
 Sutton	Local Authority	283
 QUADRANT SYSTEMS	Aviation	280
 NHS Calderdale and Huddersfield NHS Foundation Trust	Health	262
 BOOKER	Retail	246
 serco	Public Services	246
 Redland	Construction	240
	Automobile Repair	227

Good income
visibility with broad
spread across a diverse
tenant base

Sector splits

Regional Office and Industrial focus

	Market value 30 September 2019 (£)	% of Portfolio by market value	No. properties	No. leases	Area (sq ft)	Contractual rental income p.a. (£)	ERV (£)*	WAULT (yrs)	Total ERV of void (£)
Offices	132,465,000	48.0%	31	121	789,902	7,612,960	12,091,030	3.2	2,786,397
Leisure	40,015,000	14.5%	2	21	306,970	3,427,545	3,283,049	9.6	228,418
Industrial	38,630,000	14.0%	10	34	409,593	2,425,096	2,742,190	3.8	129,300
Development	27,225,000	9.9%	2	-	-	-	-	-	-
Retail	25,395,000	9.2%	8	45	128,171	1,927,681	2,243,021	6.6	260,400
Retail Warehouses	11,310,000	4.1%	2	3	59,478	759,964	679,800	7.2	-
Car Parking	760,000	0.3%	2	2	8,660	163,132	177,000	2.7	-
Total	275,800,000	100%	57	226	1,702,774	16,316,378	21,216,090	5.2	3,404,515

* Based on Cushman & Wakefield estimated rental values

Top 10 assets by value

54% of total portfolio

Property Name	Area (sq ft)	Gross rental income p.a. (£)	Reversionary yield*	WAULT to break (yrs)
Hudson Quarter, York development	n/a	n/a	n/a	n/a
Broad Street Plaza, Halifax	117,767	1,765,883	6.90%	11.9
2 & 3 St James Gate, Newcastle	99,125	964,913	8.31%	4.8
Sol, Northampton	189,203	1,661,662	7.69%	7.2
Boulton House, 17-21 Chorlton Street, Manchester	74,653	666,859	7.83%	2.0
One Derby Square, Liverpool	70,161	1,046,776	8.12%	3.5
Kiln Farm, 2-4 Pitfield, Milton Keynes	52,818	663,617	7.56%	7.5
Bank House, 27 King Street, Leeds	88,036	141,157	9.44%	3.6
Units A & B, Imberhorne Lane, East Grinstead	30,672	514,018	5.68%	7.8
249 Midsummer Boulevard, Milton Keynes	49,713	431,281	8.64%	1.1
Total	772,148	7,856,166		

* Based on Cushman & Wakefield estimated rental values

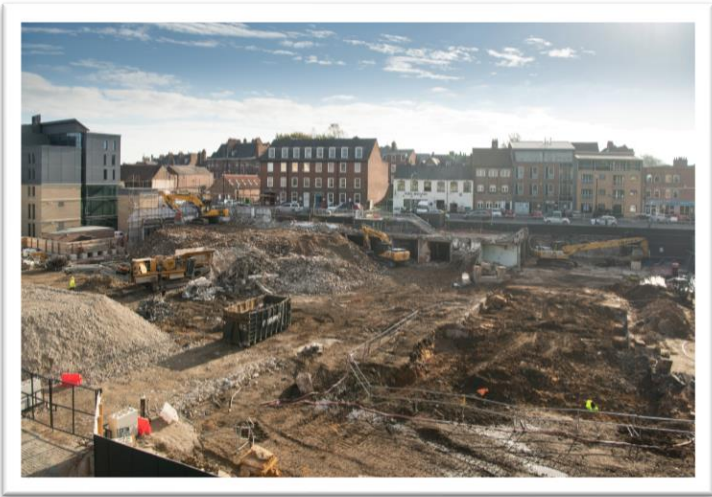
Asset management:

- Valuation increase of 52% reflecting £980k uplift in value
- Tactical acquisition of adjoining land for £200,000 to consolidate holding, extending occupational lease and fixing future rental income
- A new 10 year lease to BHW Automotive extending the term by 6 years to 10 years, and increasing the initial rent by 4% or £10,000 per annum
- The new lease incorporates a 10% fixed increase after year 5 to £250,254 per annum



Blackwater Way, Aldershot

Hudson Quarter Timeline



Sep 2013
Acquired as part of
Quintain portfolio

Feb 2016
Planning
permission
granted for
conversion

Aug 2017
Planning
permission for
development
granted

Dec 2018
Demolition
completed

Feb 2019
Funding secured
from Barclays

2019
Ground-breaking
ceremony with
Archbishop of York

2021
Completion
scheduled for Q1
2021



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 FCA

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 and prior to that was Head of Finance at St Hilliers, a construction, development and property fund management business in Australia.



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.

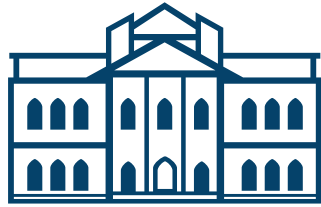


Disclaimer

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This presentation should also be read in the light of the Company's interim results announcement for the period ended 30 September 2019. No statement in this document is or is intended to be a profit forecast or profit estimate or to imply that the earnings of the Company for the current or future financial years will necessarily match or exceed the historical or published earnings of the Company.



PALACE CAPITAL plc