Hammerson
Full Year Results Presentation
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Speakers

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Questions From

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Introduction & Key Highlights

Rita-Rose Gagné, Chief Executive
Good morning everyone and thanks for joining our 2022 Full Year Results.

As usual, I will give you an overview of the year, Himanshu will run you through the numbers, and I will come back and talk about the continued execution of our strategy and what to look for over the next year.

Before I start, there are three key points I'd like you to take away today. As you will see, this is a very different business from the one I jumped into at the end of 2020.

In the last two years we have driven significant change and strengthened our operational grip on the business, against a very volatile economic backdrop.

Today we are a better, more agile and more resilient business.

Secondly, we have a unique asset footprint, in some of the best cities and are well positioned to benefit from the positive trends we see emerging in the constantly evolving consumer landscape.

Third, there is substantial deeper repurposing and development value to unlock in our portfolio.

So let's dive into the year that just passed. Let's start with what we said and what we did. We said we would stabilise our core cash flows, and we have done just that by enlivening and reinvigorating our assets, introducing new occupiers, uses and concepts.

More focus has been put on placemaking and a strategic partnership mindset with occupiers. This is reflected in underlying top line growth of 8%.

I am pleased with the 29% underlying growth in NRI as it reflects the constant work of the teams to sharpen operations and minimise voids and irrecoverable outgoings. We also delivered a 60% increase in adjusted earnings.

We had our strongest year for leasing since 2018, signing 317 leases, representing £45m of headline rent, well ahead of previous passing and ahead of ERV. This continues into 2023.

We have continued to see a flight to quality from occupiers and consumers. That is reflected in a tight occupancy at 96%.

We said we would optimise that cash flow further by unlocking value on the existing estate.

We have completed and are progressing key repurposing projects while working up other opportunities.

We said we would create optionality by hitting key development milestones, and we have. I'll talk to specific examples of all the above later.

We said we would generate capital to reduce debt and recycle to the highest returning opportunity. We made £195m of disposals and remain on track for a further £300m. This enabled us to reduce debt.

Notwithstanding downward revaluations at the end of the year, we have maintained a stable balance sheet.

Now, over to Himanshu to run you through the numbers.

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Financial Review

Himanshu Raja, Chief Financial Officer
Thank-you, Rita-Rose and good morning everyone.

Turning to the Full Year 2022 Financial Performance. Let's jump right in.

The numbers are testament to the significant progress we have made over the last two years.

Adjusted NRI was £175m and that was after the loss of earnings from the disposal of Silverburn and Victoria Leeds in the first three months of the year.

On the like-for-like portfolio, GRI grew by 8% as a result of the strong leasing performance and improved occupancy in 2021 and 2022.

Like-for-like NRI was up 29%. This was of course in part a function of the lower 2021 opening position from taking COVID related concessions into that year. But even stripped of this, the underlying NRI growth was strong benefitting both from the growth in the top line and better rent collections with an overall gross to net margin of around 80%.

Adjusted earnings were £105m benefitting from the improvement in like for like net rental income, lower admin costs, a reduction in finance costs and a strong recovery in Value Retail.

Our total portfolio is valued at £5.1bn, down a net 5% during the year which was a function of the disposals and £282m revaluation deficit, 96% of which was at the end of the year.

Our total return was a minus 0.7% with capital returns of minus 5.8% somewhat mitigated by the strong income return of 5.3%.

Our NTA per share has reduced 11 pence during the year to 53 pence.

Net debt stands at £1.7bn, down 4%. And our resulting headline LTV is 39%, and LTV on a fully proportional basis is 47%

Turning first to the adjusted earnings walk, starting with the £80.9m reported earnings for 2021.

We see a £15.4m reduction in the opening balance due to the IASB change in accounting in relation to concessions, more information was provided on this in our release on the 22nd of February.

The effect of this was to take COVID-related concessions into the year in which they were granted, and therefore provides a much cleaner basis for going forward. It also has no impact on future earnings and cashflow. Our restated earnings were £65.5m for 2021.

From that base NRI grew by £20.7m on a net basis. Like for like NRI growth was £32m as shown in the call out box - this was from the flow through of the strong leasing performance in 2021 and the 2022 and improved collections. 2022 rent collections are 95%. This compares with 90% when we reported this time last year.

It's fair to say that after the disruptive years of COVID, rent collection has pretty much normalised. We continue to retain a strong operational grip in this area - collections for the first quarter of 2023 are already at 90%.

The NRI growth from the like for like portfolio was offset by a £11m decline in our development portfolio which was largely due to the prior year effect of surrender premiums.

Moving across the page, net finance costs reduced by £17.8m from the 4% reduction in net debt and from the active cash management of cash on the balance sheet to take advantage of higher rates.

Our gross administration costs were down £11.9m as we continued to re-set our platform. We have more to do here and more opportunity - a topic I will return to in a few moments. I'll also come back to the £11.5m year on year recovery in Value Retail.

Finally, there was a loss of NRI of £20.3m and £3.3m on property fee income from 2021 and 2022 disposals, which brings home the adjusted earnings walk to £104.9m.

So, turning to Value Retail. This slide shows the continued strong performance from Value Retail with earnings of £27.4m, a 72% increase year on year.

Value Retail rents comprise a minimum or base rent and a turnover element and, in some villages, these are principally turnover.

Income was further underpinned by inflation-linked clauses in the base rents for the majority of the villages. You see this coming through in strong growth in gross rental income of £51.4m.

Value Retail footfall and brand sales bounced back, approaching 2019 levels.

Spend per visit was up 5% on 2019 levels and this was the result of targeting high-net-worth domestic customers, an increase in European tourism and the return of some tax-free shoppers, particularly at La Vallée and Las Rozas.

We anticipate a further recovery in Value Retail in 2023, with the return of the long-haul international traveller. Early indication of sales for 2023 shows that international travellers are significantly up year on year.

Occupier demand for space remains high, with 332 leases signed in the year and occupancy at 94%.

Collection rates are at 100%. Strong operational and financial cost control saw the benefits in GRI drop to the bottom line.

With regards to re-financing, Value Retail have completed more than £1bn in 2022 - the largest elements of which were the refinancing of La Vallée in the first half, and Bicester Village in the second half, both at attractive all-in rates.

Finally, we expect Value Retail to return to cash distributions in 2023.

Now to look at the gross administration costs, which reduced 17% year on year. We took decisive action in 2021 to re-set our operating model, and we saw the flow through of this in 2022. We also saw further headcount reduction, down 25%.

We perform a root and branch review of all our costs every year, which Rita-Rose will cover in more detail.

Today we have guided that we are targeting a further 20% reduction in gross administration costs, inclusive of inflation, by the end of 2024.

Turning to valuations. The chart at the top and middle show the changes in yields and rental incomes. Let me first cover yields.

Yields for prime shopping centres had been stable since Q2 2021. In the fourth quarter, with the continuing sharp increase in inflation and a hawkish stance on interest rates, we saw a market driven change in valuers' approach to yields with an outward yield shifts in the UK of 50 bps, and in France of 10 bps and in Ireland a 20 bps.

Valuers also took a more conservative view of ERVs. In the UK like for like ERVs reduced 3.8%, with a more modest 1.6% reduction in France. ERVs in Ireland were marginally up 0.3%

Of the overall decline in valuations, 96% was at year end. The cumulative valuation effects in each of the territories are shown at the bottom of the chart.

In the UK we have seen a 330-bps outward movement in net equivalent yields, with valuations down 65% from their peak and ERV's re-based 36%. You can see the net equivalent ranges from 7.2% to 9.5%.

In France and Ireland, we know the valuers approach looks more to transactional evidence. Again we have seen outward yield shift of 80 bps to 4.7% to 6.4% in France and 110 bps to the range of 5.3% to 6% in Ireland.

Moving to the obligatory movement in NTA share. As the walk shows out NTA per share has reduced 11 pence during the year. We saw 2 pence per share growth from the growth in adjusted earnings offset by a 6 pence loss relating to the valuation losses and 7 pence per share dilution from the scrip.

Turning now to the balance sheet. We continued to simplify our portfolio and have generated £195m of gross proceeds in 2022.

Our resulting net debt is 4% lower year on year at £1.7bn. I have already covered the LTV earlier.

Gearing is at 68% is comfortably below our covenant thresholds.

We have ample liquidity of in undrawn and committed facilities of £1bn.

During the year, we maintained our IG credit rating and both Moody's and Fitch both changed their outlook from negative to stable.

Looking at our liquidity and debt profile in more detail. On the left-hand side, the total liquidity of £1bn comprises £660m of committed and undrawn facilities and £336m of cash.

The first chart shows the Group unsecured debt maturity profile with the secured debt on the right-hand side. Of the unsecured debt, as you can see there are no maturities in 2023. Of the £113m of 2024 USPP maturities, this is more than covered by the available cash.

The secured debt is held either against Highcross, O'Parinor as a non-core asset, and Dundrum. On Highcross we wrote off our equity interest in 2021 and the asset went into receivership in February 2023. Consequently, both the asset and matching loan will be written down at the half year.

On a proforma basis, the resulting 2022 Headline LTV would be 38%, and on a fully proportional basis 46%, whilst net debt EBITDA improves to under 10 times.

O'Parinor is in flight, and we expect to re-finance Dundrum in the ordinary course in 2024.

Let me move to my closing slide on 2023 guidance. The starting GRI, stripped of 2022 disposals and surrenders is rebased to £211m. We expect to see mid-single digit growth in GRI in 2023.

The key variable will then be timing and exit yield on the targeted £300m of disposals and the associated loss of fee income that goes against gross admin costs. Assume a resulting GRI to NRI margin of 80%

We are targeting a 20% reduction in gross admin costs by 2024.

The disposals of £300m will benefit finance costs which we expect to be 15% lower.

On capex, we expect 2023 expenditure of around £110m, balanced equally between the re-investment in the core estate on re-purposing, placemaking, stewardship and ESG and land acquisitions and promotions.

The Board anticipates a return to cash dividends in 2023.

To close, like for like top line growth, lower costs, a strengthened balance sheet, and a positive outlook, which Rita-Rose will now cover in more detail.

Rita-Rose, over to you.

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Business Update

Rita-Rose Gagné, Chief Executive
Thanks Himanshu. Before I run through the operations from the year, I just want to take a step back and highlight the tangible results delivered over the last two years under our familiar strategic pillars shown on the left.

We have simplified and focused the portfolio, disposing of £628m of assets in challenging markets, stabilising the balance sheet on the way, and generating capital to recycle.

I am really pleased with the rapid progress we have made on the transformation of the platform, particularly during a critical period of operational delivery. There is more to come.

We are creating exceptional spaces and experiences for our occupiers and customers.

We have also increased our focus on ESG, which remains at the heart of everything we do. We have redoubled our efforts this year and now have fully costed net zero asset plans for all our destinations.

We have brought a sharper focus to the development pipeline. We are creating value and optionality by getting on with smaller projects that are integral to our estates and hitting key milestones on the larger ones.

We are delivering tangible results across all areas of our strategy. We have a strong grip on the operations, backed by disciplined financial management.

Let's now dive into a bit more detail in some areas of the strategy and operations, such as the platform, leasing and our development opportunities.

You will remember the left-hand side of the slide when I explained our vision of change for the organisation in early 2021. We took decisive action that year, and in the first half of 2022, to shift from a top-heavy, geographically oriented and siloed organisation to a simplified, asset-centric operating model.

As I mentioned, we have reduced headcount, but we also prioritised investment in the right talent for the future at all levels. It's about continuing to future proof our organisation. For example, we increased speed of leasing and collections. We consolidated our property management suppliers in the UK, which formally started in February 2023. And we continue to implement more integrated, connected, and automated systems to drive further efficiency. This all underpins our 17% cost reduction in 2022, and the further programme for 2024.

Finally, an agile platform isn't only about how we work internally, but also how our assets are structured, including the partners we select and invest alongside.

We were delighted to expand our partnership with CPPIB, forming a new, cleaner 50/50 joint venture in Birmingham, following their acquisition of Nuveen's stake in the Bullring. We continue to explore simplifying our structures.

Let's now talk leasing. A better, more agile, faster organisation underpinned our best leasing performance since 2018. The 317 leases represented £45m of headline rent,

£25m at our share, that's up 10% like for like, year on year. That's more deals, more value, with fewer people on a focused portfolio.

Permanent deals were signed 34% above previous passing rent, representing an additional £6m on the rent roll, and 2% above ERV on a net effective basis. Over a third of deals represented renewals with key occupiers, and the balance were new lettings, including many expansions and new entrants.

The trend of occupiers returning to longer leases also continues, with leasing in 2022 having a WAULB of 8 years and a WAULT of 9.5 years. Importantly, occupiers are growing and investing with us.

Of new leases, around 40%, or nearly 44,000 square metres of space involved a new concept and, or a significant upsize to a flagship offering from the occupier. Approaching a quarter of renewals, representing circa 10,000 square metres of space, involved wholesale refurbishments by occupiers.

Leasing remains diversified, best in class fashion 43%; food and social 21%, where we are seeing increasing sales; and the balance to non-fashion and services.

We engage with the best occupiers strategically and across the portfolio, leveraging the quality of our locations and our relationships. I'd call out Apple regearing four locations with us, and Inditex taking more space with a broader mix of brands.

We leverage our relationships to introduce new international brands to enhance the wider portfolio. For example, we brought Watches of Switzerland to Ireland for the first time, and Victoria's Secret entering the French market with their first store in Marseille.

As I just mentioned, we have had a wealth of strong new entrants and concepts this year. A couple I am excited about are Nike opening two new concepts in Bullring and Dundrum. While, Gym & Coffee, an online start up, took permanent space in Ireland, following an incubation period.

Our leasing in 2022 also had a much greater focus on placemaking. Selecting the right mix of occupiers to create enticing environments for consumers and occupiers is a part of this. But equally important is the right approach to commercialisation and marketing. As well as driving footfall and supporting strong leasing, these efforts generated income, up 13% like for like.

This year, three highlights for me on this front were, our sponsorship of the Commonwealth Games with events and pop-ups across the Birmingham estate significantly increased global brand awareness and attracted incremental footfall of 1.8 million. Our supercar weekend in Dundrum which attracted more than 30% additional footfall. And our refreshed and digitised Christmas marketing campaign

This is an area where we have already invested in new talent, and we went again this year, attracting a senior leader in a newly created role who has already brought a greater focus to our efforts. In particular, we shifted our approach from reliance on traditional media to digital channels. You can see on the bottom right already the improvement in some of our statistics and this will be a continuous area of focus.

Let's now talk about repurposing our spaces to evolve with changing demand and address supply. Repurposing underutilised spaces away from obsolete formats is also essential to creating exceptional places. This year, we completed the repurposing of the former House of Fraser unit in Dundrum to Brown Thomas and Penneys, that's Selfridges and Primark, both upsizing into flagship space with new concepts.

This move also enabled us to bring to Dundrum for the first time Dunnes Stores, a brand heavily requested by consumers and the largest retailer in Ireland.

Meanwhile, we are progressing at pace the repurposing of the former Debenhams in Bullring to a flagship M&S grocery-led offering, and TOCA Social. Importantly, the re-activation of that end of the asset underpinned a flurry of leasing interest.

Looking ahead, we have opportunities at the Oracle, Cabot Circus, Westquay and Brent Cross.

All this hard work has resulted in robust operational trends. Occupancy remains high, reflecting the flight to the quality in our portfolio.

Rents are at affordable levels, with further benefits to come from the revaluation of business rates in the UK. On a pro forma basis, OCRs in the UK are now in the mid-teens.

Footfall improved by 11% points through the year in all territories to end the year at around 90% of 2019 levels.

Group sales remain above 2019.

Our customers are engaged and loyal with increasing spend and dwell times. Importantly, the early trends for 2023 are encouraging.

Let me take a moment to walk through our evolving thinking on the development opportunities, which we now break down into three buckets, integral; complementary; and standalone.

In the immediate term we are focused on repurposing and placemaking of those opportunities which are integral to our existing core assets. Generally, these are capital light.

Next, in the medium term we have complementary opportunities on adjacent land. These are about enhancing scale and diversity of the holistic estate. In other words, the whole is more than the sum of its parts.

We also have stand-alone opportunities, which are exciting, but are not connected to any existing assets. These tend to be longer-term in nature and eventually more capital intense.

In the near term we remain focused on capital light initiatives to unlock value and create the optionality to take developments forward. This could be partnering with relevant sectoral expertise or aligned capital on those projects with the highest returns and impact on our retained estate, or to seek liquidity. In the meantime, this portfolio delivers a 7% yield.

Let me bring this to life with a few examples. In terms of the integral, in Birmingham, we have submitted planning for Drum, an amenity rich, workspace-led proposal, directly served by the UK’s most connected rail station.

At The Oracle, we have submitted planning for a residential-led project, Reading Riverside, targeting around 450 apartments.

Now turning to complementary, in Ireland, key initial planning permissions have been granted at Dublin Central, and we have commenced discussions with potential operators and occupiers.

In the 15 acres of southern lands at Brent Cross, we are working on activation options in the near term that will generate additional income and attract a broader customer base. Longer-term we are assessing a range of uses.

Turning to the stand-alone, at Bishopsgate Goodsyard, we have signed the s106 agreement, and we expect to complete the remaining land drawdowns in 2023.

Let me step back for a moment and talk about why we have been able to deliver the performance we have and what gives us the license for our forward ambitions. Our portfolio performance is of course underpinned by our increased operational rigor, but it’s also underpinned by our unique city centre footprint and the convergence of positive underlying trends.

Let's talk about a few. We benefit from 216 million visitors a year, an affluent catchment of over 25 million customers. We have 1800 occupiers who generate £5bn of sales each year, notwithstanding the halo, service, brand engagement and experience benefits. We are at the heart of our communities, and we support more than 30,000 full time jobs.

Moreover, our assets are ideally placed to benefit from the convergence of several emerging trends. Let me tell you about them.

One, cities remain the engines of economic growth, and even in tough times have the most affluent catchments that are resilient.

Two, rents and rates have rebased to affordable levels, and the flight to quality continues as both occupiers and customers want fewer, better stores and experiences.

Three, we are taking a partnership approach with our occupiers to deliver an integrated customer journey, regardless of whether it starts online or instore.

Four, physical space is about far more than a point of sale and fulfilment. It is about brand engagement, service, advice, marketing, community, events and logistics.

So why are we confident we can capitalise on these trends? Well it’s because our portfolio is focused on leading European cities, London, Dublin and Paris are ranked as the three cities with the highest potential in Europe. Bristol, Southampton and Birmingham all have more than 50% of the population under 35 years old, and our other cities have over 40%. London and Dublin are projected to have huge growth of living and workspace, and high investment from overseas.

We have dominant positions in these cities, which will continue to drive strong demand for the best physical space of all uses.

And you don’t just have to take our word for it. You can see on this slide we are fully aligned with best in class occupiers.

So as we look ahead to the next phase of our strategic execution, we think of ourselves as a cities' business. As we complete the reinvigoration of our existing assets, and hit further key milestones on our development opportunities, we are increasingly thinking holistically about reinventing our assets. We strive to be the leading owner and asset manager of city centre multi-use assets.

And as we complete the realignment of the portfolio, we are delivering a stable and diversifying income stream, with option value still to unlock in the development portfolio.

So clearly, there is a huge amount of opportunity in our portfolio. Let me remind you of our approach to capital allocation. First, in terms of sources of capital, we remain focused on maximising cash flow, but we also have further disposals to do.

Turning to uses, as a REIT our cash flow must underpin a dividend and the Board anticipates returning to cash in 2023.

Second, we will reduce absolute indebtedness and deploy capital commensurate with keeping within the guiderails of an IG credit rating.

Next, we prefer organic investment in our existing assets and estates. We remain opportunistic, particularly if there is potential to consolidate our ownership in our core assets and markets.

We are total returns focused. We select the best returns for shareholders. We are mindful of our own cost of capital. Naturally we consider all options for funding and capital deployment, including debt retirement, and distributions for shareholders.

In summary, let me remind you. Everything we do is underpinned by our strong grip on operations and disciplined financial management.

We have simplified and focused the portfolio, generating £628m from non-core disposals since the start of 2021. We remain confident in delivering a further £300m this year.

We have had our best leasing performance since 2018 and a strong pipeline in front of us.

We remain focused on cash. As we diversify and bring in new occupiers, we do not lose sight of the importance of strong covenants.

We are getting to our ambition of an agile platform, having already delivered significant realignment and cost savings early, and we expect to deliver 20% more by 2024.

As just mentioned, we will continue to be disciplined capital allocators with a total return, growth and investor mindset.

With that in mind, as we look at potential from our estates, in the near term we focus on capital light, integral opportunities to unlock deep value and create enhanced optionality.

Our commitment to a conservative and resilient capital structure is absolute. The balance sheet is stable, and debt reduced, and we have de-risked our pension fund obligations.

We have ample liquidity, no immediate refinancing needs and have maintained our IG credit rating.

In conclusion, we have had another strong year of progress. While we are very mindful of the still uncertain and volatile backdrop, we are well positioned to deliver another year of robust underlying earnings and cashflow.

Going into 2023, we have strong momentum. Group footfall and sales are both up double-digit year on year, while the occupier demand remains strong. We signed 30 deals, representing £3m of headline rent, with a further 90 deals or £15m in solicitors' hands.

In the medium term, we will unlock deep value in the portfolio. As we say at Hammerson, more to do, more to come.

I thank my colleagues, stakeholders, and Board for their support, and thank you for your attention.

Now, over to your questions.

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Questions and Answers

Telephone Operator
Today's first question is coming from Colm Lauder calling from Goodbody. Please go ahead. Your line is open.

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Colm Lauder, Goodbody
Good morning, Rita-Rose, Himanshu. Thank you for taking my question. And let me just, sort of, start off on, sort of, capital management, balance sheet management also, you've got £200m or so of disposals completed last year, and you're guiding towards £300m of disposals for this year, 2023. Can you perhaps give us some sort of colour in terms of expectations on both timings, you know, what might be in train already, and obviously any detail on assets, particular areas of focus for those disposals? And that's my first question.

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Rita-Rose Gagné, Chief Executive
Thank you, Colm. So, good morning, everybody. So, on your first questions about the disposals programme, we are reaffirming, as you saw in the guidance, you know, our guidance of achieving the £300m by the end of the year, so I am confident of achieving that target by the end of the year. Obviously, I can't, and I won't discuss about the specific transactions, or even timing, but we already have some assets in train.

As you know, all the assets we have are high quality, including those that are strategically non-core for us, and they are held at sensible valuations that will attract buyers. So, you know we have strong track record of delivering in challenging times over the last two years, so I am very confident.

I would also add that that level of confidence goes with the fact that we do have interest at the moment in train. And also bear in mind that we're not forced sellers, so this is not a question of sell at all prices, but it's really a carefully planned and executed programme for the year. So, I am confident.

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Colm Lauder, Goodbody
Okay. Thank you, Rita-Rose. And maybe just on the operational side as well, so, obviously, it was encouraging to see such a volume of lease events concluded over the course of the year and also to see, sort of, you know, overall portfolio WAULT, you know, ticking upwards. Could you perhaps provide some detail in terms of, one, I suppose the WAULT as an expired lease term, trends are across each component of the portfolio in terms of, you know, UK, France, Ireland destinations, and is there a divergence in terms of, you know, WAULT trends there?

And then also on the same sort of point, are you seeing any evolution, or further evolution in terms of the leasing types? So, again, more traditional lease terms or increased turnover-linked, inflation-linked style structures? Thank you.

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Rita-Rose Gagné, Chief Executive
Okay. Thanks. So, the WAULB and the WAULT, it's a general trend that we're seeing across the portfolio. Obviously, France has a bit of a different construct, as you know, 369, but if you look at the UK and Ireland, this is representative of the portfolio. And it's also a sign of confidence and, obviously, these occupiers that we're seeing come into the portfolio are renewing, are injecting additional capital also. So, it goes with that investment, so better long-term income flow.

Now, the structure - our portfolio is mainly guaranteed rent, so we do have a relatively small portion of turnover rent, and the trends are not changing on that front. We are seeing some structures in some leases - we're starting to be able to talk about, for example, achieving some inflation earlier or some higher levels of readjustments in rent. So, you're starting to see that flow in.

Just coming back to the turnover we have, again, it's about 6% of our GRI, and, again, that is staying pretty much in line at the moment.

I think that's pretty much answers your question, Colm. Did I miss anything there?

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Colm Lauder, Goodbody
No, that’s perfect, Rita-Rose. Thank you.

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Telephone Operator
Thank you very much, sir. We're now to Max Nimmo calling from Numis. Please go ahead.

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Max Nimmo, Numis

Morning, guys. Thanks for the update and the presentation. Maybe just following on from Colm's question on the capital structure side of things, I appreciate that net debt EBITDA has come down a decent amount, but just, in terms of you were thinking, I appreciate it's a bit of a moving beast where fair valuations are still going, where you're, kind of, broadly targeting to get leverage in the medium term?

And related to that, would you consider selling off some of the longer-term standalone projects to maybe accelerate some of those medium term projects that you have?

And then the second question was actually just around the French valuation side of things. I mean, the UK's, clearly, been a lot more front-footed in terms valuing more on sentiment than transactions. Having only seen 20 bps of outward shift in France, you know, should we be expecting, this will be much more of a, kind of, slow bleed in terms of the valuation correction because, you know, risk-free rate has gone up 200 bps and the rest? So, just any kind of comment on the difference really between the two, that would be great. Thank you.

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Rita-Rose Gagné, Chief Executive
Okay, great. So, three parts of your question – the first question is around the leverage, so as you probably saw, headline leverage is at 39% and fully consolidated, including the Value Retail piece, at 46%.

You know, when you look at that leverage, given where we are in the market, you know, ultimately close or at the bottom of the market, that leverage is fine in the sense that I don't see risk to the balance sheet. But, at the same time, again, we're very committed into a resilient and conservative balance sheet.

So, yes, we are working to deleverage, and if you do the maths of our disposal programme, that is £300m, you end up at a leverage of 34%, 35%, and I think, given where we are, that's a very good place to be. And just remember also that, in the fully consolidated side of life on the Value Retail piece, the leverage is very low, it's a non-recourse loan, so again, we don't see risk there. But we do want to manage more value for the shareholders, decrease our financing costs and get to that level of leverage.

Now, when you say that, you know, would you sell some standalone projects, as you saw in the presentation, we've evolved our thinking with regard to our development opportunities. And, yes, you may see us, as we refine the thinking, as we scope up the sites and see how, you know, we can create maximum value, you could see us, you know, doing some disposals on that side, but it's not necessarily embedded into this £300m programme at the moment.

In terms of France - I think you pointed out some good points for the UK side, obviously, in the UK, over the year, in 2022, we saw stability, it's just at the very end of the year, 96% of the losses at the very end in Q4 really sentiment driven. And, as you know, we have taken, you know, a lot of pain on the portfolio.

If you look at the UK with 65% downward and 30% in France, ERVs, 36% downward in the UK, so we're now at 400 bps of spread, you know, to the risk-free rate. So, the UK, I think, is in a pretty strong base, I would say, at this point in time, enabling us to look forward positively, with all leasing activity we're seeing in the portfolio, looking forward to returning to value creation.

Now, if you look at France, first of all, just remember that our portfolio in France is effectively two marquee assets, and they're owned 100%, totally under our control, to TDP, which is a top-three asset in France. So, it's difficult to read too much about the broader market because our assets are so specific. So, I'm going to talk about our specific exposure here, and I think it's important more and more in the environment that we be specific when we talk about asset valuation.

So, France is fundamentally a different market to the UK. It has less, you know, retail space per capita, the leases are different, more flexible, therefore there's more stable cycles in France. And our ERV, if you look at Slide 9 in the presentation, our ERVs haven't really moved in France. So, you know, the valuations stand logically within that.

So, the overwhelming majority of French leases, more than 90%, are linked to the Government's indexation clauses, so capture inflation each year, our leasing trends in France, at the moment, are positive. We're leasing 49% above previous passing, and we're achieving over 4% above ERV.

So, our yields have moved out more than others, if you look at statistics, so they've moved out, you know, 30% declines, and, again, it's really about those two marquee assets that are in the 5s. So, if you look at that and the spread we have with the risk-free, and as rates normalise, I think that's a reasonable place to be with all these specific points for the French portfolio.

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Max Nimmo, Numis
Great. Thank you very much. That’s really helpful.

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Telephone Operator
Thank you very much, sir. Ladies and gentlemen, once again, if you have any questions, please press *1 at this time.

We'll now go to Eleanor Frew calling from Barclays. Please go ahead.

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Eleanor Frew, Barclays
Morning, team. Thanks for the presentation. The first question on the dividend, can you give some sort of guidance on the level of dividend? I understand that's the classifying requirements - to mean quite a low payment.

And then the second question – you mentioned you're committed to investment grade rating, but can you give some sort of colour on how you plan to maintain it?

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Rita-Rose Gagné, Chief Executive
Okay. So, I'll just, you know, very broadly, you know, remind a few things on the dividends, and I will pass on to Himanshu to talk a bit more about the IG rating. But just, you know, remember that were committed a scrip dividend in 2022, and that programme has completed and we're up to date on all PID and SIC obligations for 2022, and we anticipate satisfying our PID obligations with our cash dividends for 2023, and that final policy will be determined at the Half Year. But considering the underlying

strength of our portfolio, the leasing we have in train, all the activities we have in train, we're confident with that anticipation.

Now, Himanshu, do you want to give a bit more colour on the IG rating?

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Himanshu Raja, Chief Financial Officer
Thanks, Rita-Rose, and good morning, Eleanor, and thanks for your question. Look, our commitment to maintaining IG rating is absolute, it's central to the strategy and it's central to, you know, the way we think about cap structure.

And you'll know that, when the rating agencies, you know, consider these things, they look at the security resilience of the income stream, and Rita-Rose talked in her presentation about how that has been rebased. And, of course, when you look at metrics, they focus on both LTV and net debt to EBITDA. And when you do the maths from the reported numbers this morning, for the £300m of disposals, depending on your yield assumptions on those, that gets you to an LTV or around 34%, 35% and net debt to EBTIDA of around, you know, 8x to 9x, and we think those are good numbers, both in terms of capital structure and in terms of maintaining the IG rating.

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Rita-Rose Gagné, Chief Executive
Thank you.

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Eleanor Frew, Barclays
Thanks very much.

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Telephone Operator
Thank you very much, ma'am. We'll now go to Ventsi Iliev calling from Kempen. Please go ahead.

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Ventsi Iliev, Kempen
Yes, good morning, team. Thank you for taking my questions. I got disconnected from the call so apologies if the question was already asked, but could you, please, comment on the rational for suspending the final dividend for 2022?

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Rita-Rose Gagné, Chief Executive
Well, as I mentioned, maybe that was in the disconnected part, so, again, we were committed to a scrip dividend in 2022, and we are up to date in our PID and SIC obligations, and that programme has completed. So, now we look at 2023 and we anticipate returning to cash dividend.

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Ventsi Iliev, Kempen
Okay. Thank you. That's very helpful.

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Telephone Operator
Thank you very much, sir. We do not have any further audio questions at this time, ma'am.

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Josh Warren, Head of Investor Relations
We have a couple of questions coming in from the web. I've grouped them into three parts but we'll go one at a time. The first, could we give some more colour on the Value Retail refinancing, how that went, anything we can give in terms of terms, and whether, on a forward-looking basis, Himanshu's guidance includes a higher interest cost?

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Rita-Rose Gagné, Chief Executive
Okay. So, on the Value Retail piece, the refinancing, so Value Retail has, indeed, achieved about £1bn of refinancings in 2022. We won't go into the detail of that because it does involve the partner, but, you know, very successful financing I would say. Himanshu, do you want to add something on the guidance?

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Himanshu Raja, Chief Financial Officer
Yeah, so, we've given a clear guidance in my guidance slide on financing costs for 2023. Just to remind you, we have no refinancing needs until 2025, and, therefore, there's plenty of runway in '24 and '25, you know, as we access the capital markets, to give you the guidance at that time. Thanks, Josh.

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Josh Warren, Head of Investor Relations
The next one, and, again, it's a number of different questions but on the theme of the Highcross receivership, so maybe some detail on how that process went, whether it took a significant proportion of management time, and a recap of the effect it has on the numbers?

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Rita-Rose Gagné, Chief Executive
Yeah, thanks, Josh. So, well, first of all, Highcross is old news, basically, because, as you remember, last year, in 2021, we had addressed the situation in the Annual Report, you know, very specifically saying there was a default on the loan and that we would engage with banks for discussions, and we wrote off the asset.

So, what you're seeing today is just the natural progress, natural evolution of that process, and it's a handover. So, I think it's in line with what we want to achieve, and also, for us, it's a question of capital allocation.

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Himanshu Raja, Chief Financial Officer
And on the numbers part of that, when you run the maths through, you know, both the asset and the loan will be written down at the Half Year, and it's a circa 1% benefit to LTV, both headline and FPC, and is a benefit of about half a turn on net debt to EBITDA.

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Josh Warren, Head of Investor Relations
The third group is coming back to this bit about capital allocation, specifically, we've talked about disposals, are any acquisitions on the agenda for 2023? And when you think about that and in the wider context, how do you balance thoughts on the dividend and distribution for shareholders versus reinvestment in the business?

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Rita-Rose Gagné, Chief Executive
Yeah, so, in the presentation, we talked about, specifically, capital allocation on one of the slides just because there's a lot of potential on this portfolio, and one thing we've decided is that we want to invest in our portfolio because it has a lot of organic growth opportunity.

So, there is a mention in there that capital could go to consolidate ownership in our core assets' core markets, which would obviously increase earnings and, ultimately, be accretive for the company, but also in line with our strategy of city assets.

So, we will time that appropriately as we go along and as the disposal programme executes, and so that is effectively in the plan.

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Josh Warren, Head of Investor Relations
And the last one is could we give a little bit more colour around the targeted cost reduction out to the end of 2024, the constituents of that and how we'll achieve that?

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Rita-Rose Gagné, Chief Executive
Yeah, sure. So, this is the continuation of the work we've been doing. So, as I said in the presentation, early in 2021, a full root and branch review was done, you know, turning every stone in the company. And we've been able to do that fast enough so that it flows through this year with the 17% cost reduction that is composed of some of, obviously, headcount reduction, but also a lot of where there are hard costs in the company that has to do with the revision of our operational model.

So, Himanshu, in his section, talked about the offices in London and Paris that, you know, gave us a big cost reduction year on year this year. And we have reviewed our complex web of suppliers in the UK and simplified that, and that's yielded a lot of efficiencies, reviewed old contracts, you know, just cleaning up. So, there's been that.

And then there's the digital platform. Our technology platform was not efficient, so it was creating enormous, you know, work and inefficiency, so we have worked on that and continue to work on that, and obviously, there will be disposals in there, so, it's continuing that programme.

So, it's a mix of the type of expenses that I just talked about to get us to that future-proof organisation, and bear in mind that we're also, in the meantime, hiring also different talent to align us to the new trends and the next expertise we need in the platform.

So, it's not just about a cost-cutting exercise, it's really a realignment of the platform, solidifying and making the platform more agile, and that's going to continue into '23 and '24 to deliver the additional cost reductions.

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Josh Warren, Head of Investor Relations
We have no further questions online we haven't covered elsewhere, so I'll hand back for you to close.

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Rita-Rose Gagné, Chief Executive
Well, thank you very much. Thank you to everybody for being on the line this morning, and we will, most certainly, meet a lot of you in the next days, and we'll be happy to take any questions over the next weeks. Again, thank you and see you soon.

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