Hammerson
Half Year Results Presentation
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Speakers

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Questions From

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Jaap Kuin, Kempen

Telephone Operator
Good morning, everyone, and thank you for dialling in. Welcome to Hammerson's 2023 half-year results. I'll now hand over to the webcast to begin.

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Introduction & Key Highlights

Rita-Rose Gagné, Chief Executive
Good morning everyone and thank you for joining our 2023 Half Year Results Presentation.

What you see coming through in these results is the strength and attractiveness of the core portfolio. Adjusted earnings are up 15% year on year, driven by last year's positive operational momentum that has continued into the first half of 2023.

After two years of portfolio simplification, generating £843m in disposal proceeds we have repositioned the business for growth. We now have a portfolio that is focused on our prime city centre estates in high growth cities in Europe. Our estates are thriving, attractive and they are in demand by the occupiers and communities.

Since full year '20, we have also undertaken a transformation of our operating model. In doing so we are further reducing our cost base and are in line to deliver our full year '24 cost reduction target of 20%. This will result in a cumulative reduction of 30% since full year '20. We are not done, and we are working to exceed this.

As a result of the streamlining and simplification of our portfolio and our operational improvement, our financial position is significantly strengthened.

After two years of strategic delivery, I am pleased to announce that we are returning to a cash dividend.

We have a robust outlook on earnings and cash flow for the second half, we have a broad opportunity set ahead which I will run through. Before that, over to Himanshu for the numbers.

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Financial Review

Himanshu Raja, Chief Financial Officer
Thank you, Rita-Rose and good morning everyone. Our half year results continue to build on the strong momentum from 2022. Let's jump right into the highlights.

Adjusted earnings were £56m up 15% year on year, benefiting from like for like net rental income growth, lower administration costs and a reduction in finance costs.

Our total portfolio value if £4.7bn, with our managed portfolio at £2.8bn. Our managed portfolio is down a net 13% during the six months, which is largely a function of disposals.

Valuations for the six months of 2023 have remained relatively stable.

Our total return was a positive 2.5%, driven by an income return that was up 2.8% and offset by a capital return of only minus 0.3%.

Our NTA per share has reduced 1 pence during the last six months to 52 pence.

Net debt stands at £1.3bn, down 24% since the year end. And our resulting headline LTV is 33%, a reduction of six points since the year end. Whilst net debt to EBITDA stands are 7.7 times. And that is a good number in the current economic climate.

LTV on a fully proportional basis is 43%. And this half we return to a cash dividend of £36m or 0.72 pence per share.

Now, let's look at the rest of the numbers in a bit more detail. Turning first to the adjusted earnings walk, starting with the £51.1m reported earnings for half year 2022. Consistent with the treatment we had at year end, we see a £2.7m reduction in the opening balance, due to the IASB change in accounting, in relation to concessions, on which we provided more information in our release on 5th of July. Our starting point, as we stated earlier, is therefore £48.4m.

NRI grew by £5.8m, excluding disposals. And of this, as we show in the call-out box, £1.5m was from like-for-like NRI flow, and the flow-through of the strong leasing performance in 2022, and in the first half of 2023.

Our development and non-like-for-like NRI increased £4.3m, largely due to the opening of the Surge Extension in March 2022.

Moving across the page, net finance costs reduced by £3.9m, benefiting from the 24% reduction in net debt, and from the active management of cash balances to take advantage of higher interest rates.

Gross administration costs were down £3.4m, or 12%, as we continue to reset our platform.

At FY22, we've committed to reduce our operating costs by a further 20% by FY24. And we remain very much on track to deliver this, and indeed are working to exceed it.

Value Retail was strong top-line and operational performance in our first half. I'll come back and unpeel the £0.3m movement year on year in VR very shortly.

To conclude the adjusted earnings walk, there's a loss of NRI and associated property income of £4.5m and £1.1m, respectively, from disposals in the period. And that brings home the earnings of £55.9m and the growth of 15% year on year.

Now, looking at Value Retail in more detail. Value Retail continues to perform well. Footfall was up 13% year on year, and brand sales up 14% year on year, and spend per visit was up 8% from 2019 levels.

Occupier demand for space remains high, with 156 leases signed in the half. Occupancy is unchanged at 94%. The resulting GRI and NRI SR share were up 13%, and up 16%, respectively.

And looking at the earnings walk; we will see the strong growth in gross rental income of £8.7m. This is offset by higher costs of £6.4m, reflecting operating cost investment in the period and higher refinancing costs.

To close on Value Retail, yields in the range of 5.25 to 6.5%, and in 2023, the valuation of our share of the VR portfolio increased by £26m. We'll see £43m in the first half, which reflected some catch-up for 2022.

Turning now to valuations on our flagship portfolio. The chart shows the recent changes in yields and rental incomes. Let me go to yields in the top chart.

Yields for prime shopping centres in the UK have been stable for the first six months of the year.

French yields also remain stable, and there's been very little outward movement in France in the past 18 months. Of course, we have the Italie Deux transaction in France, as the reference point to support French yields.

Ireland has seen a modest outward yield shift of 20 bps in the half.

ERVs remain stable, with like-for-like ERV up 0.1% across the destinations, with France and Ireland rising slightly, and the UK remaining flat.

And lastly, to remind you of our peak to trough. In the UK, we've seen a 330 bps outward movement in net equivalent yield to about 8%. The valuation is down 64% from their peak, and ERV is re-based 34%. In France, we've seen outward yield shift of 80 bps to net equivalent yields of 5%, and since the peak, values are down 29% and ERV is down 4%.

In Ireland, the outward yield shift from peak is 130 bps, to net equivalence of 5.6%. The capital value is down 33%, and ERV is down 14%.

When comparing the yields across the territories, you will know that we are still seeing some of the greatest spreads to the five-year swap in the UK that we've seen for some time, with the spreads in France and Ireland being much narrower.

Before I talk to net debt, let me cover off disposals. When we set out on our strategy, the aim was to simplify the portfolio and strengthen the balance sheet at the same time. Since the beginning of 2021, we have generated £843m in disposal proceeds. At the beginning of 2022, we guided to an additional £500m in disposals to be completed by the end of 2023. We did £195m in 2022, disposing Italie Deux and Croydon earlier this year, and have delivered £410m of our £500m target. We remain confident on achieving the balance.

The disposals naturally served to reduce net debt, which decreased by 24%, or £414m, since the year end, to £1.3bn. Proceeds from the sale of Italie Deux and Croydon generated £215m. And in the half, after a prolonged period of working constructively with the lenders to find a way forward on the secure debt on both Highcross and O' Parinor, the lenders enforced their security and took control of these JVs, resulting in de-recognition of joint venture secured debt, reducing net debt by a further £125m.

Cash generated from operations reduced net debt by a further £60m, with operating profit at £65m. Distributions from Value Retail were £43m, and we expect to receive further distributions in the second half of the year, of around £15m.

We saw gains on FX, partially offset the net interest costs of £39m, and £16m of capital expenditure in the period, bringing home the closing debt of £1.318bn.

Now, moving on to the obligatory NTA per share walk. In the first half of 2023, we saw 1p per share growth, the increase in adjusted earnings, offset by a 1p reduction relating to revaluation and disposal losses. The additional 1p reduction is due to the de-recognition of O'Parinor and Highcross. Overall, these movements result in NTA reducing from 53p to 52p per share.

Let's now look at our liquidity and debt profile in more detail. This chart shows the Group's debt maturity profile. Our debt is 24% lower since the year end, at £1.3bn. We have no Group refinancing until 2025, with our 2024 and 2025 unsecured debt maturities more than covered by the available cash. That leaves only the secured debt on Dundrum, which we expect to refinance in the ordinary course in 2024.

LTV at 33%, and net debt to EBITDA at 7.7x, are good numbers. The FPC LTV at 43%, of course, reflects the effects of the VR debt. VR's overall leverage is 37%, and of course it is non-recourse to the Group.

We have ample liquidity in undrawn and committed facilities of over £1.2bn. We also maintained our IG credit rating and are only one of four issuers not to receive negative movement on the 41 rating actions in the sector since May 2022.

Let me now move to my closing slide, which sets out our dividend policy. The Board recognises the importance of cash dividends for shareholders. Our commitment is to pay a sustainable dividend in the range of 60-70% of adjusted earnings. This policy is based on a disciplined approach to capital allocations, balancing returns to shareholders while continuing to invest in our core assets, as well as considering the impact of disposals, acquisitions, loan to value, and changes in financing operating conditions.

Finally, I can confirm that the Hammerson Board has declared an interim dividend of £36m, or 0.72p per share. The Board will continue to keep the policy under review over coming years as the Group continues to execute its strategy. Rita-Rose will talk further on our dividend policy in her section.

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Operational & Strategic Update

Rita-Rose Gagné, Chief Executive
Thank you, Himanshu. Let me jump straight into the strong operational trends behind the numbers. Our core portfolio continues to benefit from polarisation and a flight to quality.

Occupancy is up year on year, at 95%. Footfall is up 4% year on year and is closing the gap on full year '19, and sales are growing, reflective of our proactive asset management as we create exceptional destinations and more relevant mix.

Our large city centre estates have benefited significantly from the continued return of visitors for work and leisure, with Birmingham up 6%, Marseille up 8%, and central Dublin up 13%. July's footfall is also up year on year. Indeed, over the summer, many of our destinations are seeing footfall in excess of 1 million visitors a month, with Bullring welcoming around 2.5 million visitors in July.

Despite the uncertain macroeconomic background, consumer spending continues to be resilient, with like-for-like sales up year on year 3% in the UK, 2% up in Ireland, and

7% up in France. Dwell time is also up 5%, as consumers do spend more time in our assets. All this is driven by our leasing momentum.

And now, turning to leasing. Following FY22, the best performance since 2018, our leasing momentum has continued. We signed 134 leases in the first half. This represents £18m of headline rent, up 13% year on year on a like-for-like basis. 70% of volume were principal deals, and more than 90% of value. For principal deals, headline rent was 20% ahead of previous passing rent. On a net effective basis, principal deals were 8% ahead of ERV. This compares with ERV up 1% a year ago, and 2% for the full year '22, so there is progress there.

The trend of long releases has continued with a WAULB of 7.1 years and a WAULT of 9.4 years, for in terms of leasing mix, just under half of the principal leases were best-in-class occupiers and new fashion concepts, with the balance being to non-fashion services, leisure, food, and workspace.

Whilst demand continued through the period, June was particularly strong, with 46 leases signed. That momentum has continued into July, with a further 12 leases signed through last Friday, all above ERV and above previous passing.

Looking ahead, we have a strong pipeline, with £15m in solicitors' hands, at around 35% ahead of previous passing, and 15 ahead of ERV.

So, what underpins this strong operational performance? Today we are focused on a core portfolio of high-quality assets, with unique exposure to some of the fastest-growing cities in Europe. On the left-hand side of this slide, you can see our current geographic footprint, and on the right, the data points that illustrate their strengths.

11 city centre estates with significant complementary opportunities, and two standalone development sites. We welcome over 175 million visitors each year, from large, affluent catchments. We support almost £4bn of sales per year, and over 23,000 jobs. So there is a clear demand from occupiers and customers who are attracted to our destinations.

After all, we operate in cities that are the engines of economic growth, with young, growing populations, strong infrastructure, and evolving communities. Consumers are increasingly evolving their lifestyles, where they want to do everything in one quality place. Our locations and spaces are well suited to meet that demand for the best living spaces. That is the opportunity.

Let's now turn to our current strategic framework. We are a cities business. We are investing in our portfolio of core assets. We combine targeted leasing and placemaking with integral and complementary repurposing and redevelopment opportunities. We are evolving the mix to create exceptional destinations, attracting new customers, concepts, best-in-class occupiers, and partners. And, ultimately, new income streams.

This asset focus and customer journey is underpinned by the continuing transformation of our platform. We are committed to maintaining a sustainable and resilient capital structure and an IG rating. And of course, more and more, we put ESG at the heart of everything we do, with clear net zero asset plans for each and every estate of our portfolio, and a culture committed to making a difference for all our stakeholders, but in particular the communities in which we operate.

So, let's talk about the first of those strategic elements, which is investing in our assets. In the last two years, we made significant progress on repurposing obsolete, low-yielding and underutilised department store space.

We have now completed the conversion of House of Fraser in Dundrum to Brown Thomas, that's Selfridges in Ireland, and to Penneys, which is Primark in the UK, both upsizing and now operating with really exciting and new concepts. I'll come back to this particular project as part of the overall Dundrum estate in a moment.

In the former Debenhams unit at Bullring, we have completed our physical work to transform and revitalise the space. M&S are on-site, fitting out around half the space to consolidate in Birmingham. This is for their latest concept store, including a premium food hall which will open by the end of the year.

A further level of this space will shortly be handed over to TOCA Social, a football-led social and entertainment operation. This is another example of what we call a truly integral opportunity to the transformation of our destination, not only to fill vacant space but to create an entirely new proposition which in turn attracts additional brands. You will see a raft of new openings in Bullring in the autumn.

We will have invested over £25m in this repositioning and are on course to exceed our own underwrite of around 18% IRR. That does not take into account the positive impact to the surrounding asset and wider Birmingham estate.

In the former John Lewis space above Birmingham New Street, we have planning consent for Drum, an amenity-rich workspace-led proposal, with strip-out works nearly complete.

In Reading, we are working closely with the local council to transform the Oracle. We are waiting planning permission for a 450-unit residential scheme in place of the former Debenhams. We are also in discussions with occupiers for the other department store space at the Oracle.

Overall, since full year '20, we have exited around a third of department store space. We have repurposed and have in train around a further third, and we are actively considering options for the remainder.

These are excellent capital allocation opportunities. Income producing for our assets drives further interest and vibrancy and will deliver attractive returns for shareholders.

We also have plans to invest in ongoing upgrades and enhancements to the common areas of our assets, to attract the right occupiers and enhance the customer experience. This drives, in turn, new revenue and commercialisation opportunities.

Finally, we are investing in new technologies to increase our data capabilities and understanding of our catchments and customer behaviour. For example, we are rolling out AI CCTV in three core assets, and have reshaped our digital team and capabilities.

Alongside the investments in our assets, we are growing our focus on placemaking, advertising, and commercialisation. There are lots of examples on this slide, so let me highlight a few.

Of course, alongside the new, we continue to secure deals and renewals with key best-in-class brands, such as Printemps, Inditex …, and Bershka and Pull&Bear coming into Bullring directly due to the revitalisation of the former Debenhams unit.

In terms of new concepts and uses, Nike Live opened in Dundrum the first live concept in Ireland, and Nike Live is due to open in Bullring in the second half. This is an example where we have worked closely with a key brand partner as they plan their physical expansion programme.

In Birmingham, we've let underutilised space to Lane 7, to create a new bowling and entertainment destination. This has critical mass alongside the new TOCA social, and the Sandbox virtual reality experience, which opened earlier this month.

In France, we've welcomed Onetic to Marseille, to L… Spa, opening their largest flagship store in the region.

Last week, in Cergy we signed Smile World to bring in a new 3,000-square-metre leisure concept. With this, our like-for-like commercialisation income was also up 15%.

Some key highlights included further success in bringing digital native brands to our physical space, most notably Shein to Birmingham and West Quay.

Charity Super.Mkt, the UK's first [audio jumps] also launch at Brent Cross. Following this success, it has come to the Oracle and is now at Cabot Circus. This new concept increased footfall and created significant media coverage. It has now raised over £600,000 for the charities and has attracted significant new customer footfall.

In France, we introduced a boutique pop-up for Marseille-born rapper Jul to Terres du Port, which saw footfall increase by 5% in year on year over the period.

We continue to exploit underutilised car parking space with new uses, occupiers, and events. This includes a Tesla collection point, and Florescenza Garden Centre at Brent Cross, and a pop-up skate park with Red Bull at Cabot Circus.

And we are doing more engagement, increasing our social media presence and partnership with local influencers, contributing to increased visibility and customer engagement with our destinations. A great example would be the buzz created around Late Night Out, our first out-of-hours ticketed event, at Bullring.

We also have opportunities that are integral to our core assets. At the moment, we have one committed project, which is the Ironworks at Dundrum, a 122-unit residential project which includes affordable housing. This remains on schedule. On completion, this will become the largest income contributor, than any other single tenant, at the Dundrum estate.

We also have opportunities that are complementary to our core estates, and two standalone projects. Our focus is to continue to undertake enabling work and site preparedness, in order to de-risk the projects and create value and optionality. We are committed to working closely with local authorities and key stakeholders through the planning processes.

At certain projects, we have started discussions with potential end users. We also took opportunity in the half to exit our standalone development interests in Croydon to our

JV partner, further focusing the portfolio and creating liquidity for value-enhancing recycling into other shorter-term projects.

Let me try and bring this all together holistically by way of an example at one of our core estates in Dundrum. Dundrum is Ireland's only super-prime retail-led destination, with a broad and affluent catchment, and well-connected transport links. We have invested €31m over the two years to repurpose the former House of Fraser, broadened the mix of uses by bringing in best-in-class operators with new concepts: Brown Thomas, Penneys, Dunnes Stores, Nike, while also enhancing the environment and increasing income stream.

The overall IRR for the project was around 19% with an incremental yield on costs of around 15%. We are also bringing new uses and income streams with the introduction of residential at the Ironworks new work space with Western Union, and food and leisure around Pembroke Square. All this is driving incremental footfall, spends, and diversifying income.

We also have a significant opportunity for another 900 or so residential units on Brownfield land, adjacent to the estate. For now, we are awaiting the outcome of planning submissions before considering our options. In the meantime, it provides a yield from the existing assets on the site.

Dundrum effectively serves as a microcosm for the potential we see across our core city centre estates.

Today, we have a transformed platform with an investor mindset. Over the last two years, we have reshaped our organisation to put more emphasis on strategic capital allocation, portfolio and asset management, placemaking, and repositioning of our assets.

Launched earlier this year, Property Management and Associated Accounting are currently being consolidated, quality providers of scale with specialist expertise in the UK and France.

We are building a high-performance high-engagement culture with an emphasis on career development. These changes result in headcount being down 57% since full year '20, and 30% since full year'22, as the organisation and portfolio have been reshaped. This is a net number which includes additional hires as we continue to invest in and promote key talent to be fit for future.

We also maintain a relentless focus on hard costs. For example, including further reducing office space, both in the UK and France, and working to reduce our insurance premiums, professional fees, and IT costs. Overall, we have reduced our gross administration costs by 12% year on year. We are in line with our target of a further 20% reduction off the full year '22 base by full year '24. This will therefore be a cumulative 30% reduction since full year '20. There is more to do, however, and we are working hard to exceed our target.

Our capital allocation is based upon a disciplined approach, balancing returns to shareholders while continuing to invest in our core assets. We will continue to de-lever and maintain our IG credit rating. At the same time, we will continue to invest in our destinations, to maintain and enhance their attractiveness for occupiers and customers, and consider selective consolidation, all within our IG guiderails.

Indeed, we have invested over £100m in our destinations, excluding development in the last 2.5 years, while making material improvements to our balance sheet and putting ourselves in a position to return to a cash dividend.

In returning to a cash dividend, the Board has set a sustainable policy where we are able to invest in the business for growth and attractive returns, but also pay a dividend which is covered by free cash flow equity. The Board will keep the dividend policy under review over the coming years, as the Group continues to execute its strategies.

In summary, it's been a strong half year for Hammerson. We are well positioned to deliver another year of robust underlying earnings growth and cash flow. We will deliver our cost guidance. We are confident in concluding our £500m disposal programme by the end of the year.

Today, we have reported further strategic progress, growth in earnings, and a return to cash dividends. We look to the future with confidence.

So let me finish by talking about the Hammerson investment proposition at the end of this. We see Hammerson as a value-generating platform with more opportunities ahead, a platform that is lean and simple, with optionality to source and deploy capital, and drive further value through disciplined investment.

We see a future platform that consists of core city centre estates with more consolidation of ownership, with integral redevelopment opportunities being delivered that enhance the proposition and enhance quality of the wider estate, and complementary standalones progressed, underwritten and de-risked for value and optionality.

As for Value Retail, it is not part of our core long-term proposition. We will look to realise value from our investment at the right time.

To close, our investment proposition is a platform with attractive, growing financial matrix, resilient earnings and cash flow, supporting a sustainable cash dividend with a balance sheet maintaining our IG credit rating and capacity for investment. This is all underpinned by a lean, more agile organisation with an investor mindset.

Ultimately, we are focused on further growth by recycling capital from the non-core to our city centre estates, more consolidation, and selective complementary development, over time. Think of us as a cities business with living spaces at the heart of large communities. Thank you, and over to you.

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Questions and Answers

Telephone Operator
Thank you very much. Ladies and gentlemen, to ask an audio question, please press *1 on your telephone keypad. That's *1 to ask your question. Our 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. I'll get straight to the point, really, on what I think is the main news item from our perspective with the Hammerson results, and that's the return to the cash dividend.

It's something you could perhaps lay out a bit better for me, to understand what to expect for the full year. Obviously .72p declared today for the interim dividend, cash, with a guide of 60-70% of underlying earnings to be paid out over the full year. Could you perhaps give me a bit more understanding, and how that aligns with the UK REIT rules in terms of 90% property income distributions?

And again, just assuming broadly steady underlying earnings for the second half, what does that get us to in terms of expectations around a dividend for the full year? That's my first question.

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Rita-Rose Gagné, Chief Executive
Hi, Colm. Thank you for the question, and good morning, everybody. As you just mentioned, this is the big-item news, amongst and standing on a very solid, strong, and robust performance in H1 this year. But that was the result of constant progress over the last two years.

So the Board recognises the importance of cash dividends for shareholders, first of all. Our policy, as I say, is indeed a payout of 60-70% annual of adjusted earnings. And as I said in my presentation, we see opportunities to invest in our assets that deliver attractive returns, and it's about taking a balanced approach, and an approach that is about a disciplined capital allocation to give us the flexibility to continue to invest in our assets for growth, while taking a prudent approach to the balance sheet and returning value to the shareholders.

So these were the main consideration high up with the REIT rules and importantly, we believe this is a sustainable dividend, and it's covered by free cash flow to equity.

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Colm Lauder, Goodbody
Thank you. Moving on, then, to new developments sources of general capex, and the one I really wanted to pick up on is the Goodsyard. Obviously there have been some value changes on those assets, and those non-core land deals. And I just want to pick you up on a comment in the text, which is, you'll be taking capital-light steps to continue to create value and opportunity, at sites like the Goodsyard. And obviously, then, thinking about what happened in the Croydon partnership.

What are your thoughts in terms of the more landbank approach for schemes like the Goodsyard? Is this something, do you want to progress more towards planning, or, and obviously then, value-enhancement works, are these sites you're looking to dispose of as well?

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Rita-Rose Gagné, Chief Executive
A few elements in your question there, Colm, so just to remind everybody, and I just touched on that in the presentation, when we look at what we call development and landbank, at the moment it's really separated in buckets. So you have the cap, the integral opportunities, are the redevelopment and repositioning in the assets, and we

give examples of that in Dundrum and in the Bullring. And then you have the complementary sites, which are surrounding the assets and have a potential to densify the estate. And then you have the standalone, of which Goodsyard is.

Our approach to that, obviously the integral opportunities are faster and efficient, as you can see, and do deliver value and attractive returns. In terms of the complementary and even ultimately the standalone, these are all sites that we are progressing at the moment.

Obviously, they're not all progressing at the same pace, and they'll not come to be ready at the same time. What we're doing at the moment is light capital investment, to do enabling work and site preparedness, and that continues to create more value on those sites and bring them to a point of decision and optionality for Hammerson.

Now, when you look at what we call the standalone developments, which are the Goodsyard, and which were the Croydon development opportunities, those are really long-term. So, in the case of Croydon, you saw disposals that, it was just too long-term for Hammerson. And for the Goodsyard, we continue to do the planning, the light capital work, and progress to a value point to enable us to take the best value-enhancing decision.

So it's really about keeping key property, and making sure we're maximising value, and keeping the potential for Hammerson, all at the same time.

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Colm Lauder, Goodbody
Okay, thanks very much, Rita-Rose. That's very helpful. That's all from me.

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Telephone Operator
Thank you, Mr Lauder. Our next question is coming from Max Nimmo, calling from Numis. Your line is open.

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Max Nimmo, Numis
Good morning team. Thank you for that presentation, and well done on the operational turnaround of the business. It seems to be moving in the right direction.

One question I did have, however, is on the disposals. Clearly a lot has changed since you set that disposal target. Do you think a further £90m by the end of the year is enough for the market to be comfortable with where your leverage will be, assuming that Value Retail stays in the portfolio, and we're looking at this FPT LTV? And that's obviously notwithstanding any further moves in valuation.

I just wanted to pick up on one thing you mentioned that the UK, obviously, the spread versus five-year swaps have blown out a lot more than they have on the continent. It sounds like, from what you're saying, you feel that the UK has oversold, rather than the likes of France, who's only moved out 80 bps, versus risk-free rates moving out 300 basis points. It feels like you feel that the UK's oversold, rather than France and Ireland needing to reset more. Just interested to get your thoughts on that, thank you.

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Rita-Rose Gagné, Chief Executive
Thanks, Max. There are two questions in here, so, first of all, the disposal programme and how we're thinking about where the leverage is. And then secondly, you're asking me about what I think, basically, where are the values going in our different geographies.

So, for the first question, with regards to the disposal target of £500m, we are indeed guiding with confidence that we will reach that this year. That's a £90m back there, and that does have the possibility of getting our leverage even to a better place.

But when you look at the leverage at the moment, we're really committed, and we will stay committed, to a resilient and stable balanced sheet, and to maintain our IG rating. So the LTV, the headline LTV at the moment, at 33%, will improve further, as I just said, and our net debt to EBITDA at 7.7 times, is a really good number, and a prudent number to be at, at this stage of the cycle.

So, if you look at values, as you point out, we do think that the values are stable, with yields broadly flat. And we are leasing at positive to ERV. So we're right about there, but again, a bit of progress due to us finishing our disposal programme. So, as far as LTV is concerned, that's the view.

And then if you look at valuation, the overall valuation, overall the valuations were stable. What we're starting to see in the portfolio is some positive movement on the ERVs. If you look at the UK, yes, we think that the yields have stabilised now, and they've been stable for some time, actually since last year, since H1 2021. It's just last year Q4 that there was a change, a shift in the yield related to the political instability. So I think that's, as you say, it's a very wide spread, and we are seeing liquidity come back to the market. So we believe, that's - no crystal ball, but that's pretty buttoned up.

And again, peak to tough, we're at 65% lower values and 34% ERV. When you think about the ERVs, our leasing activity is showing that we're leasing in the UK in a significant way, and more and more over ERV. So the ERVs at some point will have to catch up. We think there's an opportunity to the upside.

In terms of the French yield remaining stable at the moment, we've had a positive shift in income, as you saw in all the KPIs in France, in terms of footfall sales, leasing. It's very positive, and we've had a transaction in H1, as you know, on the Italie Deux transaction, with a very attractive net equivalent yield of 5%, which was supporting our values, and it's a quality asset. So we don't see any reason, considering the dynamic in France, that the ERVs have shifted very little, and different dynamics in that market, we think that we've re-based the portfolio 30% down since peak. We think, again, there's no reason why there would be material shift there, as we see it.

And then in Ireland you did see a modest outward yield shift, related to the investment environment. Again, in Ireland, capital values are down 33%, so that's a significant drop there. So we think it's not, there is no material movement there.

And when you compare the yield across all territories, you do see attractive spreads to the five-year swap. And so that's why we're starting to see now investors in an environment where they ultimately have some visibility on underwriting. You see investors, you see investors coming back to the sectors, considering those attractive yields, and considering, in the best property, again. We cannot paint one picture for

everything, but for the best properties, there's attractive demand, occupier demand. So I think this will support pretty stable values.

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Max Nimmo, Numis
That's great, thank you. Just one quick follow-up. Would you be willing to commit to an LTV target on a fully proportionate basis at this point, or is it more just, we want to get it down? Do you have a number in your mind?

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Rita-Rose Gagné, Chief Executive
Again, our reference is the Investment Grade. So that's the reference point. I think I gave you a pretty specific view on how we view ourselves now, and with our disposal progress. So I think, that's the view.

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Max Nimmo, Numis
Thank you.

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Telephone Operator
Thank you. Our next question is coming from Pranava Boyidapu, calling from Barclays. Please go ahead.

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Pranava Boyidapu, Barclays
Good morning, everyone. Apologies if this has been asked already. There were some technical issues with my line. We would like to get a bit more information on how you're attacking your near-term debt maturities, particularly Dundrum, which is due to close soon, right? Also, I remember there was a cash drag on that last year. Could you tell us how that asset is currently performing against its covenants? And is there any debt coming to add Value Retail? Any comments on that?

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Rita-Rose Gagné, Chief Executive
I'm not sure I necessarily got all the aspects of your question, but you're talking about financing. So, on the near-term, well, relatively near-term maturities, we do have Dundrum, but that's going to be refinanced in the normal course of things, rather the later part of 2024.

When you look at our refinancing more generally, when you look at it, there's three points to remember. At the moment, we're still in the business of retiring debt, so there's nothing due for the rest of 2023. There are maturities in 2024 and 2025 that are well covered by existing cash, and with further asset disposals to come, to complete our £500m target. So we continue to monitor markets, and we'll be prepared and ready to access whenever we feel is acceptable.

Eventually, we do have to refinance the longer dated maturity, but remember that the 2026 and the 2028 sterling legacy bonds are at rates of 6.25% and 7% coupons, respectively. The 2027 is at 1.75. So we think we should be able to do better than that. But there's likely going to be some overall impact, but it's hard to quantify now.

Swap rates are moving at 20 basis points a day, so let's see where interest rates settle by late 2024 or early 2025, when we might be out of the market- out in the market.

The last point, I think, you asked, if I understood well, was around Value Retail. As you know, they have done their major refinancings last year, so that's out of the way, and there are some remaining smaller financings on three of their assets that are going to be getting done in the normal course of business. So that's the update there.

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Pranava Boyidapu, Barclays
That's very helpful, thank you.

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Telephone Operator
Thank you, sir. Our next question is coming from, he withdrew his question, sorry about that. Our next question is coming from Paul May of Barclays. Please go ahead.

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Paul May, Barclays
Just a couple of quick ones, really. First one should be fairly easy, then I'll ask the second one. Retailer profitability, there's a focus on OCRs, which you'll probably agree are slightly meaningless, across geographies. But I just wondered, what is retailer profitability in your centres looking like? I think in the past, the UK tended to be a more profitable region to do business, and just given the rent declines that we've seen there, is that now more the case? Or has France taken over on that retailer profitability? Thank you.

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Rita-Rose Gagné, Chief Executive
The way we look at retailer profitability, as you say, the environment at the moment, there's a lot of things converging towards the physical space, and the omnichannel in the physical space. So the OCRs, although not perfect, because at the moment, the way the sector is shifting towards more omnichannel, and physical space is not only about the sales per square foot and rent. It's really about what a physical given location gives to the overall profitability of the companies, and of the overall sales.

So I think the profitability at the moment, for the retailers that are going towards the best properties, is looking good and better. Ultimately, the rent, if you look at the cost of doing business as a physical space, it's actually quite low.

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Paul May, Barclays
Just to follow up, I suppose, on two examples. If a retailer was occupying a space in Bullring, and the same retailer was occupying space in Terres du Port, would they be likely more profitable in the Bullring or Terres du Port? I think in the past it would have been the Bullring, but I just wanted to check whether that's still the case.

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Rita-Rose Gagné, Chief Executive
It's still broadly Bullring. Again, yes, it's Bullring, I just make the caveat that it's more and more about the overall profitability than the specific, so the physical cost in a given

location, is benefiting not only profitability in that said location, but in the overall brand of the retailers. Short answer, I think, Bullring still is in the better spot.

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Paul May, Barclays
Thanks. And my second question, the returns that you're guiding to, or talking about, on capital investment, are starting to look very attractive and, I think, getting closer to being able to be executed, given planning and various things as we move through. At what point does it make sense to raise capital, and I think debt capital is probably not attractive, so probably equity capital, to fund this investment, given the returns on that new equity would be probably far in excess of the returns on the existing equity? I'm just wondering how you're thinking about that in terms of a return profile on equity investment. Thank you.

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Rita-Rose Gagné, Chief Executive
For now, we consider that we have the opportunity, and we're able to reinvest and recycle, and that's where we want our capital to be recycled. You never say no to equity. Eventually, if the circumstances are right, but our goal here is to recycle, grow the company, reduce NTA gap, and eventually, as I say, never say no. But for the time being, we're able to recycle our capitals with our current capability.

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Paul May, Barclays
Perfect. Thank you.

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Telephone Operator
Thank you, sir. Once again, ladies and gentlemen, if you have any questions, please press *1 at this time. We'll now go over to Jaap Kuin, calling from Kempen.

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Jaap Kuin, Kempen
Hi, good morning. Thanks for taking my question. I was cut off a few times, so I hope someone else didn't already ask this. But could you maybe go into the increase in net admin, at Value Retail? Just provide some colour on the big increase there. And then, while we're FCR, any additional insights on the medium-to-long-term strategic orientation towards your ownership of that stake.

And then, secondly, on disposals and/or debt de-recognition, obviously the O'Parinor and Highcross foreclosures basically help you. Are there any other situations where you consider this to be a viable strategy? Thank you.

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Rita-Rose Gagné, Chief Executive
Thank you. First question is around VR, the cost. VR has increased GRI of 13%, and there has been an increase of cost to do that, basically. So that's where that comes from. VR, as I said, are working extremely hard and well for the recovery, and doing all that we need to do to really deliver these great results.

In terms of our mid-to-long-term strategy with VR, I did mention in the presentation that, again, VR is a best-in-class platform, but it's not part of our long-term strategy, due to the fact that it's an investment, and we're rather owners, operators, of our assets. So we will seek liquidity options at the right times, at the right price.

And with regards to the disposals, more generally, and you referred to specifically O'Parinor and Highcross, and those circumstances we don't see. The only remaining secured financing we have is on Dundrum. And as I said, this will be refinanced in the normal course of business, and it's a very strong and strategic asset, long-term asset, for Hammerson.

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Jaap Kuin, Kempen
Okay, clear. Yes, I think I'll follow up on the net admin for VR, but thanks.

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Telephone Operator
Thank you, Mr Kuin. As we have no further audio questions at this time, I turn the call over to questions which were submitted via the web in writing.

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Josh Warren, Head of Investor Relations
Thank you. The first one comes from Moishe Mallen (?), from SDG Securities, who asks, what is the like-for-like NRI growth for each of the three flagship regions, UK, France, and Ireland?

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Rita-Rose Gagné, Chief Executive
That is actually in the RNS, in the financial statements, page 56. You will see that the UK has a 1.1% growth, France is minus 6.5%, and Ireland is 8.6%. Be mindful of the fact that UK and France still have some impact relating to bad debt. Actually, the UK NRI, we felt that is quite strong. Himanshu, do you want to add anything on that?

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Himanshu Raja, Chief Financial Officer
I'd just simply point to the overall Group gross to net conversion is at 80%, and as you rightly said, Rita-Rose, we do have volatility in number just stay strong, bad debt provisions, or charges. Overall our bad debt provisions came down, reflecting the strong collections rate that we see with 2022, now at 98%, and 2023 collections also remaining very strong.

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Josh Warren, Head of Investor Relations
Thank you. The next question has come from Tomas at Goldman Sachs. The first one is, how much of the £43m VR cash distribution is a catch-up payment for FY22? And is the £15m you expect in H2 broadly the amount we should expect on an ongoing basis?

And then the second question is, can you help me square the circle between principal leasing +8% ahead of ERV, but the portfolio becoming more over rented?

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Rita-Rose Gagné, Chief Executive
Yes, for the first question, Himanshu, do you want to give the split on the £43m, our cash decisions for VR?

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Himanshu Raja, Chief Financial Officer
Yes, the split was £36m catch-up in respect of 2022, and £6m in respect of 2023. And you will see, I guided in my presentation for a further £15m to come in the rest of this year. So that brings around £21m from this year. As Value Retail go through the remaining financings for, Fidenza and Ingolstadt they take a conservative view, as they did last year when they refinanced …. Valley in Bicester. So if you're looking to forward-project in your model, I think a £20-25m distribution is about right on a going-forward basis.

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Rita-Rose Gagné, Chief Executive
Thanks, Himanshu. The second question is about our activity of leasing over and above ERV, versus the over-renting we're seeing. On that point, first of all, it's not a material number, and that is spread over many years. But the point I would want to make on the reversion is that this is tracked versus ERV, and the ERVs, as you can see, are proving to be quite low versus what we are achieving more and more.

So it's become a bit of a theoretical KPI, so we think that that reversion will eventually, will be reducing as we go, as we more and more lease over and above ERV, and as the valuers pick this up. Because it's just starting to be picked up. There is evidence that it might have been, the ERVs might have overshot downwards a bit too much here.

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Josh Warren, Head of Investor Relations
Thank you. A couple of questions which I'll combine, a similar theme on Value Retail, from Ben Ritchford at Soc Gen and Kabelo from Massy (?), which is effectively thinking about the future of Value Retail. What are the key KPIs that might have to change? What might circumstance change that would make a disposal more effective, or choose you to dispose of the asset more quickly?

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Rita-Rose Gagné, Chief Executive
I think, as I've said, it's always about seeing the recovery. So the typical KPIs on footfall, sales, the return to cash dividend, Hammerson getting back that benefit, so we're going to see increased performance still. So we're tracking that. And then it's a question of being in the market at the right time, once we feel these KPIs are at the right place, and being in the market at the right time, and get the right price. So that's how we're looking at Value Retails.

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Josh Warren, Head of Investor Relations
Thank you. Just one clarification question from John Kay, can you please discuss how you reconcile your 60-70% payout ratio with the 90% UK REIT requirements?

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Rita-Rose Gagné, Chief Executive
Himanshu, do you want to take that one up?

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Himanshu Raja, Chief Financial Officer
Yes. Quite simply, if you look at the mix of our UK income, obviously the UK PID is on UK qualifying income. For Hammerson, obviously income streams are a mix of UK and non-UK. We've previously guided that a fair estimate on the UK qualifying PID is at around 55%. So in setting a dividend policy, the Board considered that 60-70% to be at the right level, which is above our PID minimum and, as Rita-Rose said, really gives us a flexibility both towards shareholders and to continue to invest in our portfolio going forward.

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Josh Warren, Head of Investor Relations
Thank you, and then one other slight clarification from Hammond at Colitix (?), which is, can you please just re-cover, what are the levels that the rating agencies are looking for in terms of net debt to EBITDA, LTV, and so on, which you need to maintain to your investment credit?

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Rita-Rose Gagné, Chief Executive
Sure, that's a great one for you, Himanshu.

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Himanshu Raja, Chief Financial Officer
Yes, again, great question. Thank you. Actually, the credit agencies don't put specific measures in place. Again, I will refer you to my script. As we went through the half year, we were one of the only four rating actions that retained our IG rating, against some 40 plus rating actions in the half.

We've always said we're committed to maintaining an IG rating, and two guiderails that we've always given is net debt to EBITDA being in mid-single digits. We've said today that 7.7 in that context is a really good number, and the LTV as we complete our remaining £90m disposals, will be at around 31, 31.5. So at this stage in the cycle, we feel those are good numbers, and overall, which Rita-Rose has reinforced, our commitment to maintain that IG rating.

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Josh Warren, Head of Investor Relations
Thank you. There are no further questions that we haven't covered elsewhere, so we'll return you to the operator at that time and thank you all very much.

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Rita-Rose Gagné, Chief Executive
Thank you very much, everybody.

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Telephone Operator

Thank you very much. Ladies and gentlemen, that will conclude the discussion. Thank you very much for your attendance. You may disconnect. Have a good day, and goodbye.

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