Hammerson
Full Year Results Presentation
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Speakers

Rita-Rose Gagné, Chief Executive Officer

Himanshu Raja, Chief Financial Officer

Josh Warren, Head of Investor Relations

Grégoire Peureux, Chief Operating Officier

Questions From

Paul May, Barclays

Rob Jones, BNP Paribas Exane

Ben Richford, Société Générale

Bjorn Zietsman, Liberum

Sam Knott, Kolytics

Prinaba Oyedepo [?], Barclays

Marcus Phayre-Mudge, Columbia Threadneedle

Tom Musson, Goldman Sachs

Introduction & Key Highlights

Rita-Rose Gagné, Chief Executive Officer
So good morning everyone and thank you for joining us at our new offices here in Marble Arch. With me today I have Himanshu Raja, our CFO, and I have Josh somewhere, our IR Director, and some members of my Executive Team sitting just in the front row.

So let's kick off. So I'm pleased to start the day by saying that we've had another strong year. We delivered £116m in adjusted earnings, and that's 11% up year on year. So this was driven by growth in like for like GRI and NRI, and also by cost reduction of 14%.

2023 marked actually the coming together of three years of consistent change and strategic execution for which I'm really proud of the team. This has driven our strong financial and operational performance that you see flow through in the results today.

So we had another record year of leasing while footfall occupier sales continued to grow, and occupancy is stable at 95%.

Our core city centre destinations are in high demand from quality occupiers and visitors in equal measure. And the investments that we are making within our core portfolio to reposition our assets are delivering results.

For example, we'll talk about Bullring, Dundrum, and Cergy. So we see similar opportunities for our investments elsewhere in the core portfolio in the years to come.

So this delivers better space, grows rental income further, reduces vacancy, and delivers attractive total returns. This is what we will be doing more of and at an accelerated pace.

Now, I've also spoken to you before about getting ourselves to a more efficient platform, and this was a big thing for us in 2023. And this is now done. It's been implemented this year, and we will continue to reap the benefits of that going forward in our cost reductions.

So we radically simplified our operating model by consolidating lots of property management suppliers with partners of scale in the UK and in France. At the same time, we put in new technology and improved our ways of working. And this is all what is underpinning our significant ongoing cost reductions. And we are, by the result of that, able to do more and move faster.

Today, our 160 colleagues are really focused on strategic asset management, leasing, and value creation. And just to give you an example, leasing delivered £46m in value, a record year, and that's up 23% like for like, with a leaner team on a more focused portfolio.

We also successfully delivered our £500m divestment programme, where we executed complex transactions in difficult markets. So tough decisions have been made there, and we have realigned, by doing so, the portfolio while we materially strengthened our balance sheet. And therefore, debt is down 23%.

So this all brings us now to our core proposition, which is a portfolio of dominant prime city centre destinations with growth potential. These are fast evolving to my vision of 24 on 7 urban living spaces.

I'm a strong believer in cities as engines of growth and progress, and that they remain key locations for commerce, innovation, culture, and lifestyle. And we cater to all those uses, and none of that is going away, as you can see in our KPIs.

So, of course, I'll finish my introduction on one point that's also very important for us. We've made a lot of progress in 2023 so everything we do is done in a sustainable way. And in '23, we have reduced our landlord carbon emissions by 13% in line with our pathway to net zero. We increased our focus on social value, and with colleague engagement, significantly up. And I was particularly pleased that we regained our GRESB 4-star rating.

So overall, I see significant potential for growth in our estate and remarkable social impact. More to come on that.

But first, I will hand to Himanshu to walk you through the numbers. Himanshu.

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Financial Review

Himanshu Raja, Chief Financial Officer
Thank you, Rita-Rose. And a warm welcome again to Marble Arch House. And thank you for making the trip here.

Let's dive straight in. We're going to start with the income statement, and then to returns and to credit metrics.

The top line, you know, was very strong like for like and net rental income was up 3.6% to £167m. Adjusted earnings were also up 11% to 116 or 2.3 pence per share, reflecting really big reductions in both administration, as well as in net finance costs.

The IFRS loss was £51m and it was again good to see values really stabilised and therefore a significant improvement from the £164m IFRS loss at this time last year.

2023 was also the year that we returned to a cash dividend and the Board is recommending a final cash dividend of 0.78 pence, giving a full year dividend of 1.5 pence per share, a payout ratio of 64% in line with the half year. And that will be paid as an ordinary dividend.

The total accounting return was a negative 2.1%, but total property returns was a positive 3.2%, and I'll come back to the details on our property return shortly.

Net debt was down, and our resulting headline LTV is at 34%, FPC LTV is at 44%, and when you pro forma that for our exchange of Union Square, net debt pro forma is down 30% and LTV and FPC drop to 32% and 43% year respectively. NTA per share finished at 51 pence for the year.

Let's now turn to the detail of the income statement and the adjusted earnings walk. We started the year out at 105. I've mentioned the like for like NRI growth, the flagship portfolio up £4.8m offset by a modest decline in the development portfolio.

Net finance costs benefit from the cash balances we hold, it improved by £8.1m on interest receivable. Gross admin costs down again, I'll come back to more detail. Value Retail contributed £32m, the earnings were up £4.7m.

And then to complete the earnings walk, our disposal programme means that there was an aggregate loss of £13m of NRI from disposal in the last two years.

And therefore, I just want to dwell a moment for those of you thinking about the modelling for 2024, you'll need to annualise the loss of NRI for the disposals in 2023, as well as for the exchange on USQ and together, that's around £17m off our £116m 2023 earnings. And then for your modelling also, you'll need to offset that with the interest receivable, of course, on the proceeds from USQ, as well as the overall effect of rates on our cash balances.

Now, let me just turn to VR's performance in more detail. Footfall across the villages was strong again, a 9% increase. But interestingly, it still remains slightly below 2019 levels. Brand sales were strong, up 10% year on year. And in brand sales, that's above 2019 levels at around 5%. Occupancy stable and actually Value Retail, you know, signed some really strong brands about 300 or so leases signed during the year. And together, that operational performance drove GRI at our share, up 10% or £14m.

They continue to do a good job of managing the cost base up £3.4m. We saw the effect of the refinancing last year of La Vallée and Bicester, remember, that was about a billion of refinancing, and net finance costs were up £7.5m for that. And the resulting earnings, therefore, for Value Retail, overall £32m. And at our share, it's a yield of 2.7%.

Coming to the cost base, the key numbers are 17, 14, and 10. 17 is the reduction in cost in 2022. In 2023, we delivered 14% further reduction. And therefore, admin costs finished the year on a gross base of £51.5m.

And that reflects a net headcount reduction of 68% since 2020. But it's not just been about that. There's been an equally rigorous focus on our non-payroll costs, and they reduced by 23% year on year.

And that includes insurance, software license costs, and reductions, of course, in our office footprint. You know you're here in Marble Arch today, and we've seen similar reduction in our office footprint in France.

And then the 10%, which is we are guiding to another 10% reduction year on year for 2024.

Let's turn now to valuations, and I'm going to go to the top half of this chart and the flagship portfolio and move you across from your left to right. So the flagship portfolio at year end is £2.5bn, with a total property return of 2% and a positive income return of 6.3%, offset by a negative capital return of 4%. And that's overwhelmingly related to yield. And there was no real movement, you know first half to second half in that.

And I'm really pleased to see leasing coming through, that positive progress on spreads on leasing coming through in Vals. And we saw an increase in ERVs on eight of our 10 core assets over the course of the year. And indeed, if I look at the second half, all of the assets in the portfolio showed a positive impact of ERVs on values.

The value decline in developments then largely relates to yields on residual values, bringing the total managed portfolio to £2.8bn. And the total property return on the managed portfolio was therefore you know 1.6%. And I think you have to go back to something like 2019, since we've then posted a total positive return.

To complete the picture, Value Retail's gross asset value at our share is £1.9bn.

Let me now turn you to the obligatory NTA slide. From 53 pence FY2022, adjusted earnings contributed 2 pence. Revaluation, disposal, and the derecognition losses on O'Parinor of combined negative 3 pence. The interim dividend of minus 1 pence to close NTA per share at 51 pence and in line with consensus.

So two more slides on net debt. First of all, the movement on net debt keying off the £1.7bn that we started out of the year. Disposal proceeds and the derecognition of debt, both on O'Parinor and on Highcross, benefited us by £341m.

Strong cash conversion, and we don't talk enough about that, I think, but collections remain strong, 96%, for ‘23, we're already at 88% for 2024 Q1. So strong cash conversion on the managed portfolio, £104m.

We saw distributions from Value Retail of £74m, and that covers the period 2019 to 2023. And it gives us an average cash yield of about 1.7% on VR, but it's good to see that cash coming through.

Then dividends, net interest, capex, bring you home to the net debt reduction of 23% and £1.3bn.

And when I think about our capital structure today, it's very robust. Our near-term group debt to 2026 is more than covered by the £570m of cash, and that cash, of course, increases to around £680m when we complete Union Square, and we have undrawn RCFs of £655m.

And if I give you the weighted average gross cost of debt, that's around 3.3%, and against that, I'm getting around 5, 5.5% on my cash deposits. It's more accretive to hold that cash on balance sheet today.

Our only secured debt is Dundrum. Dundrum, quality asset, you know relatively low LTV, and we're fortunate enough to have a number of proposals already on the table, and we're in the process of down selecting for our preferred option. Of course, in the fullness of time, you'll see the announcement on that.

And to remind you, the interest cost on Dundrum today is at 1.9%, and you'll need to factor in your post-far announcements, that into your modelling for 2024 and beyond.

And that concludes the financials, and now back to Rita-Rose.

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Business Update

Rita-Rose Gagné, Chief Executive Officer
Great. Thank you, Himanshu, a lot of movement in those numbers, and I'll pick up on that.

Just to go back on the progress we've made over the last three years, because that explains a lot of what we're seeing now and what we're going to be up to in the future. So if you look at the end of 2020, we've signed over the last three years, just under 1,000 leases, representing £130m of rent, of headline rent. This increased like-for-like passing rent in our flagship portfolio, which was up 3% to £179m, despite the pandemic years.

The gross administration costs overall were down 24%, more to come. Including Union Square, we disposed of about £950m of assets, which drove debt down overall 46% in that time.

The resulting pro forma headline LTV is down 40% to 32%, and the net debt to EBITDA is down from 14 times to 18 times.

And putting the financials to one side, our like-for-like carbon emissions are also down 35% since 2019.

So we've navigated the company through a high-risk period of deleveraging and repositioning over the last three years. Call it rebasing, if you will. So I draw a lot of confidence from the years to come on the back of that performance, of our core assets, and as a result of what this team has accomplished over that period.

Overall, the message or the key message to take away today is that we're well positioned now to invest for growth and value creation from our new base.

Our core city centre destinations are in high demand with visitors and way more selective occupiers. We have strong momentum on leasing, and our operational matrix on sales, footfall, collections, vacancy are all robust, thanks to proactive asset management. So we have a wealth of near-term and long-term investment opportunities within our portfolio.

We've realigned the business and have a strong platform, and most of all, a long-term visibility on our income streams.

So again, this gives me confidence in our ability to continue to grow our top line by investing to reposition the space, increasing leasing tension, which we're doing now, and driving new income streams.

In the years to come, that is what will drive earnings growth off that new base and, with the values reaching an inflection point, value creation.

So on this slide, you can see the map of where our assets are at the moment. So you will see we have now 10 city centre destinations and 80 acres of land. This offers tremendous opportunity, as I said.

In 2023 alone, we welcomed 180 million visitors. Our 1,500 occupiers generated over £3.5bn of sales, and we supported more than 23,000 jobs. So at the moment, I think we're not in a typical cycle. We're experiencing major structural shifts in our lives, in our economy, and that's at play at the moment. So we need to ensure that we focus on the right cities and the right assets, which explains the programme of sales that we've been doing over the last years.

So what do we look for in catchment areas? So we aim to be in large, affluent, and growing catchments of over 500,000 people, all within 15 minutes radius with a

significantly young population. Economic prospects such as job growth that exceed national averages, and this typically means a highly educated workforce.

Critical is the high connectivity, so locations on or close to major transportation hubs, and importantly, supportive local authorities and strong ties to our communities. So this all increases the appeal for a broader mix of lifestyle-oriented uses.

Our core assets are dominant in those affluent catchments. They are essentially part of the fabric and infrastructures of those cities and towns. They have opportunities for improving the mix, for repurposing obsolete and underutilised space, and generating incremental value and eventually income, incremental income and values.

Our strategy reflects this. We're ensuring that we are in the right cities that have significant growth prospects, because not all assets will thrive in this environment. So we of course, also you can see in our overall portfolio, we have our investment in Value Retail in nine villages that are at our best in class in their segment, however, not core for us on the long term, as I have said before.

So let me talk and walk you through some trends we are seeing in the portfolio that are influencing our KPIs and what we are going to be doing next. So let's turn to leasing, several KPIs on here. So what we're seeing on the ground is we're seeing occupiers investing significant amounts of money for the long term. So including new concepts and store refurbishments.

More than three quarters of our leases signed in 2023 are on a long term basis of an average of nine years. These new occupiers and refreshed stores are also experiencing double digit percentage increase in sales densities compared with existing occupiers.

Importantly, these longer-term lettings were done at 37% over and above previous passing, generating an incremental of £7m of annualised passing rent.

We continue to lease well ahead of ERV at 12% above in 2023, and that has progressed steadily, providing more solid evidence of rental growth to our valuers. This is the first year since 2017 with a positive move on our portfolio ERVs.

So the new leasing mix is diverse. That continues the trend that we've seen over the last couple of years.

And looking ahead, the pipeline is strong with around £13m in solicitors' hands, and we've made a great start to 2024. The momentum continues. We have 22 deals exchanged for £6m of headline rent and continue to see those positive spreads over previous passing and ERV.

So let's dive just a bit more in the mix. So on this slide, on the right side, we have been successful in building strategic relationships with the best in class brands. And this is paying off. So in 2023, we've signed important deals with and upsizes with occupiers, including Inditex, JD Sports, Nike, just to name a few.

And you would, of course, expect that in best in class assets. But what our occupiers are seeing in our assets is that they are consistently trading well ahead of expectations, and some have their best performing stores regionally and globally. So indeed, our data shows that their new stores sales densities in the UK are around 15% higher than their predecessors.

So let me point out to the right hand side of the slide, that chart shows more of the innovative and experiential brands that we are bringing into our estate. That's what is making our destinations into what I call living spaces, mixes of uses.

So to give you just one example of that, let's just take a look at Brent Cross. You may think of this as a shopping mall, but it's becoming more. With the signing of Social Sports Society, subject to planning, Brent Cross will have the largest paddle tennis facilities in the UK later this year.

We also anticipate final planning for Team Sports and electric go-karting activating underutilised parking.

In 2024, we're introducing a new market hall food offering with operators already signed up. And in terms of wider uses, Moorfields Eye Hospital has taken a larger permanent space in the asset.

On the surrounding land, you'll find a garden centre, cafe, and the largest Tesla collection point in the UK.

So there's a lot of things going on there for the community. And our direction of travel on that is clear. We will continue to develop those strategic relationships with the very best brands and introduce complementary leisure and alternative use, which answers to a strong demand.

So retail is evolving with a stronger focus on purpose. Transactions can occur anywhere, but the human experience within retail is indispensable. So for brands, their customer interaction is crucial and that is growing in significance.

For us, this is about bringing art, culture, purpose, music, a lot of activities in our assets and making our destinations, creating what my team calls the sizzle in our destinations, which attracts all sorts of trends, behaviours, and demands to our assets and attracting thereby footfall.

So our placemaking, commercialisation, and marketing also generates new income streams. And we've seen that flow through also in our numbers. A favourite of mine, I have several, but the Charity Super.mkt was great. It's the first retail concept that brings multiple charities under one roof. And they chose Brent Cross as their first place to launch that concept. And then they went on to Cabot and to the Oracle, and that drove extremely strong footfall and media coverage. So it also won the team a Revo Award for the pop up of the year.

So there are other examples, of course, across the portfolio. You'll have seen the Aardman mural at Cabot Circus, which is on the cover of our slide deck. That was really popular. And we also hosted the first ever nighttime event called Late Night Out at Bullring, bringing that after-hours economy to the assets.

So we attracted new talent into the company over the last two years, which has extended our use of digital marketing partnerships and social influencers at the assets. But we've grown our overall digital audience, increasing social media impressions to 278 million. And importantly, conversions to the destinations is up 9% as the result.

So it's our success in leasing, placemaking, and commercialisation that drives occupancy, better footfall, and occupier sales. So we are seeing the occupancy at some of our assets close to full. So you'll see Dundrum at about 98%, Brent Cross at about

99%. So that creates that leasing tension that supports the quality of our destinations, the mix, and obviously the overall financial matrix.

In spite of the macro environment, imagine that we -not imagine it really happened - we did welcome 20 million visitors over Christmas in our properties, and this momentum continued through January.

So with OCRs more affordable, we have already talked about how occupiers are investing in the long term, having fewer, better stores. That's really what's going on. So redirecting to those key locations, using their spaces for so much more than a point of sale. And our assets are very specific and unique with regards to city centre and size of space that these key best-in-class brands can have to operate their businesses.

So we are investing also in our data capabilities and in AI CCTV to further understand our visitor-occupier behaviours and unlock new revenue streams.

So now let's just take a step back, an important step to look forward with our approach to capital allocation. And this is something that I said before, and we're keeping the same approach. So on this slide, you see options we look at, but first of all, we will maintain a stable and resilient capital structure with an IG credit rating.

We are committed to a sustainable and growing dividend covered by cash. We are mindful of our cost of capital and will remain opportunistic on capital deployment. And I see a broad range of opportunities to invest in our core portfolio to grow rental income. Beyond that, we have other opportunities to consolidate partnerships and to unlock further value from our strategic land. Together, all of this enables us to scale up in time.

So we're seeing the benefits of the investments we've made over the last two or three years, because we have invested in our properties, notwithstanding all the exercise of deleveraging and refining the core portfolio.

And a great example of this is the repositioning of Bullring. We've talked about it previously. You have the pictures of the new premises. It's the repurposing of the big box Debenham’s area. We've talked about it, but now it's really delivered and comes to life and flows through the valuations.

So you can see the new brands in there. ERV this year is up 5% year on year, and the valuation is up £35m at 100%.

So we have repositioned around 20% of the space. We've seen significant footfall uplift with overall numbers getting back to £45m for the Birmingham estate. Marks & Spencer, for one, joined us from its old high street location and opened in November in a great looking store and has seen really strong sales. We've also welcomed Inditex brands, Bershka, Footlocker, Pull & Bear and upsized JD Sports in 2023. And then TOCA Social will also open later in 2024. And this is their first operation outside of London.

So here you can see a quote that you'll take the time to read by yourselves. But this is a quote of JD Sports, which demonstrates and endorses the strength and importance of our destinations and the strategic partnerships we have. And their stores obviously are, as they say, they act as a significant beacon for them in the region.

So as a result of all this, in Bullring, footfall was up 5% year on year. And all this flurry of activity and additional leasing happened more in the second half to end of the year. And we're 6% up in January. So it's clearly a very positive impact overall.

And all this is in stark contrast with the national indices. So sales for the new operators were up 30% compared with their predecessors. Our investment was about £17m at 100%, generating a strong double-digit IRR. And new occupiers have invested over £60m in our property on their spaces. So basically, what we're doing is that we're removing old supply and addressing new demand.

So now what's next for us? We are working on a wealth of similar opportunities in the portfolio. So we're already underway on the repurposing of the former House of Fraser space in Reading. So you see a picture of Reading with the riverside, a really nice area and property. So we've proactively secured vacant possession there, which has a short-term impact, but a long-term value.

We've already signed leases with Hollywood Bowl and TK Maxx. We're in advanced negotiations with the remaining space. So at the other end of the scheme, we are in planning for 450 residential units, which are in high demand in this strong catchment area, which is basically 23 minutes from central London.

In Cabot Circus, we're working up investment plans along relevant operators to reposition and maximise value of major spaces, including the department stores and the cinema.

In France, we're currently evaluating an add-on opportunity at Cergy and are in heads-of-term discussions with two major global brands.

Finally, in Dundrum, construction on our 122 residential units, the Ironworks, is going well and has seen significant rental growth since it began.

So these are specific in-flight opportunities for us. And you can see on the next slide that has a lot of activity, but the breadth of the possibilities of eventual opportunities. So just for Birmingham, and we just spoke about it, but we have workspace opportunities above the New Street Station.

In the Edgbaston Street car park, we are looking at residential options there that leverages nearby regeneration. And on the longer term opportunities, we know about Martineau Galleries, which is a classic example of land with a dividend, but in a unique location just across from the new HS2 station. And of course, there's Bullring, we've talked about that.

So we have similar opportunities like this in all our key estates at the moment that gives us a lot to work on for the years to come. So despite the macro, structural demand for occupiers in our prime urban locations remains strong, particularly for those additional asset classes that have the most exposure to, and that are in strong demand in those areas, and that's residential and modern workspace.

So we continue to advance the planning and land assembly, which is capital light work to unlock optionality and value in time.

So you also remember that in 2023, we disposed of our interest, our 50% interest in Croydon, and we also disposed of small land interests in the portfolio. So we are selective on these opportunities.

So to bring all this together, and to conclude, while we acknowledge that we have more to do, we are where I wanted us to be when I jumped in three years ago.

We now have a focused portfolio of prime city centre destinations to work with. The quality of this core portfolio, together with our operational expertise in city centre destinations, in asset management, leasing, is capable of delivering sustainable growth in GRI, NRI and ERVs, as we have done over the last three years. So we are approaching an inflection point for both rents and capital values off our new base.

So my commitment is that we continue to invest and operate with discipline. And again, it's thanks to our long-term visibility of income - of our income streams, we are well positioned to deliver growth in earnings, dividend and capital values in the years to come.

So before I hand over to the question period, let me show you a quick glimpse of some of the activities that have been going on in our portfolio.

Let's roll the video.

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Video Played

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Rita-Rose Gagné, Chief Executive Officer
So a lot going on in the properties. I hope you come and visit us.

And Josh, I will open to the period of questions. Thank you.

[Applause]

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Questions and Answers

Josh Warren, Head of Investor Relations
Thank you, Rita-Rose. As usual, as we open the questions to the floor, for the benefit of those who are dialling in online, please introduce yourself and give where you're from, then list your questions out and then we will move around the room. So, we'll start off in the room, then we'll go to the phones and then pick anything offline by exception. So, hands up in the room I guess. So, we'll go to Paul first of all.

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Paul May, Barclays
Thanks, Josh. A few questions from me. Could you give a bit more colour on the Union Square disposal? Obviously, quite a large yield that you disposed there, a few clients asking is that more of a distress sale and then why would you sell at those levels?

Also any colour you could provide on anything to do with Value Retail and the process there? Obviously, press speculation back end of last year, it's gone very quiet, but operationally performing quite well, so anything there would be good.

And then, finally, obviously your cost base, appreciate you're managing that, but it's still high relative to the income profit. Your cost ratio is still one of the largest in the sector. I think the only way to really address that now is to grow and to expand that cost base over a larger income stream. How do you plan to fund all of your ambitions given your leverage probably doesn't want to go up? And you're at the end now of your non-core disposal programme, so I was just wondering how you plan to fund that growth moving forwards? Thank you.

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Rita-Rose Gagné, Chief Executive Officer
Okay. So, I'll take the three first questions. Thank you for that. I think you covered a lot of questions probably, and I will ask Himanshu to jump in on the cost and eventually the capacity we have to invest further.

So, on the USQ disposal, it's a very strategic disposal and I'm not sure I understand why, you know – distress disposal for me would be more like 30% or 40% or 50% discounts to book, so this is not far from book value. And, you know, yields sheet, people have their yield sheets at 11% for secondary cities. But, for us, you know, we put that strategy out there in '22 about having our £500m programme of disposals, and that was very carefully sized. And the assets were very carefully earmarked into that bucket because we wanted to end up in the situation we are today.

So, at one point, you saw the catchment areas in which we want to focus, so larger catchment areas and assets that have surrounding growth opportunities.

So, it was very strategic for us to do that sale, and we had a buyer that was credible and able to execute and to get it done. So, you know, we're on the front foot on this, we get our stuff done, and that money will go back in assets at higher yields for us. We're, you know, investing for growth at the moment. So, that's what I would have to say on that.

In terms of your second question, it was about Value Retail, so, yes, they are performing well. We are on the same approach around Value Retail that we discussed and talked about at the mid year.

We're committed to unlocking value if that is an investment – it is non-core, I just said it in the presentation – at the right time, at the right conditions. So, that approach is the approach we're continuing to take.

In terms of the capacity, and Himanshu will jump in on the costs, I just want to say on that, and Himanshu may want to complete, is that the way we've managed a portfolio in the last three years, we have managed to create capacity to invest. I just said that. We did invest about £50m or £60m in our properties over the last 2 years. So, we have that capacity embedded in the business plan at the moment to be able to do those value enhancing investments in our capex. Himanshu, do you want to pick up on the cost question?

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Himanshu Raja, Chief Financial Officer
Yeah, sure, and I'll just then also just add to the capacity question. On the cost, I think we have made progress. We're never satisfied. But the critical thing to take away is that we've reset the platform so that, as we continue to see rental growth, we'll get the

operational gearing coming through and, therefore, dropping to the bottom line, which, therefore, grows earnings, which, therefore, increases our dividend capacity as well.

On the capacity question, look, we've said previously, we operate within net debt to EBITDA guiderails of 6x to 8x, you know. That would mean an LTV of, you know, it begins with a 3 for the moment, you know, 33%, 34%. And I've got £680m on balance sheet. There's already capacity then from USQ.

And, when we talk about driving rental growth, the 100% investment in Bullring and Dundrum was like sub-£20m, and you can see what it does to ERVs, see what it does to VALs, you can see what is does to, you know, leasing tension. We've got plenty of opportunity, you know, that's not hundreds of millions of pounds, but it's within the balance sheet capacity that we have.

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Paul May, Barclays
Just a quick follow-up if I can on that? Obviously, moving, I suppose, scale investments would require a different thought process. As you say, these are sort of around the edges and I think you've got opportunities. Is there any thought process to start to look at some of the JV structures that you have with the assets that you like and you still own and whether there's any opportunity to take those out and move to a larger holding within those and look to invest in a more wholesale way across the portfolio?

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Rita-Rose Gagné, Chief Executive Officer
Yeah, and if you look at the capital allocation slide in the deck, which is one of the ways we can allocate capital and consolidation of JV partners where possible, is something we will entertain, and we have that capacity at the moment in our balance sheet.

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Paul May, Barclays
Thank you.

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Rob Jones, BNP Paribas Exane
Hi. Good morning. I'm going to follow up on some of Paul's questions if I may. I really like Slide 21 because, in there, you effectively have a promise to your investors as custodians of their capital, and it says – Required returns greater than cost of capital – and I think the reason, for me, why that's critical is because, as you highlighted in the Results, VR delivers you, you know, a yield of sub-three and a cash yield of sub-two. And Himanshu, as you mentioned, your cash on your balance sheet today, I appreciate this return will go down, but currently gives you a 2x return on your cash in Value Retail.

My view is that, going forwards, your return that you will deliver on Value Retail will never be in excess of your cost of capital going forwards and, therefore, I guess my question is, I'm not going to ask about update on sale process because I appreciate the answer would be – no comment – but, in the event of a sale, effectively, you've then got three options, right. You can either de-lever, you can distribute, or you can reinvest. And I just wonder which of the three you think would be a priority – clearly, you will have a view on this today already – subject to receiving, you know, not £110m of cash proceeds, but £800m plus?

. . . .

Rita-Rose Gagné, Chief Executive Officer
Yeah. Again, I refer you to that capital allocation slide in terms of the priorities at the moment. Obviously, this is constantly updated.

We do prioritise looking at the debt, considering high costs there, and doing some deleveraging, and then we talk about organic investments in the portfolio. We talk about consolidation of share ownerships. Just, you know, accelerating value for the strategic land and enhanced distributions for the shareholders.

So, it's the same, the priority is there, and we would consider as being, you know, accurate at the moment. Obviously, in time, that's reviewed with the environment and what is possible to achieve or not.

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Rob Jones, BNP Paribas Exane
Okay. Thanks. And then the last one from me was on Dundrum. It's good to hear that you've got multiple interested parties, from a refinancing perspective. I could ask my BNPP lending colleagues around the cost of that new financing might be, but I wonder if, a) you can give us a bit of any indication as to where you think you might end up from a new cost of debt perspective and, secondly, where the LTV is in that structure today?

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Rita-Rose Gagné, Chief Executive Officer
Sure. Himanshu, do you want to pick that up?

. . . .

Himanshu Raja, Chief Financial Officer
Yeah. So, you know, when you think about lending markets, you know, Dundrum, high-quality asset, you know, relatively low leverage is, when we refinance, it's around 45%, 50%, you know, in LTV.

Like I said, we've actually had a number of interesting proposals, both fixed and floating, from banking markets and insurance markets – BNPP is there amongst the mix. And when we think about the rates, we see a margin somewhere, you know, between 200 and 300. I'm not going to comment on the specifics, naturally.

What's helpful for us is, when you look at the five-year swap curve, that's come in by about 70 basis points since October, and so we'll get the benefit of that as and when we, you know, reprice. But we're, you know, well advanced in that. So, in all, you know, think about, you know, that sort of 500bps sort of range number.

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Rob Jones, BNP Paribas Exane
Great. Thank you very much.

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Ben Richford, Société Générale

Hi. Maybe just turning to Slide 30 and a question on France, so, the yield expansion that you've experienced in France has been relatively mild versus the UK and, obviously, there's structural reasons for that, but it leaves the net initial yield of 5.1%, which looks quite tight versus where assets are trading in France. What gives you confidence in that? And I guess, related to that is should you be selling France given the scale of the portfolio currently?

. . . .

Rita-Rose Gagné, Chief Executive Officer
Yeah, so, you're right, the scale has changed a bit, so we now own 100% of 2 assets – TDP and Cergy.

Listen, you know, our experience of transacting in France, the last transaction we did, is Italie Deux in '23 at a net equivalent yield of 5% for a quality property, so that's our reference for our properties.

What I would say to you is, as we go forward on that topic, I think there's going to be a big polarisation around, you know, how values move, and I think, there's something now with the French portfolios that, you know, we own best-in-class assets.

Now, France is a market that has been quite stable. As you see, there's been, you know, marginal yield expansion. Our income has gone up, so ERVs have gone up. I mean, over the years, in the last years to peak were 30% down or 33% down. So, there has been movement.

I don't have a crystal ball on what can happen there, but there's no evidence in the market. And, if there's something, as at the moment, as I was saying, we're in an inflection point where we see some positivity in the years to come, frankly, we're really focused on the income side at the moment because the yield expansion we can't control and it's volatile.

But I think, when you look at the where the yields are today compared with, you know, five-year swaps or demand, etc, I mean, these assets have transacted at those yields and there's always, you know, strategic buyers for those assets and I think those yields are appropriate, but not saying there won't be a sentiment-driven additional expansion, but I don't think it's going to be significant.

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Ben Richford, Société Générale
The yield on O'Parinor, what was that?

. . . .

Rita-Rose Gagné, Chief Executive Officer
It was about 11, if I'm not mistaken, but O'Parinor is a completely different asset, and that's why I make the point of the polarisation of the best-in-class assets. O'Parinor is absolutely not of that category.

In O'Parinor, we gave back the keys, so it was a capital allocation decision. We know the asset well, and our partner and us took the decision of handing back the keys, and that's called a distress debt or a debt in difference circumstances or whatever, but it's a different category of assets.

. . . .

Ben Richford, Société Générale
Okay. Thank you. And then just switching tack a little bit, the leasing in the UK, it seems like, you know, occupancy rates are good, pricing tension is returning and releasing spreads are positive. That 37% releasing spread, is that long-term deals versus short-term deals rolling off? Is that principally why it's so high?

. . . .

Himanshu Raja, Chief Financial Officer
No, the 12%, 37% is on the principal deals, but some of the reason why you see such positive spreads, particularly on passing rent, is that we're reactivating space. So, former department store space, like you saw in the Bullring example or the repurposing in Dundrum, they were, sort of, low ERVs and, therefore, low passing rent as well. Our investment, the investment that the occupiers make means that we're now seeing good ERVs and that passing rent coming through.

. . . .

Ben Richford, Société Générale
I see. So, it's a return on capex element, right?

. . . .

Himanshu Raja, Chief Financial Officer
There's an element of that, for sure, yeah.

. . . .

Ben Richford, Société Générale
And then just why is the proportion of temporary lettings still quite high and should that normalise at a lower level?

. . . .

Himanshu Raja, Chief Financial Officer
You'll see the overall occupancy was at 95%. Actually, we brought into the managed estates, Cergy, which about 89%, and we'll filling that. So, the underlying is around 96%.

I'll take you when this Management Team started, we also redefined what we call temporary space, which is less than one year, so that's always about activating the space, you know, enlivening the space and converting that space eventually into long-term permanent leases.

A good example I'd cite is, when Rita-Rose talked about Brent Cross, we had Moorfields Eye Hospital come in, that would have been that category of temporary space. Now, they're taken enlarged and long-term space at good ERVs and good, you know, passing rent, so. That, it's a transit lounge to permanent space if you will.

. . . .

Rita-Rose Gagné, Chief Executive Officer
It's not a bad thing to have either. I mean, it's quite intentional in terms of, as we move the mix and you want to be agile and then you test some brands on a temporary basis, some of them transfer into permanent. So, it's something that exists but we're majorly doing long-term leases.

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Ben Richford, Société Générale
Final question, does that mean you have a sort of target churn rate going forward?

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Rita-Rose Gagné, Chief Executive Officer
Well, you know, in terms of overall, in the portfolio, turns or churns, something between 15% and 20% a year in terms of the overall, you know, rent roll, and that's why we take confidence in the fact that we get, you know, better increases and better tenants in there. So, there is that ongoing activity that you'll see constantly in the portfolio.

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Ben Richford, Société Générale
Great. Thank you.

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Bjorn Zietsman, Liberum
Thanks. Hi. You may have touched on this with Paul's questions, but coming back to the cost reduction targets, so you mentioned 10% cost reduction next year. Are you suggesting that there's scope for additional cost reductions beyond '24?

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Himanshu Raja, Chief Financial Officer
I'm saying we'll deliver the 10% and we're never done. So, you know, we'll continue to drive productivity improvements and, you know, the time to give the '25 guidance will be at the end of '24.

. . . .

Rita-Rose Gagné, Chief Executive Officer
I think our focus now is increasing the revenues and getting that operational gearing. Obviously, we have better management of cost, but now we're focused on the top line.

And remember, we haven't shrunk the company, we rightsized the company to better grow. So, you know, the basis at the moment is quite appropriate. What's going to flow in, for example, in these cost efficiencies are really things that we did last year and the ways of working efficiencies – that will be flowing into 2024 – and then, hopefully, we continue to grow and create that operational gearing.

. . . .

Bjorn Zietsman, Liberum
And then just coming back to the portfolio, so you've obviously announced that Value Retail is non-core. Can we consider the remainder of the portfolio then core?

And then, regarding the acquisition market, do you foresee, at any point, coming back and finding acquisitions then are attractive?

. . . .

Rita-Rose Gagné, Chief Executive Officer

We can definitely call the city centres, that we've talked about today, the core portfolio, and I, sort of, gave you criteria also of what we're looking for in destinations. And, obviously, we have our team here that monitors constantly the market in terms of opportunities in our markets.

You know, if you look at the UK, there are not that many, you know, maybe one or two cities eventually, and we stay on the lookout, but our focus, at the moment, is really our core portfolio, you know, reinvestment in that portfolio, making sure that that is producing the best value. But we never say never if an opportunity comes up, but it's quite limited.

. . . .

Sam Knott, Kolytics
Thanks. Just to follow up on a couple of earlier questions if I can, so you mentioned that you can reinvest proceeds of the recent disposition at a yield higher than that 11%. Could we get an indication of what those reinvestment yields are and, sort of, what the capacity for run rate is? Is it £25m a year that you could reinvest at those high yields?

And then, on Value Retail, so, obviously, you've indicated that it's non-core, you would dispose of it maybe at book value. Do you have an indication of what kind of discount maybe you'd have to take – apologies if you can't answer that – where you could still consider it a good asset to dispose of?

And then, with those dispositions, I mean, at book value, you'd be getting cash somewhere close to your current total market cap. Would you consider large share buybacks to, sort of, make that value concrete to shareholders?

. . . .

Rita-Rose Gagné, Chief Executive Officer
Okay, so, three or four questions in there. I'll take your yield question and, on the capability on what investments we'll put back into the portfolio, I'll ask Himanshu to give you a bit more colour on what that is. But, in terms of the yield, I mean, just look at Bullring and Dundrum. I mean, it's very, very high returns. I mean, in reality, it's about 20%, 30% returns there, if not more.

The nice thing about the portfolio and where we are is that you're investing out of a very low base and that's why I say the investment opportunities are in our portfolio. So, we're, you know, doubling, tripling the rents, releasing extremely well. It's creating a lot of halo effect in the property. So, that's what we mean, you know, it's very high double-digit returns, and we have the proof points of that.

Now, in terms of what we would look at reinvesting and what we have in our planning for capex, Himanshu, do you want to give a bit of detail and I'll come back on the VR question?

. . . .

Himanshu Raja, Chief Financial Officer
Yeah, of course. As you know, we normally guide to around £25m to £30m of ordinary, sort of, leasing capex and sustaining, you know, the health to stay over and above that. You know, we see the opportunities in two or three assets which will be around, you know, £20m to £40m over the next couple of years at 100%. And so, our share, you know, incrementally to that £25m to £30m, let's say £20m a year and it's 20 a year

depending on the speed of execution, occupiers coming in, them being able to, you know, work at our speed, us work at their speed to take possession of big sites, like the M&S repurposing that you saw. VR?

. . . .

Rita-Rose Gagné, Chief Executive Officer
Yeah. Very quickly on that, as I said earlier, you won't expect me to comment, like I wouldn't on any asset of the portfolio, on any dynamic around that. You just asked the question be it capital coming back from VR, or any other eventual disposal would we consider share buybacks? I mean, all the options at that point in time are on the table to look to give the most possible value to the shareholders and make sure the company has a sustainable growing trajectory.

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Sam Knott, Kolytics
Thank you.

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Himanshu Raja, Chief Financial Officer
Rob Jones, here.

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Rob Jones, BNP Paribas Exane
The most exciting question of the day, IFRS 5, which is non-current assets held for sale. I thought, if you've got a committed plan to sell an asset and you believe there's a probable expectation of that asset transacting within the next 12 months from the balance sheet date you would classify an asset as held for sale, so why is VR not classified as that in the accounts? I don't know if the auditors are in the room or not.

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Himanshu Raja, Chief Financial Officer
I think you've just answered your own question there, Rob, which is that, if you look at the criteria, had all those criteria been satisfied, then we'd have adopted IFRS 5 treatment.

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Rob Jones, BNP Paribas Exane
So, which criteria isn't satisfied?

. . . .

Himanshu Raja, Chief Financial Officer
Well, you know, back to then asking the VR question a different way, which is the boss's reply, which is we can't comment on the specific dynamics of any asset, never mind VT, but good effort I think there! [laughter]

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Rob Jones, BNP Paribas Exane
Points for prizes!

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Rita-Rose Gagné, Chief Executive
As usual.

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Josh Warren, Head of Investor Relations
Last chance for questions in the room otherwise I will check if we have any on the phone. I think we might have had one, looking at the team.

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Telephone Operator
As a reminder, that's *1 to register a question. Our first question comes from Prinaba Oyedepo (?) of Barclays. Prinaba, please go ahead.

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Prinaba Oyedepo [?], Barclays
Hi. Thank you for taking my question. Your weighted average maturity today is 2.5 years and you also tapped upon last year 9% yield also, so would you consider coming to market currently given that, as you mentioned, you know, that the 5 years to operate has tightened considerably?

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Rita-Rose Gagné, Chief Executive Officer
I think you can pick that up.

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Himanshu Raja, Chief Financial Officer
Yeah, we did tap at 9% but we also redeemed 8%, so it was a net 1% and it was a demonstration that, even those times, we could access the capital markets.

I don't expect to be in the markets until some time in '25, and, whilst the forward curves, you know, should take account of that, you know, our spreads have come in materially.

I remind you, our spreads were at like 535, 540 as recently as April '23 depending on, you know, which bond you're looking at. They're somewhere in the region of 150 to, you know, 250 today. So, there'll be a right time when we're in the market, and we expect to do much better than that 9%, but it was 9% offset by redeeming some at 8% as well.

. . . .

Prinaba Oyedepo [?], Barclays
Thank you. And if I could ask again on Dundrum, I know there have been a few questions already, that's a chunky refinancing around £600m and you've mentioned you had a few options. Would buying out your JV partner be one of them? And I understand you've spent of money around Dundrum as well, so I guess, at this point, walking away is not an option?

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Himanshu Raja, Chief Financial Officer

Well, Dundrum is one of the core assets in the portfolio. It's the best asset in all of Ireland. It's one of the top ten assets in the whole of Europe.

. . . .

Rita-Rose Gagné, Chief Executive
The short answer, no.

. . . .

Himanshu Raja, Chief Financial Officer
So, no, and it's a high-quality asset that we've had plenty of interest from both banking and insurance markets to refinance, including, you know, from people who are, today, in the audience and see that as a very attractive financing proposition.

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Prinaba Oyedepo [?], Barclays
Thank you. That's all from me.

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Rita-Rose Gagné, Chief Executive Officer
Thank you.

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Telephone Operator
Our next question comes from Marcus Phayre-Mudge of Columbia Threadneedle. Marcus, please go ahead.

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Marcus Phayre-Mudge, Columbia Threadneedle
Hi. Good morning, everybody.

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Rita-Rose Gagné, Chief Executive
Hi.

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Marcus Phayre-Mudge, Columbia Threadneedle
And thank you very much for the presentation. Hi there. Cathartic to be back on the register after a long time but hopefully not suffering the frustrations that we did under some previous management.

Just to touch again on VR and I think to reinforce the fact that, you know, there's been quite a lot of feedback here on this call from the sell side but really from the buy side, this is a non-core asset, you must reflect on the share price and, therefore, you know, the comfort at which the market would be prepared to accept a discount if you were able to exit that, it would be great.

My real question is just about Cergy, and I think, on Slide 24, you talk about work in progress. Could you just remind me about the capex there and what you're trying to

achieve? The rest of that slide, there's a lot more detail on the UK asset, so I just wanted to get a feel for what you're trying to achieve there.

And then, I think, Rita-Rose, tied into that, when you talk about yield on costs, well, these double-digits, or relatively high numbers, that's just the return on the capex or are you actually factoring in the underlying existing value of an empty department store when you're talking about those returns? Thank you.

. . . .

Rita-Rose Gagné, Chief Executive
That's exactly it. You just answered to the question. So, we do take into consideration the value of the department stores and, obviously, the revenues.

In terms of Cergy, listen, there is a part of the asset that currently is not being used per se and there's strong demand by global operators there to take on that space. That is why I'm talking about that opportunity. We're scaling up that opportunity and working on that, but there would obviously be some capex but in line with the capex that we're talking about in other repurposing opportunities. Call this a redevelopment basically. I'm looking at my colleague here, Grégoire from France, that is working on that. Greg, do you want to give a few little details on that, if you want?

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Grégoire Peureux, Chief Operating Officer
Yeah, thank you, and thank you for raising the question about Cergy. So, as you know, we spent a significant amount of money in Cergy to do the extension a few years ago, and we still have, at the end of the mall, this opportunity for a 6,000 to 7,000 square metre addition on something for which we just got very late vacant possession. So, that's the reason why it was not included in the first extension we delivered a few years go. But, still, we are willing to deliver this one.

We are thinking about, like, a £20m to £30m investment, and it would like, again, for a major operator to join the mix and add to the mix of Cergy for the benefit of the whole scheme and with some accretive value. So, again, as Rita-Rose said, we will be very disciplined in this investment as well.

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Marcus Phayre-Mudge, Columbia Threadneedle
Okay. So, sorry, to be clear, you essentially have planning permission?

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Grégoire Peureux, Chief Operating Officer
Again, you know that, in France, we need two things – we need the planning permission and the authorisation for commercial exportation, so we are working with local authorities on both now.

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Rita-Rose Gagné, Chief Executive
So, as I said, this is an opportunity that's been scaled up and is based on strong demand and we would secure leasing for that, obviously, and it's just going to be -take a bit of time to finalise for the start of that work. But the point I'm making in the

presentation is one of the examples of what we have embedded in the portfolio to create additional value in our properties at relatively reasonable capital allocation.

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Marcus Phayre-Mudge, Columbia Threadneedle
So, you're talking about a 2026 start or further out than that?

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Rita-Rose Gagné, Chief Executive
Listen, I won't comment on that. Again, we're working on it, there are different discussions with stakeholders, so we'll scale it up and we'll update when the time comes.

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Telephone Operator
Our next question comes from Tom Musson of Goldman Sachs. Tom, please go ahead.

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Tom Musson, Goldman Sachs
Hi. Morning, team. Thanks very much for the presentation. Sorry, just to follow up on costs if I can, just outside of your adjusted earnings figure there's still recurring business transformation costs, £13m in the year, I think it's more than 15% of your earnings in the second half.

Can you just give some colour on where those costs get spent, how much longer we should expect those transformation costs to persist and at what level just to, sort of, get a better idea of when we might be able to expect the benefit of some true positive operational gearing, at least on an EPRA basis? Thanks.

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Rita-Rose Gagné, Chief Executive
Yeah, so, just to give you a broad idea of what that is, and I've spoken in the two or three years about an important transformation of the platform, and, in those transformation costs, you will find, obviously, some redundancy costs because we've made changes in our platform, particularly in France, and then you have some, you know, costs and fees relative to the transformation of our digital platform, so updating our digital capability. So, that's the overarching, you know, reason of those transformation costs, and it's obviously that will, in the years to come, enable to get aligned better our costs and our platform. But Himanshu, do you want to add something on what you foresee?

. . . .

Himanshu Raja, Chief Financial Officer
Yeah, we flagged this when set out on the transformation journey, we said it was a three-year journey. So, this 2024 will then the last year where you'll see any significant cost in that, sort of, exception bucket, and it's simply the completion of some of our digitalisation activities and transformation, largely through the half year. There'll be very little then in the second half. And ongoing, I'm not expecting any material sums to go below the line.

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Tom Musson, Goldman Sachs
Okay. So, in the first half of '24, could that be a similar level to the second half of '23?

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Himanshu Raja, Chief Financial Officer
No, no, it'll be low single-digit millions. As I say, this we set out three years ago. You'll see both this year and last year were the significant sums. So it's just the roll-through and the completion of the programme this year, not anywhere close to what you saw in the second half of last year.

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Tom Musson, Goldman Sachs
Got it. Thanks very much.

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Telephone Operator
We have no further questions on the line, so I'll hand back to Josh.

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Josh Warren, Head of Investor Relations
Thanks very much. Just to pick up one area that we haven't covered that was on the online written-in questions, it's on the level of dividend payout ratio, whether there's capacity to grow that in the near term and how you're thinking about that?

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Rita-Rose Gagné, Chief Executive
As I said in my presentation, we're obviously minded to grow earnings and then to grow dividend capacity. I mean, that dividend payout ratio was set out at mid year last year with a very careful thought process around balancing, you know, distributing dividends to the shareholders but also enabling the company to reinvest in the portfolio to enable the company to increase the earnings and increase income and then increase the distributions. So, we're very minded to do that and I think, definitely in the years to come, that's the direction of travel.

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Josh Warren, Head of Investor Relations
Okay. Thanks for joining, everyone.

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Rita-Rose Gagné, Chief Executive
Thank you very much for your questions and your presence. Thanks.

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END

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