



PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

PALACE CAPITAL PLC INTERIM RESULTS

HALF YEAR ENDED 30 SEPTEMBER 2022



Agenda

- Key highlights
- Financial review
- Operational review
- Outlook
- Appendices

Key Highlights

- Disposals of investment properties for £4.8m in H1 at 25% above FY 22 book value. Post H1 further £4.1m sold totalling £8.9m YTD at 22% above FY 22 book value.
- HQ York residential sales - 9 apartments H1 for £3.9m, YTD 13 apartments for £5.7 m
- Gross debt reduced by 12.9% or £13.1m to £88.7m (FY 22: 101.8m), a further £5.4m post half year end to £83.3m
- Like-for-like investment property portfolio valuation reduction of -6.5% (FY 22: +3.9%), -4.6% excluding Bank House, Leeds
- Portfolio ERV growth +3.6%, +7.1% for industrial portfolio
- WAULT resilient at 4.8 years (March 2022: 4.7 years)
- Additional £0.9m of annualised net rental income created in H1 at 12% above March 2022 ERVs

Key Financial Highlights

ADJUSTED PROFIT
BEFORE TAX

£3.5m

H1 22: £4.0m

EPRA NTA
PER SHARE

356p

FY 22: 390p

GROSS DEBT*

£88.7m

FY 22: £101.8m

ANNUALISED
COST SAVINGS

>£1.2m

ADJUSTED EPS

7.9p

H1 22: 8.7p

DIVIDENDS
PAID

7.0p

H1 22: 5.5p

NET LTV

32%

FY 22: 28%

SHARE
BUYBACK

£6.0m

*Gross debt reduced by a further a £5.4m to £83.3m at 23 November 2022 following £5.0m repayment to Santander facility and £0.4m of amortisation

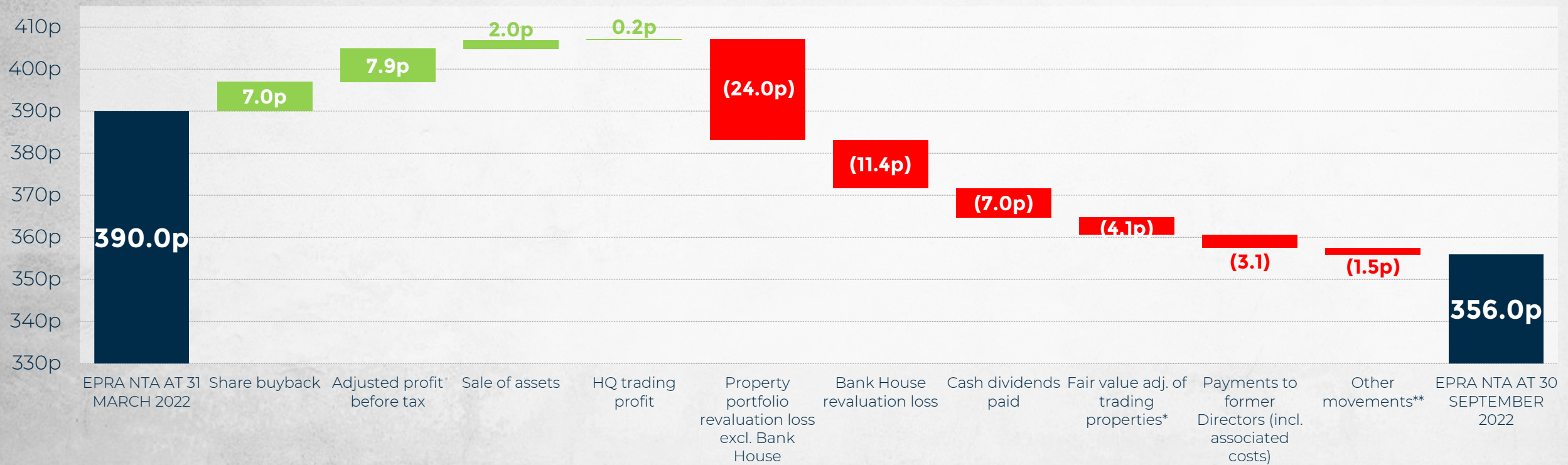
Financial Statement Review

INCOME STATEMENT	30 Sept 22	30 Sept 21
Gross property income (excl. ECL provision)	£8.7m	£8.6m
Property operating expenses	(£1.3m)	(£1.2m)
ECL provision	(£0.1m)	-
Net property income (excl. trading profit)	£7.3m	£7.4m
Dividend income from listed equity investments	-	£0.1m
Recurring admin expenditure	(£2.0m)	(£2.0m)
Finance costs	(£1.8m)	(£1.5m)
Adjusted profit before tax	£3.5m	£4.0m
Tax	£0.1m	-
Adjusted profit after tax	£3.6m	£4.0m
Payments to former Directors (incl. associated costs)	(£1.4m)	-
Share based payments & development loan interest	(£0.1m)	(£0.3m)
EPRA earnings	£2.1m	£3.7m
(Loss)/gain on revaluations	(£15.6m)	£1.3m
HQ trading profit	£0.1m	£2.8m
Profit on disposal – investment properties	£0.9m	£0.3m
Changes in fair value of interest rate derivatives and debt termination costs	£0.2m	(£0.1m)
IFRS earnings	(£12.3m)	£8.0m

	30 Sept 22	31 March 22
BALANCE SHEET		
Portfolio value	£235.6m	£259.0m
Cash	£12.9m	£28.1m
Drawn debt	£88.7m	£101.8m
Net debt	£75.8m	£73.6m
IFRS net assets	£155.7m	£177.2m
Basic NAV per share	354p	383p
EPRA NTA per share	356p	390p
Loan to value	32%	28%
NAV gearing	49%	41%

Balance Sheet

EPRA NTA per share movement in the period



*Hudson Quarter York residential development is carried in the books at lower of cost and net realisable value (NRV) and as the NRV was higher than the cost at half year, EPRA NTA adjusts for the variance

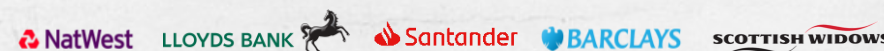
**Other movements include SWAP interest paid, debt termination costs, and the effect of shares purchased or issued in the year

Capital Structure

Significantly reduced debt with conservative gearing

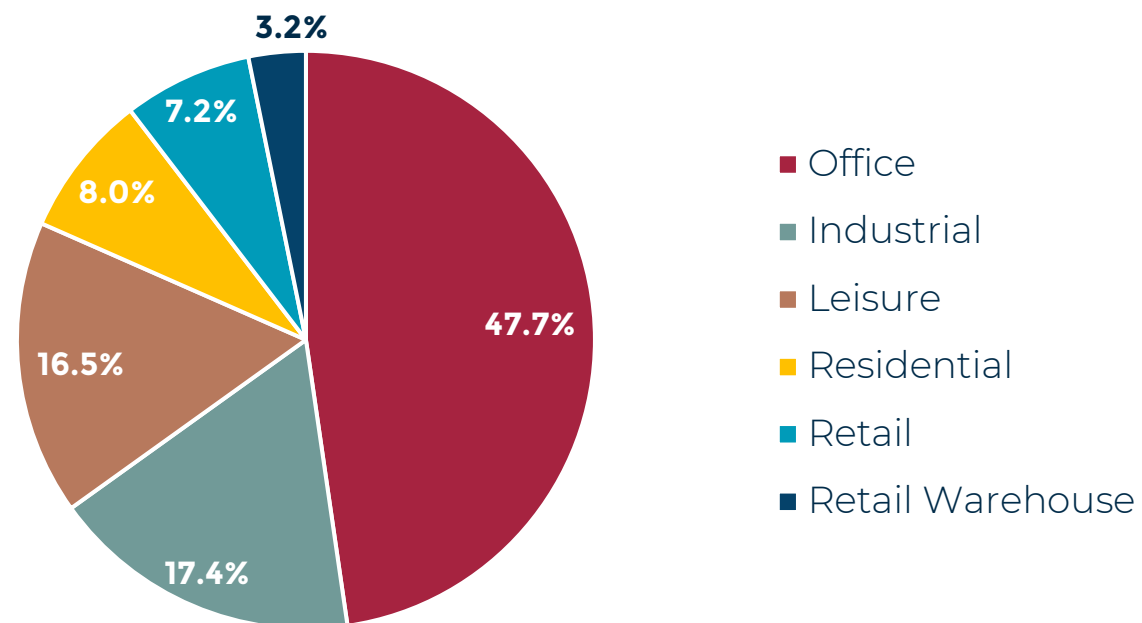
- Drawn debt reduced by £13.1m to £88.7m at 30 September 2022 (FY 22: 101.8m)
- A further £5.4m repaid post 30 September 2022, including £5.0m of the Santander debt. Drawn debt at 23 November 2022 £83.3m
- Cash reserves of £12.9m at 30 September 2022, at 23 November 2022 £8.0m
- Debt maturity of 2.8 years (FY 22: 1.9 years), following the refinancing of the Santander facility for a 5-year term, and the extension of the Lloyds facility by a further year
- Average cost of debt 3.9% (FY 22: 3.2%) due to increase in interest rates

Lender	Drawn Debt 31 March 22 (£m)	Drawn Debt 30 Sept 22 (£m)	Drawn Debt 23 Nov 22 (£m)	Debt Maturity	Hedging
Barclays	29.2	27.8	27.6	Jun-24	100% fixed
NatWest (RCF)	32.0	20.8	20.8	Aug-24	100% floating
Santander	24.8	24.5	19.4	May-27	100% floating
Lloyds	6.8	6.8	6.8	Mar-24	100% floating
Scottish Widows	9.0	8.8	8.7	Jul-26	100% fixed
	101.8	88.7	83.3	2.8 years	41% fixed



Portfolio Overview

	March 2022	September 2022
Portfolio value	£259.0m	£235.6m
Net initial yield*	5.6%	6.8%
Reversionary yield*	7.5%	8.6%
Contracted rental income	£16.7m	£17.1m
Estimated rental value**	£19.4m	£19.8m
WAULT to break	4.7 years	4.8 years
EPRA occupancy	88.5%	88.9%



*Excluding all residential properties

**Based on CBRE estimated rental values

Like-for-Like Investment Property Valuations

Valuations down following volatility and uncertainty in the markets

	Market value 31 March 2022 (£)	Market value 30 September 2022 (£)	Gain/(loss) %	Net Initial Yield	EPRA topped up Net Initial Yield***	Reversionary Yield
Office*	123,005,000	112,465,000	(8.6%)	6.6%	7.0%	9.6%
Industrial*	46,445,000	41,090,000	(11.5%)	5.7%	5.8%	6.9%
Leisure	36,990,000	38,895,000	5.2%	8.7%	8.8%	8.4%
Retail*	18,250,000	16,850,000	(7.7%)	7.5%	7.6%	7.5%
Retail Warehouse	6,740,000	7,600,000	12.8%	6.3%	6.3%	5.9%
Total market value	231,430,000	216,900,000	(6.3%)	6.8%	7.1%	8.6%
Capital expenditure**		(608,408)				
Total like-for-like	231,430,000	216,291,592	(6.5%)			

- Impact of higher borrowing costs has adversely impacted property valuations
- Portfolio valuation reduced by 6.5% on a like-for-like basis
- When excluding Bank House, Leeds, portfolio valuation reduced by 4.6% on a like-for-like basis

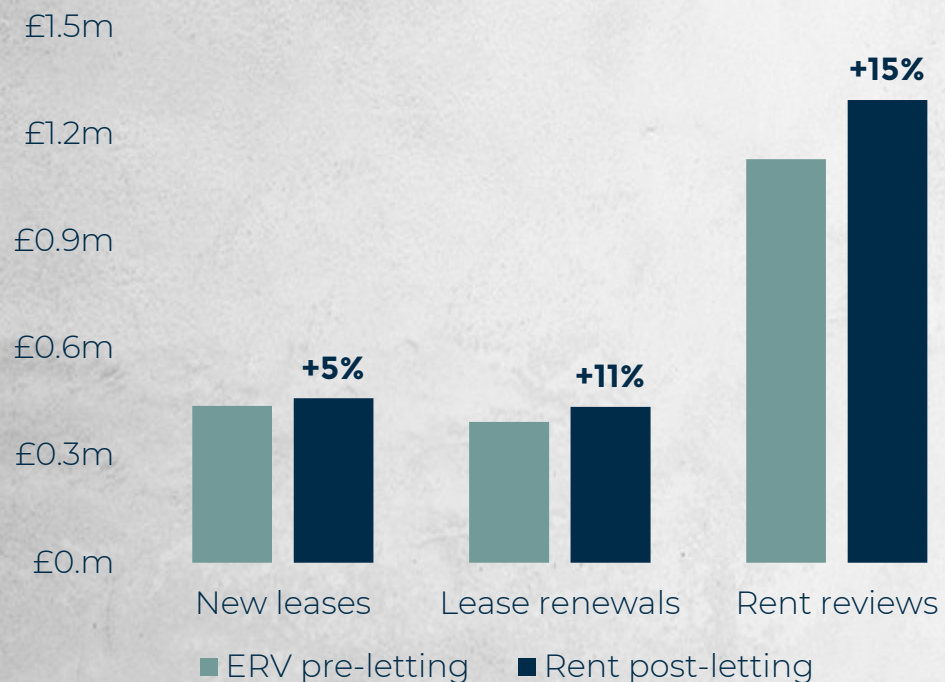
*Excludes properties disposed of in H1 23

**Includes all capital expenditure on like-for-like developments, refurbishments, and capitalised legal and letting fees incurred in H1 23

***This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

Asset Management Overview

Good letting activity in the period

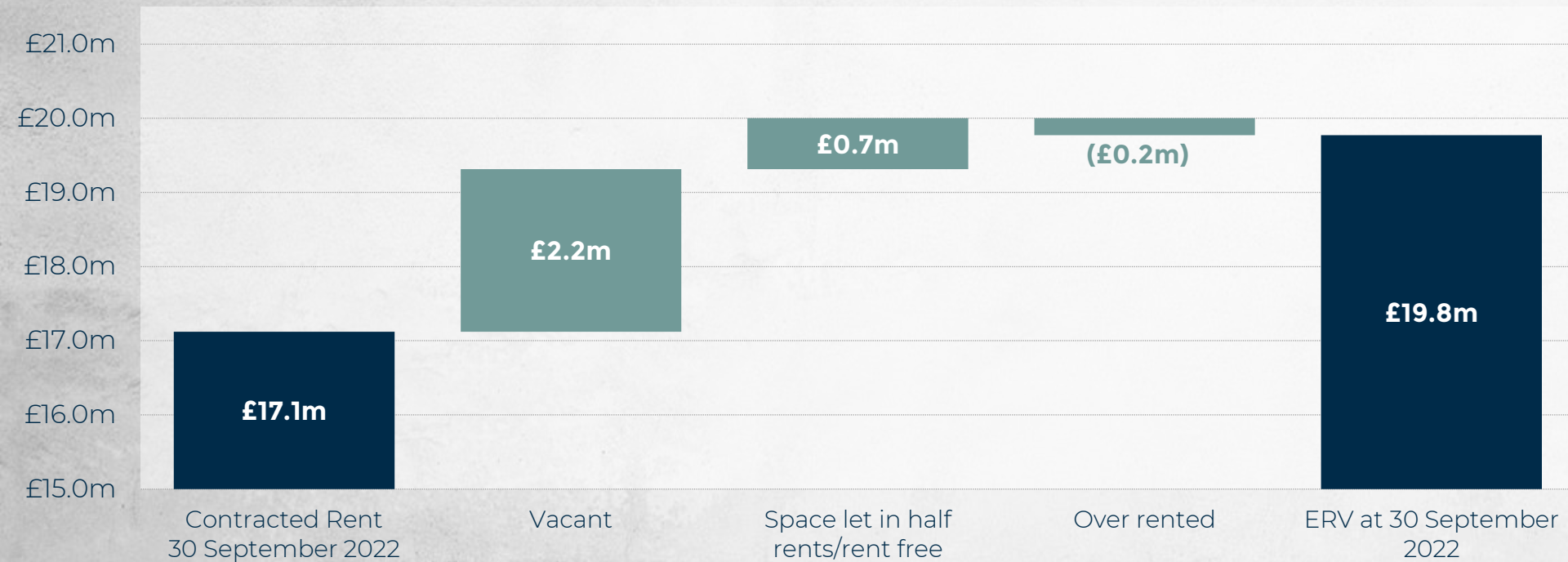


- **23** lease events to 30 September 2022, **12%** ahead of ERV, providing additional income of **£0.7m** pa made up of:
 - **7** new leases: **5%** ahead of ERV, providing additional income of **£0.5m** pa
 - **6** lease renewals: **11%** ahead of ERV, providing additional income of **£0.1m** pa
 - **10** rent reviews: **15%** ahead of ERV, providing additional income of **£0.1m** pa
- Good letting activity continued with **8** lease events completed post 30 September 2022, providing additional income of **£0.1m**, with **£0.8m** of income in legals covering 39,000 sq ft

Adding value to our portfolio through active asset management

Portfolio Growth Potential

+16% potential uplift



- Majority of reversion is through letting vacant space
- Dedicated resource in the team focused on letting vacant units
- 114,000 sq ft of asset management activity in the period, 12% ahead of ERV

ERV* Growth

3.6% on a like-for-like basis

Sector	ERV at 31 March 2022	ERV at 30 September 2022	Like-for-like increase/ (decrease) %
Office	11,236,062	11,441,397	1.8%
Industrial	2,810,100	3,010,306	7.1%
Leisure	3,270,645	3,496,885	6.9%
Retail	1,383,096	1,366,131	(1.2%)
Retail Warehouse	401,300	477,530	19.0%
Residential	11,700	11,700	-
LIKE-FOR-LIKE ERV	19,112,903	19,803,949	3.6%
Properties sold in H1 23	305,280	-	
TOTAL ERV	19,418,183	19,803,949	

* Based on CBRE estimated rental values

Disposals

INVESTMENT PROPERTY DISPOSALS:

- Four investment properties sold in the period to 30 September 2022 to the value of £4.8m, 25% ahead of 31 March 2022 book value, 22% ahead of purchase price, 10% ungeared IRR
- Two investment properties sold post 30 September 2022 for £4.1m, bringing the total sold in the year to date to £8.9m, 22% ahead of 31 March 2022 book value

HUDSON QUARTER RESIDENTIAL

- A further 13 units completed since 31 March 2022 to a value of £5.7m, bringing a total of 93 units completed to a value of £33.1m
- During the first half of the year, 9 apartments were sold for £3.9m
- 10 units under offer to the value of £4.4m and 24 units remaining

Outlook

- ✓ Recent increase in interest rates with the prospect of further increases has adversely impacted the commercial property market resulting in a re-pricing of assets
- ✓ Occupational market has remained resilient as evidenced by the increases over estimated rental values obtained on lettings, lease renewals and rent reviews together with a stable occupancy rate and high rent collection
- ✓ Continue to sell selected properties at attractive prices which further strengthens the balance sheet through the reduction in gearing associated with debt repayment
- ✓ Relatively low gearing gives the Company flexibility to determine when is the appropriate time to resume significant disposals in an orderly manner



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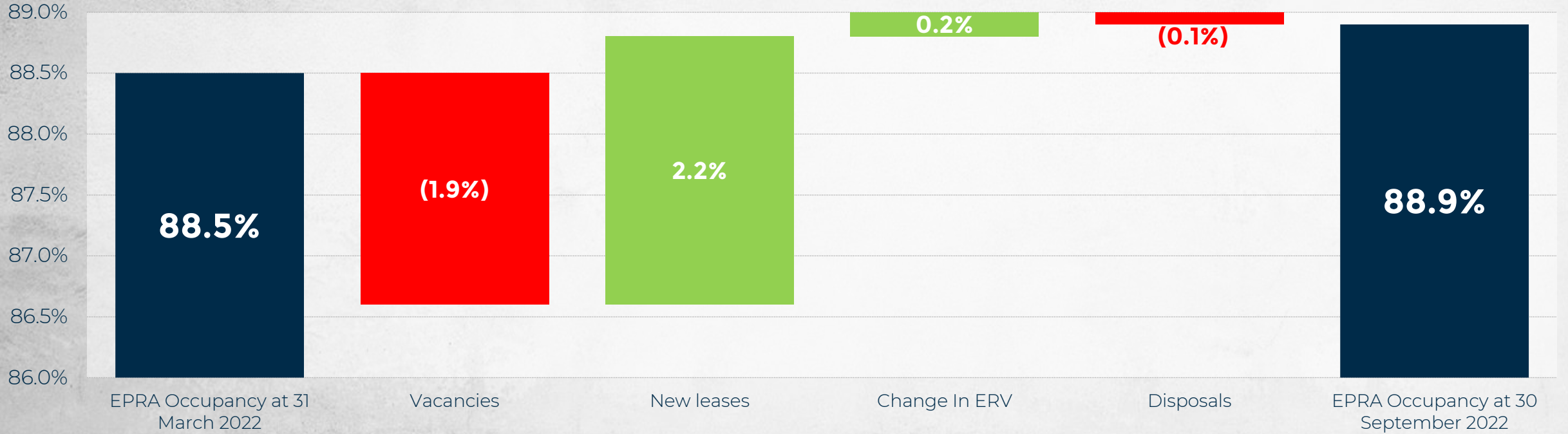
APPENDICES

Sector splits

	Market value 30 Sept 2022 (£)	% of Portfolio by market value	No. properties	No. leases	Area (sq ft)	Contracted rental income p.a. (£)	ERV (£)*	WAULT to break (yrs)	Total ERV of void (£)
Office	112,465,000	47.7%	19	94	651,046	8,952,681	11,441,397	3.3	1,823,775
Industrial	41,090,000	17.4%	8	27	375,214	2,511,764	3,010,306	2.6	142,528
Leisure	38,895,000	16.5%	2	22	231,907	3,753,450	3,496,885	9.1	167,042
Residential	18,720,000	8.0%	2	1	1,097	-	11,700	-	11,700
Retail	16,850,000	7.2%	4	33	97,006	1,388,118	1,366,131	6.9	48,000
Retail Warehouse	7,600,000	3.2%	1	2	26,564	514,018	477,530	4.8	-
Total	235,620,000	100%	36	179	1,382,834	17,120,031	19,803,949	4.8	2,193,045

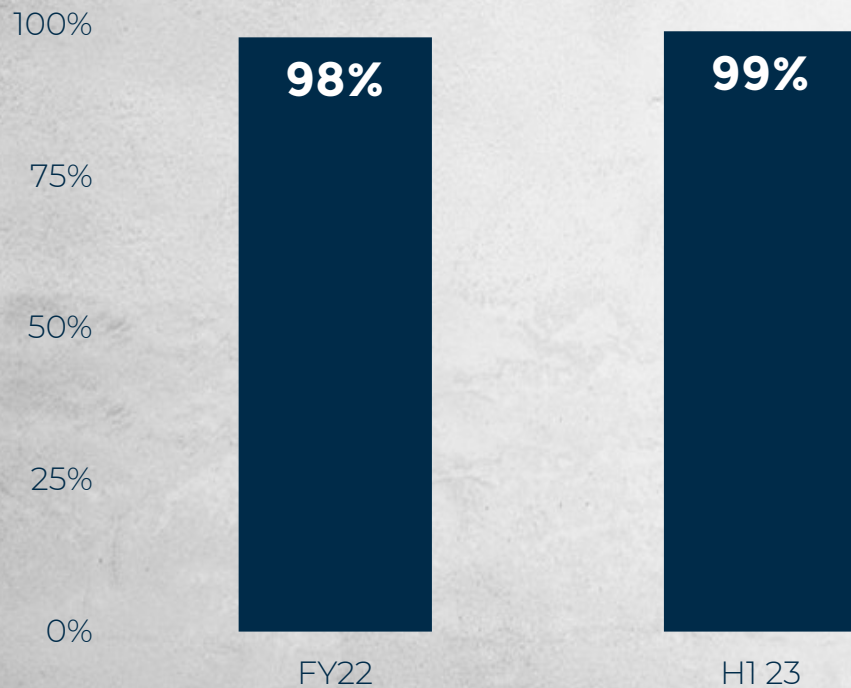
* Based on CBRE estimated rental values

EPRA Occupancy



Rent collection and Dividends

RENT COLLECTION



DIVIDENDS

	30 Sept 22	30 Sept 21
Adjusted profit before tax	£3.5m	£4.0m
Profit on disposals (incl. trading profit)	£1.0m	£3.2m
Adjusted profit before tax & profit on disposals total	£4.5m	£7.2m
Dividends paid	£3.2m	£2.5m
Dividend cover	141%	288%

Biographies



STEVEN OWEN

Interim Executive Chairman

Steven is the Non-Executive Chairman of FTSE 250 property investment group Primary Health Properties plc (“PHP”) having been appointed Chairman in April 2018. Steven began his earlier career with KPMG before moving into property with Brixton plc where he became Finance Director and subsequently Deputy Chief Executive. Steven is a Fellow of the Association of Corporate Treasurers.



MATTHEW SIMPSON

Chief Financial Officer

Chartered Certified Accountant FCCA

Matthew is a Chartered Certified Accountant, with 15 years of experience and has been with the Company since 2016. Previously holding the position of Head of Finance and Operations, Matthew was appointed Finance Director Designate on 13 August 2021, and subsequently Chief Financial Officer on 11 November 2021.

A decorative vertical image on the left side of the page showing a blue sky with a white cloud at the top, and a close-up of a building's roof with grey tiles and a blue gutter below.

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