



PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

PALACE CAPITAL PLC FINAL RESULTS

YEAR ENDED 31 MARCH 2023



Agenda

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

Key Highlights

Good progress achieved in strategy to maximise cash returns to shareholders in difficult market conditions

- £59.0m of investment properties and £12.3m of HQ apartments completed or exchanged from 1 April 2022 to date
- Disposals facilitated gross debt reduction of £37.5m in FY 23 to £64.3m (net debt £58.8m). Post year end and by 31 July 2023 gross debt expected to reduce by c£30.3m to c. £34m and net debt from £58.8m to c. £20m
- LTV expected to reduce to c.13% by 31 July 2023, down from 31% at 31 March 2023
- Two share buyback programmes announced during FY 23, with 2.6m shares purchased for £6.7m . Since 1 April 2023 a further 0.5m shares purchased for £1.2m. Total cash returned to shareholders from the buyback programme to date is £7.9m. The Company has today announced a further share buyback programme of up to 1m shares or £2.5m
- Total dividends paid or declared for the year increased by 13.2% to 15.0p (FY 22: 13.25p)

Company remains well placed regarding timing of disposals programme including various options for returning capital to shareholders

- As evidenced by the £34m industrial portfolio disposal in May 2023 which had been paused in October 2022 demonstrating the flexibility and optionality regarding strategy execution
- Operationally the business remains robust with 99% rent collection for FY 23 and proactive asset management
- Proactive asset management generating an additional £1.1m of annualised rental income from lease activity, 11% above March 2022 ERV
- Strong income return of 7.3% led to a Total Property Return of -11.6% (FY 22: +12.5%), outperforming the MSCI UK Quarterly Property Index benchmark of -12.6% for FY 23
- Like-for-like property portfolio valuation reduction of -18.6% (FY22: +3.9%) due to softening yields across the portfolio, although £43.4m of disposals, 6% ahead of book value since 31 March 2023, and an accretion of 6p per share in EPRA NTA has demonstrated that some value has been recovered and realised

Key Financial Highlights FY 23

ADJUSTED PROFIT
BEFORE TAX

£7.6m

FY 22: £7.8m

EPRA NTA
PER SHARE

296p

FY 22: 390p

GROSS DEBT

£64.3m

FY 22: £101.8m

ANNUALISED
COST SAVINGS

£1.4m

ADJUSTED EPS

17.1p

FY 22: 16.9p

DIVIDENDS PAID
OR DECLARED

15.0p

FY 22: 13.25p

LOAN TO VALUE

31%

FY 22: 28%

SHARE
BUYBACKS

£6.7m

Financial Statement Review

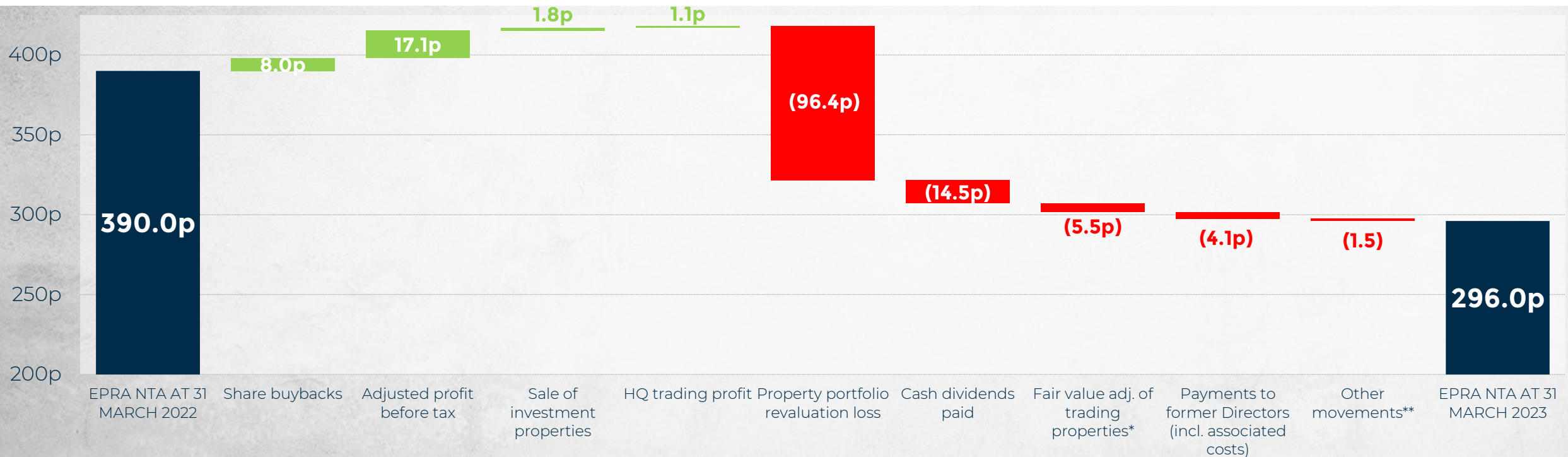
INCOME STATEMENT	31 March 23	31 March 22
Gross property income (excl. ECL provision)	£17.9m	£17.4m
Property operating expenses	(£2.6m)	(£2.6m)
ECL provision	£0.3m	£0.4m
Net rental income (excl. trading profit)	£15.6m	£15.2m
Recurring admin expenditure	(£4.1m)	(£4.4m)
Finance costs	(£3.9m)	(£3.0m)
Adjusted profit before tax	£7.6m	£7.8m
Tax	£0.1m	(£0.1m)
Adjusted profit after tax	£7.7m	£7.7m
Payments to former Directors (incl. associated costs)	(£1.8m)	-
Share based payments & development loan interest	(£0.2m)	(£0.3m)
EPRA earnings	£5.7m	£7.4m
Gain/(loss) on revaluations	(£42.9m)	£8.2m
HQ trading profit	£0.5m	£3.8m
Profit on disposal – investment properties	£0.8m	£5.0m
Other P&L movements*	£0.2m	£0.1m
IFRS earnings	(£35.7m)	£24.5m

	31 March 23	31 March 22
BALANCE SHEET		
Portfolio value	£192.4m	£259.0m
Cash	£5.5m	£28.1m
Drawn debt	£64.3m	£101.8m
Net debt	£58.8m	£73.6m
IFRS net assets	£128.5m	£177.2m
Basic NAV per share	294p	383p
EPRA NTA per share	296p	390p
Loan to value	31%	28%
NAV gearing	46%	41%

*Other P&L movements includes changes in fair value of interest rate derivatives, debt termination costs, and loss on disposal of listed equity investments

Balance Sheet

EPRA NTA per share movement in the year



*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

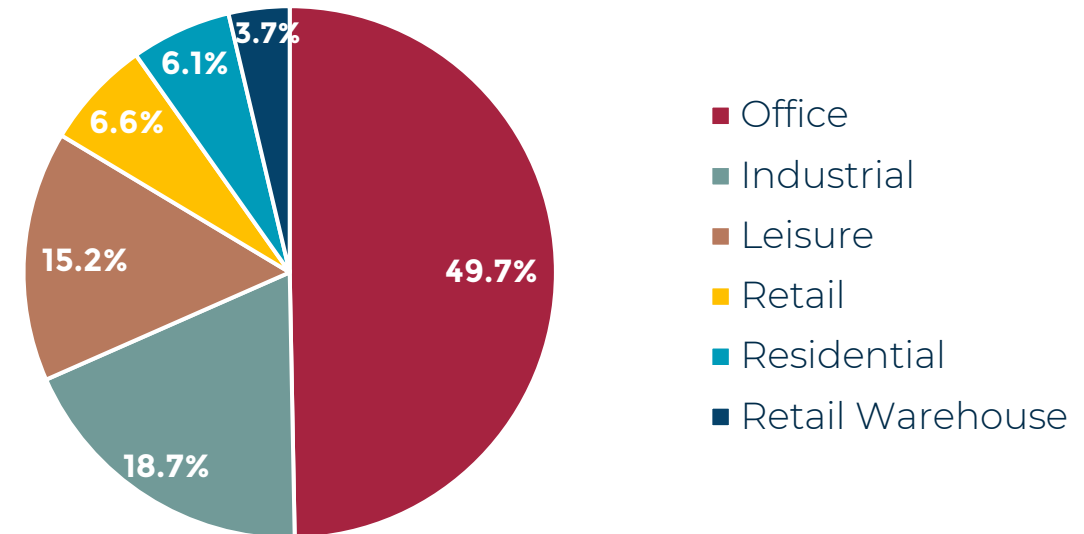
- Gross debt reduced by £37.5m in FY 23 to £64.3m (net debt £58.8m). Post year end and by 31 July 2023 gross debt expected to reduce by c£30.3m to c£34.0m (net debt c£20.0m)
- LTV expected to reduce to c13% by 31 July 2023, down from 31% at 31 March 2023
- Cash reserves of £5.5m at 31 March 2023, at 12 June 2023 £9.6m
- Debt maturity of 2.0 years (FY 22: 1.9 years)
- Average cost of debt 5.8% (FY 22: 3.2%) due to increase in interest rates

Lender	Gross Debt 31 March 22 (£m)	Gross Debt 31 March 23 (£m)	Gross Debt 12 June 23 (£m)	Debt Maturity	Hedging
Barclays	29.2	19.4	11.4	Jun-24	100% floating
NatWest (RCF)	32.0	17.7	7.9	Aug-24	100% floating
Santander	24.8	11.8	11.6	May-27	100% floating
Lloyds	6.8	6.8	-	Mar-24	100% floating
Scottish Widows	9.0	8.6	8.5	Jul-26	100% fixed
	101.8	64.3	39.4	2.0 years	13% fixed



Portfolio Overview

	March 2023	September 2022	March 2022
Portfolio value	£192.4m	£235.6m	£259.0m
Net initial yield*	7.4%	6.8%	5.6%
Reversionary yield*	9.6%	8.6%	7.5%
Contracted rental income	£15.7m	£17.1m	£16.7m
Estimated rental value**	£18.8m	£19.8m	£19.4m
WAULT to break	4.8 years	4.8 years	4.7 years
EPRA occupancy	87.7%	88.9%	88.5%



*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 2023 (£)	Market value 31 March 2022 (£)	Gain/(loss) %	Net Initial Yield	EPRA topped up Net Initial Yield***	Reversionary Yield
Office*	95,615,000	119,055,000	(19.7%)	6.6%	7.4%	10.8%
Industrial*	35,855,000	43,135,000	(16.9%)	6.3%	6.3%	7.4%
Leisure	29,290,000	36,990,000	(20.8%)	11.5%	11.7%	10.5%
Retail*	12,680,000	15,150,000	(16.3%)	7.5%	7.5%	7.6%
Retail Warehouse	7,130,000	6,740,000	5.8%	6.8%	6.8%	6.6%
Total market value	180,570,000	221,070,000	(18.3%)	7.4%	7.8%	9.6%
Capital expenditure**	(1,182,432)					
Total like-for-like	179,387,568	221,070,000	(18.9%)			

- Impact of higher borrowing costs has adversely impacted property valuations
- Investment property valuations reduced by 18.9% on a like-for-like basis
- Property portfolio valuations (incl. HQ residential) reduced by 18.6% on a like-for-like basis

*Excludes properties disposed of in FY 23

**Includes all capital expenditure on like-for-like refurbishments, and capitalised legal and letting fees incurred in FY 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 year



- **45** lease events to 31 March 2023, **11%** ahead of ERV, providing additional income of **£1.1m** pa made up of:
 - **14** new leases: **14%** ahead of ERV, providing additional income of **£0.8m** pa
 - **15** lease renewals: **8%** ahead of ERV, providing additional income of **£0.1m** pa
 - **16** rent reviews: **12%** ahead of ERV, providing additional income of **£0.2m** pa

Adding value to our portfolio through active asset management

Asset Management Highlights

Value creation

New lettings in the year included:

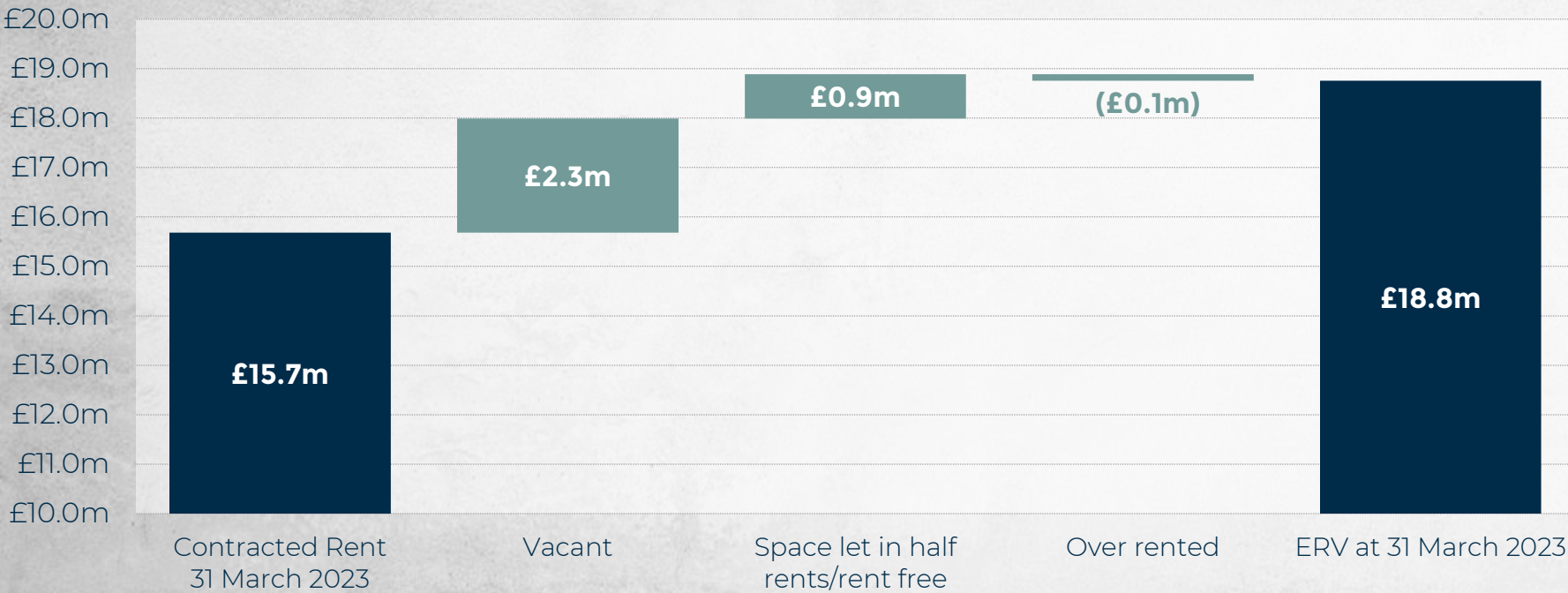
- 15-year lease without a break at Sol, Northampton let to Chi, an aspirational F&B operator at £85,000 pa (with turnover top up) 107% ahead of the March 2022 ERV. The unit had been vacant for over 5 years.
- 5-year lease at Regency House, Winchester to Ward Williams at £47,081 pa, 15% ahead of March 2022 ERV
- 10-year lease at Verwood of two units at a rent of £68,600 equivalent to £8.75psf which sets a new rental tone for the estate
- Three lettings at Museum Street, York for a combined rent of £97,900pa at an average WAULT to break of 4 years at an average premium to March 2022 ERV of 17%

Notable lease renewals during the year included:

- Maidenhead, where the WAULT was extended from 3.5 years to 11.5 years
- Exeter, 10 years at £124,572pa, 8% ahead of March 2022 ERV
- Sutton, 5 years at £282,500pa, in line with March 2022 ERV
- Verwood, to the key anchor tenant Global Filters for a 10 year term at £130,290pa, 53% above the previous passing rent
- Leamington Spa, Imperial House, where both tenants Ubisoft and Altair Engineering renewed their leases for a further 5 years at £333,850pa, an average of 6% ahead of March 2022 ERV

Portfolio Growth Potential

+20% potential uplift



- Majority of reversion is through letting vacant space
- Dedicated resource in the team focused on reducing voids
- 228,000 sq ft of asset management activity in the year, 11% ahead of ERV

ERV* Growth

3.9% on a like-for-like basis

Sector	ERV 31 March 2023	ERV 31 March 2022	Like-for-like increase %
Office	11,050,952	10,734,162	3.0%
Industrial	2,820,749	2,610,100	8.1%
Leisure	3,324,009	3,270,645	1.6%
Retail	1,053,718	1,036,896	1.6%
Retail Warehouse	502,685	401,300	25.3%
LIKE-FOR-LIKE ERV	18,752,113	18,053,103	3.9%
Other**	-	1,365,080	
TOTAL ERV	18,752,113	19,418,183	

*Based on CBRE estimated rental values

** Other includes properties sold in FY 23 with an ERV of £1.2m, and ERV movements of £0.2m which is not considered like-for-like

FY 23 Disposals

Number of Properties Sold	FY 23 H1	FY 23 H2	FY 23 TOTAL	Sales Price	FY 23 H1	FY 23 H2	FY 23 TOTAL
Investment properties	4	4	8	Investment properties	£4.8m	£10.8m	£15.6m
Hudson Quarter residential	9	14	23	Hudson Quarter residential	£3.9m	£6.2m	£10.1m
TOTAL	13	18	31	TOTAL	£8.7m	£17.0m	£25.7m

INVESTMENT PROPERTIES

- 8 investment properties sold in the year to 31 March 2023 to the value of £15.6m, 8% ahead of 31 March 2022 book value, 12% ahead of book cost

HUDSON QUARTER RESIDENTIAL

- 23 units completed in the year to 31 March 2023 to a value of £10.1m, bringing a total of 103 units completed to a value of £37.5m
- 1 unit exchanged at 31 March 2023 to a value of £0.4m
- 3 units under offer to the value of £1.3m at 31 March 2023

Post Year End Disposals

- Nine properties completed or exchanged post year end for £43.4m, 6% ahead of 31 March 2023 book value, these include:
 - 6 industrial properties for £34.0m, 3.0% ahead of March 2023 book value
 - Aldi, Gosport for £5.6m, 7.3% ahead of March 2023 book value
 - Princeton House, Farnborough for £2.3m, 31.7% ahead of March 2023 book value
 - Millbarn Medical, Beaconsfield for £1.5m, 87.5% ahead of March 2023 book value
- Five apartments at Hudson Quarter, York, sold post year end for £2.2m, leaving 18 units remaining

PROFORMA METRICS	31 March 23	*Proforma after post year end disposals
Portfolio value	£192.4m	£149.6m
Drawn debt	£64.3m	£33.8m
Net debt	£58.8m	£20.0m
Loan to value	31%	13%
Contracted rental income	£15.7m	£13.1m
Estimated rental value	£18.8m	£15.6m

*Proforma as at 31 July 2023

Implementing ESG

Improving EPC ratings

E

- Overall upgrade of portfolio
- 96.2% of portfolio with ratings of A-D (FY 22: 88.8%)
- 72.2% of portfolio with ratings of A-C (FY 22: 55.2%)
- 99% of landlord-controlled properties use renewable electricity

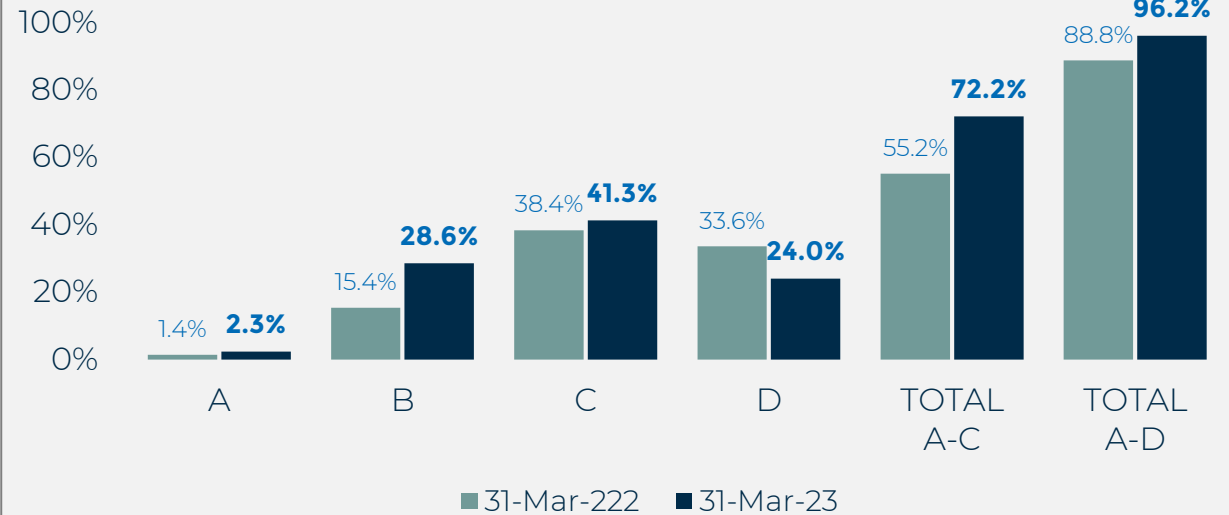
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- Relocated Head Office to a more collaborative space with improved amenities
- Flexible working model
- Improved pension contributions for employees
- Regular review of employee benefits

G

- Moved to Compare Your Footprint for enhanced data collection
- Business plans for all properties incorporate ESG initiatives
- Regular consideration of capex for ESG improvements at Exec Committee

Portfolio EPC rating



Outlook

- ✓ FY 24 is likely to be further affected by continuing macroeconomic and geo-political uncertainty but inflation outlook in the UK is expected to improve. Increases in interest rates have adversely impacted the commercial property market in relation to investment activity resulting in a re-pricing of assets as evidenced by recent transactions and published valuations
- ✓ However, occupational market has remained resilient as evidenced by the increases over ERV obtained on lettings, lease renewals and rent reviews together with a stable occupancy rate and high rent collection across our portfolio
- ✓ Company will continue to sell selected properties at attractive prices which further strengthens the balance sheet through the reduction in gearing associated with debt repayment
- ✓ Low leverage gives the Company flexibility and optionality regarding the timing of disposals and other strategic initiatives, including various options to return capital to shareholders
- ✓ Well placed to continue to progress strategy to maximise cash returns to shareholders as evidenced by the £7.9m returned since July 2022. The Company has today announced a further share buyback programme of up to 1m shares or £2.5m
- ✓ It is expected that further progress will be announced in a Trading Update to be released on 26 July prior to the AGM



PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

APPENDICES

Sector splits

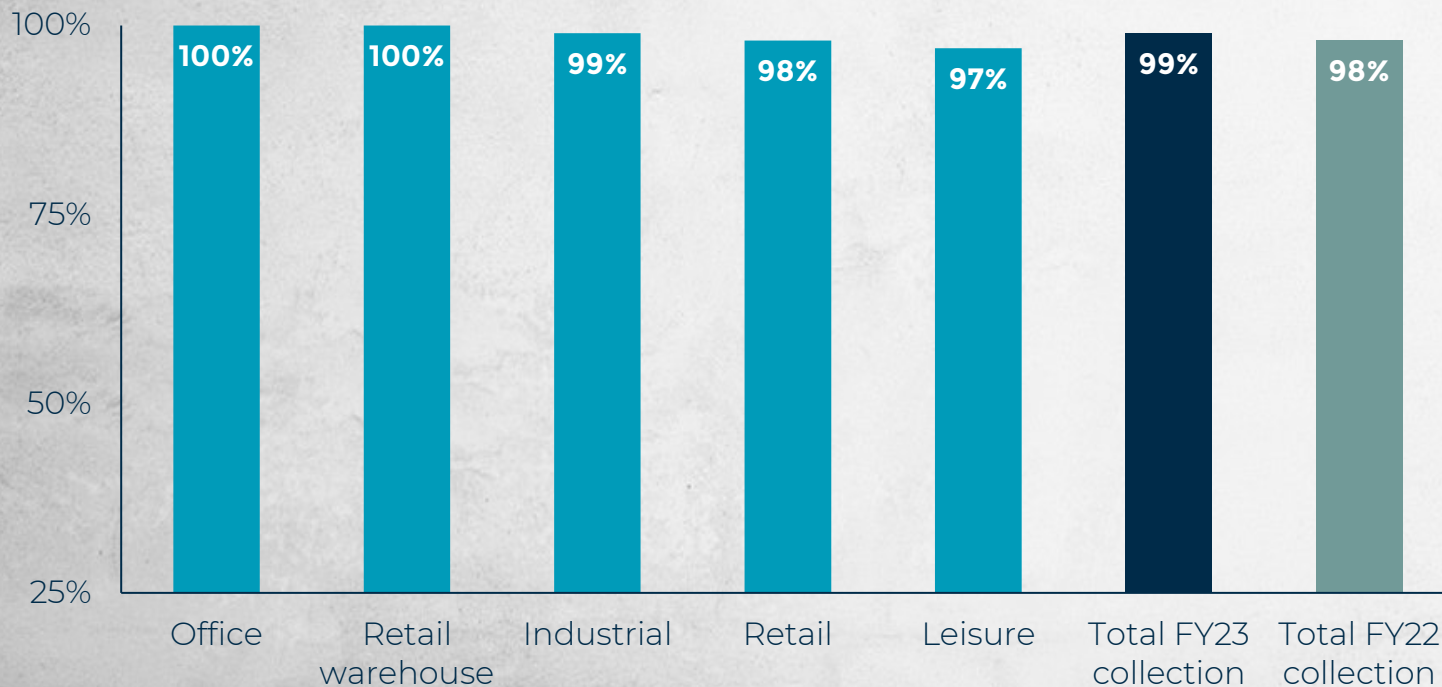
	Market value 31 March 2023 (£)	% of Portfolio by market value	No. properties	No. leases	Area (sq ft)	Contracted rental income p.a. (£)	ERV (£)*	WAULT to break (yrs)	Total ERV of void (£)
Office	95,615,000	49.7%	17	87	622,905	8,040,169	11,050,952	3.6	2,084,948
Industrial	35,855,000	18.7%	7	28	339,470	2,405,670	2,820,749	2.4	76,873
Leisure	29,290,000	15.2%	2	24	304,319	3,658,450	3,324,009	8.4	118,712
Retail	12,680,000	6.6%	3	21	58,287	1,061,851	1,053,718	7.0	29,000
Residential	11,785,000	6.1%	1	-	-	-	-	-	-
Retail Warehouse	7,130,000	3.7%	1	2	26,564	514,018	502,685	4.3	-
Total	192,355,000	100%	31	162	1,351,545	15,680,158	18,752,113	4.8	2,309,533

* Based on CBRE estimated rental values

Rent collection

99% of rent collected in the year

FY 23 RENT COLLECTION % BY SECTOR



Robust rent collection for the 12 months to 31 March 2023 of 99% (2022: 98%)

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.



Disclaimer

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