

Strategic Report

Financial Review

Revenue

Total revenue for the year was £135.2 million, an increase of £5.9 million (4.6%) from £129.3 million in the prior year. Like-for-like store revenue for the year was £131.2 million, an increase of 4.9% from the prior year (2020: £125.1 million). Like-for-like revenue excludes Manchester, which opened in the prior year and Camberwell, Bracknell, and Battersea, which all opened in the current year.

Other sales (included within the above), comprising the selling of insurance, packing materials and storage related charges, represented 14.0% of total store revenue for the year (2020: 13.9%) and generated revenue of £18.6 million for the year compared to £17.4 million in 2020.

The other revenue earned by the Group is management fee income from Armadillo and tenant income on sites where we have not started development. During the prior year, the Group recognised in revenue a £1 million performance fee due from Armadillo Storage Holding Company 2 Limited, for the performance of the fund over its initial five-year term. No performance fees were due in the year ended 31 March 2021.

Operating costs

Cost of sales principally comprise the direct store operating costs, including store staff salaries, utilities, business rates, insurance, a full allocation of the central marketing budget and repairs and maintenance.

The Group did not furlough any employees during the year and did not take any financial assistance from the government.

The breakdown of the portfolio's operating costs compared to the prior year is shown in the table below:

Category	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000	% change	% of store operating costs in 2021
Cost of sales (insurance and packing materials)	3,096	2,791	11%	8%
Staff costs	10,359	9,593	8%	27%
General & admin	1,138	1,255	(9%)	3%
Utilities	1,482	1,469	1%	4%
Property rates	12,527	12,022	4%	32%
Marketing	5,394	5,474	(1%)	14%
Repairs & maintenance	2,987	2,777	8%	8%
Insurance	970	938	3%	2%
Computer costs	690	638	8%	2%
Total before one-off items	38,643	36,957	4.6%	
One-off items	–	(792)	(100%)	
Total per portfolio summary	38,643	36,165	6.9%	

Store operating costs have increased by £2.5 million (6.9%). There were two one-off items in the prior year: a rates rebate on a store, and a significant backdated utilities recharge to our telecom mast provider, totalling £0.8 million. Store operating costs before these one-off items have increased by £1.7 million (4.6%) compared to the prior year.

The incremental operating costs of the new stores amount to £1.0 million; excluding these new stores and the prior year one-off items, the increase is £0.7 million (1.9%). Cost of sales of insurance and packing materials have increased in line with revenue. Staff costs have increased principally as a result of higher bonuses paid during the year. General and admin expenses have fallen, principally due to less travel during the year, partly offset by expenditure on PPE for our stores and head office. Computer costs are up 8% due to an increased investment in cyber security. Other increases in cost are largely inflationary.

The table below reconciles store operating costs per the portfolio summary to cost of sales in the statement of comprehensive income:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Direct store operating costs per portfolio summary (excluding rent)	38,643	36,165
Rent included in cost of sales (total rent payable is included in portfolio summary)	1,272	1,276
Rent review accruals	445	–
Depreciation charged to cost of sales	320	348
Head office and other operational management costs charged to cost of sales	909	1,084
Cost of sales per statement of comprehensive income	41,589	38,873

Store EBITDA

Store EBITDA for the year was £91.9 million, an increase of £4.7 million (5.4%) from £87.2 million for the year ended 31 March 2020 (see Portfolio Summary). The overall EBITDA margin for all Big Yellow stores decreased slightly to 69.4% (2020: 69.6%); this was due to opening three new stores in the year. The EBITDA margin for the mature and established stores rose year on year.

Administrative expenses

Administrative expenses in the statement of comprehensive income of £12.2 million were up £1.7 million compared to the prior year. The increase is principally due an increase in the share-based payments charge (£0.6 million), an increase national insurance on LTIPs (£0.5 million), a higher vesting percentage for the Directors' deferred bonus plan in the year and higher annual bonuses to our team (£0.2 million) following the strong trading in the year, with the balance inflationary.

The non-cash share-based payments charge represents £2.9 million of the overall £12.2 million expense.

Interest expense on bank borrowings

The gross bank interest expense for the year was £9.4 million, a decrease of £1.2 million from the prior year. The average cost of borrowing during the year was 2.9% compared to 2.6% in the prior year. Average debt levels were lower than in the prior year following the placing in April 2020.

Capitalised interest increased by £0.6 million from the prior year, due to the increased construction programme.

Total finance costs in the statement of comprehensive income decreased to £8.2 million from £10.8 million in the prior year.

Profit before tax

The Group made a profit before tax in the year of £265.8 million, compared to a profit of £93.4 million in the prior year. After adjusting for the gain on the revaluation of investment properties and other matters shown in the table below, the Group made an adjusted profit before tax in the year of £74.6 million, up 5.1% from £71.0 million in 2020. There were one-off items in the prior year: a performance fee earned from Armadillo 2 (£1.0 million) and one-off credits in operating costs (£0.8 million – see above). If these are eliminated from the prior year, this year's adjusted profit before tax would have increased 7.8% from that figure.

Profit before tax analysis	2021 £000	2020 £000
Profit before tax	265,822	93,447
Gain on revaluation of investment properties	(189,277)	(23,193)
Movement in fair value on interest rate derivatives	148	908
Gain on disposal of investment property	–	(57)
Share of associate fair value gains and losses	(2,068)	(107)
Adjusted profit before tax	74,625	70,998

The movement in the adjusted profit before tax from the prior year is illustrated in the table below:

	£m
Adjusted profit before tax – year ended 31 March 2020	71.0
Increase in gross profit	3.2
Reduction in net interest payable	1.2
Increase in administrative expenses	(1.7)
Increase in share of adjusted profit of associates	0.3
Increase in capitalised interest	0.6
Adjusted profit before tax – year ended 31 March 2021	74.6

Basic earnings per share for the year was 152.3p (2020: 55.8p) and fully diluted earnings per share was 151.8p (2020: 55.6p). Diluted EPRA earnings per share based on adjusted profit after tax was up 0.7% to 42.4p (2020: 42.1p) (see note 12). The increase in earnings per share is lower than that reported for adjusted profit before tax due to the dilution from the equity placing in April 2020. EPRA earnings per share equates to the Company's adjusted earnings per share in the current year.

REIT status

The Group converted to a Real Estate Investment Trust ("REIT") in January 2007. Since then the Group has benefited from a zero tax rate on the Group's qualifying self storage earnings. The Group only pays tax on the profits attributable to our residual business, comprising primarily of the sale of packing materials and insurance, and fees earned from the management of the Armadillo portfolio.

REIT status gives the Group exemption from UK corporation tax on profits and gains from its qualifying portfolio of UK stores. Revaluation gains on developments and our existing open stores are exempt from corporation tax on chargeable gains, provided certain criteria are met.

The Group has a rigorous internal system in place for monitoring compliance with criteria set out in the REIT regulations. On a monthly basis, a report on compliance with these criteria is issued to the Executive. To date, the Group has complied with all REIT regulations, including forward looking tests.

Taxation

There is a tax charge in the current year of £0.6 million. This compares to a charge in the prior year of £0.9 million. The reduction in the current year tax charge reflects higher deductions allowed in the current year for tax purposes from the exercise of share options, and last year's charge included the taxation on the £1 million performance fee earned from Armadillo.

Dividends

The Board is recommending the payment of a final dividend of 17.0 pence per share in addition to the interim dividend of 17.0 pence, giving a total dividend for the year of 34.0 pence, an increase of 0.6% from the prior year.

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REIT regulatory requirements determine the level of Property Income Distribution ("PID") payable by the Group. On the basis of the full year distributable reserves for PID purposes, a PID of 32.0 pence per share is payable (31 March 2020: 30.6 pence). The balance of the total annual dividend represents an ordinary dividend declared at the discretion of the Board, in line with our policy to distribute 80% of our adjusted earnings per share in each reporting period. The PID for the year to 31 March 2021 accounts for 94% of the total dividend. The table below summarises the declared dividend for the year:

Dividend (pence per share)	31 March 2021	31 March 2020
Interim dividend – PID	17.0p	17.1p
– discretionary	nil p	nil p
– total	17.0p	17.1p
Final dividend – PID	15.0p	13.5p
– discretionary	2.0p	3.2p
– total	17.0p	16.7p
Total dividend – PID	32.0p	30.6p
– discretionary	2.0p	3.2p
– total	34.0p	33.8p

Subject to approval by shareholders at the Annual General Meeting to be held on 22 July 2021, the final dividend will be paid on 30 July 2021. The ex-div date is 8 July 2021 and the record date is 9 July 2021.

Cash flow growth

The Group is strongly cash generative and draws down from its longer term committed facilities as required to meet its obligations. The Group's cash flow from operating activities for the year was £76.7 million, an increase of 4.2% from £73.6 million in the prior year.

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Cash generated from operations	87,131	85,074
Net finance costs	(8,824)	(10,178)
Interest on obligations under lease liabilities	(772)	(820)
Tax	(823)	(461)
Cash flow from operating activities	76,712	73,615
Capital expenditure	(73,010)	(63,748)
Proceeds on disposal of investment property	–	14,105
Investment	(450)	–
Receipt from Capital Goods Scheme	737	1,226
Dividends received from associates	688	649
Cash flow after investing activities	4,677	25,847
Ordinary dividends	(58,808)	(55,706)
Issue of share capital	80,772	853
Payment of lease liabilities	(1,009)	(963)
Loan arrangement fees paid	–	(918)
Drawing of new Aviva loan	–	35,000
(Decrease)/increase in borrowings	(64,728)	29,403
Net cash (outflow)/inflow	(39,096)	33,516
Opening cash and cash equivalents	51,418	17,902
Closing cash and cash equivalents	12,322	51,418
Closing debt	(337,300)	(402,028)
Closing net debt	(324,978)	(350,610)

In the year capital expenditure outflows were £73.0 million, up from £63.7 million in the prior year. Of the capital expenditure in the year £43.4 million is for the acquisition of Wapping and Staines (including acquisition costs) and an additional parcel of land at Kings Cross, with £29.6 million relating to build costs of the new stores.

The cash flow after investing activities was a net inflow of £4.7 million in the year, compared to an inflow of £25.8 million in 2020, due to higher capital expenditure in the year, and the prior year containing a receipt of £14.1 million from the disposal of investment property.

Balance sheet

Property

The Group's open stores and stores under development owned at 31 March 2021, which are classified as investment properties, have been valued individually by CBRE. The external valuation has resulted in an investment property asset value of £1,785.5 million, comprising £1,590.9 million (89%) for the freehold (including three long leaseholds) open stores, £31.1 million (2%) for the short leasehold open stores and £163.5 million (9%) for the freehold investment properties under construction.

Investment property

The valuations in the current year have increased significantly from the prior year, with a revaluation surplus of £189.1 million arising on the open Big Yellow stores (see note 15 for the detailed valuation methodology). This revaluation gain has been driven by a combination of cap rate compression and an improvement in the cash flow and operating metrics used in the valuation. This is reflective of the performance of both self storage generally and Big Yellow during the past 12 months.

The average exit capitalisation rate used in the valuations was 5.7% in the current year, compared to 6.1% in the prior year, with the discount rate 8.7% compared to 9.3% in 2020. The increase in value compared to the prior year is due to a combination of the reduction in cap rates and changes to the operating assumptions adopted in the valuations. 45% of the value improvement can be attributed to the cap rate reductions, and the balance of 55% due to the improvements in cash flow and the operating assumptions.

The valuation is based on an average occupancy over the 10-year cash flow period of 86.1% across the whole portfolio.

	Mature		Established Freehold	Developing Freehold	Total
	Leasehold	Freehold			
Number of stores	6	64	2	6	78
MLA capacity (sq ft)	339,000	4,118,000	124,000	349,000	4,930,000
Valuation at 31 March 2021 (£m)	£31.1m	£1,429.3m	£33.9m	£127.7m	£1,622.0m
Value per sq ft	£92	£347	£273	£366	£329
Occupancy at 31 March 2021	85.9%	88.2%	87.1%	49.0%	85.2%
Stabilised occupancy assumed	85.7%	86.9%	86.5%	85.4%	86.7%
Net initial yield pre-admin expenses	14.1%	6.0%	6.2%	2.4%	5.9%

The initial yield pre-administration expenses assuming no rental growth is 5.9% (2020: 6.1%). The stores are assumed to grow to stabilised occupancy in 9 months on average. Note 15 contains more detail on the assumptions underpinning the valuations.

Investment property under construction

The investment property under construction valuation has increased by £27.2 million in the year. Capital expenditure accounts for £63.2 million of this increase, notably on the site purchases discussed above, and construction expenditure, principally on Camberwell, Bracknell, and Uxbridge (Battersea remained in investment property following the original store's closure for redevelopment in March 2019). This has been offset by Camberwell and Bracknell transferring to open stores. The valuation movement on the investment property under construction was a small surplus of £0.1 million.

Purchaser's cost adjustment

As in prior years, we have instructed an alternative valuation on our assets using a purchaser's cost assumption of 2.75% (see note 15 for further details) to be used in the calculation of our adjusted diluted net asset value. This Red Book valuation on the basis of the special assumption of 2.75% purchaser's costs, results in a higher property valuation at 31 March 2021 of £1,895.0 million (£109.4 million higher than the value recorded in the financial statements). With the share of uplift on the revaluation of the Armadillo stores (£1.0 million), this translates to 62.7 pence per share. This revised valuation translates into an adjusted net asset value per share of 889.2 pence (2020: 760.9 pence after adjusting for the placing) after the dilutive effect of outstanding share options.

Receivables

As of 24 May, we have collected 98.9% of our April revenue. The Group's bad debt expense in the year represented 0.1% of revenue compared to 0.2% in the prior year, a pleasing result reflective of the make-up of our customer base, with 82% paying by direct debit and perhaps also our ability to contact customers at home with more time on their hands to deal with their admin tasks.

At 31 March 2021 we have a receivable of £0.7 million in respect of payments due back to the Group under the Capital Goods Scheme, as a consequence of the introduction of VAT on self storage from 1 October 2012. The receivable relates to VAT to be recovered on historic store development expenditure. The Group has received £15.1 million to date under the Scheme, of which £0.7 million was received in the year.

Net asset value

The adjusted net asset value is 889.2 pence per share (see note 13), up 17% from 760.9 pence per share at 31 March 2020 (after adjusting for the April 2020 share placing). The table below reconciles the movement:

Movement in adjusted net asset value	£m	Adjusted NAV pence per share
31 March 2020	1,257.2	751.0
Share placing	79.9	9.9
31 March 2020 (rebased)	1,337.1	760.9
Adjusted profit after tax	74.0	42.0
Equity dividends paid	(58.8)	(33.4)
Revaluation movements (including share of associate)	191.8	108.9
Movement in purchaser's cost adjustment	18.6	10.6
Other movements (e.g. share schemes)	3.9	0.2
31 March 2021	1,566.6	889.2

Borrowings

Our financing policy is to fund our current needs through a mix of debt, equity and cash flow to allow us to build out, and add to, our development pipeline and achieve our strategic growth objectives, which we believe improve returns for shareholders. We aim to ensure that there are sufficient medium-term facilities in place to finance our committed development programme, secured against the freehold portfolio, with debt serviced by our strong operational cash flows. We maintain a keen watch on medium and long-term rates and the Group's policy in respect of interest rates is to maintain a balance between flexibility and hedging of interest rate risk.

The Group has committed undrawn bank facilities of £87.5 million, which if drawn would carry a current marginal cost of debt of approximately 1.35%. The Group also has an option to increase the amount of revolving loan by a further £30 million during the loan's term.

In March 2020, the Group agreed a seven-year debt facility with Aviva of £35 million at an all-in cost of 1.96%, secured over the existing Aviva security pool of 15 stores. The all-in cost of this loan has subsequently reduced to 1.91% following the installation of 50 kWp capacity solar panels at three of the stores, as agreed with Aviva on drawing the loan. The total debt facilities from Aviva are currently £114.8 million of which £19.8 million amortises down to nil over the remaining seven years of the loan.

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The table below summarises the Group's debt facilities at 31 March 2021. The average cost of debt is 2.6% (March 2020: 2.5%).

Debt	Expiry	Facility	Drawn	Average interest cost
Aviva Loan	April 2027	£114.8 million	£114.8 million	4.0%
M&G loan	June 2023	£70 million	£70 million	3.0%
Bank loan	October 2024	£240 million	£152.5 million	1.7%
Total	Average term 4.4 years	£424.8 million	£337.3 million	2.6%

The Group was comfortably in compliance with its banking covenants at 31 March 2021. Further details of the Group's covenants are provided in note 19 of the accounts. For the year we had Group interest cover of 9.9 times (2020: 8.3 times) based on pre-interest operating cash flow against interest paid. The net debt to gross property assets ratio is 18% (2020: 23%) and the net debt to adjusted net assets ratio (see net asset value section above) is 21% (2020: 28%).

At 31 March 2021, the fair value on the Group's interest rate derivatives was a liability of £0.5 million. The Group does not hedge account its interest rate derivatives. As recommended by EPRA, the fair value movements are eliminated from adjusted profit before tax, diluted EPRA earnings per share, and adjusted net assets per share.

Cash deposits are only placed with approved financial institutions in accordance with the Group's Treasury policy.

Share capital

The share capital of the Company totalled £17.6 million at 31 March 2021 (2020: £16.7 million), consisting of 175,880,470 ordinary shares of 10p each (2020: 167,138,527 shares). 8.3 million shares were issued in April 2020 in a placing to raise funds to grow our development pipeline. 0.4 million shares were issued for the exercise of options during the year at an average exercise price of 1,064p (2020: 0.5 million shares at an average price of 988p).

The Group holds 1.1 million shares within an Employee Benefit Trust ("EBT"). These shares are shown as a debit in reserves and are not included in calculating net asset value per share.

	2021 No.	2020 No.
Opening shares	167,138,527	166,665,158
Shares issued in placing	8,335,043	–
Shares issued for the exercise of options	406,900	473,369
Closing shares in issue	175,880,470	167,138,527
Shares held in EBT	(1,122,907)	(1,122,907)
Closing shares for NAV purposes	174,757,563	166,015,620

86.8 million shares were traded in the market during the year ended 31 March 2021 (2020: 80.3 million). The average mid-market price of shares traded during the year was 1,064p with a high of 1,181p and a low of 915p.

Investment in Armadillo

The Group has a 20% investment in Armadillo Storage Holding Company Limited and a 20% investment in Armadillo Storage Holding Company 2 Limited. In the consolidated accounts of Big Yellow Group PLC, our investments in the vehicles are treated as associates using the equity accounting method. The investments are Limited companies, but the Group does also refer to them as Partnerships in these financial statements.

The occupancy of the Armadillo stores at 31 March 2021 was 908,000 sq ft on an MLA of 1,083,000, representing 83.8% (31 March 2020: 75.2%). The net rent achieved at 31 March 2021 by the Armadillo stores is £18.38 per sq ft, an increase of 3.0% from the same time last year. Revenue increased by 7.6% to £18.0 million for the year to 31 March 2021 (2020: £16.7 million); the like-for-like increase in revenue (adjusted for stores acquired in the prior year) was 6.4%.

The Armadillo Partnerships made a combined operating profit of £8.6 million in the year, of which Big Yellow's share is £1.7 million. After net interest costs, the revaluation of investment properties (valued by Jones Lang LaSalle) which produced a surplus of £12.8 million in the year, deferred tax on the revaluation surplus and movement in interest rate derivatives, the profit for the year was £15.7 million, of which the Group's share was £3.1 million.

Big Yellow has a management contract in place in each Partnership. For the year to 31 March 2021 the Group earned management fees of £1.4 million. The Group's share of the dividend for the year is £0.7 million, representing a 15% yield on our equity invested.

