

Strategic Report

Financial Review

Financial results

Armadillo

As explained above, the Group acquired the remaining interest in Armadillo which it did not previously own on 1 July 2021. Armadillo currently consists of 24 stores with a maximum lettable area of 1.0 million sq ft.

Revenue

Total revenue for the year was £171.3 million, an increase of £36.1 million (27%) from £135.2 million in the prior year. Like-for-like store revenue for the year was £148.1 million, an increase of 13% from the prior year (2021: £131.1 million). Like-for-like revenue excludes our six most recent Big Yellow store openings and the Armadillo stores. The revenue from the Armadillo stores for the nine months from acquisition of the remaining interest on 1 July 2021 to 31 March 2022 was £16.2 million.

Other sales comprise the selling of packing materials, insurance, and storage related charges. We saw growth of 13% in packing material sales during the year, with the prior year's sales impacted by the Spring lockdown. Insurance sales have also seen strong year-on-year growth, with improvements made to the average value insured.

The other revenue earned by the Group is management fee income from Armadillo (up to 30 June 2021) and tenant income on sites where we have not started development.

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 table below shows the breakdown of both Big Yellow's and Armadillo's store operating costs compared to the prior year, with Armadillo's costs included in full in both years:

Category	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000	Change	% of store operating costs in 2022
Cost of sales (insurance and packing materials)	3,896	3,549	10%	8%
Staff costs	14,133	13,575	4%	29%
General & admin	1,992	1,541	29%	4%
Utilities	2,274	1,961	16%	5%
Property rates	13,775	13,318	3%	28%
Marketing	6,632	6,433	3%	14%
Repairs & maintenance	4,200	3,687	14%	9%
Insurance	1,211	1,049	15%	2%
Computer costs	618	530	17%	1%
Total before one-off items	48,731	45,643	7%	
One-off items	(799)	–		
Total per portfolio summary	47,932	45,643	5%	

Store operating costs have increased by £2.3 million (5%). The one-off items in the current year relate to rates rebate on a number of stores, totalling £0.8 million, following appeals of the 2017 rating list assessment. Store operating costs before these one-off items have increased by £3.1 million (7%) compared to the prior year, of which £1.4 million (3%) is in relation to recently opened stores. The remaining increase of £1.7 million (4%) can be explained as follows:

- Cost of sales have increased in line with the proportionate increase in ancillary sales in the year.
- General and admin expenses have increased as 2021 had significantly less travel expense during the lockdown period.

- The utilities expenditure has principally increased due to new stores.
- Marketing has increased by £0.2 million, with the 2021 cost reflecting lower search costs and traffic levels during the Spring lockdown.
- The repairs and maintenance expenditure has increased by £0.5 million, partly due to the increase in store numbers, increased investment in CCTV monitoring security overnight, and we carried out less maintenance work during the 2020 Spring lockdown.
- The insurance cost has increased due to an increase in the amounts insured for loss of income and reinstatement values and new stores.

Looking forward, we do see some inflationary pressures on our costs. Our store salary review for the year ending 31 March 2023 averaged 5%, with the lower paid staff seeing increases of on average 7%. The Rating Revaluation in 2023 is likely to result in an above inflationary increase to the Group's property rates for the year ending 31 March 2024, given the increase in industrial rents over the past few years.

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 2022 £000	Year ended 31 March 2021 £000
Direct store operating costs per portfolio summary (excluding rent)	47,932	45,643
Rent included in cost of sales (total rent payable is included in portfolio summary)	1,633	1,272
Rent review accruals	607	445
Depreciation charged to cost of sales	378	320
Head office and other operational management costs charged to cost of sales	1,741	909
Armadillo cost of sales pre acquisition of remaining interest	(1,908)	(7,000)
Cost of sales per statement of comprehensive income	50,383	41,589

Store EBITDA

Store EBITDA for the Big Yellow stores for the year was £110.8 million, an increase of £18.9 million (21%) from £91.9 million for the prior year (see portfolio summary). The overall EBITDA margin for all Big Yellow stores during the year was 72.4%, up from 69.4% in 2021.

The EBITDA for the Armadillo stores for the year was £13.1 million, an increase of £2.7 million (26%) from £10.4 million in 2021, with the margin increasing to 61.5% from 58.0%.

The store EBITDA in the year for Big Yellow stores and for the Armadillo stores from 1 July 2021 to 31 March 2022 was £120.9 million.

All stores are currently trading profitably at the Store EBITDA level, except for our recently opened stores in Hayes and Hove.

Administrative expenses

Administrative expenses in the statement of comprehensive income of £14.4 million were up £2.2 million compared to the prior year. £0.4 million of this increase is due to the write-off of acquisition costs in relation to the purchase of the remaining interest in Armadillo in accordance with IFRS 3. This is an adjusting item in the calculation of the Group's adjusted profit before tax.

The remaining increase of £1.8 million is principally due an increase in the share-based payments charge (£0.5 million), an increase in national insurance on LTIPs (£0.5 million), both up due to the increase in the Company's share price during the year, with the balance of £0.8 million due to an increase in travel costs (with 2021's expense reduced by lockdowns), increased investment in IT, with the balance inflationary.

The non-cash share-based payments charge represents £3.4 million of the overall £14.4 million expense (2021: £2.9 million of £12.2 million expense).

Interest expense on bank borrowings

The gross bank interest expense for the year was £11.8 million, an increase of £2.4 million from the prior year, due to higher average debt levels in the year, in part due to the acquisition of Armadillo and the consolidation of its debt from 1 July 2021. The average cost of borrowing during the year was 2.8% compared to 2.9% in the prior year.

Capitalised interest on our construction programme was broadly in line with the prior year at £2.1 million.

Total finance costs in the statement of comprehensive income increased to £10.6 million from £8.2 million in the prior year.

Profit before tax

The Group made a profit before tax in the year of £698.9 million, compared to a profit of £265.8 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 £96.8 million, up 30% from £74.6 million in 2021.

	2022 £000	2021 £000
Profit before tax analysis		
Profit before tax	698,876	265,822
Gain on revaluation of investment properties	(597,224)	(189,277)
Gain on disposal of investment property	(584)	–
Acquisition costs written off	416	–
Movement in fair value on interest rate derivatives	(1,389)	148
Share of associate fair value gains and losses	(3,293)	(2,068)
Adjusted profit before tax	96,802	74,625

The gain on disposal of investment property relates to an overage received from the previous sale of land adjacent to our Guildford Central store.

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 2021	74.6
Increase in gross profit	27.3
Increase in administrative expenses	(1.8)
Increase in net interest payable	(2.6)
Reduction in capitalised interest	(0.1)
Reduction in share of adjusted profit of associates	(0.6)
Adjusted profit before tax – year ended 31 March 2022	96.8

Basic earnings per share for the year was 385.4p (2021: 152.3p) and fully diluted earnings per share was 384.2p (2021: 151.8p). Diluted EPRA earnings per share based on adjusted profit after tax was up 24% to 52.5p (2021: 42.4p) (see note 12). 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.

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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 Armadillo stores joined our REIT group on acquisition of the remaining interest, allowing us to write back the deferred tax that had been provided on previous revaluation uplifts.

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 £1.6 million. This compares to a charge in the prior year of £0.6 million. The increase in the current year tax charge reflects the significant increase in the Group's non-exempt taxable profits from the sale of insurance and packing materials over the year.

Dividends

The Board is recommending the payment of a final dividend of 21.4 pence per share in addition to the interim dividend of 20.6 pence, giving a total dividend for the year of 42.0 pence, an increase of 24% from the prior year, in line with our policy to distribute a minimum of 80% of our adjusted earnings per share in each reporting period.

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 42.0p pence per share is payable (31 March 2021: 32.0 pence). The PID for the year to 31 March 2022 accounts for all of the declared dividend. The table below summarises the declared dividend for the year:

Dividend (pence per share)	31 March 2022	31 March 2021
Interim dividend – PID	20.6p	17.0p
– discretionary	nil p	nil p
– total	20.6p	17.0p
Final dividend – PID	21.4p	15.0p
– discretionary	nil p	2.0p
– total	21.4p	17.0p
Total dividend – PID	42.0p	32.0p
– discretionary	nil p	2.0p
– total	42.0p	34.0p

Subject to approval by shareholders at the Annual General Meeting to be held on 21 July 2022, the final dividend will be paid on 29 July 2022. The ex-div date is 7 July 2022 and the record date is 8 July 2022.

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 £107.1 million, an increase of 40% from £76.7 million in the prior year. This reflects the Group's increase in profitability and also some favourable working capital movements in the year.

These operating cash flows are after the ongoing maintenance costs of the stores, which for were on average approximately £40,000 per store. The Group's net debt has increased over the period to £411.8 million (March 2021: £325.0 million), with the majority of the increase due to the debt within Armadillo now being consolidated.

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Cash generated from operations	120,390	87,131
Net finance costs	(10,761)	(8,824)
Interest on obligations under lease liabilities	(843)	(772)
Tax	(1,649)	(823)
Cash flow from operating activities	107,137	76,712
Capital expenditure	(105,151)	(73,010)
Acquisition of Armadillo	(66,679)	–
Disposal of investment property	584	–
Investment	(138)	(450)
Receipt from Capital Goods Scheme	381	737
Dividends received from associates	435	688
Cash flow after investing activities	(63,431)	4,677
Ordinary dividends	(68,698)	(58,808)
Issue of share capital	98,514	80,772
Payment of lease liabilities	(1,384)	(1,009)
Loan arrangement fees paid	(953)	–
Increase/(decrease) in borrowings	32,235	(64,728)
Net cash outflow	(3,717)	(39,096)
Opening cash and cash equivalents	12,322	51,418
Closing cash and cash equivalents	8,605	12,322
Closing debt	(420,435)	(337,300)
Closing net debt	(411,830)	(324,978)

The Group's interest cover for the period (expressed as the ratio of cash generated from operations pre-working capital movements against interest paid) was 10.5 times (2021: 9.8 times).

In the year capital expenditure outflows were £105.2 million, up from £73.0 million in the prior year. Of the capital expenditure in the year £51.0 million is for the acquisition of West Kensington, Kentish Town, and Epsom (including acquisition costs), with £54.2 million principally relating to build costs of the new stores.

The cash flow after investing activities was a net outflow of £63.4 million in the year, compared to an inflow of £4.7 million in 2021, with the difference largely explained by the purchase of the remaining interest in Armadillo during the year.

Balance sheet

Property

The Group's open stores and stores under development owned at 31 March 2022, which are classified as investment properties, have been valued individually by JLL. JLL were appointed as valuers during the year, with the Board taking heed of the recommendations of the Gray report, with the previous valuer having acted for the Group for more than the recommended nine-year term. JLL have previously been valuing the Armadillo stores prior to acquisition.

The external valuation has resulted in an investment property asset value of £2.628 billion, comprising £2.301 billion (87%) for the freehold (including nine long leaseholds) open stores, £41.2 million (2%) for the short leasehold open stores and £285.4 million (11%) for the freehold investment properties under construction.

The table below provides a further breakdown of the valuations:

	Established		Developing		Armadillo	Total
	Freehold	Leasehold	Freehold	Largely Freehold		
Number of stores	67	6	8	24		105
MLA capacity (sq ft)	4,295,000	344,000	478,000	981,000		6,098,000
Valuation at 31 March 2022 (£m)	£1,872.8	£36.9	£236.6	£155.0		£2,301.3
Value per sq ft	£436	£107	£495	£158		£377
Occupancy at 31 March 2022	86.8%	86.6%	55.4%	83.1%		83.7%
Stabilised occupancy assumed	89.0%	88.1%	86.9%	87.2%		88.3%
Net initial year one yield	5.1%	13.4%	3.2%	8.0%		5.2%

The net initial year one yield is 5.2% (2021: 5.9%). Note 15 contains more detail on the assumptions underpinning the valuations. The difference between the valuation in the table above and the investment property valuation in the balance sheet is the valuation of non-self storage investment property at certain of the Group's sites.

Investment property under construction

The investment property under construction valuation has increased by £121.9 million in the year. Capital expenditure accounts for £95.5 million of this increase, notably on the site purchases of West Kensington and Kentish Town, and construction expenditure, principally on Uxbridge, Hayes, Hove, Harrow, Kingston North, and Kings Cross. This has been offset by Uxbridge, Hayes and Hove transferring to open stores.

The valuation movement on the investment property under construction is a surplus of £67.5 million, driven by an improvement in the market view of development assets, coupled with a significant valuation uplift on the industrial units being developed adjacent to our Harrow store, which is due to open this Summer.

Investment property

The valuations in the current year have increased significantly from the prior year, with a revaluation surplus of £529.7 million arising on the open 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 5.5% in the current year, compared to 5.7% in the prior year.

Analysis of property portfolio	Value at 31 March 2022 (£m)	Revaluation movement in the year (£m)
Investment property – Big Yellow stores	2,186.8	514.6
Investment property – Armadillo stores	155.4	15.1
Investment property – Big Yellow and Armadillo stores	2,342.2	529.7
Investment property under construction	285.4	67.5
Investment property total	2,627.6	597.2

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 2022 of £2,728.2 million (£100.6 million higher than the value recorded in the financial statements). This translates to 54.6 pence per share. This revised valuation translates into an adjusted net asset value per share of 1,239.7 pence (2021: 904.7 pence after adjusting for the placing) after the dilutive effect of outstanding share options.

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Cheadle fire

In February 2022 we experienced a fire at our Cheadle store, which resulted in a total loss to the store. The cause of the fire was arson. This was a very difficult time for all our affected customers and some of the possessions stored with us can never be replaced, and we are very saddened that this incident occurred.

The store was a leasehold with five years remaining on the lease, and the balance sheet cost of this store was £4.3 million. Buildings all risk insurance is in place for the full reinstatement value with the landlord. We also have insurance cover in place for both our fit-out and four years loss of income. The first month's loss of income insurance has been recognised in revenue at the year end.

The lease liability and right-of-use asset have been written off reflecting the lack of certainty as to when the Group's obligations to pay rent under the lease will resume. The balance sheet value of the store has also been impaired to nil.

Receivables

The Group's bad debt expense in the year represented 0.1% of store revenue compared to 0.1% in the prior year, with 81% of our customer base paying by direct debit.

At 31 March 2022 we have a receivable of £0.2 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 £15.6 million to date under the Scheme, of which £0.4 million was received in the year.

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 table below summarises the Group's debt facilities at 31 March 2022. The average cost of debt is 3.1% (March 2021: 2.6%).

Debt	Expiry	Facility	Drawn	Average interest cost
Aviva Loan	September 2028	£161.9 million	£161.9 million	3.5%
M&G loan	June 2023	£120 million	£120 million	2.9%
Revolving bank facility (Lloyds, HSBC, and Bank of Ireland)	October 2024	£240 million	£99 million	2.7%
Armadillo bank loans (Lloyds)	April 2023	£52.7 million	£39.5 million	3.1%
Total	Average term 3.4 years	£574.6 million	£420.4 million	3.1%

Net asset value

The adjusted net asset value is 1,239.7 pence per share (see note 13), up 37% from 904.7 pence per share at 31 March 2021 (after adjusting for the June 2021 share placing). The table below reconciles the movement:

Movement in adjusted net asset value	£m	Adjusted NAV pence per share
31 March 2021	1,566.6	889.2
Share placing	97.6	15.5
31 March 2021 (rebased)	1,664.2	904.7
Adjusted profit after tax	95.2	51.8
Equity dividends paid	(68.7)	(37.3)
Revaluation movements (including share of associate to 30 June 2021)	598.8	325.0
Movement in purchaser's cost adjustment	(9.8)	(5.3)
Other movements (e.g. share schemes)	4.5	0.8
31 March 2022	2,284.2	1,239.7

Despite the significant revaluation gain during the year, the movement in the purchaser's cost adjustment is negative. This is due to a different treatment of purchaser's costs in the valuation model of JLL, who were appointed valuers in the year compared to that of their predecessor CBRE (see notes 13 and 15 for further detail).

During the year, the Group signed an additional £50 million seven year debt facility with Aviva. As part of this refinancing the expiry of the existing loan was extended from April 2027 to September 2028. This reduced the fixed cost of the total Aviva loan facility from 4.0% to 3.5%.

Sustainability KPIs have been incorporated into this additional borrowing. These include the continued installation of solar panels across the security stores which will reduce emissions and running costs, and the business being on-track to achieve 'Net Renewable Energy Positive' status by 2030. The Group will benefit from a margin reduction on the new £50 million loan, conditional on achieving these targets.

The total debt facilities from Aviva are now £161.9 million of which £16.9 million amortises to nil by April 2027.

The Group also increased the facilities of its M&G loan by £50 million to a total facility of £120 million. £35 million of the total M&G loan is fixed by a way of swap, with the balance floating. The average cost of the M&G loan is now 2.9%, with the loan expiring in June 2023. The Group intends to refinance this loan with M&G during the summer of 2022.

The Group has credit approval from a new insurance lender to provide additional longer term debt facilities. These facilities would be used to repay the Armadillo bank loans which expire next year, and thereafter to increase the Group's overall debt capacity.

The Group has committed undrawn bank facilities of £154 million, which if drawn would carry a current marginal cost of debt of approximately 2.25%.

The Group was comfortably in compliance with its banking covenants at 31 March 2022. Further details of the Group's covenants are provided in note 19 of the accounts. The Group's key financial ratios are shown in the table below:

Metric	31 March 2022	31 March 2021
Net Debt / Gross Property Assets	16%	18%
Net Debt / Adjusted Net Assets	18%	21%
Net Debt / Market Capitalisation	15%	17%
Pre-Interest Operating Cash Flow Cover	10.5x	9.9x

At 31 March 2022, the fair value on the Group's interest rate derivatives was an asset of £0.9 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 £18.4 million at 31 March 2022 (2021: £17.6 million), consisting of 183,967,378 ordinary shares of 10p each (2021: 175,880,470 shares). 7.8 million shares were issued in June 2021 in a placing to fund the strategic Armadillo and West Kensington acquisitions. 0.3 million shares were issued for the exercise of options during the year at an average exercise price of £14.84 (2021: 0.4 million shares at an average price of £10.64).

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.

	2022 No.	2021 No.
Opening shares	175,880,470	167,138,527
Shares issued in placing	7,751,938	8,335,043
Shares issued for the exercise of options	334,970	406,900
Closing shares in issue	183,967,378	175,880,470
Shares held in EBT	(1,122,907)	(1,122,907)
Closing shares for NAV purposes	182,844,471	174,757,563

85.4 million shares were traded in the market during the year ended 31 March 2022 (2021: 86.8 million). The average mid-market price of shares traded during the year was £14.37 with a high of £17.24 and a low of £11.34.



Manchester, May 2019
MLA - 60,000 sq ft