

Financial Review

Revenue

Total revenue for the year was £188.8 million, an increase of £17.5 million (10%) from £171.3 million in the prior year. Like-for-like store revenue for the year was £162.9 million, an increase of 7% from the prior year (2022: £151.8 million). Like-for-like revenue excludes stores opened and acquired in the last two financial years, including the Armadillo stores, which the Group acquired in July 2021.

Included in store revenue is other storage related income, from the sale of packing materials, insurance/enhanced liability service ("ELS"), and storage related charges. This amounted to £22.6 million in the year (2022: £23.5 million).

The Group changed the way it sold contents protections to its customers on 1 June 2022 to an ELS, which is subject to VAT and not Insurance Premium Tax ("IPT"). Prior to 1 June 2022, IPT at 12% was paid to our insurance provider based on our total insurance revenue.

We decided not to pass on the entirety of the 20% VAT on the new ELS to our customers, and hence gross ELS revenue from 1 June is lower by 8%. However, because we can recover VAT and are no longer paying IPT, our cost of sales has also reduced. On a net basis, our profits from insurance/ELS remain largely unchanged.

The other revenue earned by the Group is 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 2023 £000	Year ended 31 March 2022 £000	Change	% of store operating costs in 2023
Cost of sales (ELS and packing materials)	2,202	3,896	(43%)	4%
Staff costs	14,415	13,303	8%	28%
General & admin	2,032	1,776	14%	4%
Utilities	2,056	2,274	(10%)	4%
Property rates	15,221	14,036	8%	30%
Marketing	6,504	6,494	0%	13%
Repairs & maintenance	4,685	4,198	12%	9%
Insurance	2,757	1,479	86%	6%
Computer costs	1,001	929	8%	2%
Total before one-off items	50,873	48,385	5%	
One-off items	(310)	(453)		
Total per portfolio summary	50,563	47,932	5%	

Store operating costs have increased by £2.6 million (5%). The one-off items in both years are principally rates rebates where we have successfully appealed against the 2017 rating list. Store operating costs before these one-off items have increased by £2.5 million (5%) compared to the prior year. New stores accounted for £2.1 million of operating expense increase in the year. Cost of sales has decreased by £1.7 million following the move to selling an ELS rather than insurance (see explanation in revenue above). The remaining increase of £2.1 million (4%), is a pleasing result in the current inflationary environment. More specifically, we would comment as follows:

- Staff costs have increased by £1.1 million (8%) with store numbers and the salary review of on average 5% (including a 7% increase to those at the lower end of the pay scale).
- Marketing is in line with the prior year with continued efficiencies being achieved from our digital campaigns.
- Utilities has reduced by 10%, with our investment in solar, and during the year we have benefited from a fixed rate contract on energy which is due to expire on 30 September 2023.
- Insurance has increased by £1.3 million (86%). We saw a significant increase in our insurance premiums this year, from a combination of higher pricing in the insurance market, and the impact on our premiums of the fire at our Cheadle store in February 2022.
- The Group's bad debt expense for the year was 0.2%, in line with the prior year. The Group has not seen any deterioration in its aged debtors' profile over recent months.

However, looking to the year ending 31 March 2024, we are anticipating a step-up in operating costs, principally as a result of:

- the Group's property rates bill will increase by 19% (£3 million) on a like-for-like basis for the year ending 31 March 2024, following the Rating Revaluation published in November 2022;
- our store salary review for the year ending 31 March 2024 averaged 5.5%, with the lower paid staff seeing increases of on average 6%; and
- the Group has benefited from a fixed price energy contract since October 2020, which expires in September 2023. Energy costs have moderated significantly from their peak in 2022, but we still expect to see an increase from our current contracted pricing when we place the new contract over the Summer. As mentioned above, the significant acceleration in our solar retrofit programme will help over the medium term to significantly reduce our reliance on external energy supply and mitigate the volatility that can sometimes occur in the market. We have increased our renewable electricity generation by 94% from the prior year.

As highlighted in the Chief Executive's Statement, given the investment we have made in recent years in the automation of our store operations, particularly in relation to interaction with prospects and customers, we continue to review every vacancy before making a decision to recruit with a view to achieving savings this year through the salary line.

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 2023 £000	Year ended 31 March 2022 £000
Direct store operating costs per portfolio summary (excluding rent)	50,563	47,932
Rent included in cost of sales (total rent payable is included in portfolio summary)	1,551	1,633
Rent review accruals	–	607
Depreciation charged to cost of sales	496	378
Head office and other operational management costs charged to cost of sales	1,697	1,741
Armadillo cost of sales pre acquisition of remaining interest	–	(1,908)
Cost of sales per statement of comprehensive income	54,307	50,383

Store EBITDA

Store EBITDA for the year was £134.0 million, an increase of £13.1 million (11%) from £120.9 million for the prior year (see Portfolio Summary). The overall EBITDA margin for during the year was 71.8%, up from 71.1% in 2022.

All stores are currently trading profitably at the Store EBITDA level. Our stores at Hayes and Hove, which opened in the first quarter of 2022, reached break even in six and four months respectively, and our stores at Harrow and Kingston North, which both opened in September 2022 reached break even in seven months.

Administrative expenses

Administrative expenses in the statement of comprehensive income of £14.5 million were up £0.2 million compared to the prior year. The prior period expense contained £0.4 million due to the write-off of acquisition costs in relation to the purchase of the remaining interest in Armadillo in accordance with IFRS 3.

The normalised increase was therefore £0.6 million (4%), which is a below inflationary increase, following our focus on cost control during the year. The non-cash share-based payments charge represents £3.7 million of the overall £14.5 million expense (2022: £3.4 million of £14.4 million expense).

Other operating income

In February 2022 the Group experienced a fire at our Cheadle store, which resulted in a total loss to the store. 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 loss of income received during the financial year was £1.4 million, which is included in other operating income.

In June 2021, the Group experienced a fire in the wine storage area of our Fulham store, which was isolated to a single section of the basement floor. During the year, the Group received full settlement from our insurers for the loss of income as a result of this fire, which amounted to £0.6 million, which is included in other operating income.

The Group acquired the freehold of its Oxford store in September 2022, thus extinguishing the right of use asset and liability in relation to the lease from the previous landlord. This extinguishment gave rise to a gain of £0.2 million, which is included in other operating income for the year.

Interest expense on bank borrowings

The gross bank interest expense for the year was £18.2 million, an increase of £6.4 million from the prior year, due to higher average debt levels in the year, coupled with the Group's higher average cost of debt following the increase in interest rates. The average cost of borrowing during the year was 4.2% compared to 2.8% in the prior year.

Capitalised interest on our construction programme was £2.8 million, up from £2.1 million in the prior year, with interest capitalised on our developments at Harrow, Kingston North and Kings Cross during the year.

Total finance costs in the statement of comprehensive income increased to £16.9 million from £10.6 million in the prior year.

Financial Review continued

Profit before tax

The Group made a profit before tax in the year of £75.3 million, compared to a profit of £698.9 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 £106.0 million, up 10% from £96.8 million in 2022.

Profit before tax analysis	2023 £000	2022 £000
Profit before tax	75,309	698,876
Loss/(gain) on revaluation of investment properties	29,861	(597,224)
Gain on disposal of investment property	–	(584)
Acquisition costs written off	–	416
Movement in fair value on interest rate derivatives	133	(1,389)
Refinancing costs	732	–
Share of associate fair value gains and losses	–	(3,293)
Adjusted profit before tax	106,035	96,802

The adjustments made to the Group's profit before tax are in line with guidance issued by EPRA. The gain on disposal of investment property in the prior year 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 2022	96.8
Increase in gross profit	13.6
Increase in administrative expenses	(0.6)
Increase in other operating income	2.2
Increase in net interest payable	(6.3)
Increase in capitalised interest	0.7
Reduction in share of adjusted profit of associates	(0.4)
Adjusted profit before tax – year ended 31 March 2023	106.0

Basic earnings per share for the year was 40.1p (2022: 385.4p) and diluted earnings per share was 39.8p (2022: 384.2p). Diluted EPRA earnings per share based on adjusted profit after tax was up 8% to 56.5p (2022: 52.5p) (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.

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 £2.0 million. This compares to a charge in the prior year of £1.6 million. The increase in the current year tax charge reflects the 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 22.9 pence per share in addition to the interim dividend of 22.3 pence, giving a total dividend for the year of 45.2 pence, an increase of 8% 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 45.2p pence per share is payable (31 March 2022: 42.0 pence). The PID for the year to 31 March 2023 accounts for all of the declared dividend. The table below summarises the declared dividend for the year:

Dividend (pence per share)	31 March 2023	31 March 2022
Interim dividend	22.3p	20.6p
Final dividend	22.9p	21.4p
Total dividend	45.2p	42.0p

Subject to approval by shareholders at the Annual General Meeting to be held on 20 July 2023, the final dividend will be paid on 28 July 2023. The ex-div date is 6 July 2023 and the record date is 7 July 2023.

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 pre-working capital movements for the year was £109.2 million, an increase of 10% from £99.3 million in the prior year. This reflects the Group's increase in profitability in the year.

These operating cash flows are after the ongoing maintenance costs of the stores, which were on average approximately £43,000 per store (2022: £40,000).

The Group's net debt has increased over the year to £486.6 million (March 2022: £411.8 million).

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Cash generated from operations pre-working capital movements	126.2	112.5
Net finance costs	(16.5)	(10.8)
Interest on obligations under lease liabilities	(0.7)	(0.8)
Loss of income insurance proceeds	2.0	–
Tax	(1.8)	(1.6)
Cash flow from operating activities pre-working capital movements	109.2	99.3
Working capital movements	2.8	7.9
Cash flow from operating activities	112.0	107.2
Capital expenditure	(106.4)	(105.2)
Acquisition of Armadillo	–	(66.7)
Disposal of investment property	–	0.6
Investment	–	(0.1)
Receipt from Capital Goods Scheme	0.2	0.4
Dividends received from associates	–	0.4
Cash flow after investing activities	5.8	(63.4)
Ordinary dividends	(79.2)	(68.7)
Issue of share capital	1.0	98.5
Payment of lease liabilities	(1.3)	(1.4)
Receipt from termination of interest rate derivatives	0.4	–
Loan arrangement fees paid	(1.5)	(0.9)
Increase in borrowings	74.5	32.2
Net cash outflow	(0.3)	(3.7)
Opening cash and cash equivalents	8.6	12.3
Closing cash and cash equivalents	8.3	8.6
Closing debt	(494.9)	(420.4)
Closing net debt	(486.6)	(411.8)

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 7.7 times (2022: 10.5 times). This is calculated per below:

	31 March 2023	31 March 2022
Cash generated from operations pre working capital movements (see note 26)	126,195	112,489
Interest paid per cash flow statement	(16,486)	(10,763)
Interest cover	7.7x	10.5x

In the year capital expenditure outflows were £106.4 million, up slightly from £105.2 million in the prior year. Of the capital expenditure in the year £62.4 million is for the acquisition of sites at Staples Corner, Old Kent Road and Slough Farnham Road, the freehold of our Oxford store, and an existing storage centre in Aberdeen (including acquisition costs), with £44.0 million principally relating to build costs of the new stores, the Harrow industrial scheme and the investment in our solar retrofit programme.

The cash flow after investing activities was a net inflow of £5.8 million in the year, compared to a net outflow of £63.4 million in 2022, with the prior year also including the acquisition of Armadillo.

Balance sheet

Property

The Group's open stores and stores under development owned at 31 March 2023, which are classified as investment properties, have all been valued individually by JLL.

The external valuation has resulted in an investment property asset value of £2.71 billion, comprising £2.42 billion (89%) for the freehold (including nine long leaseholds) open stores, £31.0 million (1%) for the short leasehold open stores and £260.7 million (9%) for the freehold investment properties under construction.

Strategic Report

Financial Review continued

Investment property

There was a very significant increase in the valuation of our investment portfolio last year, and this year the valuations have remained relatively flat, with an increase of 1% on the open store portfolio (£27.6 million) – see note 15 for the detailed valuation methodology. This revaluation gain has been driven by an improvement in the cash flow of the stores, partly offset by an increase in the cap rates used in the valuation. Prime capitalisation rates have increased by on average 30 bps since the start of the financial year. The increase in cap rates applied was 12.5 bps for stores in London, 25 bps for stores in the South East and 50 bps for regional stores. Additionally, a further 25 bps was added to the cap rates for immature stores.

The table below provides a further breakdown of the open store valuations:

	Established		Developing		Armadillo	Total
	Freehold	Leasehold	Freehold	Largely Freehold		
Number of stores	70	5	9	24		108
MLA capacity (sq ft)	4,413,000	311,000	584,000	984,000		6,292,000
Valuation at 31 March 2023 (£m)	£1,990.7m	£31.0m	£277.3m	£150.6m		£2,449.6m
Value per sq ft	£451	£100	£475	£153		£389
Occupancy at 31 March 2023	84.3%	83.0%	60.4%	76.9%		80.9%
Stabilised occupancy assumed	89%	87%	86%	86%		88%
Net initial year one NOI yield	5.2%	16.4%	3.4%	7.2%		5.3%

The net initial year one NOI yield is 5.3% (2022: 5.2%). Note 15 contains more detail on the assumptions underpinning the valuations.

Investment property under construction

The Group spent £72.1 million on investment property under construction in the year, notably on the site purchases of Old Kent Road, Staples Corner and Slough, and construction expenditure, principally on Harrow, Kingston North, and Kings Cross. Harrow and Kingston North have transferred to investment property during the year as the stores opened.

The valuation movement on the investment property under construction is a deficit of £57.5 million with a reduction in the value of our industrial property and land without self storage planning in the development pipeline of around 19% in total, reflective of the new financing conditions and wider market environment for land.

In the prior year there was a gain on investment property under construction of £67.5 million, so the movement in the current year is largely a reversal of that increase. The investment property under construction is still valued above its historic cost.

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 2023 of £2.815 billion (£104.6 million higher than the value recorded in the financial statements). This translates to 56.5

The weighted average exit capitalisation rate used in the valuations was 5.6% in the current year, compared to 5.5% in the prior year.

Analysis of property portfolio	Value at 31 March 2023 (£m)	Revaluation movement in the year (£m)
Investment property	£2,449.6m	£27.6m
Investment property under construction	£260.7m	(£57.5m)
Investment property total	£2,710.3m	(£29.9m)

pence per share. This revised valuation translates into an adjusted net asset value per share of 1,237.3 pence (2022: 1,239.7 pence) after the dilutive effect of outstanding share options.

Receivables

The Group's bad debt expense in the year represented 0.2% of revenue compared to 0.2% in the prior year, with 80% of our customer base paying by direct debit.

The Group received its final instalment during the year under the Capital Goods Scheme, as a consequence of the introduction of VAT on self storage from 1 October 2012. The receivable related to VAT to be recovered on historic store development expenditure. The Group received £15.8 million under the Scheme, of which £0.2 million was received in the year.

Net asset value

The adjusted net asset value is 1,237.3 pence per share (see note 13), compared to 1,239.7 pence per share at 31 March 2022. The table below reconciles the movement:

Movement in adjusted net asset value	£m	Adjusted NAV pence per share
31 March 2022	2,284.2	1,239.7
Adjusted profit after tax	104.1	56.5
Equity dividends paid	(80.0)	(43.4)
Revaluation movements	(29.9)	(16.2)
Movement in purchaser's cost adjustment	4.0	2.2
Other movements (e.g. share schemes)	4.8	(1.5)
31 March 2023	2,287.2	1,237.3

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 2023. The average cost of debt is 4.7% (March 2022: 3.1%).

Debt	Expiry	Facility	Drawn	Average interest cost
Aviva Loan	September 2028	£158.9 million	£158.9 million	3.4%
M&G loan	September 2029	£120 million	£120 million	5.2%
Revolving bank facility (Lloyds, HSBC, and Bank of Ireland)	October 2024	£240 million	£216 million	5.5%
Total	Average term 3.9 years	£518.9 million	£494.9 million	4.7%

In addition to the facilities above, during the year, the Group signed a \$225 million credit approved shelf facility with Pricoa Private Capital ("Pricoa"), to be drawn in fixed sterling notes. The Group can draw the debt in minimum tranches of £10 million over the next two and half years with terms of between 7 and 15 years at short notice, typically 10 days.

The Group's revolving credit facility of £240 million with Lloyds, HSBC and Bank of Ireland expires in October 2024. The Group intends to refinance this loan with the banks this year.

During the year, the Group refinanced its £120 million debt facility with M&G Investments ("M&G") for a seven-year term, with the new loan expiring in September 2029, secured against a portfolio of 15 assets. The existing facility was due to expire in June 2023. £35 million of this facility is currently fixed by way of a swap until June 2023, and the balance is variable.

The margin on the facility was reduced by 20bps from the expiring facility, reflective of improved portfolio performance, and the sustainability investments that Big Yellow has made over the past few years, and our planned investment in solar over the coming years as part of our Net Renewable Energy Positive Strategy.

The Group repaid the two Armadillo bank facilities during the year using the revolving bank facility. The Group also cancelled the two interest rate derivatives in place on the Armadillo facilities, which resulted in a payment to the Group of £0.4 million as the swaps were in-the-money.

The Group was comfortably in compliance with its banking covenants at 31 March 2023. 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 2023	31 March 2022
Net Debt / Gross Property Assets	18%	16%
Net Debt / Adjusted Net Assets	21%	18%
Net Debt / Market Capitalisation	23%	15%
Cash generated from operations pre-working capital movements against interest paid	7.7x	10.5x

At 31 March 2023, the fair value on the Group's interest rate derivatives was an asset of £0.3 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 2023 (2022: £18.4 million), consisting of 184,265,973 ordinary shares of 10p each (2022: 183,967,378 shares). 0.3 million shares were issued for the exercise of options during the year at an average exercise price of £13.13 (2022: 0.3 million shares at an average price of £14.84).

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.

Metric	31 March 2023	31 March 2022
Opening shares	183,967,378	175,880,470
Shares issued in placing	–	7,751,938
Shares issued for the exercise of options	298,595	334,970
Closing shares in issue	184,265,973	183,967,378
Shares held in EBT	(1,122,907)	(1,122,907)
Closing shares for NAV purposes	183,143,066	182,844,471

116.3 million shares were traded in the market during the year ended 31 March 2023 (2022: 85.4 million). The average mid-market price of shares traded during the year was £12.41 with a high of £15.53 and a low of £9.87.