

Financial Review

Delivering results

Total revenue for the year was £125.4 million, an increase of £8.7 million (7.5%) from £116.7 million in the prior year.

FINANCIAL RESULTS

Revenue

Total revenue for the year was £125.4 million, an increase of £8.7 million (7.5%) from £116.7 million in the prior year. Like-for-like revenue for the year was £123.2 million, an increase of 7.2% from the prior year (2018: £114.9 million), driven by a combination of an increase in the average occupancy of the Group's stores and an increase in net achieved rent per sq ft. Like-for-like revenue excludes Guildford Central and Wapping, which opened in March 2018 and July 2018 respectively, and Battersea, which was closed for redevelopment in the year.

Other sales (included within the above), comprising the selling of insurance, packing materials and storage related charges, represented 14.1% of total store revenue for the year (2018: 14.4%) and generated revenue of £17.1 million for the year, up 4% from £16.5 million in 2018.

The other revenue earned by the Group is management fee income from the Armadillo Partnerships, and tenant income on sites where we have not started development. During the year, the Group recognised in revenue a £1 million performance fee due from Armadillo Storage Holding Company Limited, for the performance of the fund over its initial five year term. This fee was paid in May 2019.

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

Category	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000	% change	% of store operating costs in 2019
Cost of sales (insurance and packing materials)	2,866	2,663	8%	8%
Staff costs	9,240	8,740	6%	26%
General & Admin	1,262	1,187	6%	3%
Utilities	1,373	1,447	(5%)	4%
Property rates	11,311	10,438	8%	32%
Marketing	5,294	4,656	14%	15%
Repairs / Maintenance	2,741	2,595	6%	8%
Insurance	934	921	1%	2%
Computer costs	587	494	19%	2%
Irrecoverable VAT	20	18	11%	0%
Total per portfolio summary	35,628	33,159	7%	

Store operating costs have increased by £2.5 million (7%) compared to the same period last year. Of this increase £0.6 million relates to our new stores at Guildford Central and Wapping. The Group's property rates have increased by £0.9 million from the prior year, with the Group receiving significant rates rebates on two stores in the prior year, which reduced last year's expense, coupled with the reduction of transitional arrangements for the new rates listing. We have increased our investment in marketing by £0.6 million to maintain the Group's online market share and enquiry levels.

Our investment in LED lighting has contributed to a reduction in our utility expenditure of £0.1 million. We have increased our investment in our IT systems and cyber security by £0.1 million. The other increases in store operating costs of £0.4 million are largely inflationary.

Strategic Report (continued)

Financial Review (continued)

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 2019 £000	Year ended 31 March 2018 £000
Direct store operating costs per portfolio summary (excluding rent)	35,628	33,159
Rent included in cost of sales (total rent payable is included in portfolio summary)	1,075	1,109
Depreciation charged to cost of sales	393	439
Head office and other operational management costs charged to cost of sales	1,049	967
Cost of sales per statement of comprehensive income	38,145	35,674

Store EBITDA

Store EBITDA for the year was £84.1 million, an increase of £4.6 million (6%) from £79.5 million for the year ended 31 March 2018 (see Portfolio Summary). The overall EBITDA margin for all Big Yellow stores during the year was 69.1%.

Administrative expenses

Administrative expenses in the statement of comprehensive income have increased by £542,000. The increase is due to a number of factors; an increase of £250,000 in salaries, which includes the annual salary review to head office employees and the increase to Directors' pay as approved at the last AGM. We have also increased staffing levels in IT, marketing and HR (£150,000), there has been an increase in donations to the Big Yellow Foundation (£50,000), increased investment in CSR (£35,000). These increases have been partly offset by a reduction in the share based payments charge of £125,000 with the balance of the increase of £182,000 due to inflationary increases.

The non-cash share based payments charge represents £2.3 million of the overall £10.6 million expense.

Interest expense on bank borrowings

The gross bank interest expense for the year was £9.9 million, an increase of £0.1 million from the prior year. The average cost of borrowing during the year was 2.9% in line with the prior year, with the change in base rate in August 2018 being offset by a higher proportion of the drawn debt being variable rate bank debt, which is lower cost. Average debt levels were slightly higher than in the prior year.

Capitalised interest increased by £0.4 million from the prior year. The interest capitalised in the year is principally on our Manchester and Camberwell developments.

Total finance costs in the statement of comprehensive income decreased to £11.2 million from £12.0 million in the prior year. Refinancing costs of £1.5 million were incurred in the prior year.

Profit before tax

The Group made a profit before tax in the year of £126.9 million, compared to a profit of £134.1 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 £67.5 million, up 10% from £61.4 million in 2018.

	2019 £m	2018 £m
Profit before tax analysis		
Profit before tax	126.9	134.1
Gain on revaluation of investment properties	(58.9)	(71.6)
Movement in fair value on interest rate derivatives	1.1	(1.3)
Gain on part disposal of investment property	–	(0.6)
Refinancing costs	–	1.5
Share of non-recurring gains and losses in associates	(1.6)	(0.7)
Adjusted profit before tax	67.5	61.4

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 2018	61.4
Increase in gross profit	6.3
Increase in net interest payable	(0.1)
Increase in administrative expenses	(0.5)
Increase in capitalised interest	0.4
Adjusted profit before tax – year ended 31 March 2019	67.5

Basic earnings per share for the year was 78.3p (2018: 85.0p) and fully diluted earnings per share was 78.0p (2018: 84.4p). Diluted EPRA earnings per share based on adjusted profit after tax was up 8% to 41.4p (2018: 38.5p) (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, 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 will be 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 £0.4 million. This compares to a charge in the prior year of £0.6 million. The current year tax charge reflects an increase in profits in our residual business, which has been more than offset by deductions allowed for tax purposes from the exercise of share options.

Dividends

The Board is recommending the payment of a final dividend of 16.5 pence per share in addition to the interim dividend of 16.7 pence, giving a total dividend for the year of 33.2 pence, an increase of 8% from the prior year.

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 29.2 pence per share is payable (31 March 2018: 27.5 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 2019 accounts for 88% of the total dividend.

The table below summarises the declared dividend for the year:

Dividend (pence per share)	31 March 2019	31 March 2018
Interim dividend – PID	16.7p	15.3p
– discretionary	nil p	nil p
– total	16.7p	15.3p
Final dividend – PID	12.5p	12.2p
– discretionary	4.0p	3.3p
– total	16.5p	15.5p
Total dividend – PID	29.2p	27.5p
– discretionary	4.0p	3.3p
– total	33.2p	30.8p

Subject to approval by shareholders at the Annual General Meeting to be held on 19 July 2019, the final dividend will be paid on 26 July 2019. The ex-div date is 20 June 2019 and the record date is 21 June 2019.

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 £71.8 million, an increase of 14% from £63.0 million in the prior year.

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Cash generated from operations	81,997	73,457
Net finance costs	(9,996)	(9,711)
Tax	(195)	(769)
Cash flow from operating activities	71,806	62,977
Capital expenditure	(83,038)	(41,959)
Asset sales	–	650
Receipt from Capital Goods Scheme	1,876	2,786
Investment in associate	–	(900)
Dividends received from associates	550	446
Cash flow after investing activities	(8,806)	24,000
Ordinary dividends	(52,058)	(46,183)
Issue of share capital	65,962	969
Finance lease payments	(1,075)	(1,109)
Payment to cancel interest rate derivatives	–	(3,374)
Increase in borrowings	7,026	25,644
Net cash inflow/(outflow)	11,049	(53)
Opening cash and cash equivalents	6,853	6,906
Closing cash and cash equivalents	17,902	6,853
Closing debt	(337,625)	(330,599)
Closing net debt	(319,723)	(323,746)

In the year capital expenditure outflows were £83.0 million, up from £42.0 million in the prior year. The capital expenditure during the year principally relates to the acquisition of the freehold of our New Malden store and adjoining industrial estate (£29 million including costs), the purchase of land for new stores (£35 million), and construction capital expenditure (£19 million).

The cash flow after investing activities was a net outflow of £8.8 million in the year, down from an inflow of £24.0 million in 2018, with the growth in operating cash flow being more than offset by the increased investment in capital expenditure.

Strategic Report (continued)

Financial Review (continued)

Balance sheet

Property

The Group's open stores and stores under development owned at 31 March 2019, which are classified as investment properties, have been valued individually by Cushman & Wakefield ("C&W") and this has resulted in an investment property asset value of £1,445.5 million, comprising £1,317.1 million (91%) for the freehold (including three long leaseholds) open stores, £37.3 million (3%) for the short leasehold open stores and £91.1 million (6%) for the freehold investment properties under construction.

Investment property

The valuations in the current year have grown from the prior year, with a revaluation surplus of £59.0 million arising on the open Big Yellow stores (see note 15 for the detailed valuation methodology). Of this increase 27% is due to an improvement in the cap rate used in the valuations. The average exit capitalisation rate used in the valuations was 6.2% in the current year, compared to 6.3% in the prior year, with the discount rate adopted also reducing from 9.4% to 9.3%. The remaining 73% of the increase in value is due to the growth in cash flow from the assets and changes to the operating assumptions adopted in the valuations.

The valuation is based on an average occupancy over the 10 year cash flow period of 84.3% across the whole portfolio.

	Mature Leasehold	Mature Freehold	Established Freehold	Developed Freehold	Total
Number of stores	6	62	3	3	74 ⁽¹⁾
MLA capacity (sq ft)	339,000	3,935,000	206,000	142,000	4,622,000
Valuation at 31 March 2019 (£m)	37.3	1,176.0	70.1	41.8	1,325.2
Value per sq ft	£110	£299	£340	£294	£287
Occupancy at 31 March 2019	83.5%	83.2%	85.9%	53.5%	82.4%
Stabilised occupancy assumed	85.5%	84.5%	87.1%	86.1%	84.7%
Net initial yield pre-admin expenses	12.3%	6.4%	5.9%	3.2%	6.4%
Stabilised yield assuming no rental growth	12.5%	6.5%	5.9%	9.2%	6.7%

(1) Excluding Battersea which was closed in the year for redevelopment, but in line with the Group's accounting policy has been shown in investment property at the year end.

The initial yield pre-administration expenses assuming no rental growth is 6.4% (2018: 6.5%) rising to a stabilised yield of 6.7% (2018: 6.9%). The stores are assumed to grow to stabilised occupancy in 16 months on average. Note 15 contains more detail on the assumptions underpinning the valuations.

As referred to in note 15 C&W observe that there is less transaction activity in the prime self storage market compared to other property markets, although there has been some activity for secondary assets. The capitalisation rates are therefore subject to higher levels of uncertainty than for other property sectors.

C&W's valuation report further confirms that the properties have been valued individually but that if the portfolio were to be sold as a single lot or in selected groups of properties, the total value could differ significantly. C&W state that in current market conditions they are of the view that there could be a material portfolio premium.

Investment property under construction

The investment property under construction valuation has increased by £33.0 million in the year. Capital expenditure accounts for £47.6 million of this increase, notably on the site purchases discussed above, and construction expenditure, principally on Manchester and Camberwell. This has been partly offset by Wapping transferring to open stores. The valuation movement on the investment property under construction was flat year-on-year.

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 2019 of £1,528.6 million (£83.1 million higher than the value recorded in the financial statements). With the share of uplift on the revaluation of the Armadillo stores (£0.7 million), this translates to 50.2 pence per share.

This revised valuation translates into an adjusted net asset value per share of 724.4 pence (2018: 665.0 pence) after the dilutive effect of outstanding share options.

Receivables

At 31 March 2019 we have a receivable of £2.5 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 debtor has been discounted in accordance with International Accounting Standards to the net present value using the Group's average cost of debt, with £0.1 million of the discount being unwound through interest receivable in the year. The Group has received £13.2 million to date under the Scheme, of which £1.9 million was received in the year.

Net asset value

The adjusted net asset value is 724.4 pence per share (see note 13), up 7% from 675.5 pence per share at 31 March 2018 (rebased for the impact of the placing). The table below reconciles the movement from 31 March 2018:

Movement in adjusted net asset value	£m	Adjusted NAV pence per share
31 March 2018	1,059.1	665.0
Share placing	65.3	10.5
31 March 2018 (rebased)	1,124.4	675.5
Adjusted profit after tax	67.1	40.2
Equity dividends paid	(52.1)	(31.2)
Revaluation movements (including share of associate)	60.5	36.2
Movement in purchaser's cost adjustment	6.1	3.7
Other movements (e.g. share schemes)	3.8	—
31 March 2019	1,209.8	724.4

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

The table below summarises the Group's debt facilities. The average cost at 31 March 2019 is 2.9% (March 2018: 2.9%) with a higher proportion of lower cost variable rate bank debt drawn at March 2019, offset by the increase in base rate in August 2018.

Debt	Expiry	Facility	Drawn	Average interest cost
Aviva Loan	April 2027	£85.1 million	£85.1 million	4.9%
M&G loan	June 2023	£70 million	£70 million	3.0%
Bank loan (Lloyds & HSBC)	October 2023	£210 million	£182.5 million	2.0%
Total	Average term 5.2 years	£365.1 million	£337.6 million	2.9%

The refinancing costs of £1.5 million shown in the prior year statement of comprehensive income relate to the unamortised loan arrangement costs of the previous bank facility, and the write-off of the costs of the new bank facility in accordance with IAS 39. This was eliminated from the Group's adjusted profit for that year. In the prior year, the Group cancelled an interest rate derivative that was in place over half of the M&G loan (2.64% expiring in June 2022) at a cost of £3.4 million and replaced it with a new derivative until June 2023 at a pre margin rate of 0.76%.

The Group was comfortably in compliance with its banking covenants at 31 March 2019. For the year we had Group interest cover of 8.2 times (2018: 7.6 times) based on pre-interest operating cash flow against interest paid. The net debt to gross property assets ratio is 22% (2018: 25%) and the net debt to adjusted net assets ratio (see net asset value section above) is 26% (2018: 31%).

At 31 March 2019, the fair value on the Group's interest rate derivatives was an asset of £0.6 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 £16.7 million at 31 March 2019 (2018: £15.9 million), consisting of 166,665,158 ordinary shares of 10p each (2018: 158,570,574 shares). In September, the Group issued 7.2 million shares (4.5% of the issued share capital prior to the placing) at a price of 930 pence per share, raising £65.3 million (net of expenses). 0.9 million shares were issued for the exercise of options during the year at an average exercise price of 910p (2018: 0.7 million shares at an average price of 725p).

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.

rates and the Group's policy in respect of interest rates is to maintain a balance between flexibility and hedging of interest rate risk.

During the year the Group extended the term of its bank loan by a further year, and retains an option to extend the loan by a further year. The Group also has an option to increase the amount of revolving loan by a further £60 million during the course of the loan's term.

	2019 No.	2018 No.
Opening shares	158,570,574	157,882,867
Shares issued in placing	7,204,301	—
Shares issued for the exercise of options	890,283	687,707
Closing shares in issue	166,665,158	158,570,574
Shares held in EBT	(1,122,907)	(1,122,907)
Closing shares for NAV purposes	165,542,251	157,447,667

79.2 million shares were traded in the market during the year ended 31 March 2019 (2018: 77.4 million). The average mid-market price of shares traded during the year was 929.5p with a high of 998.5p and a low of 852.5p.

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 occupancy of the Armadillo stores at 31 March 2019 was 75.1% (31 March 2018: 73.9%). The occupancy growth in the year was 11,000 sq ft. The net rent achieved at 31 March 2019 by the Armadillo stores is £17.50 per sq ft, an increase of 3.1% from the same time last year. Revenue increased by 18% to £15.1 million for the year to 31 March 2019 (2018: £12.8 million); the like-for-like increase in revenue was 6%.

Included within administrative expenses in Armadillo 1 is a £1 million accrual for a performance fee paid to Big Yellow in April 2019. The fee calculation has been based on the 31 March 2019 external property valuation for the Armadillo 1 portfolio.

The Armadillo Partnerships made a combined operating profit of £6.1 million in the year, of which Big Yellow's share is £1.2 million. After net interest costs, the revaluation of investment properties (valued by Jones Lang LaSalle), deferred tax on the revaluation surplus and movement in interest rate derivatives, the profit for the year was £11.6 million, of which the Group's share was £2.3 million.

Big Yellow has a five year management contract in place in each Partnership. For the year to 31 March 2019 the Group earned management fees of £2.1 million, including the performance fee referred to above. The Group's share of the declared dividend for the year is £0.6 million, representing a 13% yield on our equity invested.