

## Financial Review

### Revenue

Total revenue for the year was £129.3 million, an increase of £3.9 million (3.1%) from £125.4 million in the prior year. Like-for-like revenue for the year was £128.2 million, an increase of 3.8% from the prior year (2019: £123.5 million). Like-for-like revenue excludes Manchester, which opened in May 2019 and Battersea which was closed for redevelopment in March 2019.

Other sales (included within the above), comprising the selling of insurance, packing materials and storage related charges, represented 13.9% of total store revenue for the year (2019: 14.1%) and generated revenue of £17.4 million for the year compared to £17.1 million in 2019.

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 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.

### 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.

Given the relative resilience of our trading to date, we have taken the decision not to furlough any employees to date.

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

Category	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000	% change	% of store operating costs in 2020
Cost of sales (insurance and packing materials)	2,791	2,866	(3%)	8%
Staff costs	9,593	9,240	4%	26%
General & Admin	1,241	1,262	(2%)	3%
Utilities	1,100	1,373	(20%)	3%
Property rates	11,599	11,311	3%	32%
Marketing	5,474	5,294	3%	15%
Repairs & Maintenance	2,777	2,741	1%	8%
Insurance	938	934	0%	3%
Computer costs	638	587	9%	2%
Irrecoverable VAT	14	20	(30%)	0%
<b>Total per portfolio summary</b>	<b>36,165</b>	<b>35,628</b>	<b>2%</b>	

Store operating costs have increased by £0.5 million (2%) compared to the same period last year. Our new stores at Wapping and Manchester carry incremental costs of £0.6 million. Our marketing expenditure has increased by £0.2 million (3%) and includes significant variable cost associated with PPC demand. Our Battersea store has been closed for redevelopment saving £0.4 million of operating costs in this period.

The expenditure on utilities has reduced by £0.3 million following a significant backdated recharge of electricity costs to a third-party telecoms mast provider. The other increases in store operating costs of £0.4 million are mainly inflationary.

## 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 2020 £000	Year ended 31 March 2019 £000
Direct store operating costs per portfolio summary (excluding rent)	36,165	35,628
Rent included in cost of sales (total rent payable is included in portfolio summary)	1,276	1,075
Depreciation charged to cost of sales	348	393
Head office and other operational management costs charged to cost of sales	1,084	1,049
<b>Cost of sales per statement of comprehensive income</b>	<b>38,873</b>	<b>38,145</b>

### Store EBITDA

Store EBITDA for the year was £87.2 million, an increase of £3.1 million (3.7%) from £84.1 million for the year ended 31 March 2019 (see Portfolio Summary). The overall EBITDA margin for all Big Yellow stores increased to 69.6% (2019: 69.1%).

### Administrative expenses

Administrative expenses in the statement of comprehensive income of £10.5 million were down £0.1 million compared to the prior year. The reduction is due to a fall in the IFRS 2 share-based payments charge, and a lower vesting percentage for the Directors' deferred bonus plan in the year.

The non-cash share-based payments charge represents £2.3 million of the overall £10.5 million expense.

### Interest expense on bank borrowings

The gross bank interest expense for the year was £10.6 million, an increase of £0.7 million from the prior year. The average cost of borrowing during the year was 2.6% compared to 2.9% in the prior year. Average debt levels were higher than in the prior year.

Capitalised interest increased by £0.8 million from the prior year. The interest capitalised in the year is principally on our developments at Camberwell, Battersea, Bracknell and Uxbridge.

Total finance costs in the statement of comprehensive income decreased to £10.8 million from £11.2 million in the prior year.

### Profit before tax

The Group made a profit before tax in the year of £93.4 million, compared to a profit of £126.9 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 £71.0 million, up 5% from £67.5 million in 2019.

	2020 £m	2019 £m
<b>Profit before tax analysis</b>		
Profit before tax	93,447	126,855
Gain on revaluation of investment properties	(23,193)	(58,898)
Movement in fair value on interest rate derivatives	908	1,123
Gain on disposal of investment property	(57)	–
Share of associate fair value gains and losses	(107)	(1,615)
<b>Adjusted profit before tax</b>	<b>70,998</b>	<b>67,465</b>

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 2019	67.5
Increase in gross profit	3.2
Increase in net interest payable	(0.6)
Reduction in administrative expenses	0.1
Increase in capitalised interest	0.8
<b>Adjusted profit before tax – year ended 31 March 2020</b>	<b>71.0</b>

Basic earnings per share for the year was 55.8p (2019: 78.3p) and fully diluted earnings per share was 55.6p (2019: 78.0p). Diluted EPRA earnings per share based on adjusted profit after tax was up 2% to 42.1p (2019: 41.4p) (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, 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 £0.9 million. This compares to a charge in the prior year of £0.4 million. The current year tax charge reflects an increase in profits in our residual business, in part due to lower deductions allowed in the current year for tax purposes from the exercise of share options.

## Dividends

The Board is recommending the payment of a final dividend of 16.7 pence per share in addition to the interim dividend of 17.1 pence, giving a total dividend for the year of 33.8 pence, an increase of 1.8% 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 30.6 pence per share is payable (31 March 2019: 29.2 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 2020 accounts for 91% of the total dividend. The table below summarises the declared dividend for the year:

Dividend (pence per share)	31 March 2020	31 March 2019
Interim dividend – PID	<b>17.1p</b>	16.7p
– discretionary	<b>nil p</b>	nil p
– total	<b>17.1p</b>	16.7p
Final dividend – PID	<b>13.5p</b>	12.5p
– discretionary	<b>3.2p</b>	4.0p
– total	<b>16.7p</b>	16.5p
Total dividend – PID	<b>30.6p</b>	29.2p
– discretionary	<b>3.2p</b>	4.0p
– total	<b>33.8p</b>	33.2p

Subject to approval by shareholders at the Annual General Meeting to be held on 5 August 2020, the final dividend will be paid on 10 August 2020. The ex-div date is 18 June 2020 and the record date is 19 June 2020.

## 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 £73.6 million, an increase of 2% from £72.2 million in the prior year.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Cash generated from operations	<b>85,074</b>	82,912
Net finance costs	<b>(10,178)</b>	(9,629)
Interest on obligations under lease liabilities	<b>(820)</b>	(915)
Tax	<b>(461)</b>	(195)
<b>Cash flow from operating activities</b>	<b>73,615</b>	72,173
Capital expenditure	<b>(63,748)</b>	(83,038)
Proceeds on disposal of investment property	<b>14,105</b>	–
Receipt from Capital Goods Scheme	<b>1,226</b>	1,876
Dividends received from associates	<b>649</b>	550
<b>Cash flow after investing activities</b>	<b>25,847</b>	(8,439)
Ordinary dividends	<b>(55,706)</b>	(52,058)
Issue of share capital	<b>853</b>	65,962
Obligations under lease liabilities payments	<b>(963)</b>	(1,075)
Loan arrangement fees paid	<b>(918)</b>	(367)
Drawing of new Aviva loan	<b>35,000</b>	–
Increase in borrowings	<b>29,403</b>	7,026
<b>Net cash inflow</b>	<b>33,516</b>	11,049
Opening cash and cash equivalents	<b>17,902</b>	6,853
Closing cash and cash equivalents	<b>51,418</b>	17,902
Closing debt	<b>(402,028)</b>	(337,625)
Closing net debt	<b>(350,610)</b>	(319,723)

In the year capital expenditure outflows were £63.7 million, down from £83.0 million in the prior year. The capital expenditure during the year principally relates to the purchase of land for new stores (£38.9 million), and construction capital expenditure (£24.8 million).

The cash flow after investing activities was a net inflow of £25.8 million in the year, compared to an outflow of £8.4 million in 2019, due to the lower capital expenditure in the year, and the proceeds from the disposal of investment property at New Malden and Slough.

## Placing

On 20 April 2020, the Group announced that it was issuing 8.3 million shares, raising £79.9 million (net of expenses). The Group intends to continue adding to its pipeline over the next few years, which will be funded principally by the proceeds from this placing. This will allow a continued focus on expansion primarily in London and its commuter towns whilst maintaining a conservative capital structure.

## Financial Review (continued)

### Balance sheet

#### Property

The Group's open stores and stores under development owned at 31 March 2020, which are classified as investment properties, have been valued individually by CBRE. This is the first external valuation that CBRE have carried out for the Group, having been appointed to replace Cushman & Wakefield LLP during the year. The external valuation has resulted in an investment property asset value of £1,521.4 million, comprising £1,352.7 million (89%) for the freehold (including three long leaseholds) open stores, £32.4 million (2%) for the short leasehold open stores and £136.3 million (9%) 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 £23.4 million arising on the open Big Yellow stores (see note 15 for the detailed valuation methodology). The average exit capitalisation rate used in the valuations was 6.1% in the current year, in line with the prior year, with the discount rate adopted remaining at 9.3%. The increase in value compared to the prior year is principally 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 83.8% across the whole portfolio.

	Mature Leasehold	Mature Freehold	Established Freehold	Developed Freehold	Total
Number of stores	6	63	3	3	75 <sup>(1)</sup>
MLA capacity (sq ft)	339,000	4,008,000	195,000	146,000	4,688,000
Valuation at 31 March 2020 (£m)	£32.4m	£1,223.0m	£51.9m	£36.3m	£1,343.6m
Value per sq ft	£96	£305	£266	£249	£286
Occupancy at 31 March 2020	79.9%	82.3%	76.9%	43.2%	80.7%
Stabilised occupancy assumed	84.3%	84.3%	85.5%	86.0%	84.4%
Net initial yield pre-admin expenses	12.5%	6.1%	5.8%	2.8%	6.1%
Stabilised yield assuming no rental growth	14.1%	6.5%	6.8%	9.2%	6.8%

(1) Excluding Battersea which was closed in March 2019 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 6.1% (2019: 6.4%) rising to a stabilised yield of 6.8% (2019: 6.7%). The stores are assumed to grow to stabilised occupancy in 21 months on average. Note 15 contains more detail on the assumptions underpinning the valuations.

#### Material valuation uncertainty due to Novel Coronavirus (Covid-19)

CBRE's report comments that the outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Observable market activity – that provides the empirical data for CBRE to have an adequate level of certainty in the valuation – is being impacted in the case of the properties valued. For these properties, as at the valuation date, CBRE consider that they can attach less weight to previous market evidence for comparison purposes, to inform their opinion of value. Indeed, the current response to Covid-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement.

CBRE's valuation is therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the Red Book. Consequently, less certainty – and a higher degree of caution – should be attached to CBRE's valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, CBRE recommend that the Group keep the valuation of the whole portfolio under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances

– less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation.

CBRE'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. CBRE 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 £45.2 million in the year. Capital expenditure accounts for £56.9 million of this increase, notably on the site purchases discussed above, and construction expenditure, principally on Camberwell and Bracknell (Battersea is included with investment property). This has been partly offset by Manchester transferring to open stores. The valuation movement on the investment property under construction was a small deficit of £0.2 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 2020 of £1,612.3 million (£90.9 million higher than the value recorded in the financial statements). With the share of uplift on the revaluation of the Armadillo stores (£0.9 million), this translates to 54.8 pence per share.

This revised valuation translates into an adjusted net asset value per share of 751.9 pence (2019: 724.4 pence) after the dilutive effect of outstanding share options.

## Receivables

As of 8 June, we have collected 96.7% of our April and May revenue, which compares to 97.3% over the same period last year.

At 31 March 2020 we have a receivable of £1.4 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 £14.4 million to date under the Scheme, of which £1.2 million was received in the year.

## Net asset value

The adjusted net asset value is 751.9 pence per share (see note 13), up 4% from 724.4 pence per share at 31 March 2019. The table below reconciles the movement from 31 March 2019:

Movement in adjusted net asset value	£m	Adjusted NAV pence per share
31 March 2019	1,209.8	724.4
Adjusted profit after tax	70.1	41.9
Equity dividends paid	(55.7)	(33.3)
Revaluation movements (including share of associate)	23.5	14.0
Movement in purchaser's cost adjustment	8.0	4.8
Other movements (e.g. share schemes)	2.9	0.1
<b>31 March 2020</b>	<b>1,258.6</b>	<b>751.9</b>

## 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.

During the year the Group extended the term of its bank loan by a further year. The Group also increased the quantum of the bank loan by £30 million during the period, with Bank of Ireland joining the facility taking this additional debt. The Group also has an option to increase the amount of revolving loan by a further £30 million during the course of the loan's term.

In March 2020, the Group agreed a new 7 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 tranche of the loan reduces to 1.91% following the installation of 50 kWh capacity solar panels at three of the stores. The total debt facilities from Aviva are now £117.5 million of which £82.5 million will continue to amortise down to £60 million over the remaining seven years of the loan.

The table below summarises the Group's debt facilities at 31 March 2020. The average cost of debt is 2.5% (March 2019: 2.9%).

Debt	Expiry	Facility	Drawn	Average interest cost
Aviva Loan	April 2027	£117.5 million	£117.5 million	4.0%
M&G loan	June 2023	£70 million	£70 million	3.0%
Bank loan	October 2024	£240 million	£214.5 million	1.6%
<b>Total</b>	<b>Average term 4.9 years</b>	<b>£427.5 million</b>	<b>£402.0 million</b>	<b>2.5%</b>

Subsequent to the placing in April 2020, variable rate revolving bank debt was repaid, the effect of which has been to increase the Group's average cost of debt to approximately 3.1%. The Group's net debt at 8 June 2020 was £265 million with available liquidity of £162 million.

The Group was comfortably in compliance with its banking covenants at 31 March 2020. Further details of the Group's covenants are provided in note 19 of the accounts. For the year we had Group interest cover of 8.3 times (2019: 8.6 times) based on pre-interest operating cash flow against interest paid. Following the placing, raising £79.9 million (net of expenses) and subsequent repayment of debt, this interest cover has increased. The net debt to gross property assets ratio is 23% (2019: 22%) and the net debt to adjusted net assets ratio (see net asset value section above) is 28% (2019: 26%).

At 31 March 2020, the fair value on the Group's interest rate derivatives was a liability 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.

## Financial Review *(continued)*

### Share capital

The share capital of the Company totalled £16.7 million at 31 March 2020 (2019: £16.7 million), consisting of 167,138,527 ordinary shares of 10p each (2019: 166,665,158 shares). 0.5 million shares were issued for the exercise of options during the year at an average exercise price of 988p (2019: 0.9 million shares at an average price of 910p).

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.

	2020 No.	2019 No.
Opening shares	<b>166,665,158</b>	158,570,574
Shares issued in placing	–	7,204,301
Shares issued for the exercise of options	<b>473,369</b>	890,283
Closing shares in issue	<b>167,138,527</b>	166,665,158
Shares held in EBT	<b>(1,122,907)</b>	(1,122,907)
Closing shares for NAV purposes	<b>166,015,620</b>	165,542,251

80.3 million shares were traded in the market during the year ended 31 March 2020 (2019: 79.2 million). The average mid-market price of shares traded during the year was 1,071p with a high of 1,245p and a low of 630p.

### 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.

During the year, Armadillo acquired three existing stores in Daventry, Grimsby and Liverpool, with a combined capacity of 97,000 sq ft

The occupancy of the Armadillo stores at 31 March 2020 was 799,000 sq ft on a MLA of 1,063,000, representing 75.2% (31 March 2019: 75.1%).

The net rent achieved at 31 March 2020 by the Armadillo stores is £17.84 per sq ft, an increase of 2% from the same time last year. Revenue increased by 11% to £16.7 million for the year to 31 March 2020 (2019: £15.1 million); the like-for-like increase in revenue was 5%.

Included within administrative expenses in Armadillo 2 is a £1 million accrual for a performance fee payable to Big Yellow. The fee calculation has been based on a 31 January 2020 external property valuation for the Armadillo 2 portfolio.

The Armadillo Partnerships made a combined operating profit of £6.7 million in the year, of which Big Yellow's share is £1.3 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 £4.3 million, of which the Group's share was £0.9 million.

The loans within both Armadillo Partnerships were refinanced subsequent to the year end, and now expire in April 2023.

Big Yellow has a management contract in place in each Partnership. For the year to 31 March 2020 the Group earned management fees of £2.2 million, including the performance fee referred to above. The Group's share of the dividend for the year is £0.6 million, representing a 14% yield on our equity invested.