

Principal Risks and Uncertainties

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Group maintains a low appetite to risk, in line with our strategic objectives of providing a low volatility, high distribution business.

The section below details the principal risks and uncertainties that are considered to have the most material impact on the Group's strategy and objectives. These key risks are monitored on an ongoing basis by the Executive Directors and considered fully by the Board in its annual risk review.

Risk and impact	Mitigation	Change during the year and outlook
<p>Self storage market risk</p> <p>There is a risk to the business that the self storage market does not grow in line with our projections, and that economic growth in the UK is below expectations, which could result in falling demand and a loss of income.</p>	<p>Self storage is a relatively immature market in the UK compared to other self storage markets such as the United States and Australia, and we believe has further opportunity for growth. Awareness of self storage and how it can be used by domestic and business customers is relatively low throughout the UK, although higher in London. The rate of growth of branded self storage on main roads in good locations has historically been limited by the difficulty of acquiring sites at affordable prices and obtaining planning consent. New store openings in London and other large metropolitan cities within the sector have slowed significantly over the past few years.</p> <p>Our performance during the Global Financial Crisis ("GFC") was relatively resilient, although not immune. We believe that the resilience of our performance is due to a combination of factors including:</p> <ul style="list-style-type: none"> – a prime portfolio of freehold properties; – a focus on London and the South East and other large metropolitan cities, which proved more resilient during the GFC and where the drivers in the self storage market are at their strongest and the barriers to competition are at their highest; – the strength of operational and sales management; – continuing innovation to deliver the highest levels of customer service; – the UK's leading self storage brand, with high public awareness and online strength; and – strong cash flow generation and high operating margins, from a secure capital structure. <p>We have a large current storage customer base of approximately 56,500 spread across the portfolio of stores and hundreds of thousands more who have used Big Yellow over the years. In any month, customers move in and out at the margin resulting in changes in occupancy. This is a seasonal business and typically we see growth over the spring and the summer months, with the seasonally weaker period being the winter months.</p>	<p>The Covid-19 pandemic has caused a significant contraction in the forecast economic growth for the UK for 2020, with some commentators estimating Q2 GDP may fall by up to 30%.</p> <p>This is clearly a recent and still emerging uncertainty and risk, and the range of outcomes for the global economy are still unknown.</p> <p>The market risk has clearly increased over the past few months given the macroeconomic outlook. The Group's trade since the pandemic started, whilst impacted, has so far proved resilient.</p> <p>In addition to the pandemic, there is also increased macroeconomic uncertainty associated with the UK's exit from the EU and whether a trade deal will be agreed. The uncertainty in the run up to Brexit impacted consumer behaviour, which caused lower occupancy growth for the Group in the year ended March 2020.</p>
<p>Property risk</p> <p>There is a risk that we will be unable to acquire new development sites which meet management's criteria. This would impact on our ability to grow the overall store platform. The Group is also subject to the risk of failing to obtain planning consents on its development sites, and the risk of a rising cost of development.</p>	<p>Our management has significant experience in the property industry generated over many years and in particular acquiring property on main roads in high profile locations and obtaining planning consents. We do take planning risk where necessary, although the availability of land, and competition for it makes acquiring new sites challenging.</p> <p>Our in-house development team and our professional advisers have significant experience in obtaining planning consents for self storage centres.</p> <p>We manage the construction of our properties very tightly. The building of each site is handled through a design and build contract, with the fit-out project managed in-house using an established professional team of external advisers and sub-contractors who have worked with us for many years to our Big Yellow specification. We carried out an external benchmarking of our construction costs and tendering programme three years ago, which had satisfactory results.</p>	<p>The Group has acquired seven sites over the past couple of years, taking its total pipeline to 13 sites which, when opened, would expand the Group's current MLA by 19%.</p> <p>The planning process remains difficult and to achieve a planning consent can take anything from eighteen months to three years. Local planning policy is favouring residential development over other uses, and we don't expect this to change given the shortage of housing in the UK.</p> <p>The current pandemic has meant in-person planning committee meetings have been suspended, and we are awaiting to see how the planning authorities respond to this. This may cause delay in the Group receiving planning consents.</p> <p>We currently have planning consent on six of the 13 development sites.</p>

Risk and impact	Mitigation	Change during the year and outlook
<p>Valuation risk</p> <p>The valuation of the Group's investment properties may fall due to external pressures or the impact of performance.</p> <p>Lack of transactional evidence in the self storage sector leads to more subjective valuations.</p>	<p>The valuations are carried out by independent, qualified external valuers who have significant experience in the UK self storage industry.</p> <p>The portfolio is diverse with approximately 56,500 customers currently using our stores for a wide variety of reasons.</p> <p>There is significant headroom on our loan to value banking covenants.</p>	<p>The revaluation surplus on the Group's open store investment properties was £23.4 million in the year (an uplift of 2%), principally due to an improvement in underlying cash flows used in the valuations.</p> <p>There continues to be transactional evidence in the sector, with a number of portfolio transactions taking place in the current year. There have been no material transactions since the start of the pandemic, and the valuers have drawn attention in their report to material valuation uncertainty arising from the current situation.</p>
<p>Treasury risk</p> <p>The Group may face increased costs from adverse interest rate movements.</p>	<p>Our financing policy is to fund our current needs through a mix of debt, equity and cash flow to allow us to selectively build out the remaining development pipeline and achieve our strategic growth objectives, which we believe improve returns for shareholders. We have made it clear that we believe optimal leverage for a business such as ours should be LTV in the range 20% to 30% and this informs our management of treasury risk.</p> <p>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.</p> <p>We have a fixed rate loan in place from Aviva Commercial Finance Limited, with seven years remaining. This loan was increased by £35 million in March 2020. The Group has a £70 million loan from M&G Investments, which is 50% fixed and 50% floating, repayable in 2023. For our bank debt, we borrow at floating rates of interest and use swaps to hedge our interest rate exposure. Our policy is to have at least 40% of our total borrowings fixed, with the balance floating. At 31 March 2020 45% of the Group's total borrowings were fixed or subject to interest rate derivatives. The Group reviews its current and forecast projections of cash flow, borrowing and interest cover as part of its monthly management accounts. In addition, an analysis of the impact of significant transactions is carried out regularly, as well as a sensitivity analysis assuming movements in interest rates and store occupancy on gearing and interest cover. This sensitivity testing underpins the viability statement below.</p> <p>The Group regularly monitors its counterparty risk. The Group monitors compliance with its banking covenants closely. During the year it complied with all its covenants and is forecast to do so for the foreseeable future.</p>	<p>Interest rates were reduced to 10bps in March 2020, and the long-term forecast is for rates to remain at low levels for the foreseeable future. A significant proportion of the Group's debt is floating, and hence the Group will benefit from this reduction in base rates.</p> <p>Debt providers currently remain supportive to companies with a strong capital structure, as evidenced by the Group completing on the loan from Aviva after the pandemic started. That said, the current environment is likely to adversely affect liquidity and pricing.</p> <p>The Group's interest cover ratio for the year ended 31 March 2020 was 8.3 times, comfortably ahead of our internal target of 5 times and ahead of our banking covenants, as disclosed in note 19.</p>
<p>Tax and regulatory risk</p> <p>The Group is exposed to changes in the tax regime affecting the cost of corporation tax, property rates, VAT, Stamp Duty and Stamp Duty Land Tax ("SDLT"), for example the imposition of VAT on self storage from 1 October 2012.</p> <p>The UK's future exit from the EU creates uncertainty over the future UK tax and regulatory environment.</p> <p>The Group is exposed to potential tax penalties or loss of its REIT status by failing to comply with the REIT legislation.</p>	<p>We regularly monitor proposed and actual changes in legislation with the help of our professional advisers, through direct liaison with HMRC, and through trade bodies to understand and, if possible, mitigate or benefit from their impact.</p> <p>HMRC have designated the Group as having a low-risk tax status, and we hold regular meetings with them. We carry out detailed planning ahead of any future regulatory and tax changes using our expert advisers.</p> <p>The Group has internal monitoring procedures in place to ensure that the appropriate REIT rules and legislation are complied with. To date all REIT regulations have been complied with, including projected tests.</p>	<p>In addition to the regulatory and tax uncertainty linked to the UK's exit from the EU, the Group experienced an increase in cost in 2018 following the Government's review of business rates.</p> <p>There is a risk that tax rates will rise in the short to medium-term to fund the increased government deficits that have arisen from the policy response to the pandemic.</p>

Principal Risks and Uncertainties (continued)

Risk and impact	Mitigation	Change during the year and outlook
<p>Human resources risk</p> <p>Our people are key to our success and as such we are exposed to a risk of high staff turnover, and a risk of the loss of key personnel.</p>	<p>We have developed a professional, lively and enjoyable working environment and believe our success stems from attracting and retaining the right people. We encourage all our staff to build on their skills through appropriate training and regular performance reviews. We believe in an accessible and open culture and everyone at all levels is encouraged to review and challenge accepted norms, to contribute to the performance of the Group.</p>	<p>We were ranked in the Sunday Times 100 Best Companies to Work For survey in February 2019, showing strong levels of engagement from our employees.</p> <p>The Group carried out an engagement survey of its employees during the year, which showed very pleasing results of the level of engagement of our teams.</p>
<p>Brand and reputation risk</p> <p>The Group is exposed to the risk of a single serious incident materially affecting our customers, people, financial performance and hence our brand and reputation.</p>	<p>We have always aimed to run this business in a professional way, which has involved strict adherence with all regulations that affect our business, such as health and safety legislation, building regulations in relation to the construction of our buildings, anti-slavery, anti-bribery and data regulations.</p> <p>We also invest in cyber security (discussed below), and make an ongoing investment in staff training, facilities management and the maintenance of our stores.</p> <p>To ensure consistency of service and to understand the needs of our customers, we send surveys to every customer who moves in and moves out of the business. The results of the surveys and mystery shops are reviewed to continuously improve and deliver consistent performance throughout the business.</p> <p>We maintain regular communication with our key stakeholders, customers, employees, shareholders and debt providers.</p>	<p>During 2018, we developed a crisis response plan with external consultants to ensure the Group is well placed to deal with a major incident more effectively.</p> <p>During the year, we carried out an exercise to stress-test the crisis response plan with a scenario based on a disaster at one of the Group's stores.</p> <p>We have explained in the Operational and Marketing Review how we have reacted operationally to the Covid-19 pandemic and ensured our staff and customers remain safe.</p>
<p>Security risk</p> <p>The Group is exposed to the risk of the damage or loss of a store due to vandalism, fire, or natural incidents such as flooding. This may also cause reputational damage.</p>	<p>The safety and security of our customers, their belongings, stores and our staff remains a key priority. To achieve this we invest in state-of-the-art access control systems, individual room alarms, digital CCTV systems, intruder and fire alarm systems and the remote monitoring of all our stores outside of our trading hours. We are the only major operator in the UK self storage industry that has every room in every store individually alarmed.</p> <p>We have implemented customer security procedures in line with advice from the Police and continue to work with the regulatory authorities on issues of security, reviewing our operational procedures regularly. The importance of security and the need for vigilance is communicated to all store staff and reinforced through training and routine operational procedures.</p>	<p>We have continued to run courses for all our staff to enhance the awareness and effectiveness of our procedures in relation to security.</p> <p>We regularly review and implement improvements to our security processes and procedures.</p>
<p>Cyber risk</p> <p>High profile cyber-attacks and data breaches are a regular staple in today's news. The results of any breach may result in reputational damage, fines, or customer compensation, causing a loss of market share and income.</p>	<p>The Group receives specialist advice and consultancy in respect of cyber security and we have dedicated in-house monitoring and regular review of our security systems, we also limit the retention of customer data to the minimum requirement.</p> <p>Policies and procedures are under regular review and benchmarked against industry best practice by our consultants. These policies also include defend, detect and response policies.</p>	<p>We don't consider the risk to have increased any faster for the Group than anyone else; however, we consider that the threats in the entire digital landscape do continue to increase and evolve. As such we have continued to invest in cyber security upgrading or replacing components as required.</p>

Internal audit

The Group does not have a formal internal audit function because the Board has concluded that the internal controls systems are sufficient for the Group at this time. The Group employs a Head of Store Compliance responsible for reviewing store operational and financial controls. He reports to the Chief Financial Officer, and also meets with the Audit Committee at least once a year. This role is supported by two other team members, enabling additional work and support to be carried out across the Group's store portfolio. The Store Compliance team will visit each operational store twice per year to carry out a detailed store audit. These audits are unannounced and the Store Compliance team carry out detailed tests on financial management, administrative standards, and operational standards within the stores. Part of the store staff's bonus is based on the scores they achieve in these audits. The results of each audit are reviewed by the Chief Financial Officer, the Financial Controller and the Head of Store Operations.

Going concern

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the balance sheet, cash flow statement and accompanying notes in the financial statements. Further information concerning the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk can be found in this Report and in the notes to the financial statements.

The Group issued 8.3 million shares in April 2020 by way of a placing, raising £79.9 million (net of expenses). At 8 June 2020 the Group had available liquidity of £162 million, from a combination of cash and undrawn bank debt facilities. The Group is cash generative and for the year ended 31 March 2020, had operational cash flow of £73.6 million, with capital commitments at the balance sheet date of £10 million.

The Directors have prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements, taking into account the Group's operating plan and budget for the year ending 31 March 2021 and projections contained in the longer-term business plan which cover the period to March 2024. After reviewing these projected cash flows together with the Group's and Company's cash balances, borrowing facilities and covenant requirements, and potential property valuation movements over that period, the Directors believe that, taking account of severe but plausible downsides, the Group and Company will have sufficient funds to meet their liabilities as they fall due for that period.

In making their assessment, the Directors have carefully considered the outlook for the Group's trading performance and cash flows as a result of the economic shock brought on by the Covid-19 pandemic, taking into account the trading performance of the Group from the onset of the pandemic to the date of these financial statements. The Directors have also taken into account the performance of the business during the Global Financial Crisis. The Directors modelled a number of different scenarios, including material reductions in the Group's occupancy rates and property valuations, and assessed the impact of these scenarios against the Group's liquidity and the Group's banking covenants. The scenarios considered did not lead to breaching any of the banking covenants, and the Group retained sufficient liquidity to meet its financial obligations as they fall due.

Consequently, the Directors continue to adopt the going concern basis in preparing the financial statements.

Viability statement

The Directors have assessed the Group's viability over a four-year period to March 2024. This period is selected based on the Group's long-term strategic plan to give greater certainty over the forecasting assumptions used. As in the assessment of going concern, the Directors have modelled a number of different scenarios on the Group's future prospects.

In making their assessment, the Directors took account of the Group's current financial position, including committed capital expenditure. The Directors carried out a robust assessment of the principal risks and uncertainties facing the business, their potential financial impact on the Group's cash flows, REIT compliance and financial covenants and the likely effectiveness of the mitigating options detailed. The Directors have assumed that funding for the business in the form of equity, bank and insurance company debt will be available in all reasonably plausible market conditions. Whilst the eventual impact of Covid-19 on the Group is uncertain, and may not be known for some time, the Group has a highly cash generative business, good liquidity and has proved relatively resilient in its trading since the onset of the pandemic.

Based on this assessment the Directors have a reasonable expectation that the Company and the Group will be able to continue operating and meeting all their liabilities as they fall due to March 2024.

John Trotman
Chief Financial Officer

8 June 2020