Delivering results

Like-for-like revenue for the year was £87.6 million, an increase of 10% from the prior year (2015: £79.9 million).

Financial results

Revenue

Total revenue for the year was £101.4 million, an increase of £17.1 million (20%) from £84.3 million in the prior year. Like-for-like revenue for the year was £87.6 million, an increase of 10% from the prior year (2015: £79.9 million). Like-for-like revenue excludes the 12 Partnership stores (acquired December 2014), Chester (acquired January 2015), Enfield (opened April 2015) and Cambridge (opened January 2016); the prior period figure also excludes management fees earned from Big Yellow Limited Partnership.

Other sales (included within the above), comprising the selling of packing materials, insurance and storage related charges, represented 17.2% of storage income for the year (2015: 16.8%) and generated revenue of £14.6 million for the year, up 24% from £11.8 million in 2015. On a like-for-like basis, the increase in other sales was 9%.

The other revenue earned by the Group is management fee income, largely from the Armadillo Partnerships, and tenant income on sites where we have not started development.

Operating costs

Cost of sales comprises principally of 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 on a proforma basis (with the Partnership stores in full in both years) compared to the prior year is shown in the table below (see Portfolio Summary):

Category	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000	% increase	% of store operating costs in 2016
Cost of sales (insurance and packing materials)	**2,149**	2,035	6%	7%
Staff costs	**8,001**	7,512	7%	27%
General & Admin	**1,183**	1,134	4%	4%
Utilities	**1,406**	1,431	(2%)	5%
Property Rates	**9,544**	9,144	4%	32%
Marketing	**3,865**	3,431	13%	13%
Repairs / Maintenance	**2,240**	2,088	7%	7%
Insurance	**992**	912	9%	3%
Computer Costs	**440**	442	0%	1%
Irrecoverable VAT	**266**	227	17%	1%
Total	**30,086**	28,356	6%	

Cost of sales in the income statement has increased by £5.2 million (19%) to £32.6 million (2015: £27.4 million). Of this increase £2.9 million arises as a result of including a full year of the operating costs of the Partnership stores acquired on 1 December 2014.

In the table above which shows the Partnership stores as if they had been owned for a full year, the operating costs have increased by £1.7 million. £0.8 million of this increase is due to new stores at Enfield, Cambridge and the full year impact of Chester. The remaining increase of £0.9 million (representing a 3% increase on the prior year on a like for like basis) is due to an increased investment in marketing, inflationary increases, coupled with the prior year figure being reduced by rates rebates at couple of stores.

Administrative expenses in the income statement have increased by £0.4 million compared to the prior year. This is due principally to an increase of £0.5 million in the share based payment charge offset by a reduction in legal and professional fees. In addition, it is important to note that of our total £8.9 million administrative expense for the year, £2.5 million relates to the non-cash share based payments charge.

Store EBITDA

Store EBITDA for the year included in the income statement was £67.8 million, an increase of £12.5 million (23%) from £55.3 million for the year ended 31 March 2015. The increase including the Partnership stores on a proforma basis in the prior year is 13% (2015: £59.9 million) (see Portfolio Summary).

The overall EBITDA margin for all Big Yellow stores during the year was 68.0%, compared to 66.4% last year.

Interest expense on bank borrowings

The gross bank interest expense for the year was £11.2 million, an increase of £1.1 million from the prior year. This reflects the higher debt levels following the acquisition of the Partnership stores in December 2014 and capital expenditure in the current year, partly offset by a reduction in the Group's average cost of debt. The average cost of borrowing during the year was 3.6% compared to 3.9% in the prior year.

Total interest payable has increased in the statement of comprehensive income from £10.7 million to £11.9 million principally due to the increase in the gross bank interest expense mentioned above. Capitalised interest decreased by £0.2 million from the prior year. The interest capitalised in the year is principally on our Cambridge development.

Profit before tax

The Group made a profit before tax in the year of £112.2 million, compared to a profit of £105.2 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 £49.0 million, up 24% from £39.4 million in 2015.

Profit before tax analysis	2016 £m	2015 £m
Profit before tax	**112.2**	105.2
Gain on revaluation of investment properties	**(58.0)**	(64.5)
Movement in fair value on interest rate derivatives	**–**	2.3
Gains on surplus land	**(4.8)**	(1.3)
Share of non-recurring gains in associates	**(0.4)**	(2.3)
Adjusted profit before tax	**49.0**	39.4

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 2015	**39.4**
Increase in gross profit	**11.8**
Increase in net interest payable	**(1.1)**
Increase in administrative expenses	**(0.4)**
Decrease in share of recurring profit of associates	**(0.5)**
Decrease in capitalised interest	**(0.2)**
Adjusted profit before tax – year ended 31 March 2016	**49.0**

Basic earnings per share for the year was 71.9p (2015: 72.5p) and fully diluted earnings per share was 71.6 p (2015: 71.9p). Diluted EPRA earnings per share based on adjusted profit after tax was up 15% to 31.1p (2015: 27.1p) (see note 12). The percentage increase is lower than that reported for adjusted profit before tax due to the impact of placing an additional 14.4 million shares on 19 November 2014 to part fund the acquisition of the Big Yellow Limited Partnership stores.

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 capital 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 to the Executive on compliance with these criteria is carried out. 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 £0.2 million. This compares to a tax credit in the prior year of £0.4 million. In the prior year the Group received a refund of £0.2 million in relation to the REIT conversion charge for two properties and there was a £0.3 million credit due to a favourable difference between the tax provision and actual tax liability.

The current year tax charge reflects an increase in profits in our residual business, in part 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 12.8 pence per share in addition to the interim dividend of 12.1 pence, giving a total dividend for the year of 24.9 pence, an increase of 15% from the prior year.

REIT regulatory requirements determine the level of Property Income Dividend ("PID") payable by the Group. On the basis of the full year distributable reserves for PID purposes, a PID of 18.1 pence per share is payable (31 March 2015: 16.1 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 table below summarises the declared dividend for the year:

Dividend (pence per share)		31 March 2016	31 March 2015
Interim dividend	– PID	**12.1p**	10.4p
	– discretionary	**nil p**	nil p
	– total	**12.1p**	10.4p
Final dividend	– PID	**6.0p**	5.7p
	– discretionary	**6.8p**	5.6p
	– total	**12.8p**	11.3p
Total dividend	– PID	**18.1p**	16.1p
	– discretionary	**6.8p**	5.6p
	– total	**24.9p**	21.7p

Subject to approval by shareholders at the Annual General Meeting to be held on 22 July 2016, the final dividend will be paid on 28 July 2016. The ex-div date is 16 June 2016 and the record date is 17 June 2016.

Cash flow growth

The Group is strongly cash generative and draws down from its longer term committed facilities as required to meet obligations.

A summary of the cash flow for the year is set out in the table below:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Cash generated from operations	**66,215**	51,875
Net finance costs (including tax)	**(10,748)**	(9,478)
Free cash flow	**55,467**	42,397
Capital expenditure	**(44,575)**	(42,786)
Finance lease payments	**(967)**	(918)
Acquisition of Big Yellow Limited Partnership	**–**	(37,406)
Acquisition of Big Storage Limited	**–**	(15,114)
Asset sales (including Big Storage Limited)	**7,835**	10,429
Receipt from Capital Goods Scheme	**184**	3,557
Investment in associates (net of dividends received)	**270**	(3,620)
Cash flow after investing activities	**18,214**	(43,461)
Ordinary dividends	**(36,443)**	(27,890)
Issue of share capital	**378**	77,094
Non-recurring finance costs	**–**	(4,057)
Net movement on Big Storage loans	**–**	4,241
Repayment of Partnership loan	**–**	(57,000)
Increase in borrowings	**26,864**	55,966
Net cash inflow	**9,013**	4,893
Opening cash and cash equivalents	**8,194**	3,301
Closing cash and cash equivalents	**17,207**	8,194
Closing debt	**(312,198)**	(285,334)
Closing net debt	**(294,991)**	(277,140)

Free cash flow pre-capital expenditure increased by 31% to £55.5 million for the year (2015: £42.4 million). In the year capital expenditure outflows were £44.6 million, down from £95.3 million in the prior year (including acquisitions).

The capital expenditure during the year principally relates to the acquisition and construction of our new store in Cambridge and the acquisition of development sites at Kings Cross and Camberwell. We have also continued to invest in fitting out further Phase 2 space at our existing stores.

During the prior year we acquired an existing store in Oxford, the freehold of Chester, the freehold of our store in Battersea and paid the deposit on acquiring a site in Cambridge. We also constructed our Enfield store and invested in Phase 2 fit outs. Additionally, we acquired the two thirds share of Big Yellow Limited Partnership and acquired, and subsequently disposed of the share capital of Big Storage Limited with four stores excluding the leasehold interest in Chester.

The cash flow after investing activities was a net inflow of £18.2 million in the year, compared to an outflow of £43.5 million in 2015; the improvement being due to one off acquisitions in the prior year as explained above. The non-recurring finance costs in the prior year relate to £1.4 million of payments made to cancel interest rate derivatives and £2.6 million relating to arrangement fees paid for the M&G and senior debt loans.

Balance sheet

Property

The Group's 71 stores and 5 stores under development at 31 March 2016, 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 £1,126.2 million, comprising £1,050.3 million (93%) for the 65 freehold (including two long leaseholds) open stores, £41.9 million (4%) for the six short leasehold open stores and £34.0 million (3%) for the five freehold investment properties under construction.

Analysis of property portfolio	Value at 31 March 2016	Revaluation movement in year
Investment property	£1,092.2m	£62.0m
Investment property under construction	£34.0m	(£4.0m)
Total	**£1,126.2m**	**£58.0m**

Investment property

The valuations in the current year have grown from the prior year, with a revaluation surplus of £62.0 million on the open Big Yellow stores. Of this increase £12.4 million is due to an improvement in the cap rate used in the valuations. £64.0 million of the increase in value is due to the growth in cash flow from the assets and the operating assumptions adopted in the valuations. These factors are in part offset by an increase in the purchasers' costs assumed in the valuation from 5.8% to a range of 6.1% to 6.8% reflecting the new progressive SDLT rates brought into force in March 2016, which reduced the valuation by £14.4 million.

Financial Review (continued)

The valuation is based on an average occupancy over the 10 year cash flow period of 80.9% across the whole portfolio.

	Mature Leasehold	Mature Freehold	Established Freehold	Developing Freehold	Total
Number of stores	6	50	11	4	71
MLA capacity (sq ft)	398,000	3,097,000	704,000	265,000	4,464,000
Valuation at 31 March 2016	£41.9m	£835.6m	£150.4m	£64.3m	£1,092.2m
Value per sq ft	£105	£270	£214	£243	£245
Occupancy at 31 March 2016	81.1%	76.4%	76.4%	51.3%	75.3%
Stabilised occupancy assumed	83.1%	80.9%	84.1%	85.0%	81.9%
Net initial yield pre-admin expenses	11.9%	6.4%	6.5%	3.9%	6.5%
Stabilised yield assuming no rental growth	12.6%	6.9%	7.5%	7.5%	7.2%

The initial yield pre-administration expenses assuming no rental growth is 6.5% (2015: 6.4%) rising to a stabilised yield of 7.2% (2015: 7.4%). The stores are assumed to grow to stabilised occupancy in 20 months on average. Note 14 contains more detail on the assumptions underpinning the valuations.

There is very little transaction activity in the prime self storage market, although there has been some activity for secondary assets. As referenced in note 14, C&W's valuation report further confirms that the properties have been valued individually but that if the portfolio was 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 has increased significantly since the prior year, with the acquisitions of development sites at Kings Cross and Camberwell. This has been offset by the transfers of Enfield and Cambridge to investment property on the opening of the stores. There is a revaluation deficit of £4.0 million in relation to the investment property under construction in the year. This in part relates to Manchester, where the projected construction costs have increased; additionally, the valuation of Kings Cross does not reflect the larger scheme being planned on site, as the proposed land exchange to facilitate this has not yet been contracted.

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 14 for further details) to be used in the calculation of our adjusted diluted net asset value. This Red Book valuation on the basis of 2.75% purchaser's costs, results in a higher property valuation at 31 March 2016 of £1,190.4 million (£64.2 million higher than the value recorded in the financial statements). With the share of uplift on the revaluation of the Armadillo stores, this translates to 40.8 pence per share.

The revised valuation translates into an adjusted net asset value per share of 569.1 pence (2015: 510.4 pence) after the dilutive effect of outstanding share options.

Surplus land

During the year, the Group sold its surplus site in Central Manchester for £8 million. This represented a profit over book value, after selling costs, of £4.8 million, which included the release of a provision previously made against the land of £2.3 million. In the prior year, the Group sold its surplus site at Guildford Central for £2.8 million, representing a profit over book value of £1.3 million.

At 31 March 2016 the Group owned £0.3 million of land surplus to our requirements at one site. The site is held at the lower of cost and net realisable value and has not been externally valued; it is contracted to be sold for £0.3 million in the year ended 31 March 2017.

Receivables

At 31 March 2016 we have a receivable of £9.4 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 debtor has been discounted in accordance with International Accounting Standards to the net present value using the Group's average cost of debt, with £0.4 million of the discount being unwound through interest receivable in the period. The gross value of the debtor before discounting is £10.1 million.

The Group received £0.2 million under the Scheme in the year, with £3.6 million received during the prior year, with the majority of the October 2015 receipt accelerated to January 2015 following the merger of the Group's two VAT groups.

Movement in adjusted NAV

The year on year movement in adjusted net asset value (see note 12) is illustrated in the table below:

Movement in adjusted net asset value	Equity shareholders' funds £m	EPRA adjusted NAV per share (pence)
1 April 2015	801.4	510.4
Adjusted profit	49.0	31.0
Equity dividends paid	(36.4)	(23.0)
Revaluation movements (including share of associate)	58.7	37.2
Movement in purchaser's cost adjustment	18.6	11.8
Profit on disposal of surplus land	4.8	3.0
Other movements (eg share schemes)	2.9	(1.3)
31 March 2016	**899.0**	**569.1**

Borrowings

We focus on improving our cash flows allied to a relatively conservative debt structure secured principally against the freehold estate. For the year we had healthy Group interest cover of 6.2 times (2015: 5.4 times) based on cash generated from operations against interest paid.

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 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.

The table below summarises the Group's debt facilities:

Debt	Expiry	Facility	Drawn at 31 March 2016	Average cost
Aviva Loan	April 2027	£92.2 million	£92.2 million	4.9%
M&G loan	June 2022	£70 million	£70 million	3.8%
Bank loan (Lloyds & HSBC)	October 2020, with option for an additional year	£170 million	£150 million	2.4%
Total	**Average term 6.3 years**	**£332.2 million**	**£312.2 million**	**3.5%**

The Group's loan with Aviva is at a fixed rate and amortises to £60 million over the course of its 15 year term.

During the year, the Group drew down the seven year £70 million M&G loan, repaying simultaneously a £70 million bridging loan that had been provided by Lloyds. The M&G loan is 50% fixed and 50% floating.

In October 2015, the Group extended the term of its bank loan from August 2019 to October 2020, with an option to extend for a further year to October 2021. The margin payable on the interest cover ratchet was also reduced by 25 bps on both the term and the revolving debt. The revolving debt now pays a margin of 125 bps and the term debt 150 bps. Were the term and the revolver to be fully drawn, the weighted average margin would be 137.5 bps. The Group has an option to increase the amount of the revolving loan facility by a further £80 million during the course of the loan's term. £20 million of this option was taken up subsequent to the year end, and hence at the date of signing the Group's bank loan facility was £190 million, and total facilities were £352 million.

The Group has an interest rate derivative of £30 million expiring in September 2016 at a pre-margin cost of 2.8%. The bank loan currently requires 45% of all drawn debt to be hedged or fixed.

The Group was in compliance with its banking covenants at 31 March 2016. The Group currently has a net debt to gross property assets ratio of 26%, and a net debt to adjusted net assets ratio of 33%.

At 31 March 2016, the fair value on the Group's interest rate derivatives was a liability of £3.7 million. The Group does not hedge account its interest rate derivatives. As recommended by EPRA (European Public Real Estate Association), the fair value movements are eliminated from adjusted profit before tax, diluted EPRA earnings per share, and adjusted net assets per share.

Treasury continues to be closely monitored and its policy approved by the Board. 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.

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 £15.7 million at 31 March 2016 (2015: £15.8 million), consisting of 157,369,287 ordinary shares of 10p each (2015: 158,055,735 shares). During the period, the Group cancelled the 1.4 million treasury shares in issue.

Shares issued for the exercise of options during the year amounted to 0.7 million at an average exercise price of 704p (2015: 0.6 million shares at an average price of 540p).

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.

	2016 No.	2015 No.
Opening shares	**158,055,735**	143,061,147
Cancellation of treasury shares	**(1,418,750)**	–
Shares issued for the placing	**–**	14,352,711
Shares issued for the exercise of options	**732,302**	641,877
Closing shares in issue	**157,369,287**	158,055,735
Shares held in EBT	**(1,122,907)**	(1,500,000)
Shares held in treasury	**–**	(1,418,750)
Closing shares for NAV purposes	**156,246,380**	155,136,985

56.9 million shares were traded in the market during the year ended 31 March 2016 (2015: 73.1 million). The average mid-market price of shares traded during the year was 716.3p with a high of 847.0p and a low of 618.5p.

Financial Review (continued)

Armadillo Self Storage

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 combined occupancy of the portfolios is 477,000 sq ft, against a total capacity of 673,000 sq ft, with growth of 14,000 sq ft over the year. The stores' occupancy at 31 March 2016 was 70.9% (31 March 2015: 68.8%). The net rent achieved at 31 March 2016 by the Armadillo stores is £15.59 per sq ft, an increase of 3% from the same time last year. Revenue increased by 5% to £9.0 million for the year to 31 March 2016 (2015: £8.6 million).

The Armadillo Partnerships made a combined operating profit of £4.3 million in the year, of which Big Yellow's share is £0.9 million. After net interest costs, the revaluation of investment properties (valued by Jones Lang Lasalle), deferred tax on the revaluation surplus and interest rate derivatives, the profit for the year was £5.6 million, of which the Group's share was £1.1 million.

Big Yellow has a five year management contract in place in each Partnership. For the year to 31 March 2016, the Group earned management fees of £0.7 million. The Group's share of the declared dividend for the year is £0.4 million, representing a 10% yield on our investment for the year.

Principal risks and uncertainties

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

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
Self storage market risk 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.	The UK economy is projected to grow at approximately 2% in 2016, and is now ahead of the level of output last achieved in 2007 before the global financial crisis. Self storage has proved relatively resilient through the crisis, with our revenue and earnings increasing over the last six years. As the economy has recovered in the past few years, the market risk has fallen in line with increasing occupancy. 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. The lack of availability of credit within the economy has further reduced this rate of growth since the start of the downturn, and new store openings within the sector have slowed to an average of 11 stores per year over the past six years, down from a peak of 34 per year in 2005-2009. Our performance during the downturn was relatively resilient, although not immune. We believe that the resilience of our performance is due to a combination of factors including: > a prime portfolio of freehold self storage properties; > a focus on London and the South East and other large metropolitan cities, which have proved more resilient during the downturn 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. We have a large current storage customer base of approximately 50,000 spread across the portfolio of stores and many 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 periods being the winter months. The Group's like-for-like occupancy has increased by 3.5 percentage points in the year from 73.2% to 76.7%.