NewRiver REIT plc

Half Year Results Presentation

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NewRiver REIT plc

Allan Lockhart, Property Director

Mark Davies, Chief Financial Officer

Questions From

David Brockton, Liberum

Sander Bunck, Barclays

Keith Crawford, Peel Hunt

Introduction & Highlights

Allan Lockhart, Property Director
Good morning everybody and welcome to our half year results presentation. We're really pleased to be announcing a good set of results this morning following what has been another busy and successful period for us, where our well timed actions in the capital markets have put us in a great position looking forward.

The running order for today is I'm going to talk you through the highlights and explain what we're seeing in our marketplace. Mark will then talk you through the results and some of the fantastic things he's been doing in the debt capital markets. I will then close out the presentation by talking about what we're doing across our portfolio before opening up the floor to questions.

Now turning to the highlights. In July we increased our scale through a significantly over subscribed equity raise at an impressive 15% premium to our March '17 NAV. And we immediately deployed £60m of this into a portfolio of convenience led shopping centres that we know very well by buying out our JV partner in the BRAVO portfolio.

The increased scale from the equity raise was fundamental in accelerating our unsecured refinancing exercise. When we spoke to you last in May, we said we hoped to complete the transitional step from secured to unsecured by the end of the financial year. Mark and team managed to complete it in August, significantly ahead of schedule.

We arranged £430m of unsecured debt to replace the majority of our secured facilities which provides us with increased flexibility and improved debt maturity. And which will significantly reduce our interest cost when fully drawn. But this is just the start and there's more to do here.

As has been the case since we founded the company and we've again increased our dividend this time by 5% and we've grown FFO by 8% to £26.5m. Remember FFO does not currently reflect the reduction in debt cost following our move to unsecured financing; we'll get this benefit when we invest.

Our dividend is 95% covered on a per share basis and that's simply because we aren't fully deployed following our equity raise in July.

Within our occupational market retailers have been active in taking space and we've had another busy six months. Not least on the BRAVO portfolio where we have let two former BHS units to Primark who are now our top retailer in terms of contracted rents.

We signed over 500,000 square feet of leasing deals with long term deals on terms ahead of valuers' estimates. And we've maintained our retail occupancy rate at a record 97%.

We've made excellent progress in our risk-controlled development pipeline, pre-selling all 142 residential units of our major mixed use regeneration project in Burgess Hill town

centre. We secured planning consent to build 226 residential units above and adjacent to our shopping centre in Cowley in Oxford. And we've most recently secured planning consent for a scheme to build up to 100 homes on a site in Stamford which we will now look to sell.

All of this means that the company is now sitting on approximately 1 million square feet of valuable planning consents.

Next I'd like to speak to you about what we are currently seeing in our marketplace. Starting with the occupational market, household budgets are being squeezed given that wage growth is lower than inflation and consumer confidence has been impacted by Brexit, which in our view means that discretionary spend specifically will come under some pressure.

You can see from our income profile on the left hand side of the slide that we are focussed on convenience and community assets, assets which provide our customers with value for money targeting non-discretionary spend, typically with an older demographic, whose importance we feel is often overlooked. Research shows and our own experience reveals that this non-discretionary spend is much more resilient than discretionary spend.

The chart on the right hand side of the screen shows the forecast growth of UK retail market as whole over the next six years including the growth of online. Now the UK already has one of the highest online penetrations in the world, currently 15% of the total market and although the online market is forecast to grow by 45% over the next six years, interestingly the rate of growth in online is forecast to decline.

If you look at the other part of the retail market that is really expanding, actually expanding faster than online it's the discount sector. This sector of the market is resilient to online and provides day to day non-discretionary items to customers at very low prices.

And if you look at the other retail sectors that are experiencing growth such as value fashion, food and grocery and health and beauty, they too provide value for money on essential items. Including discounters as these four categories alone account for almost 60% of our retail portfolio rent, which is why we feel very well positioned looking forward.

Now on to the investment market, clearly Brexit continues to have a negative influence on the capital markets, but the latest data from IPD and from our own portfolio suggests that capital values remain stable. For example for the six months ending 30th September IPD shows a total return for all property of 5% including 2.6% capital growth.

We've appraised around £2.7bn of deals since we completed the BRAVO transaction and we submit bid on approximately £600m of those deals. We've also completed our own analysis to get a feel for the size of the opportunity in our core markets. For example looking at shopping centres, which account for 67% of our portfolio, our research shows

that there are approximately 1,100 shopping centres in the UK of which over 80 would fit our investment criteria, which gives us a potential target market of almost £4bn.

We have a blended total return requirement of 8%; this return requirement is flexed up and flexed down for different locations and different asset classes. For example we would buy shopping centre assets in London and the South East and retail warehouses in the UK at 7% but we would be looking for 12% in pubs. So overall it's an 8% hurdle which we think's realistic.

What we're currently seeing in the investment market is that there are some of our core sectors where we could deploy equity now and some where we feel we need to be a little bit more patient. And on that note I'll pass you over to Mark.

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Financial Review

Mark Davies, Chief Financial Officer
Thanks Allan, good morning everybody. I'll run you through the results on slide 5 the P&L account. As you know as a business we've always been focussed on cash profits and growing cash profits and therefore funds and operations is a key performance metric for our business. FFO was up 8% to £26.5m principally due to the BRAVO II transaction.

As Allan highlighted earlier our dividend was up 5%, and year to date dividend cover is 95% and the management team will be very focused in the second half in ensuring that we have a fully covered dividend. But be mindful that we issued 67 million new shares during the period when we raised £225m of equity.

So just to conclude it's a good set of figures and as I go through the presentation I'm going to give you a bit more background to the profitability and the balance sheet position of the business.

Just running through net property income, in many ways this is a slide for the benefit of our analysts in the room and there's quite a few of you here this morning. The net income has increased by 4% from £38.3m to £40.1m but there are a few component parts that make this up.

Firstly acquisitions, BRAVO II is the transaction that we completed following the equity raise, that's added about £2m to net income. We have disposed quite a few assets actually during the period, about £35m disposals which has dragged the income. And it's important to highlight that those disposals were made at 7% ahead of our valuation.

The BRAVO II transaction delivered a promote of £2.2m which is a profit straight to the bottom line.

And then development. We've seen more investment in our development portfolio this period that has a modest drag on our net property income as you will see on a later

slide, it's having a very positive implication on our valuations where we've seen a surplus on development over £3.5m.

And then finally pubs and convenience stores, there's more of a story behind that, I'm going to cover that on the next slide. But overall our net property income's up 4% year on year.

Just moving on to the pubs, Allan's covering the pubs and convenience stores in more detail later. On slide 7 again this is more for our shareholders and the analysts that like to see the underlying performance. There are probably four key component parts to this slide I'd like to focus on.

First of all we actually sold quite a few pubs so we have been selling. I think we've sold 13 pubs for around about £6m, again ahead of valuation which is important. The Marston's 22 leaseback transaction, we've actually leased back 22 pubs to Marston's. That's had a slight drag on income but a very positive valuation surplus.

Thirdly we have transferred the majority of the pubs now across from the Marston's management to our own platform, to the NewRiver platform. That's had about a £0.5m impact on net property income, with our experienced team no doubt that will be one of their key objectives for the next six months is to reverse that.

And then finally on the convenience stores we've been pretty active actually during this period building new C-stores predominantly in pub car parks and that's had some very minor drag on the income. But we're now seeing as you can see from the slide new rents coming through from those C-stores from the Co-op.

The final point that I'd like to make on pubs and I'm sure Allan will reiterate this later on in the presentation, is that we did that Marston's deal four years ago and during that period we've really invested in our pub team. We've got a really experienced team in place and when you look at the underlying returns in this asset class they're pretty compelling.

Just moving on to the dividends slide, we were an early adopter of the quarterly dividend. You can see from slide 8 we've got a pretty phenomenal track record with dividend growth, we've taken the dividend from 5.5p to 23p last year and we've increased our dividend per share this year to date by 5%. And we announced a further increase this morning in our Q3 dividend of 5%.

One of the key priorities for the management team is to get close to delivering a fully covered dividend in the second half and we are confident in our ability to deliver that.

Now on to the balance sheet, slide 10. For me this is the real highlight of my part of the presentation, as the steward of the balance sheet if you like. We can all appreciate in this room that there's enormous political and economic uncertainty out there. but I genuinely believe that the balance sheet, the NewRiver balance sheet is absolutely perfectly positioned following the work that we've done over the last six months.

Our NAV is up, our shareholder funds are up by 33% during the period, that's pretty transformational and very importantly our gearing is down; our loan to value is now down to 25% so I'll go through in more detail in a moment what we've been doing on the debt side. But there have been two or three key events that we've closed out during this period, the equity raise, the move to unsecured funding and I'm going to focus in a moment on what happens next. So the balance sheet absolutely perfectly positioned we think for a more challenging macro environment.

Just on NAV, slide 11, I mentioned just now that NAV was up 2% on a per share basis bearing in mind that we did actually pay a special dividend of 3p during this period which has come off the NAV. Funds from operations and dividends per share already covered, the equity raise at a 14.7% premium is accretive to NAV per share by 7.9p. The BRAVO transaction, I covered that in the P&L account, but on a NAV basis that's accretive to the tune of 1.1p.

And finally we moved the majority of our balance sheet to a secured debt structure from an unsecured debt structure and we're able to do that at a very modest cost. Very little dilution to shareholder funds, which I'm personally very pleased with. We ran our maturity down to two years at the year end and because we were confident and we know that we have good banking relationships, many of you are in the room here this morning, thank you for your support. And as a consequence of that we refinanced with very little dilution, which is a good thing.

Okay so on to financing, we've moved the majority of our debt now from a secured debt structure to an unsecured debt structure. To the wider market that may not mean very much, but to us as a business it means an awful lot. I'll tell you why I think that's really important, I think there are four key reasons.

First of all cost, at the end of the day we're here to deliver a profit to our shareholders and as a consequence of a reduced cost we will become more profitable, that's the first reason we've done this.

The second reason is flexibility, when I say flexibility I mean management of the balance sheet, but I also mean operational management. We're very active asset managers. In a secured debt structure Allan or I have got to ring up one of our esteemed bankers in the room and ask them to do a major letting with Primark which slows us down a little bit. Now we can just get on and do things. So in an unsecured debt structure we can just move quicker, remain opportunistic and entrepreneurial and we think that's a good place to be for a business that has aspirations to grow.

I think the third reason is risk, at the end of the day we are here to manage risk and we know from all the analysis that we've done through EPRA and other channels that businesses that have an unsecured debt structure historically outperform those that don't. And I think that probably is a reflection of what happens when things get difficult, an unsecured debt structure just gives you a bit more flexibility to manage the balance sheet during a more challenging economic climate.

And finally the company rating, without doubt when you have an unsecured debt structure it improves the rating of the company.

I'll just make one final point on this, the equity raise was really very important, to raise £225m of equity immediately prior to moving our debt structure to an unsecured debt structure was an important consideration and that was a good thing to do. And it just gave us that bit of scale to get that unsecured financing away. So I'm personally very pleased with all of that.

So the next slide 13 just sets out for you what the debt structure looks like today. We've got a very straightforward debt structure now; I don't think it could be any more straightforward really, you can fit it on one slide.

I'll talk you through it; we've got £430m of unsecured debt so that's 70% of our current debt. We've got a £215m revolving credit facility on which today we are completely undrawn. We've got £177m of secured debt, which we would like to refinance, we don't need to refinance that debt because as you can see it matures in 2019 and 2021 but that's clearly one of the priorities for the second half. We've seen the maturity improve from two years to when we last saw you, to four years today. But it won't take very much to get that maturity to five and a half years when we extend the term loans and revolving facilities that we have in place and also replace the short term loan of £50m.

So what are the next steps. Well I think we would expect there to be further issuance of unsecured debt, the obvious option would be to do a public bond or a private placement. To do the former we would require a credit rating and the company's been doing quite a bit of work on that in the background over the last six months. And we're quietly confident - because we would need to get an investment grade credit rating in order to achieve that and we're quietly confident from the work that we've done to date that that's something that's more than achievable given the shape of the business and the position of the balance sheet.

Moving on to policies on slide 14 before I pass over to Allan. These policies are sacrosanct really in terms of how we run the business, the disciplines, the management of risk and how we can conservatively gear the balance sheets.

I don't propose going through all these in detail because we've done that before but LTV at 25% that's probably on the low side for a business that's got an interest cover of almost five times. I would expect loan to value to increase if not in the second half but certainly over the next 12 months. And we will just be opportunistic but also be very cautious with our stock selection.

We have introduced additional guidelines that sit alongside our policies around tenant concentration, no one tenant will account for more than 5% of our rent roll. On the development side we are investing more in development but at the same time we're doing that with discipline and our development expenditure will never be more than 10% of our gross asset value. And we're currently running at around 1 to 2%. Risk-controlled development is something we've talked about many, many times at these presentations.

In retail unless you can pre-let it you shouldn't be building it and we'll never build anything unless we're at least 70% pre-let. And finally on pub and convenience stores we're currently probably about 14% of our portfolio in pubs and convenience stores and we would quite happily increase our weighting. But what we've said to investors and to our shareholders is that that weighting would be at 20% or less.

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Business Update

Allan Lockhart, Property Director
Thanks Mark. I'd like to start by looking at the state of play across our portfolio as at the 30th of September. Our occupancy rate remains at a record 97% reflecting that our assets are popular with price competitive retailers seeking access to 150 million shoppers at an affordable rent. As we've said before it's our belief that when retailer margins are squeezed it's affordability that gives us sustainability not lease length.

Our portfolio's well diversified by asset class and occupier and our assets are in the right locations where customers spend their core household budget week in, week out, which is why we are very confident that our cash flows are sustainable.

Turning to our portfolio revaluation during the period the portfolio delivered a capital return of 1.1%, coupled with a 3.7% income return, we delivered a total property return of 4.9% outperforming the IPD all retail benchmark of 3.4% by 140 basis points.

The key drivers of our capital return were the acquisition of the remaining 50% share in the BRAVO joint venture, the associated promote of £2.2m with that transaction and we disposed of 15 assets 4% above March valuation. Stripping out these items our like for like valuation movement after capex was 0.2%. The portfolio net initial yield now stands are 7.2% over 40% higher than the IPD or retail benchmark of 5.1%.

The shopping centre portfolio's now valued at a net initial yield of 6.8% and this compares to 6.9% at March. This movement reflects our increased share in the BRAVO assets which are lower yielding and strong performance at Bexleyheath.

The retail warehouse portfolio is now valued at a net initial yield of 6.3% down from 6.4% in March. The disposal of two high yielding retail warehouse assets during the period was the main driver of this movement. And lastly our development portfolio delivered a 3.6% capital return which is a reflection of the significant progress we have made at Burgess Hill, Canvey Island and Stamford.

In July we completed the acquisition of the remaining 50% per share in the BRAVO joint venture for a cash price of just under £60m that being £120m of gross asset value and £60m of debt. The pricing represented an equivalent yield of 7.7% and it gave us control over four convenience led shopping centres with a total gross asset value of £240m.

Given our working knowledge of these assets we are very clear about their growth potential and therefore we're very confident that these assets will produce attractive long term returns for our shareholders.

And with that in mind I'm going to talk you through the Primark deals that we have completed post acquisition in Belfast and Hastings. To remind you when BHS went into administration last year we had a rental exposure of around 1% of our rent roll spread across three shopping centres. And during the period we managed to let two of the three units to Primark, a retail we consider to be absolutely best in class and certainly far superior to BHS.

At the Abbey Centre the BHS administration presented us with an opportunity because we were able to move Dunnes into the former BHS unit temporarily while we doubled the size of their existing unit, which opened in August and they're now trading very well. In the interim we agreed a new 15 year lease with Primark to upsize them by relocating them into the former BHS unit. We are now on site completing the landlord works and Primark are expected to be trading in the summer of 2018.

And you can see from the green highlighted units that there are more opportunities to come, not least at Primark's former unit where we are already in legals with an existing occupier for another upsize.

Now on to Hastings, we were able to use the close relationship that we have with Primark and our forensic approach to attract them to the town which was not on their radar. We went to them with research commissioned by a specialist which showed that the attachment and potential sales densities made Hastings an attractive place for them to be. So they signed a 20 year lease. And again you can see from the green areas that there are plenty of future asset management opportunities in Hastings too.

Next on to the asset management within our pub portfolio, pubs and C-stores represent about 14% of our total portfolio and we own 336 pubs. Many of you will remember when we bought the Trent portfolio from Marston's in 2013 we agreed to receive a guaranteed income on the portfolio for a four year period which expires next month.

This has been a fantastic deal for us; it's delivered significant income returns and development opportunities. And at the same time it's given us the opportunity to learn so much about pubs from Marston's and now we can focus on maximising the income across the Trent portfolio now that we will have 100% control, which we've started to do in the Mantle portfolio where we completed 20 capex projects during the period spending £600,000 in total.

So far the early results from our capex investment programme show a healthy return on investment of over 20% and we will be stepping up the investment programme in the second half.

Next profitable capital recycling which is a key element of our business model. During the period we completed £37m of disposals, 4% ahead of book value and 13% ahead of total cost, that's a £4.3m cash profit.

We sold Clough Road retail park in Hull in July having completely repositioned the park since it was acquired from an institution in 2014. We made the decision to sell having completed our asset management strategy, we looked at the five year forward looking returns, which were below target, and our disciplined approach means that if we can't hit our required targets then we'll sell.

Another important disposal in the half was the high street asset in Warrington which we sold to Primark for £8m. Perhaps the most interesting point about this disposal is that Primark only buy their best performing assets; so it's a real endorsement of the fact that we own the right assets in the right locations for our retailers.

Turning now to our risk-controlled developments where we've made a lot of progress in the half. You can see how busy we've been from the stats at the bottom of the slide but I think the key highlights are the level of planning consents secured, over 440,000 square feet since the start of the period, which means that we're now sitting on approximately one million of valuable planning consents. And secondly the amount of residential pre sales that we've exchanged being 162,000 square feet, the entire residential element of our Burgess Hill redevelopment.

And looking at progress in a bit more detail starting with Canvey Island because this is the most advanced of our developments, we're now 75% pre let from 52% pre let at the start of the period with Marks and Spencer's food hall and Costa Coffee joining B&M and Sports Direct in the retailer line up, which means that in line with our risk-controlled development approach we have now appointed a preferred contractor to start construction early in the New Year.

Next to Cowley in Oxford our residential led regeneration project where we secured a valuable planning consent during the period, having submitted our planning application in November 2016. So we received planning consent in July this year we feel was a huge achievement particularly in a historic city like Oxford.

Stamford is a brownfield development site which we acquired in July 2015 as part of the Ramsay portfolio along with Canvey Island. Post period end we received outline planning consent for a residential scheme to provide up to 100 homes and we'll now need to crystallise the value we've created by selling the sites to a housebuilder with the development of the planning consent.

On to Burgess Hill now our major mixed use regeneration project and as with other developments we've had a great half, significantly de-risking the scheme. Preselling the entire residential to a private residential developer for £34m, which compares to total build cost including in retail and leisure of just under £50m. And securing further pre lets now up to 60% from 49% with H&M and Wildwood joining the occupier line up. Given the excellent progress we've made we're now on site completing the enabling works with a view to starting demolition on the shopping centre in 2018.

Now on to the pub and C-store portfolio, we handed over a further three C-stores to the Co-op in the period taking the total number handed over to 14. We're on site

constructing a further 6 which we expect to deliver in the second half of the year. And that's great because we begin to receive performance fees from the Co-op for each additional store completed, once we have delivered them, sorry for each additional store completed once we've delivered the 15th store we expect in January '18. We will receive £750,000 on delivery of the 15th store and a fee of between £75,000 and £200,000 for every C-store delivered thereafter.

But it's not just about the C-stores; we have potential for almost 200 residential units across the pub portfolio. And remember we're already receiving significant cash income from the pubs themselves. So that the C-stores and the residential developments are just a further boost.

So looking ahead the ongoing Brexit negotiations are creating economic and political uncertainty, which is impacting many UK corporates and the retail sector's no different. But notwithstanding that we feel well positioned for the following reasons.

Firstly we have a clear focus on the right part of the market that offers value for money and convenience to consumers. Secondly many of our retails are performing well, are internet resilient and our forecast to grow so we're confident in sustainability of our cash revenue streams. And finally we have a great balance sheet thanks to the activities we've completed in the last six months and we've got significant capital to deploy.

And on that note I'd like to hand over for questions.

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Questions and Answers

David Brockton, Liberum
Good morning. Can I ask two questions please? The first one in respect of acquisitions, of the £600m that you've bid on since June can you just give us a feel for how much of that has transacted, how much is still ongoing and within that where vendor pricing expectations are relative to your expectations? That's the first.

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Allan Lockhart, Property Director
Yes of the £600m we have some ongoing discussions, we have very strict return hurdles, which I highlighted earlier and you know unless we can actually be confident of hitting our return hurdles you know we will not precede with an acquisition.

There is a little bit of a disconnect in pricing, the aspirations of what some vendors want and where we are, there is a little bit of a difference there. So it may take a little bit of time in some areas of the market for that disconnect to narrow. But we're still confident that we operate in large markets, you know pubs, retail warehousing and shopping centres that we will be able to deploy our capital very wisely and on an accretive basis to ensure that we get back to a fully covered dividend.

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David Brockton, Liberum
Thank you. And then the second one relates to the financing. You managed to move towards an unsecured balance sheet with pretty little one off costs relative to some of the other REITs that we've seen out there through the first half. As you progress towards a fully unsecured balance sheet could we expect a similar low level of cost, can you just talk about the one off costs that you would expect on the residual out there please?

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Mark Davies, Chief Financial Officer
Good question, I would say if we move all of our debt to unsecured in the second half and we have a completely unencumbered balance sheet as I mentioned on a previous slide the logical next step would to be do a public bond or a private placement. We would be able to do that at a very modest cost, we've got two secured facilities, one with HSBC and one with AIG on the pubs and convenience store portfolio.

There are some costs but those costs are modest and very much in line with what we've seen coming through in the first half. And given that we are already 70% of the way there you should be confident that there won't be any dilution to shareholder funds in the second half if we're able to complete that exercise.

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Sander Bunck, Barclays
Good morning. You mentioned in the statement that the long term retail deals were signed on average 1.5% above ERV, how does that compare for the remainder of the leases?

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Allan Lockhart, Property Director
Well we've consistently I think in the last six years transacted leasing events ahead of valuers' ERVs. And we're confident that we will continue to maintain that outperformance relative to our valuers' estimate of ERVs within our portfolio.

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Sander Bunck, Barclays
So the remaining leasing activity was ahead of ERV as well?

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Allan Lockhart, Property Director
Yes in the period the leasing deals that we've transacted, we did about 113 lease transactions about 1.5% of our valuers' estimate. So we're pretty confident that we will

continue to outperform the opinion of our valuers on the estimated rent to value within our portfolio.

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Sander Bunck, Barclays
Thank you. And then just one other question on the revaluation. Is it true that most of the revaluation came through the signing of two Primark deals or was there other stuff as well?

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Allan Lockhart, Property Director
As I mentioned the key driver in terms of the capital growth was the acquisition of the 50% remaining share in the BRAVO portfolio, the promote that came through on that and also the disposals are what's driven the capital growth within the portfolio.

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Mark Davies, Chief Financial Officer
Also we saw on the valuation slide the impact that the development portfolio's been having on valuation as well, there was a surplus of about 3.6%.

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Keith Crawford, Peel Hunt
Good morning. Yes very consistent performance and encouraging on the capital side actually. Have you been approached by local authorities in relation to any of your big town centre shopping centres because they're quite active in the market in places aren't they?

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Allan Lockhart, Property Director
They have been active in the market and yes we have received approaches but you know we reassess our portfolio every six months on a forward looking basis recalibrating the portfolio based on the most recent valuations. And we have been approached but the vast majority of our portfolio is expected to deliver a total return in excess of our minimum hurdle. So it would not necessarily be in the best interests of the company to sell to local authorities.

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Keith Crawford, Peel Hunt
And you've done well with these retail parks, this is a reasonably interesting area again there are opportunities. And are you seeing deals that might fit the criteria in that niche?

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Allan Lockhart, Property Director
Yes very much so we started investing into retail parks about two to three years ago, it's performed very well for us and over the period that we've just had the revaluation surplus in retail warehousing was 2.8% reflecting rental growth of around 1.5%.

Many of our price competitive retailers that we engage with in town centres are also taking space out of town so retailers like B&M and Home Bargains are active in that area. So it's a natural area for NewRiver to deploy capital and Canvey Island is a great example where we're about to start that development and the success that we've had in pre-letting the space to Marks and Spencer's, Sports Direct and B&M.

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Keith Crawford, Peel Hunt
On the development programme side over and above the detail which you've been giving, first of all will there be more substantial schemes on surplus land or adjacent land; do you expect that that's probable? And I don't know if you want to speak about what sort of returns you expect on that expenditure in general?

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Allan Lockhart, Property Director
Yes we have quite an extensive pipeline you know our development programme. And so there's a lot more to come through in the years ahead. Our approach to development as we've constantly mentioned is one of risk control and there the key way we mitigate our risk is through the pre letting programme.

In terms of our financial metrics in relation to development we will target a yield on cost in excess of 8% and also a profit on cost in excess of 15%.

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Keith Crawford, Peel Hunt
That's good, that's very good. Okay and I don't know anything about the pubs market, I don't know whether the transacted, they come in lumps at times when people are distressed but are they transacted generally, is there activity in that part of the market?

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Allan Lockhart, Property Director
We've been looking at a number of transactions over the last six months; our portfolio's really been put together by two transactions. The first was with Marston's back in 2013 and then the second transaction's where we bought 150 odd pubs from Punch for around £50m odd. And we expect to be able to deploy more capital into the pub sector over the next six months.

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Keith Crawford, Peel Hunt
My only other question was about the unsecured arrangements and forthcoming further work there. I mean because the banking arrangements on the pubs is rather attractive and this is from a date to the lender, would you see an increment when you refinance that or is that just an unrealistic assumption? I mean you'll get a lower rate of course but you will have to pay for that, will you get an increment overall do you think?

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Mark Davies, Chief Financial Officer
I think there's two parts to that. First of all as you identified Keith the cost of that particular facility is currently our most expensive facility. It matures in 2021 so we don't actually need to do anything.

But the pub and convenience store portfolio is very granular; it requires very active asset management and risk-controlled development. So there would be a benefit albeit it's quite intangible of moving that facility and that portfolio to an unsecured structure.

The great thing about the position that we're currently in is we don't actually need to do anything because it's a performing facility with a loan to value of around 40% and the interest cover is something like seven times. So we could run it on for another year or two. But the work that we've been doing over the summer with our banks and some of the work that we've done with the rating agencies, there are real attractions of having a completely incumbent balance sheet. So we've got to look at the big picture as well as a micro.

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Keith Crawford, Peel Hunt
Very interesting submissions, thank you.

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Allan Lockhart, Property Director
Are there any questions on the phone, no? Well thank you very much for attending we really appreciate it.

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<u>**DISCLAIMER**</u>

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