NewRiver REIT plc

Full Year Results Presentation

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NewRiver REIT plc

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Mark Davies, Chief Financial Officer

Questions From

David Brockton, Liberum

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Introduction & Highlights

Allan Lockhart, Chief Executive
Well, good morning, ladies and gentlemen, and a warm welcome to NewRiver's Full Year Results Presentation. And we're pleased to be announcing a good set of results today. And, of course, we're very pleased to have announced the acquisition of Hawthorn Leisure, which happened around twenty to four last night, Mark? So, Mark's feeling a little bit tired, but I'm sure he'll manage okay on his slides.

Clearly, there is general nervousness around the retail market, but we are operating in the growing retail sub-sectors, and so we have confidence in our long term prospects.

Long before many others, we correctly identified the increasing trends towards value for money and convenience retailing. Our portfolio has been handpicked since we founded the company nine years ago, and we have a clear plan for each of our assets.

We are focused on identifying and responding to the trends in our markets to ensure that we continue to deliver growing cash returns into the future.

Now, I'd like to turn to the key highlights.

Once again, it has been another active year for NewRiver. As you know, we are an income-focused business and we've increased FFO by 4% to £60.3m, and we've increased our ordinary dividend by 5% to 21 pence per share.

We are delighted to have maintained our long-term track record of a fully covered dividend, even though we issued 67 million new shares in July 2017. Demonstrating the confidence that we have in our very well diversified cash flows, and our deal flow pipeline, we've announced a 3% increase in our first quarter dividend to 5.4 pence per share.

The strength of our operational metrics demonstrates that we are invested in the right area of the market, with occupancy maintained at 97%, tenant retention rate at 95%, leasing deals ahead of valuers' assumptions, and footfall significantly outperforming the UK benchmark.

Our risk-controlled development pipeline is really starting to deliver. We handed over a further 10 convenience stores to the Co-op, we're on site at our retail park development in Canvey Island, we're making good progress in Burgess Hill, and we gained council approval for our exciting development in Cowley, Oxford. And, most recently, we signed a development agreement with Basingstoke Council on a fantastic opportunity, and I'll talk about that later.

The balance sheet has never been in better shape thanks to the transformational work that we've done in the last 12 months by raising £1bn of capital, which comprised £225m of equity, and £730m of unsecured debt.

All of this activity means that we end the financial year in a strong position.

Now, I'd like to turn to the marketplace. The wider UK retail market faces significant headwinds due to a squeeze on household income, lower consumer confidence, and the continued growth of online retail.

Consumers are increasingly focused on value for money, with the internet providing complete price transparency and, as a consequence, some retail sub-sectors are struggling.

This is not the case for the discount sub-sector, which is actually growing faster than online. This sector of the market is resilient to online, and provides day-to-day essential items to shoppers at very low prices.

The chart on the right hand side shows the forecast growth rates of the UK retail market as a whole over the next five years, including the growth of online. As you can see, those categories that are focused on providing value for money to UK consumers on day-to-day essentials are predicted to experience growth over the next five years, and this is exactly where our portfolio is positioned.

Another area expected to experience significant growth is click & collect, which is forecast to grow by 56%, and we will benefit from this given that our assets are highly accessible and conveniently located.

Next, onto the importance of convenience and community. As shown on the previous slide, retail spend in the UK totalled £327bn in 2017, and of this spend £281bn related to instore retail. It is, by any measure, a massive market, and instore spend will continue to be critically important for retailers in the years ahead.

So it's very clear that millions of consumers still go to the shops to make essential purchases, and it's our job, as real estate owners, to make sure that our assets capture an increasing share of that UK spend by making sure we continue to provide what they need at a price they can afford.

Our portfolio is conveniently located in the hearts of communities across the UK, providing the appropriate mix of retail, leisure and civic services, and we have a clear plan for each of our assets.

Spend at our assets is focused on providing value for money on day-to-day essential goods and services. This spend often requires instant fulfilment and tends to be at a low value but high frequency in nature.

It's also worth noting that our assets are positioned in strategically very important locations because national planning policy is hugely supportive of residential and mixed-use development in town centres. This is important given the significant undersupply of new residential stock over the last 20 years, and, so far, we've identified 1.1 million sq. ft. of residential opportunities above, and adjacent to, our income-producing assets. And we've secured planning consent on over half of that space.

We have a very clear strategy, and one that we have consistently applied since we founded the company nine years ago. We started with a clean slate, and so we have deliberately avoided sub-sectors such as department stores and mid-market fashion, because it was clear to us that those areas would face structural challenges. This is now happening.

We are focused on providing occupiers access to millions of shoppers at affordable rents and lower occupational costs because we believe that it is affordability, and not lease length, that underpins the sustainability of cash flows.

We have an active approach to asset management, and our in-built development portfolio is now starting deliver.

Finally, we understand what is driving the changes in the consumer and retail markets, and our strategic plan has been designed to ensure that NewRiver will be able to continue to deliver for all our stakeholders, and I'll talk about these plans in more detail later on.

But now I'd like to hand over to a tired Mark to take you through the financials.

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Financial Review

Mark Davies, Chief Financial Officer

Thank you, Allan, for that introduction and, of course, good morning everybody.

Before I get onto the results themselves I just thought I'd spend a few moments just talking you through the key achievements in the capital markets this year, which Allan has alluded to. We've been very busy. We've achieved an awful lot. And I think it's fair to say that we've met the objectives that we set ourselves at the beginning of the financial year.

So what does all of that mean? So, back in July, we raised £225m of equity. We did that at 14.7% premium to our net asset value. So quite an achievement in itself given the market conditions over the last year. And I'd like to thank all our shareholders and advisers who got us through that transaction at that time.

That was an extremely important transaction for us because, firstly, it allowed us to acquire PIMCO's stake in the BRAVO joint venture, which is a portfolio of assets that we know well and where we think there's more to come in terms of value and earnings. And, of course, that was a pretty important step to enable us to move towards an unsecured balance sheet, because that was a stated objective of the company, and one that I mentioned at this presentation last year.

And that scale that the equity raised gave to us meant that we could go into those negotiations with our bankers and do that with the scale that we were required to go to an unsecured debt structure.

So, in July, we raised £430m of unsecured debt - we closed the transaction in the first week of August. So, at that time, we had 70% of our balance sheet unsecured. And, having had a secured balance sheet for the first eight years of our history, it was a really transformational step and one I'm really, really pleased with.

Without doubt, this scale, from the equity raised, was a key criteria in achieving that.

And then over the autumn months, we worked with Fitch and obtained a credit rating investment grade of BBB+, and that then enabled us to complete the third step highlighted on the slide in front of you where we issued a debut corporate bond for 10 years unsecured at £300m.

We were two and a half times oversubscribed in a marketplace that was surrounded with all sorts of negative commentary and challenges. So, I think that really demonstrated the support that we, the business and the Management Team, has from the capital markets.

And we really like the bond market. It's the first time we've gone into it. It's a great place to be. It's a sophisticated market, it's a large market, and it's gives us great diversification of our funding in the future.

Because many of you are here, I'd like to take the opportunity to thank you all, our bankers, our advisers and our shareholders, who have all helped us achieve all of this over the last 12 months. Thank you. We really do appreciate it.

So what does it mean in terms of the bottom line? Well, you can see from the slide that our debt maturity has improved significantly as a consequence of all of this.

We deliberately ran our debt maturity down to around two years, which some may argue was quite a brave and bold thing to do, but we did that because, firstly, we had the confidence that we could refinance, because we've got very strong banking relationships that mean a lot to us, and by running down our maturity, we were able to do all of this at very modest costs, and therefore there's no dilution to earnings and very little dilution to net asset value. And that was really very important to use, because we recognised the importance of our shareholders' capital.

You can also see that not only has our debt maturity gone up significantly to 7.9 years, from 2, our cost of debt continues to come down. So, we've moved from a completely secured debt structure to a completely unsecured balance sheet, and I'm still getting used to that, and, at the same time, our cost of debt has come down to 3.1%.

And, of course, our portfolio yield is 7.2% - Allan will talk about this in a bit more detail later.

And, as I'll talk about later, we announced a transaction where we've acquired Hawthorn Leisure this morning. And the portfolio yield is 13.6%.

And you can see on the right hand side here, currently the portfolio yielding 7.2%, cost of debt 3.1%. This is why we're a very profitable business. We generate a lot of cash through funds from operations through that arbitrage of buying well and borrowing at sensible levels.

Onto the balance sheets, Allan's very kindly introduced the balance sheet and the strength of the balance sheet today. You'll see that investment property has increased, which reflects the acquisitions that we've done, the main one being the PIMCO/BRAVO joint venture.

There has been some modest decline in the valuation of the portfolio. There have been some profitable disposals. We've sold about £58m worth of property during this period. And our net assets have increased by over 30%, which is really a reflection of the shares that we issued during the year.

Our EPRA NAV has remained the same, year-on-year, at 292 pence.

We issued, as I said, new equity at a premium, and there was very minimal break costs linked to the move to an unsecured balance sheet.

Finally, our loan to value is 28%, which we think is a really good place to be right now, and well in line with our guidance of being below 40%.

And our balance sheet, as I've mentioned earlier, is now completely unsecured. So we have a completely unsecured balance sheet. And I don't believe there are many companies in the sector that can say that.

Just on to EPRA now. There's a quite a lot of detail here. Our analysts friends in the room like to see this because it breaks for them where we started at the beginning of the year, 292, and where we've ended up.

Funds from operations of 21.2 pence, our dividend paid out in the year was 20.75 pence, so that clearly demonstrates that we were fully covered by cash earnings.

We paid a special dividend, mustn't forget that, of 3 pence during the financial year, which was announced this time last year.

And the BRAVO acquisition delivered, again, on purchase, which we discussed at the half year, and, of course, the equity raise was accretive to highlight my comments on the previous slide. The costs of coming out of all our secured borrowings were very modest and, therefore, only a marginal dilution to our net asset value.

So onto the P&L account, Funds From Operations, as you know, is the company's key performance measure. It's a really important performance measure for us because it reflects cash profits. And FFO was up by 4% to £60.3m due, primarily, to the acquisition of BRAVO that we completed in July, our active asset management activities, and some of the profitable recycling that we've completed during the year.

The FFO, on a per share basis, is 21.2 pence, compared to a dividend of 21 pence. So we've exceeded market expectations by getting to a fully covered dividend in spite of the fact that we issued 67 million new shares partway through the financial year.

We've also added to this slide, for the first time, an AFFO ratio. That reflects many questions that we get from shareholders about how much maintenance capex is in a portfolio such as ours, and you can see a very modest amount of maintenance capex if you take our funds from operations of £60.3m down to £59.6m net of maintenance capex.

So it's a very low number for us, and I think it's really a reflection of the types of assets that we own. It's a real USP of convenience and community retail which are underpinned by lower rents, lower service charge and low maintenance costs that Allan has already alluded to this morning.

Slide 14, another bridge for our analyst friends particularly, taking us from where our net income was this time last year, £89.7m. This was the Sheffield transaction, which we highlighted as a one-off last year, and, of course, that led to the special dividend I mentioned.

So we started the year £78.2m and we finished the year £87.1m. There's quite a bit in there to track. I think the BRAVO transaction's worth highlighting. There's been some surrender premiums coming through again in the second half of the year. And pubs and convenience stores I will talk about in a bit more detail later.

So, onto pubs and convenience stores, slide 15. Now, we've been investors in this sector for nearly five years. We were an early mover into convenience stores and we've made some really, really strong returns out of this part of our business, delivering 14% unlevered returns during the last five years.

We like this asset class for a number of a reasons; firstly, these pubs generate a good cash flow, they're high yielding with excellent diversification - we think these assets are remarkably defensive through alternative asset use potential - but they also offer opportunities to add value through active asset management and risk-controlled development.

We did, during the year, complete the transition of the management of the Trent portfolio, 170 pubs in total, that we moved from the Marston's management to our own platform. This did cause some disruption, and that is reflected in the numbers that we saw just now.

And we also completed, as Allan mentioned, our 20th convenience store for the Co-op during this financial year, which triggered a £1.5m performance payment.

So, onto the transaction that we announced at 7.02 this morning. Hawthorn Leisure is a business that we've tracked for some time, and not only have we got to know this business well, we've got to know the management team who, we think, are best in class and, combined with our own team, we are very excited about the future and the potential of this part of our business.

We've acquired this morning 298 community pubs, a well-recognised brand and a high quality specialist pub management team and platform for £106.8m.

This represents a very attractive 13.6% net initial yield on the portfolio valuation.

This will deliver high and sustainable cash returns. And, as I've said, and I'm not embarrassed to repeat, we think that we've acquired a very strong platform and a best in class management team.

This acquisition will increase our portfolio to 629 pubs, and increases our pub weighting from 12% to 19%, which is well within our guidance that we set two or three years ago of 20%.

This will prove to be a highly profitable and strategically important transaction for the company as it will be accretive to earnings, funds from operations dividend, and net asset value. So it will be a very profitable transaction, and it's one that we are very, very pleased to have announced this morning.

So looking ahead, community pubs. NewRiver identified this sector, as I said, some time ago because we were really attracted to the high levels of cash generation which we think is low risk, particularly because the diversified nature of the cash returns.

These assets not only throw off cash, they do, or they are embedded with lots of asset management and risk-controlled development opportunities.

We are strong believers in community assets, and pubs and convenience stores really fits this criteria because these assets are typical located in main street locations, which often have good roadside visibility and surplus land, and typically, surrounded by chimney pots in neighbourhoods, residential neighbourhoods. And with our own platform in place, because, historically, our pub platform has been externally managed, this presents a great opportunity to develop a very profitable pub and leisure business.

Finally, I have to mention the dividends because we have a very strong track record in dividends and dividends growth. So, before I pass back to Allan, you can see the track record speaks for itself. We've always been absolutely committed to a growing, progressive and fully covered dividend, and we've done that, yet again, this year with a 5% increase in our dividend to 21 pence, which is fully covered by FFO in spite of the equity issue during the year.

And, of course, this morning, we were really pleased to announce a further increase in our Q1 dividend for FY'19 of 3% to 5.4 pence. And we strongly feel that this demonstrates the Management Team's confidence in our business and the future earnings potential going forward.

And now I'll like to pass back to Allan.

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Portfolio and Outlook

Allan Lockhart, Chief Executive Officer
Thanks Mark.

So, I'm now going to talk you though our portfolio, starting with our robust operational metrics.

One of the reasons we're confident in the sustainability of our cash flows is our consistently strong operational metrics and, as you can see on this slide, our track record over the last five years. Our active approach means that we have maintained retail occupancy at a record level of 87%, which is the highest it's been since we founded the company.

Our retail retention rate, being the percentage of retailers that choose to stay at our assets, at break or expiry, was 95% during the year, which tells us that we own the right assets.

Measured as a percentage of turnover, our average rents have been consistently affordable.

I'll talk about CVAs in a moment, but I think what they've shown is that when retailers are making decisions about which stores to close they focus on profitability, not lease-length.

Our footfall, once again, has out-performed the market this year, and that's because of the frequent nature of spend at our assets, essential, everyday shopping.

We've continued to sign long-term leasing deals ahead of valuers' assumptions, and you can see our rent collections stats are strong too, unpinning the sustainability of our core income.

Next, I'd like to spend a moment on the importance of diversification that we have in our income streams.

We have over 2,000 leases in our retail portfolio, with over 800 different occupiers, and an affordable average rent per retail unit of £58,000 per annum, which compares very favourably to IPD, where the average rent per retail unit is £168,000 per annum.

We have a policy that no retailer will account for more than 5% of our rent roll, and, currently, our largest accounts for 2% of total rents, which means that we have a very low level of concentration in our rent roll.

We believe that this is why we've seen limited impact from CVAs and administrations announced by retailers and casual dining operators so far this year.

Our deliberate focus on specific retail sub-sectors means that we have no exposure to casual dining operators, such as Byron Burger, Carluccio's, Jamie's Italian, Prezzo.

The problems of the department stores have been widely reported but we have only £113,000 of rental exposure to department stores. That's 0.1% of our rent roll.

Overall, we estimate that the worst case impact from CVAs will be around £1m in FY19, but we're confident that this can be mitigated further by exercising our break options and re-letting to better retailers, as we did during the year when we re-let the former BHS stores in Belfast and Hastings to Primark.

Turning now to our portfolio, which delivered a total return of 8.2%, outperforming the IPD All Retail benchmark by 190 basis points.

This out-performance was underpinned by our superior income return of 7.3%, versus IPD All Retail of 5%, reflecting our focus and commitment to income.

The portfolio net initial yield stands at 7.2%, almost 50% higher than the IPD All Retail yield of 4.9%. On a like-for-like basis, our portfolio valuation was modestly down at 1.1% after capex.

Breaking down our portfolio across our core markets, shopping centre portfolio is now valued at a net initial yield of 6.7%. This compares to 6.9% in March last year, reflecting our increased share of the BRAVO assets, which are lower yielding, and continued strong performance at Bexleyheath in London.

The retail park portfolio is now valued at a net initial yield of 6.5%, up from 6.4% in March last year, reflecting our acquisitions in Dewsbury and Cardiff, with a blended net initial yield of 9%.

We delivered like-for-like net income growth of 0.9% over the year, but it's important to remember that, unlike others with valuation yields in the 4s, we are not so reliant on like-for-like income growth because our income return is already over 7%.

Pubs and c-stores were down 2% overall due predominately to the income disruption that we've seen in the Trent portfolio as we transferred the management back form Marston's.

And, lastly, as I'll show you later, we made good progress across our risk-controlled development pipeline, and so valuations have increased by over 3%, with Cowley, Stanford and Canvey Island the key drivers.

Of course, the best way of proving capital values is through disposal price, and, as you can see from this slide, we've continued to make disposals ahead of valuation, completing almost £60m of profitable disposals during the year.

We sold two units to Primark in Warrington and Middlesbrough on terms 23% ahead of valuation, generating a profit on disposal of £4m.

And we sold the Clough Road Retail Park in Hull for £11.2m, having added value and grown the income through a comprehensive programme of active asset management initiatives, which you can see on this slide.

We anticipate undertaking a similar level of disposals in FY19, demonstrating our commitment to recycle lower return assets into higher return assets.

So turning now to sources of future growth. During the year, we acquired £147m of assets and, as Mark has mentioned, we announced the acquisition of a further £114m of assets this morning.

We expect these acquisitions, together, to deliver cash-on-cash returns of 10%.

And, as well as the income recognised in FY18, we will see an additional rental income in FY19 of £17m from these acquisitions.

And all of the acquisitions offer genuine opportunities to deliver capital growth through asset management and development.

Looking ahead, we're actively screening further acquisition opportunities, and we will remain active in the capital markets in FY19.

Next, our development pipeline, which we believe will be another key source of growth. It's 1.9 million sq. ft. in total and, thanks to a lot of hard work over the last few years, is starting to deliver.

During the year, we handed over a further 10 convenience stores to the Co-op, bringing the total number that we've delivered to the Co-op to 20, and triggering £1.5m of performance fees.

We've started on our site at the retail park development in Canvey Island, having de-risked it through pre-lets.

And we've exchanged contracts for the pre-sale of the entire residential element at our mix-used development in Burgess Hill for £34m.

We secured planning consent on 400,000 sq. ft., including a mix-use development scheme in Cowley, Oxford, and the provision of up to 100 homes on a brownfield site in Stanford.

Which means we're now sitting on about 1 million sq. ft. of valuable planning consents, the majority of which is residential.

And, looking ahead to FY19, we're aiming to deliver a further seven c-stores for the Co-op, we will complete the Canvey Island Retail Park development, switching on an additional £1m of rent per annum - not bad, given that's what we paid for the site in the first place.

We will begin the demolition phase at Burgess Hill, and we will submit our planning application for over 100 residential units in Penge in London.

And looking beyond those projects is our opportunity in Basingstoke where, in March, we exchanged contracts on a development agreement with Basingstoke Council in relation to a 66 acre leisure park.

To capitalise on the emerging trends of integrated leisure and retail, our proposals currently comprise approximately 200,000 sq. ft. of designer outlet shopping, and 500,000 sq. ft. of experiential leisure.

And the agreement is conditional on planning consent and pre-lets as well as a viability assessment.

If the development becomes unconditional we will be granted a very valuable 250 year leasehold interest over the entire site.

So it's an exciting opportunity for us, and our team is now focused on the next key milestone, working out the planning application, which we expect to submit in 2020.

And lastly before I close out the presentation I want to explain a little bit more about the incremental strategies that we're working on. In my 30 years operating in retail real estate the market has always been subject to change, reflecting that shopping habits change, and this has been going on long before the introduction of the internet.

The key to being successful in the retail market is to understand the trends and this is very much at the core of our business. We like to think we've always been one step ahead of the market and the development of our strategies is all about staying ahead of the curve in this fast changing environment. In the short term we have identified a series of actions to enhance the sustainability of our cash income streams and ensure we extract maximum value from our existing portfolio.

And we're going to do this through achieving cost efficiencies for our occupiers, through reduction occupational costs, for example reducing our marketing and service charge budgets. We're going to do this through enhancing our existing income streams, for example by investing in technology within our car parks to reduce operating costs. And we're going to do this by extracting maximum value from our risk controlled developments, by crystallising value where appropriate.

Next, we're already working on a series of longer term strategies, using our existing resources and our experience to ensure that we remain well placed in the future.

I'm not going to talk through all of these, but just to pick out a few. Firstly an asset management platform, we've established a market leading platform which we believe has significant unrealised value and which we believe can be applied to community shopping centres owned by third parties, who would be able to benefit from our experience, our scale and our relationships with our retailers.

This is especially relevant given the number of community shopping centres that have been acquired by local authorities over the recent years. And some of you will be aware that we have in the past earnt around £3m per annum from asset management and performance fees. So it's been profitable in the past and it's a focus are for us in the future.

Secondly, additional uses, we've already demonstrated in Cowley, in Burgess Hill the potential for new residential accommodation above and adjacent to our assets and there is more to come in that regard.

We're focused on giving consumers more reasons to visit our assets and we believe that there is potential to deliver complementary uses into our shopping centres through the introduction of additional usages, such as primary healthcare provision and co-working space.

Whilst our shoppers tell us that they want the ability to access civic and medical services while shopping we're committed to enhancing the shopping experience. And we believe that integrating retail and services will be well received by our shoppers.

Thirdly, the evolution of click and collection, our assets are highly accessible locations, with an average travel time of only 13 minutes, with ample and affordable car parking provision and the ability to accommodate articulated lorries. As I have already mentioned click and collect is forecast to grow by 56% over the next five years and many of our assets are well places to benefit from this trend. But we are also looking at how click and collect and retailers distribution models could evolve and ways in which we can work with our retailers to reduce the cost of the last mile.

And now onto the outlook, so looking ahead in our view the challenges currently facing the wider UK retail market will continue. Some retail sub-sectors are likely to see further consolidation and some of those retailers, with over indebted balance sheets and under invested portfolios will continue to struggle. But the first quarter dividend increase we announced this morning reflects our confidence we have in our ability to continue to deliver growing cash returns.

Because firstly we are focused in the right areas of the market that offer value for money and convenience to consumers. Secondly our rents are affordable and our income streams are very well diversified. Thirdly, our portfolio has inbuilt growth potential, with the full benefit of acquisitions to come through, and our risk controlled development pipeline is delivering. And finally, we have identified a series of strategic initiatives to extract maximum value from our existing portfolio over the next three to five years.

And of course all of this is underpinned by our strong balance sheet, experienced management team and sector specialisation. On that note we'll move to Q&A, thank you.

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Questions and Answers

David Brockton, Liberum
Morning, can I ask two please. Firstly around market pricing for acquisitions, clearly you've acquired Hawthorn today at quite an attractive yield, but I wondered if you can just talk about the outlook for acquiring other retail assets and where you see market pricing at present?

And then the second question related to the longer term opportunities. I was intrigued by the asset management potential for the business and I just wondered whether there are discussions already ongoing with local authorities, or whether this is something you will seek to do over the sort of next two years?

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Allan Lockhart, Chief Executive
Thank you David, yeah we currently have got £36m of acquisitions under offer at a blended high yield. And we're currently screening around £200m of acquisitions. We operate in a large market; I mean there is around about 900 shopping centres in the UK. As we've said before we know what we want to buy, who owns the stocks and you know what we've been doing over the last sort of 12 months has been very disciplined and patient. But we're confident that we'll be able to buy high yielding assets with a low risk profile.

And then on your question around asset management, yes we have discussions ongoing with a number of local authorities and we see this as a potentially growing area of our business.

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Sander Bunck, Barclays
Actually a couple of questions on the Hawthorn acquisition of this morning a bit back on the question of valuation yields, because obviously we see actually very limited transactional evidence for these kinds of assets. You mentioned before that you were looking at a number of acquisitions, but that pricing hadn't really come your way yet. Is this one of the acquisitions where pricing actually now has come your way and where you feel - can you give us a feeling of the net initial yields, how it reflects to or compares to others, especially if you look at the book value of the current pubs where net initial yields are still quite a bit below that number?

And also did you pay anything for the platform and is there any debt in the business?

And lastly, on the LTV, LTV is now moving up to about 30%, I know the maximum LTV target is around 40%, how comfortable do you feel going back up to that 40% and when would you say, given that the yields that you are already producing are attractive enough compared to peers, would you say actually perhaps 40% is a bit much, something around the current number of more - we're looking at at the moment?

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Mark Davies, Chief Financial Officer
Thanks Sander, I think there's about four of five questions there, if I don't pick them all up … I've got it written down, but if I've missed anything come back to me. You asked about evidence and pricing and you specifically refer to the Hawthorn Leisure transaction that we were really pleased to announce this morning. So this is our third transaction in this sector, Marston's in 2013 and we bought a portfolio from Punch in 2015. If you look at those transactions and everything that we've looked at during that period typically the yield profile has been between sort of 12 and 14%. And there is no evidence that really suggests that that is about to change.

If you look across the sector we think there's a great opportunity to acquire more assets at this sort of yield profile, delivering the sort of returns that we've talked about this morning. If you look at the owners of these portfolios, particularly the listed vehicles, they're highly leveraged and therefore you know I'm going to answer your gearing question in a second, if you look at their gearing ratios compared to ours you know there's a huge delta there.

So naturally there will be more assets, more portfolios that will become available to us, we now have a proven track record of doing three deals in the market. We have a good team at NewRiver, but it's a small team because we historically have relied on Marston's and others to manage our pub business for us, but of course we now, as I've said earlier have a really high quality management team and a platform that we have acquired today.

You asked about did we pay anything for the platform and did we pay anything for the business. Clearly we have bought a portfolio of assets and we feel we've bought that at a very good price, a very good yield and at a discount to the true underlying value.

I'll be careful what I say because the guys are in the room but I've said they're best in class but we've not paid for the brand and we've not paid for the platform. But clearly we think there's great value there and there are synergies of at least £3m which again we believe we've not paid for. So there's a lot to go for and we start in a good place with a yield of 13.6% at the portfolio level.

There will be scale benefits at the purchasing, there will be scale benefits logistics and distribution and a whole range of other back office functions from marketing, finance through to insurance and others. And all of those are very clearly identifiable. I think that answers all your questions on Hawthorn Leisure but I will come back if I haven't.

On loan to value you know we've always had a very sensible gearing policy. We have always discussed that with our shareholders. Some shareholders would quite happily see some higher gearing and many would prefer lower. We've deliberately set our guidance at 40% or less. We'd be quite happy for our gearing to go up to between 35% and 40% but we are absolutely intending to keep it below 40%. We think that's really important at this point in the cycle.

You must also look at interest cover because interest cover is also a very important banking covenant. It's a very important bond covenant and we think is in many ways equally as important as loan to value. And our interest cover is over five times so that's a reflection of the cash that the portfolio generates. So we don't always and only look at loan to value, we also look at balance sheet gearing and we also look at interest cover. And therefore absolutely this acquisition takes our pro forma gearing up to around 33%, 34% and we're quite happy to do more acquisitions. And we've got the support of the debt and the equity capital markets to be able to do that.

I think that answers your four or five questions. Have I missed anything? No, thank you.

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David Prescott, Kempen
On the Hawthorn acquisition again, sorry, just a few questions around absolute valuation. So is there anything you can say about pricing versus construction costs? And where that yield backs out to in terms of rents per square foot, just to get a sense of how it fits versus the rest of your portfolio.

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Mark Davies, Chief Financial Officer
Good question. When it comes to valuation I think the right time to answer that question is when we publish our first valuation in September so you'll see exactly what we've bought and that will be disclosed obviously and independently valued at that time.

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Allan Lockhart, Chief Executive
The reality is that our experience from Trent and the portfolio that we acquired, the two portfolios we have acquired, the replacement cost which is effectively the construction cost if you had to replace it, is way; way in excess of the valuation that we acquired those portfolios and it would be very similar for the Hawthorn acquisition.

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David Prescott, Kempen
And another question on maybe the costs in the platform that you're buying. You talk about £3m of synergies, what is the kind of cost in that platform at the moment?

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Mark Davies, Chief Financial Officer
Two ways of looking at it David, you can look at the cost per pub which is running around about just under £15,000 per pub. The total overhead of the platform that we've acquired today is running just north of £4.5m. We have our own platform of course which comes at a cost. And clearly at the point that we amalgamate the platforms, the portfolios, there's going to be significant savings in cost. But most of those savings are purchasing, logistics, really come from scale by putting the two portfolios together and it's one of the reasons why we really like the asset class. It's very scalable and we can identify the scale benefits at this time before we even own the portfolio.

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David Prescott, Kempen
Great thanks.

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Matt Saperia, Peel Hunt
All these questions about pubs is making me a bit thirsty but there is one more I've got. You talk about the opportunity to buy more and you talk about the benefits of scale. Obviously you've got a 20% cap on your exposure to pubs. Does that remain a firm cap or can you see that being relaxed as we move forwards?

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Mark Davies, Chief Financial Officer
Well the 20% is a self-imposed discipline or guideline and it's one that's been carefully considered because we've been discussing that with shareholders, banks and bond holders over the last year or two. So that was the right threshold from where we've come from.

Because we've now got to that level and we're really glad that we have, we now have an infrastructure, a platform, that gives us confidence about the future of our pub and convenience store business. One of the things that Allan and I will be doing on this road show, talking to our shareholders. Clearly they'll have lots of questions about this particular acquisition as we've had this morning. It's bound to stimulate interest because it's clearly very profitable and a great deal for the company, but naturally as you've asked rightfully people, our shareholders, will want to talk about the future.

We'd quite happily increase that threshold. But we'll only do that when we have the blessing of our shareholders who ultimately own the business. And from the early conversations we've had this morning; because we've already been speaking to shareholders this morning, we believe there will be support to do that in due course. But clearly we're not ready to commit to that today. And now that we have an infrastructure and a platform we think it's highly appropriate to be looking at that threshold and we'll make further announcements in due course.

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Keith Crawford
Just one or two more things about this pub portfolio. Are these all over the country these pubs?

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Allan Lockhart, Chief Executive
Yeah, geographically well spread.

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Keith Crawford
And there's going to be some ugly mugs as well as beauties I take it. Are some over rented, not any over rented?

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Mark Davies, Chief Financial Officer
This is a high quality portfolio, it really, really is.

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Keith Crawford
Okay. And you will sell some of these perhaps or you would not be thinking that? Will you be trading some out?

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Mark Davies, Chief Financial Officer
Well we're investors and we're long term investors in this asset class but we have sold pubs. There's actually quite a, dare I say, liquid market. In the private market there's always demand for these types of assets. Very often communities get together and put bids together to acquire these types of assets and we've got evidence of that in our existing portfolio.

We will always look to recycle capital if we think we can get better returns and we're open-minded about that. We've done an enormous diligence on this portfolio. Myself and the NewRiver team have seen every one of these assets during the transaction and we really like the portfolio. It's been well invested, lots of capex has gone into the portfolio over the last two or three years.

So typically when you look at any portfolio there's a bit of good, bad and the ugly. You started with the ugly Keith but there's not much ugly in this. It's a really, really good quality portfolio and the management team have done an excellent job.

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Keith Crawford
And the vendors have reached some sort of timing point in their own lifecycle, it's one of those?

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Mark Davies, Chief Financial Officer
Private equity, revenue capital in New York, credit fund, they're not long term owners of these types of assets and we were really delighted to agree a deal with them to buy this portfolio and the business comes for nothing.

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Keith Crawford
This is an interesting hard driving business; I hope you don't mind me saying this. The presentation clearly presents that the diversification through rapid expansion has been justified. This rapid expansion in this business has been justified by a very substantial reduction in risk, in other words the risk of any individual aspect. This is certainly not true of leisure and particularly retail and even other retail property companies. It's by no means widespread. You've done much better on this than most. And I quite like this slightly theatrical touch of working so hard, you work in the middle of the night, to get the announcement out on the right day because we do like timing in the City. Thank you.

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Mark Davies, Chief Financial Officer
Thank you Keith.

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Allan Lockhart, Chief Executive
Well I think that's the last of the questions. Thank you very much for attending our full year results presentation, we really appreciate it. Some of our advisers are in here today; we'd like to thank them for their support. And we have a shareholder also in the room today and we'd like to thank our shareholders for their continued support. And Mark and I are looking forward now to getting out and seeing our shareholders and presenting our results. So thank you everybody for attending.

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