NewRiver REIT plc

Half Year Results Presentation

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NewRiver Retail

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Introduction & Highlights

Allan Lockhart, Chief Executive
Good morning everybody and welcome to NewRiver's half year results. I'm going to start proceedings by giving you an overview of our key highlights and what we're seeing in our markets. Mark is then going to take you through the financial highlights and also give an update on our Pub business. I'll then review the operational performance of the Retail portfolio, give an update on the strategic initiatives that we identified at the full year and end with our outlook.

Now despite the negative sentiment towards retail, our performance during the period has been solid. And that's because of our active approach and because we're invested in the right part of the retail market which is growing, and where we are confident that the physical store will continue to play an integral role in the years ahead.

We have a well-balanced and diversified portfolio and we've benefited from our capital allocation decisions, including an increased waiting into community pubs where we see further opportunities. We're fully aware of the trends in our market and we have designed strategies to respond and benefit from them. And importantly, our strong balance sheet remains well positioned and we have capacity to deploy.

And now on to the key highlights for the first half. Our operational metrics demonstrate the resilience of our portfolio, with occupancy maintained at over 96%, even with the impact of CVAs, and shopping centre footfall continuing to significantly outperform the UK benchmark.

We have seen active demand from retailers with leases signed on over 650,000 sq ft of space, with long term details on terms 11% ahead of previous passing rents.

Our balanced and diversified portfolio has delivered FFO of £25.3m, and a resilient NAV per share of 283 pence with the reduction in NAV due principally to a modest decline in portfolio evaluation.

Dividend per share grew by 3% to 10.8 pence, reflecting our confidence in the long term sustainability of our cash flows. It's not fully covered in the first half because we have deliberately held back full capital deployment in anticipation of better buying opportunities.

Importantly, at 35%, our LTV is well within our stated guidance, which gives us fire power.

We've made good progress on our development pipeline, most recently achieving practical completion on our retail park development in Canvey Island, and on our strategic opportunities, where we've identified the potential to deliver up to 2,400 residential units across our Retail portfolio. As well as signing our first Asset Management Agreement with Canterbury City Council.

We deployed £150m of capital into accretive acquisitions during the period, starting with the Hawthorn pub business in May. And we've been active in our core retail markets too, acquiring Grays Shopping Centre and a retail park in in Barrow-in-Furness during the period.

Finally, we're on track to recycle around 5% of our portfolio in FY19, with £15m of disposals completed in the period ahead of book value and a further £44m completed post period end or currently under offer.

Before talking about our market, I want to spend a moment looking at our valuations and then demonstrate how we've changed the composition of our portfolio over time.

Starting with valuations, the chart on the left hand side shows our portfolio yield over the last four years in dark blue and how that compares to other IPD sectors represented by green, pink and purple lines. You can see that there's significant headroom between us and the wider market. The turquoise shading in the background shows the yield gap between our portfolio yield and the IPD All Property yield.

It's currently elevated to over 300 basis points due to the acquisition of Hawthorn Leisure. But looking at the four year period in the chart, the gap has always been around 250 basis points. So our portfolio is sensibly valued, particularly when you consider that our occupancy rate is higher than the IPD Industrial, Offices, and Retail sectors.

Turning now to disposals, the assets we sell are typically either mature assets where our estimates of forward looking returns are below target levels or where we've completed our asset management initiatives, assets where we believe that the risk profile has changed and assets sold to special purposes.

The chart on the right hand side shows the disposals completed year to date. And those we plan to make over the remainder of the financial year. What it shows clearly is that we're committed to recycling capital and that we are doing so ahead of March 2018 valuations.

Next on to the changing compositions of our portfolio over the last five years, which shows we have maintained our specialism in convenience and community assets whilst diversifying our income streams.

The chart on the left shows that five years ago 86% of our income came from shopping centres with the remaining 14% from high street assets. The chart on the right is our position today, which shows that we are not just a shopping centre owner, as 40% of our income comes from pubs and retail parks. And you can see the inherent diversification we have, almost 900 different occupiers in our retail portfolio and over 600 individual tenants in our pub portfolio.

Moving on to the markets. The retail market continues to face well-publicised pressures and the drivers remain the same as those discussed at the full year - too much retail space, low consumer confidence and the continued growth of online.

The chart on the left 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.

In fact, the discount sub-sector - which includes names such as Aldi, B&M, Home Bargains, Lidl and Poundland - is actually forecast to grow faster than online over the next five years, and it's one of our focused sub sectors.

Another area expected to experience significant growth is click & collect, which has grown by 12% in 2018 and is forecast to grow by 46% over the next five years. And we will benefit from this given that our assets are highlight accessible and conveniently located.

The chart on the right hand shows the importance of a physical store network for a NewRiver's focused sub sectors. GlobalData forecasts that in 2023, almost 90% of the sales in our area of the market will still be conducted in store which compares to just under 80% across the entire retail market and less than 70% in all other sub sectors.

So in summary, we've confident we're invested in the right area of the market which is growing and where a physical store will remain vitally important.

And this slide demonstrates the point clearly. It shows which operators have been taking space over the last 12 months across the UK. You can see it's those operators focused on convenience, value and service, i.e. those areas with low internet penetration and which we are focused on.

Many of these operators don't have a transactional website, and those that do understand its relationship with their store network. For example, TheWorks.co.uk, which is a listed value retailer specialising in toys, books and stationery, stated recently that one third of click & collect customers make additional in store purchases. As you can see from this slide these are the type of retailers found in our portfolio and we've done deals with many of them over the last 12 months.

Now I'd like to hand over to Mark to discuss the results.

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Financial Results

Mark Davies, Chief Financial Officer
Thank you Allan and good morning everybody. I'm pleased to be reporting a robust financial performance in the period in our tenth financial year. And I'd like to start by talking you through the key financial highlights.

Our funds from operations were £25.3m - the prior period is a strong comparative and included a £2.2m of promote fee. And the Hawthorn Leisure acquisition is already making a positive contribution after four months of ownership and the synergies are coming through, £3m expected to start coming through in the second half.

Our admin costs actually reduced on a like-for-like basis to £5.8m. Total admin costs of £7.7m do include the acquisition of Hawthorn Leisure.

Our net finance costs increased during the period, this reflected the increase in drawn down debt to support our acquisitions.

Our dividend per share, 10.8 pence, is an increase, again, by 3% and I'll speak more about dividend cover later.

Our adjusted FFO figure demonstrates yet again the very low maintenance capex figure in our portfolio during the period of just 0.03% of our portfolio valuation.

So to conclude, we remain a very profitable company. We do generate robust cash flows from our convenience led and our community focused portfolio.

Turning now to our net property income bridge for our Retail portfolio. Our room this morning is full of analysts so I know that you like to see this slide that bridges our income from where we were last year.

First of all on the Retail side, adjusting for the Bravo Promote received last year, our net property income actually increased from £31.2m to £32.4m.

Overall like-for-like income is down marginally by 0.5%.

CVAs have had an impact, albeit a quite modest one, which has been offset by 1.9% increase in underlying like for like income.

Acquisitions increased net property income by £3.8m, this included the acquisition of Grays Shopping Centre and the Hollywood Retail Park in Barrow.

Our disposal programme is delivering results, reducing net property income by £1.3m and our prior period surrender premiums, where we've removed occupiers to facilitate asset management initiatives, has reduced income in the half year by £1.1m.

Now moving on to our Pub portfolio and bridging of the net property income which has increased from £6.7m to £10.8m during the period.

Firstly the final transfer of assets that came across from the Marston's agreement, this was always expected to incur some income disruption. And, although we've seen a reduction in income during the period as you can see from the slide of £1.1m, We do have the opportunity to get all or most of this back when we transfer the management of these assets onto the Hawthorn Leisure management platform, which we expect to complete in January of next year. More on that later.

During the period we had 19 convenience stores open and trading in the portfolio compared with 11 this time last year. And this added £0.3m to our net rents.

The acquisition of Hawthorn Leisure, again I'll talk in detail about this later, it added about £5.5m to our net property income in a relatively short period of time. So you can see the positive contribution that acquisition is already making.

We did actually sell 14 pubs during the period and 11 the last financial year which has reduced net property income but by £0.3m. But of course it's always good to recycle assets.

Looking ahead we've made some good progress in unlocking the scale-based synergies associated with the Hawthorn acquisition with £1.7m of the £3m of total annualised savings already agreed to date. And we expect to start seeing the financial benefit of these savings and synergies by the end of this financial year.

Now on to our strong dividend track record. You can see that we have delivered a progressive and growing dividend consistently over a number of years. During our first half our dividend per share increased by 3% at 10.8p and today we announced our Q3 dividend of 5.4p which is also a 3% increase on last year.

We remain committed to a fully covered dividend and this of course is a key financial policy and discipline for the company.

Now on to dividend cover. I mentioned on the previous slide our commitment to a fully covered dividend. There are of course a number of ways by which we can get that, and this slide aims to bridge our current FFO to our current divide.

To provide more detail around this bridge, we've set this slide out into three sections which sets out the key drivers towards a fully covered dividend. Firstly, there's the annualised benefit of the acquisitions that we've already done. Secondly the synergies I mentioned on the Hawthorn acquisition, which will start to come through in the second half. And of course our development projects are will deliver rental income at the point of completion, and this slide includes the Canvey Island project but also our continued C-store programme.

And finally we do have financial capacity on balance sheet and in joint ventures in anticipation of some good buying opportunities that we expect to materialise in the future. If we were for example able to acquire assets at a very conservative yield of 8% that would get us there. But clearly at this stage there is evidence to suggest that we may well do better.

Moving on to the balance sheet. The balance sheet is in great shape following the work that we did in the capital markets in FY'18.

Investment property has increased to £1.4bn following the acquisitions to be completed. Our EPRA NAV per share has decreased by 3% to 283 pence per share, predominantly due to the modest valuation decline which Allan will cover in some detail later.

Our LTV is 35% in line with our guidance which we announced when we completed the acquisition of Hawthorn on the 24th of May.

And we were really pleased that Fitch ratings recently affirmed our senior unsecured credit rating of BBB+ with a stable outlook.

And finally, and most importantly, all of our debt is unsecured, all of our assets are unencumbered, and this is a great place to be in this market.

Next on to our NAV bridge. Overall our EPRA NAV is down by 9 pence at around 3% principally due to two reasons. The dividend cover is to be paid out over 2 pence of dividend not currently covered by FFO and due to the modest reduction in our portfolio valuation which I mentioned Allan will talk about in detail later. This reduction was, however, partly offset by the bargain purchase - negative goodwill for us accountants in the room - linked to our acquisition of Hawthorn Leisure.

Next on to slide 17, I'd like to spend a moment talking about our debt structure. Thanks to our timely efforts in the capital markets in FY18 we've now a fully unsecured balance sheet. All of our assets are unencumbered, our debt structure is therefore covenant light.

We have a debt maturity of 7.4 years with no refinancing events until 2024. We have about £200m of cash and undrawn facilities available to us.

And finally, we retain a low cost of debt of 3.2% versus a portfolio valuation yield of 7.8%, this is a healthy arbitrage, and the business continues to generate cash.

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Property Review: Pubs and C-Stores

Mark Davies, Chief Financial Officer
Now on to the property review for Pubs and Convenience stores. As I'm sure you're all aware I now have executive responsibility for our Pub and convenience store portfolio. I really enjoy looking after this part of the business, it generates high returns and is full of value creating opportunities as I'm about to demonstrate.

Starting off with a general overview of the Pub portfolio. As you know we've been in pubs now for some time, since our first deal back in December 2013 with Marston's. And today we have over 600 community pubs around the UK which accounts for about 20% of the NewRiver portfolio.

Our pubs are predominantly wet-led and in community and neighbourhood locations. They offer diversification and often have excess land available for development.

Lastly on this slide and not to be overlooked, our historical pub performance has been excellent, delivering an unlevered IRR since inception 14%.

Now just as a reminder I've mentioned it but in a bit more detail on the 24th of May we completed the acquisition of Hawthorn Leisure. This is proving to be an excellent and profitable acquisition. We acquired a high quality portfolio of 298 community pubs, a well-recognised brand and market leading pub management team and platform, who are in the room this morning.

The enterprise value of £106.8m represented an attractive net yield of 13.6%. Integration is progressing well and we expect to complete this process in early 2019. And as I mentioned previously we have already unlocked £1.7m of the synergies of £3m identified at the time of acquisition. And this is principally through the renegotiation of our supply contracts.

A key way we unlock value from our Pub estate is through residential development and our C-store programme with the Co-op, predominantly building on excess land typically adjacent to the Pub assets. An example of this is Shavington's Co-op that we opened during the period, on the right hand side, and we currently are on site with four c-stores which we expect to complete by the end of the financial year, bringing the total delivered to date to 25.

And finally one of the things we really like about this sector is the opportunity to acquire assets at a really attractive price and create value through our asset management and development expertise and then recycle that into a profit.

This is a really good example - The Railway Tavern in Chorley. This was a site acquired from Marstons back in 2013 yielding 12.8%, we paid £284,000. Since we acquired the site, firstly we sold off the excess land there for £36,000. Secondly, we secured planning consent, number two on the slide, for nine residential units in the surplus car park. We currently have that under offer to a local developer for £450,000. And then last week we were really delighted to complete the sale of the pub, The Railway Tavern, to a private nursery operator for £450,000. The operator has now secured planning consent for change of use. That's a capital profit of well over £600,000 on an initial investment of £284,000 and of course we received a high income return on the pub during our period of ownership.

This is a great example of the residential and alternative use potential within our Pub portfolio and I look forward to showing you many more of these examples in the future.

I would now like to hand back to Allan to talk you through the Retail property review.

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Property Review** - **Retail

Allan Lockhart, Chief Executive
Thank you, Mark. And Mark failed to mention that actually one of the reasons he really does enjoy running the Pub business is that he gets the opportunity to have a pint of Guinness on his site visits.

So, to start, to just want to spend a few moments looking at our position within the wider listed retail sector.

Looking at the operational metrics across the top of this slide, our average rent at £12.48 per square feet is the lowest in the peer group, and substantially below the peer average. We feel this is very important because, if the recent spate of CVAs and tenant administrations have shown us anything, it is that rent affordability, and not lease length, is the determinant of income sustainability.

Moving onto our department store exposure, it is less than 0.1% - again, the lowest in our peer group, which is because we've used our specialist real estate sector knowledge to handpick our portfolio, so we've intentionally avoided structurally-challenged sub-sectors, such as department stores, mid-market fashion and casual dining.

Our retail occupancy, at 96.2%, is in line with the peer group due to our affordable rents and robust occupier demand for our high quality locations.

And looking at the financial metrics across the bottom, our average shopping centre lot size is just £24m, by far the lowest amongst our peers, and, as a result, our assets are far more liquid.

Our shopping centre yields are the highest amongst the peer group, which clearly shows we are less reliant on rental growth at our assets.

And, finally, our LTV remains amongst the lowest in our peer group, reflecting the conservative management of our balance sheet.

I'll now look at some of those areas of differentiation in a bit more detail.

First, in terms of the makeup of our portfolio, this slide will look familiar to many of you. It shows the highly diversified nature of our retail occupiers and, therefore, our income streams.

As at September 2018, we had over 1,800 leases and almost 900 different occupiers.

The table on the right shows that our largest occupier, Poundland, represents just 1.9% of our rental income, well within our own policy that no occupier should represent more than 5% of our total rent roll.

And just looking at the names in our top 10 occupiers, our focus on convenience and value for money on everyday essentials is clear to see. The majority of these retailers are posting good results and growing their estates.

Now, looking at valuations, our portfolio valuation declined during the period, albeit modestly, reflecting the headwinds and negative sentiment in the retail sector. Our shopping centres and high street assets saw valuation declines of 2.7% and 2% respectively, which was partially offset by a small uplift in our development valuations.

Our retail park valuations were flat, reflecting our affordable rents, liquid lot size and that our retail parks are focused on providing convenience and value for money on everyday essentials.

During the period, we completed a review of our entire Retail portfolio which showed that its alternative use value, predominately as residential, is 85% of its current retail valuation. So what that tells us is that our well-located portfolio is conservatively valued and that we're effectively sitting on a land bank with an income stream.

Onto our community Pub valuations, which reduced 0.9%, albeit that does not include the impact of the bargain purchase on Hawthorn Leisure which we acquired at a 9.5% discount to valuation.

And you can see, at the bottom of this chart, that we outperformed the index by 230 basis points with a 2.4% total return in the half, with 110 basis points of outperformance from both income and capital growth.

And, looking at our yields, this slide shows the equivalent yields for our shopping centres on the left, and the retail parks on the right. Each dot represents one of our assets, and the solid light blue line represents the IPD equivalent yield for shopping centres and for retail parks respectively.

Across our shopping centre portfolio, yields are consistently higher than the IPD benchmark, and, in most cases, by several hundred basis points. In fact, the only assets which are below the benchmark are two of our Greater London assets in Penge and Bexleyheath. And, as you can see on the right, all of our retail park yields are comfortably ahead of the IPD benchmark.

So these are high yielding assets with low average lot sizes, meaning they produce strong cash returns for our shareholders, with good liquidity.

We continue to make disciplined acquisitions in the period, completing over £35m of transactions across two great assets – Grays Shopping Centre in Essex, and the Hollywood Retail and Leisure Park in Barrow. For both of these we had a clear strategic rationale for acquiring them, and we have already identified a number of value-creating opportunities.

In Grays, in Essex, we have early stage plans to meet demand for a budget hotel, budget gym and a discount food retailer, and to meet demand for much needed housing in the centre of this growing commuter town.

In Barrow, we have bought a well-located asset with a strong occupier line-up, and we're already underway with work to combine two units to introduce a new Aldi store which, on completion, will provide the primary discount food offer for the community in Barrow and make the park fully occupied.

Another key part of our business model is our active asset management, and I just want to pick out one example here, where we've made significant progress over the period.

South Lakeland Retail Park in Kendal was acquired from Morrisons in July 2015. It's the only retail park in the town, and benefits from a strong retailer line-up and is adjacent to a high-performing Morrisons food store.

In June 2018, Next vacated a unit at lease expiry because we were unwilling to accept their renewal terms. So, instead, we signed a 10 year lease with B&M in October 2018 on terms ahead of the rent we were receiving from Next, and B&M are currently fitting out and will be opening at the end of this month.

B&M is already a top 10 occupier for us, and this is the third lease we've signed with them since the start of period, having constructed a new unit for them in Beverley and introduced them to our asset in Speke, Liverpool.

So this is just further evidence of how our active approach and affordable rents ensure that we can continue to sign leases on favourable terms, even in a tough market.

And we've applied our active approach to mitigate the impact of CVAs. Many of the CVAs in the past 12 months have had no impact on our business as we've deliberately limited our exposure to casual dining and mid-market fashion, and have almost no exposure to department stores, just £100,000 of rent, which is less than 0.1% of our rent roll.

The bar chart on the right shows our progress with the CVAs which have impacted our portfolio, those we talked about at the Full Year, and those that have happened during the period. What this shows is that we've successfully mitigated the impact of those CVAs announced during the last financial year.

When we announced our results in May, we expected £900,000 of FFO impact from CVAs in FY19, and we've reduced that to £700,000 by renegotiating the terms of the CVA with New Look.

Since the start of this financial year, a further £1.9m of our rent roll has been impacted by CVAs. It's early days, but we've made good progress to date. £1m of that rent was either not impacted or has already been relet. That means the expected impact on FFO in the current financial year is £900,000, so that's £1.6m of FFO impact in FY19 in total.

And we expect the annualised FFO impact to be around £1m - that's less than 1% of our rent roll.

In summary, we've not been immune to the impact of retailer failures this year, but our positioning has meant that we've avoided many of them, and our active approach has meant that we've mitigated the impact to date, and we expect to continue to do so in the future.

One of the key ways in which we add value is through our risk-controlled development pipeline, and we've made good progress in the first half.

We completed over 20,000 square feet of developments, and started on site with a further 77,000 square feet. The majority of that is at Canvey Island Retail Park, which I'm pleased to report, reached practical completion this week.

In Canvey, we are looking forward to M&S Foodhall, B&M, Sports Direct and Costa Coffee fitting out and opening early next year.

Once these occupiers are moved in and the scheme is fully let, that will turn on an additional £1m of rental income.

As you can see from the left hand chart, our risk-controlled development pipeline stands at 1.8 million square feet, and the majority of this is residential development above, or adjacent, to our shopping centres in Burgess Hill, Cowley in Oxford and Penge. And you can see on the right hand side that this includes one million square feet of valuable planning consents that we've already achieved. And, as we've always said, we can profitably crystallise value from these consents at various stages in the development cycle.

At our Full Year Results back in May, we identified a number of long-term strategies that we believe will allow us to benefit from the changes and the way we live, work and consume. These are long-term strategies, and it's early days, but we've made great progress on two of these strategies in particular, and I'd like to spend a few moments on them.

So, turning first to asset management platform. There's been a growing trend over the past few years of local authorities purchasing shopping centres to take control of their town centres and better serve their communities, and we expect this trend to continue.

However, in most cases, these councils lack the expertise or relationships to successfully manage these, so they seek a partner with skill and a proven track record to manage these on their behalf. And, with NewRiver, they get the added benefit of partnering with a last listed entity which brings greater governance and assurance.

We therefore decided at the Full Year to actively market our asset management platform to third parties, such as local authorities, and we've made significant progress in this area.

In September, we signed our first Asset Management Agreement with Canterbury City Council for the Whitefriars Shopping Centre. Under the terms of the Agreement, NewRiver will receive a fee calculated as a percentage of the net rental income. We're thrilled to be coming on board at the Whitefriars Shopping Centre, and we're also pleased to report that we're already in discussions with other local authorities to expand our platform further.

Looking next at residential. National planning policy is hugely supportive of residential development in town centres. Because our shopping centres are located in the heart of communities across the UK, they are ideally suited to residential development.

During the period, we completed a strategic review of our portfolio, through which we identified the potential to deliver an additional 1,300 residential units over the next five to ten years. This is in addition to the 1,100 units already in our risk-controlled development pipeline which, together, have the potential to generate up to £140m of development profits.

You can see the forecast phasing of these developments by financial year in the chart on the right-hand side of this slide. In the dark blue, our risk-controlled development pipeline includes residential developments in Burgess Hill, Cowley in Oxford, Stamford and Bexleyheath.

The longer term pipeline, shaded here in the lighter blue, is where the new opportunities have been identified, such as at our centres in Boscombe, Cardiff, Hastings and Grays.

So there's lots to play for there, and we're now conducting further feasibility studies on these new opportunities.

So, to wrap up, we're in good shape, and we look ahead with confidence for the following reasons; we are invested in the right area of the market, our portfolio is very stable, balanced and diversified, our key retailers are actively taking space and we expect that trend to continue. We have clear strategies that will allow us to benefit from the changes in the Retail market, and we believe that our Pub business will provide earnings and capital growth post integration. Finally, the strength of our balance sheet gives us the capacity to deploy capital into highly accretive acquisitions.

And now Mark and I would be happy to take your questions. Thank you.

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Questions and Answers

David Brockton, Liberum
Good morning. Could I ask two, please? The first one relates to acquisitions. You stated at the outset that you've deliberated held back through the period. Could you just give us some further insight into your expectations for where you will deploy capital over the course of the next 18 months or so, firstly, into retail, given the changing landscape there? Are you going to hold back and wait? Are you seeing any interesting opportunities to date? And, secondly, into the Pub portfolio as well, and your thoughts there in terms of expansion in the near term. That’s the first question.

And, actually, the second question related to the performance fees in respect of the C-store programme. I think you stated there is a £1.6m to date. Are we through the sort of majority of those now? Should we expect a sort of de minimis contribution from here on? Thank you.

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Allan Lockhart, Chief Executive
Well, we have so far deliberately held back deploying capital into shopping centres. If you look at the capital that we have deployed over the last six months, and this calendar year, the majority of that has gone into pubs and also retail parks. And that's just reflected that we felt that the better buying opportunity, from an entry price perspective in shopping centres, was ahead of us. But we are starting to see opportunities now coming through from a pricing perspective and we think will allow us to deploy capital very carefully and very selectively into shopping centres.

We are confident that we will be able to source opportunities, both in terms of retail parks, which has been a very successful and growing part of our business, and also pubs, particularly once we have really completed the integration of the Hawthorn Leisure business into the NewRiver business.

Do you want to comment on c-stores, Mark?

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Mark Davies, Chief Financial Officer
Yeah, thank you, David. You’re right - we received the significant performance payment, the £1.5m, last year.

The way the arrangement works with the Co-op, from here onwards, every single store that we deliver we get a fee. The fee depends on the particular location and the site, and would start at sort of £75,000 and goes as high as £200,000 for locations that they would really want to be in, so they're prepared to pay at higher fee.

And, I think I said earlier on in the presentation, that we expect to complete another four convenience stores by the end of the financial year. So it all starts to add up.

And I would just add to Allan's comments about the ability to deploy capital into the pub sector. Clearly, we're really delighted with the Hawthorn acquisition, it is a profitable transaction for us. But what is also does for us, we believe, and there's been plenty of evidence of that in the four months or so of ownership, is that it's going open the door to opportunities that would not have been available to us historically.

We're getting approaches from brewers and private equity and a whole range of businesses that recognise that there's value in this sector, and they're trying to unlock a way of getting into the sector.

Of course, we've got a really great team, a great platform that we can use to leverage from those opportunities, either on our own balance sheet or in joint ventures.

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Sander Bunck, Barclays
Hi. Morning. I've got two questions. First one, on the comment you made around alternative use and the valuation of that. So, if I understood correctly, 85% of the current portfolio valuation is kind of supported by current residential values. Does that mean that it includes all the costs of knocking down the existing centres and building up the new residential? And, how do valuers look at it today? Do they take that into account in the valuation? Should we see that as, kind of, as the worst downside that there potentially is or how should we look at that?

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Allan Lockhart, Chief Executive
Well, in terms of the alternative use, what we did was looked at our entire retail portfolio - it obviously excludes pubs - and we then built up residual individual appraisals for each of our assets on the scenario that we remove the retail and that we predominately came forward with residential-led developments.

So, yes, it does include demolition and construction. And what's really pleasing is that, in essence, our retail valuations are only 15% higher than the alternative use value. And we think that, over time, that gap is going to close. But that's not to say that we don't have confidence in our Retail portfolio. We do, because we know how important the physical store is to a vast majority of retailers that are very much focused on that value for money to UK consumers and everyday essential items. So there's still a very strong future for our Retail portfolio, but we have that added benefit and the reassurance that our Retail values are very close to being unpinned by alternative use value.

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Sander Bunck, Barclays
And so, just to follow up on that, and valuers do take that into account in their valuations today or not quite yet?

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Allan Lockhart, Chief Executive
No, they haven't take that into account. This is an exercise that we thought would be a very interesting exercise to look at to see what the relationship was, and it's very reassuring from our perspective.

Where the valuers do take account of alternative use in residential is where we've advanced a development project, particularly through a master plan, or securing a planning consent, and then they start to take that value into account.

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Sander Bunck, Barclays

And then the second question, which relates to the dividend. Obviously, you grew the dividend again today. You're now, I think, by quite a margin, the highest dividend yield player in the sector. You obviously need to grow into your coverage, which is fine. Going forward, do you expect to retain that growing dividend policy or, actually, do you allow yourself some room to give a bit of space and build up a bit of coverage, or are you quite happy with a persistent 100% dividend pay-out going forward, and, therefore, also, grow the dividend after this year?

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Mark Davies, Chief Financial Officer
I think there's a number of questions within the question, so I'll try and deal with them all.

I think with dividend, I think the important thing is to recognise the track record and, obviously, by increasing the dividend by 3%, I think that's probably a real measure of confidence that the management have in the sustainability of cash flows in the business.

Clearly a 77% cover at the half year, we recognised that that's something that we want to move away from. It was one of the reasons why we put, in the presentation pack, a slide on how we can get to dividend cover.

There are, of course, a number of ways that we can get there. All we can really say is that we're committed to a growing and progressive dividend. And, as we always have done, with the exception of one year in our 10 year history, we've always had a full covered dividend. We don’t have that in the half-year. So we're very, very committed to get there. And there are a number of ways that we can do it, and we're confident we will get there.

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Keith Crawford, Peel Hunt
Yes, good morning. There's quite a lot of interesting things here. It looks as though the Hawthorn acquisition has increased the value of the business, and the savings that you're expecting, or synergies, are significantly greater than the voluntary agreement, very significantly greater, so that's very nice.

The retail parks here have not fallen in value, whereas they have done in the other declared companies, the giants, partly because they bought from the same place, frankly. That was always coming. But that's good, that's very good.

You've raised the dividend. I'm assuming you wouldn’t do that if you had any discomfort about raising the dividend despite however uncomfortable some of us may be about some corners of the retail market. So that's all interesting, and all good.

And the development surpluses, of course, what you're saying, in potential, is a very substantial figure. It's 20%-ish of the existing market cap actually. I mean, it's very interesting from two points of views; first of all, whether you would expect that you have to sweat it out and wait two or three years, whether you can advance any of that, and whether you would be thinking, possibly, about bringing down the loan rate at a time when you don't have to but people like it?

. . . .

Allan Lockhart, Chief Executive
In relation to going after the inherent development value within our portfolio, we do have options around that in terms of we could sell sites with the benefit of planning consent and take a cap, obviously, in excess of book value. That’s one way of crystallising profit and value.

The second way is for us to procure the residential development opportunities in strategic joint ventures with housing associations, residential developers, PRS, institutional capital, and we have got discussions running with a variety of those types of operators.

And then the third option is for us to build it out ourselves.

So, as I said, we've got the ability to crystallise value through the development cycle, and we're working our development projects, it's what the most appropriate exit strategy.

So, what was your second question, Keith?

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Keith Crawford, Peel Hunt
Well, it's really whether you would be thinking of bringing down the LTV effectively, or would that be hard?

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Allan Lockhart, Chief Executive
Our balance sheet is in great shape, as Mark was saying. The LTV is well within our stated policy. Obviously, we're recycling assets at the moment. We're on track to sell 5% of our portfolio this year. And we will maintain the LTV in accordance with our financial policy.

So, we're comfortable at the current level. We have fantastic interest cover, amazing diversification through the portfolio. As we were demonstrating earlier, we've been able to sell assets ahead of March 2018 book value. So I think we're in pretty good shape and comfortable with the LTV.

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Keith Crawford, Peel Hunt

It was also interesting to see that both Land Securities and British Land are joining you in this. They've woken up to the fact that, unfortunately, post-Brexit, people will still have to live in the suburbs and the southern part of the United Kingdom, so they wish to do this as well. So you start seeing a strategy, which is seen as being coherent, or very coherent.

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Allan Lockhart, Chief Executive
I think that's true, but, I think, to be fair to ourselves, we were way ahead of the curve on this because we've started our residential projects quite some time ago, we've invested with residential experience within our team, so we're well ahead on that. But, yes, it's not a surprise to us that some of our peer group are starting to advance their own projects, particularly focused around residential.

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Mark Davies, Chief Financial Officer
Keith, and I think your first point was that clearly the Hawthorn Leisure acquisition has added to the value of the business, we certainly concur with that. We like the income returns that we can get in the sector. We're talking double-digit unlevered yields on the three key acquisitions that we've done.

We also like the scale benefits that you get in this sector and the synergies that we're already delivering. And, of course, then we think it's highly defensive through change of use potential, whether it be convenience stores, restaurants, residential or even, as I showed on one of the earlier slides, the ability to change a pub to a private nursery operation, and it's going to open up a whole range of opportunities. It's very scalable.

And we're also getting capital growth out of the pub business as well, and we'll see that coming through in the second half because the scale benefits and the synergies that we've talked about - that £3m that we want to get to the way the valuation works in the sector's all done off an FMT basis and the valuer will put a 7.5, 8 times multiple on that. So potentially, there's sort of £20m to £25m of value uplift in our Pub business that we can create ourselves, that we're not dependent on markets to do that for us.

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Allan Lockhart, Chief Executive
I think we're finished with questions. So thank you very much for everybody attending our Half-Year Results. Thank you everyone.

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END

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