



## Trading and Strategy Update

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NewRiver REIT PLC

14 April 2021

### **NewRiver REIT plc** ("NewRiver" or the "Company") **Trading and Strategy Update**

NewRiver is today providing a trading and strategy update ahead of the announcement of our Full Year Results on 3 June 2021.

#### **Introduction**

During the pandemic period we have significantly improved our strong cash and liquidity position, achieving this through our successful retail disposal programme, tightly controlling capital expenditure and making good progress on rent collection. As a result, we ended the financial year with £198 million of cash and undrawn revolving credit facilities, increased from £127 million at 31 March 2020.

Our independent valuers are now concluding their work on valuing our property portfolio as at 31 March 2021. The indicative outcome of this exercise is that our valuation decline in the second half of FY21 will be less than that reported in the first half. Retail parks have returned to positive capital growth, our pub and regeneration portfolios have experienced only modest capital declines and our core shopping centre and work out portfolios have seen an improvement in H2 compared to H1.

The key factors that have enabled our business to navigate this challenging period successfully are a diversified portfolio focused on local convenience, essential retail and community, an unsecured balance sheet, strict cash management within our retail and pub portfolios and the dedication of our people. Despite the headwinds that continue to impact all physical retail, we move into our new financial year with increasing optimism due to the UK's successful vaccination programme, the reopening of non-essential retail and our pubs, and the well reported increase in consumer savings.

#### **Strategy update**

We have used the last year to complete a thorough review of all of our assets and developed a clear view of what resilient retail looks like in the future. We believe that resilient retail assets in the future will be those located in catchments with long-term growth potential and the right balance between the supply of physical retail space and demand for that space; they will have an offering that meets the everyday needs of customers while playing a distinct role within their communities. We will reshape our portfolio to ensure that over the longer term we only own retail assets that display these key characteristics.

Taking account of all the factors noted above, we have committed to the following strategic priorities:

- Divest ourselves of our community pub business in order to reset our LTV and provide the firepower to reshape our portfolio. This includes a potential Initial Public Offer ('IPO') of Hawthorn
- Sell our non-core retail assets and recycle the resultant capital into resilient retail
- Transform our regeneration assets to create long-term value by jointly working with sector specialists and appropriate capital partners

By 2025 our clear strategic aim is that assets in our portfolio will display only the characteristics of resilient retail and we believe that the collective measures outlined above will transform NewRiver into a more agile business committed to delivering attractive returns to shareholders.

Following our Full Year results on 3 June 2021 we plan to host a Capital Markets Day in September 2021, at which we will communicate further detail on our new retail strategy.

#### **Retail portfolio operational performance**

We closed the year with a blended retail cash rent collection rate of 85% across all four quarters of the financial year, with collections remaining ahead of the wider market in the final quarter, despite renewed lockdown restrictions. Including rent either deferred or subject to regear, this blended rate rises to 93%. Rent collection in respect of the first quarter of FY22, due on 25 March 2021, is currently tracking ahead of collection at the same point last year.

Our retail occupancy at 31 March 2021 remained high at 95.8% (March 2020: 94.8%) as a result of our sustained leasing momentum. In the fourth quarter we completed 360,500 sq ft of new lettings and renewals, representing £2.5 million of rent, exceeding the 188,100 sq ft completed in the fourth quarter of FY20. Long-term deals were signed at a 5.7% premium to ERV and a 3.7% premium to previous passing rent. These included two significant deals totalling over 32,000 sq ft with Instant Offices, a flexible office provider, in our shopping centres in Cardiff and Bexleyheath.

Our retail portfolio remains well-diversified, with our top five tenants, Poundland, Superdrug, B&M, Wilko and Boots representing 9% of our gross income at 31 March 2021. Our average rent remains affordable at £11.51 per sq ft (March 2020: £12.66 per sq ft).

Reflecting our focus on essential retail, approximately 54% of our occupiers by gross income remained open and trading during the fourth quarter, despite the current lockdown restrictions across the UK. This includes eight of our top 10 occupiers by gross income. This figure has risen rapidly this week to 82% (89% in England), following the opening of non-essential stores in England from 12 April.

## Hawthorn

After several months of temporary closure, Hawthorn opened over 60% of its pubs in England on 12 April 2021, following the easing of restrictions on outside trading, and plans to reopen the remainder of its portfolio when inside trading is permitted from 17 May. With a focus on well-located community and suburban pubs, our portfolio is well placed to benefit from consumers working from home and using their local services and facilities, and we expect this to lead to a strong bounce back, as we saw in the summer of 2020 when on reopening Hawthorn outperformed the UK pub sector.

During the period of temporary closure, the focus in our Hawthorn community pub business has been on protecting and supporting our pub partners and we are delighted that the hard work of the Hawthorn team was recently recognised in the results of KAM Media's 'Licensee Index', the leading operator sentiment tracker for the UK licensed and tenanted pub sector. Hawthorn's overall rating in this index – 8.5 out of 10 – was the highest of all major pub companies, and in the area of Covid-related support specifically, Hawthorn scored 9.2 out of 10, again the highest amongst the major pub companies. These results demonstrate the significant goodwill that has been generated between Hawthorn and its pub partners over the past year, which will be a key driver of our bounce back in the coming months.

NewRiver's Board is focused on how best to maximise value for our shareholders and to achieve Hawthorn's mission of being the Number 1 community pub company in the UK. In keeping with our strategy, the Board has agreed that Mark Davies will lead a potential IPO of Hawthorn. Mark has been instrumental in driving and growing NewRiver's community pub company since 2013 and has been CEO of Hawthorn since 2019. Mark also sits on the Board of the British Beer and Pub Association and has been CFO of NewRiver for 12 years since IPO in 2009.

Subject to the transaction completing, the Board intends that Will Hobman, who has been NewRiver's Finance Director for 18 months and with the Company for five years, will be appointed CFO of NewRiver.

## Capital Transactions

Since 1 April 2020, we have completed £81 million of disposals at a relatively tight discount to the last reported book value despite the extremely challenging market conditions over the last 12 months. A further £12 million of disposals have exchanged and we are currently under offer on £80 million of disposals. Disposals completed, exchanged and under offer total £173 million.

We also completed the acquisition of The Moor in Sheffield in our joint venture with BRAVO in April 2021. The acquisition price of £41.0 million (NewRiver share: £4.1 million) reflects a significant discount to the breakup value of the individual assets acquired, as provided by an independent valuer. It also represents a net initial yield of 9.1%, which is expected to rise imminently following the completion of a number of leasing deals to 9.8%, with an equivalent yield of 11.3% and a reversionary yield of 14.6%.

Centred around an open-air pedestrianised thoroughfare, the estate provides 680,000 sq ft of retail and leisure space anchored by Next, Sainsbury's, and an occupier-owned Primark, alongside a 670-space car park, a nine-screen cinema and The Moor Market, a covered marketplace owned by Sheffield City Council. NewRiver has identified the potential to develop up to 1,100 build-to-rent residential units and up to 300 purpose-built student accommodation units, offering significant capital growth opportunities.

## Cash and liquidity

At 31 March 2021, we had £153 million of cash reserves, which is £71 million higher than the position as at 31 March 2020, driven by completed disposals and rent collection. Including our £45 million of undrawn revolving credit facilities, the Company has total available liquidity of £198 million.

## Outlook

The reopening of non-essential retail on 12 April coupled with the significant available consumer spend will be positive for retailers with a physical store channel. As a result, the good leasing progress that we delivered during the pandemic period is expected to continue into the next quarter.

Over 60% of our pub estate in England is open and trading albeit on a restricted basis. By the end of May 2021 we expect our entire pub estate to be fully operational and anticipate a strong recovery in revenue as we saw in the summer of 2020.

In the capital markets, retail parks have recovered quickly driven by increased investor demand, and we expect that to continue through the rest of this year. Investor demand for regeneration projects has also improved over the last six months, especially for assets located in areas with attractive underlying residential values. Encouragingly, we are also starting to see early signs of an improvement in shopping centre liquidity.

Overall, our assessment is that the consumer economy will perform better than expected but that the retail sector will continue to be influenced by market trends which existed pre-COVID. That said, we are confident that our business will emerge from the pandemic in a stronger position to tackle challenges and to capitalise on opportunities.

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014 as it forms part of the law of England and Wales by virtue of the European Union (Withdrawal) Act 2018. This announcement has been authorised for release by the Board of Directors.

**About NewRiver**

NewRiver REIT plc ('NewRiver') is a leading Real Estate Investment Trust specialising in buying, managing and developing essential retail and leisure assets throughout the UK.

Our £1.1 billion portfolio, valued as at 30 September 2020, covers 9 million sq ft and comprises 33 community shopping centres, 19 conveniently located retail parks and 673 community pubs. We hand-picked our assets to deliberately focus on occupiers providing essential goods and services, and avoid structurally challenged sub-sectors such as department stores, mid-market fashion and casual dining. This focus, combined with our affordable rents and desirable locations, delivers sustainable and growing returns for our shareholders, while our active approach to asset management and inbuilt 2.6 million sq ft development pipeline provide further opportunities to extract value from our portfolio.

NewRiver has a Premium Listing on the Main Market of the London Stock Exchange (ticker: NRR). Visit [www.nrr.co.uk](http://www.nrr.co.uk) for further information.

**About Hawthorn**

NewRiver has built a significant pub business since 2013, principally through the acquisition of 202 pubs from Marston's in December 2013, 158 pubs from Punch in September 2015 and the acquisition of Hawthorn in May 2018, which comprised 298 pubs and brought a highly scalable pub operating platform into the enlarged business.

These assets now operate from a best-in-class operating platform and Hawthorn was shortlisted for Best Community Pub Operator at the 2021 Publican Awards. Based in Marston Green, Birmingham, Hawthorn has built a geographically diverse portfolio of 673 community pubs, 96% of which are freeholds and 80% of which are operated on a leased & tenanted basis.

Significant investment has been made into the Hawthorn estate, with c. £20 million of capital expenditure across the pub estate in the three years to 31 March 2020. Hawthorn has a track record of producing significant returns from capital expenditure with a return on investment of 28% for growth projects with two years of trading post investment.

The Hawthorn portfolio was valued at £262 million as at 30 September 2020. The EBITDA of Hawthorn during the year ended 31 March 2020 was £17.6 million (adjusted for the full year inclusion of Bravo Inns). However, this was impacted by the COVID-19 pandemic from March 2020 and, adjusting for this impact, the estimated pro-forma EBITDA for the year ended 31 March 2020 would have been £19.4 million.

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