Press release

intu properties plc ("the Company")

INTU PROPERTIES PLC
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INTU PROPERTIES PLC

TRADING UPDATE FOR THE PERIOD FROM 1 JANUARY 2019 TO 2 MAY 2019

PRIORITY TO REDUCE LEVERAGE UNDERWAY

Matthew Roberts, intu Chief Executive, commented:

"I am delighted to have officially started in my role as Chief Executive of intu.

As previously disclosed, my priority is to reduce our loan to value to below 50 per cent and our plans to achieve this are underway. Our recent sale of a 50 per cent interest in intu Derby at book value is a positive first step in this regard.

Our operational performance in the quarter has been stable. We have continued to see good letting activity with 53 long-term leases signed amounting to £6 million of annual rent at an average of 1 per cent above previous passing rent. These include new types of tenants such as Metro Bank at Manchester Arndale, exciting new catering concepts with Market Halls at intu Lakeside and an expanding leisure attraction at intu Metrocentre with Namco's mini golf and a climbing attraction.

However, we expect the remainder of 2019 to be challenging due to a higher than expected level of CVAs and a slowdown in new lettings as tenants delay their decisions due the uncertainties in the current political and retail environments. As such, we have revised our approach to how we guide towards our year-end like-for-like net rental income to factor in expected CVAs and have adjusted our 2019 guidance accordingly to minus four to six per cent.

Despite the current operating environment, I believe we have a very good business and am confident we can meet the challenges we are facing head on. I look forward to updating the market on strategy alongside our interim results in July."

Conference call

A conference call for analysts and investors will be held today at 08:00 BST.

A copy of this announcement is available on our website intugroup.co.uk.

Enquiries

intu properties plc

Matthew Roberts	Chief Executive	+44 (0)20 7960 1353
Barbara Gibbes	Interim Chief Financial Officer	+44 (0)20 7960 1236
Adrian Croft	Head of Investor Relations	+44 (0)20 7960 1212

Public relations

UK	Justin Griffiths, Powerscourt	+44 (0)20 7250 1446
South Africa	Frédéric Cornet, Instinctif Partners	+27 (0)11 447 3030

Priority to reduce loan to value

- priority to provide headroom and reduce loan to value from 53.1 per cent at 31 December 2018 to back below 50 per cent over time, through:
  - retaining cash generated from operations within the business, with no final dividend paid for 2018
  - disposals and part-disposals of assets both in the UK and Spain
  - reduction in capital expenditure pipeline, with investment focused on winning destinations
- introduced a new long-term equity partner, creating a joint venture to dispose of 50 per cent of intu Derby for £186 million, in line with the December 2018 valuation. The closing of the transaction is subject completing senior debt finance and is expected to reduce loan to value by around 1 per cent
- proceeds from disposal will be used to repay some of the debt maturing in 2021. This will include changes to SGS asset structure with intu Derby being removed and loan to value reduced back to tier 1 at 55 per cent (December 2018: 57 per cent)
- continuing to explore the disposal options on our Spanish centres. Discussions ongoing with our partners and further inbound interest received
- considering refinancing the legacy intu Trafford Centre debt to reduce the cost of debt and remove amortisation payments which increase over the coming years. Refinancing would incur associated break costs but simplify the structure and increase optionality for any potential part disposal of the centre at a future date
- cash and available facilities of £539 million at 31 March 2019 and loan to value of 53.1 per cent, based on December 2018 property valuations with net external debt unchanged in the quarter
- substantial covenant headroom. For example, a 10 per cent fall in capital values from the December 2018 valuations would only require a debt prepayment of £1 million

Operational performance stable in the period but with more uncertainty for the balance of the year

Operating metrics

- continued to see good letting activity in the first quarter. We agreed 53 long-term leases amounting to £6 million annual rent (Q1 2018: 60 leases; £10 million of annual rent). In aggregate, these were 1 per cent above previous passing rent (like-for-like units) and in line with valuers' assumptions. On a net effective basis (net of rent-free periods and incentives), rents were also 1 per cent ahead of previous rents. Activity in the period provides further evidence of our approach to increase the exposure to experiential and community activities including:
  - Namco expanding their leisure offer at intu Metrocentre introducing mini-golf and a climbing attraction
  - new types of tenants taking space to promote their brand and services, including Metro Bank at Manchester Arndale
  - new catering concepts with Market Halls, a communal dining offering, opening its first venue outside central London in the leisure extension at intu Lakeside

— settled 77 rent reviews in the period for new rents totalling £20 million, an average uplift of 8 per cent on the previous rents

— occupancy at 31 March 2019 was 95.6 per cent (March 2018: 96.1 per cent), a 1.1 per cent reduction against December 2018 impacted by previous CVAs and administrations, including the closure of some New Look Men and HMV stores, along with the seasonal reduction in the quarter as Christmas 2018 pop-ups closed

— year to date footfall in our centres is running marginally ahead of the same period in 2018. Given the timing of Easter, footfall in the first quarter was down 0.2 per cent in the UK which significantly outperformed the ShopperTrak measure of UK national retail footfall which was down on average by 2.1 per cent

— tenants invested around £16 million on 40 new store fit-outs, following a record year of investment in 2018 and demonstrating their long-term commitment to our centres and providing a fresh and ever-changing experience for our customers

Like-for-like net rental income

— basis of preparation of like-for-like net rental income guidance has been moderated in the period. We have revised our approach and are now including assumptions on the outcomes of potential future CVAs

— anticipate that like-for-like net rental income for 2019 will be down by 4 to 6 per cent. The outcome is expected to be down more in the first half of 2019, given the stronger comparative, and less so in the second half of the year

— change from the guidance given at the year-end is due to a higher expected level of CVAs in the rest of 2019 and a slow-down in completing new lettings

    — expect CVAs to run at a higher level than in 2018 with some potential restructurings being well publicised. Generally, we are a net beneficiary of a CVA process over the medium-term as tenants' stores in our centres are typically among their best performing, but we review the merits of each proposal in turn to ensure it does not impact our relationships with our existing tenant base

    — occupancy impacted by slow-down in completion of new lettings over the last few months as tenants delay decisions driven by a combination of continued Brexit uncertainty and awaiting the outcome of some high profile potential CVAs

— Debenhams, who account for 3 per cent of our rent roll, announced a CVA last week. They have announced the closure of 22 of their 166 stores, none of which are in intu centres.

Development and mixed-use projects

— we have reduced our capital expenditure pipeline as part of balance sheet priorities, but continue to ensure our ongoing projects complete on time and on budget

— completed £72 million leisure extension at intu Lakeside with fitting out now in progress for a phased opening. Hollywood Bowl was the first to open in March 2019 and all units in the development are now either exchanged or in advanced negotiations and in line with our rental expectations

— commenced construction of the £89 million regeneration of intu Broadmarsh. Since starting the project, we have increased the number of units exchanged or in advanced negotiations from 45 per cent to over 70 per cent

— evaluating mixed-use opportunities which include residential, hotels and other uses. We continue to advance the residential scheme at intu Lakeside and we have undertaken a more detailed review of hotel opportunities across the portfolio which has identified seven sites with potential for around 850 rooms

— identified other high impact, low cost mixed-use opportunities relating to office, flexible working spaces, business lounge and service-oriented uses that could generate attractive incremental returns to our current rental income stream

Strategic update

We plan to give a strategic update with our interim results on 31 July 2019.

About intu

intu owns and manages some of the best shopping centres, in some of the strongest locations, in the UK and Spain.

Our UK portfolio is made up of 17 centres, including eight of the top-20, and in Spain we own three of the country's top-10 centres, with advanced plans to build a fourth.

We are passionate about creating compelling experiences, in centre and online, that make our customers smile and help our retailers flourish.

We attract around 400 million customer visits and 26 million website visits a year offering a multichannel approach that truly supports retail strategies.

Our strategic focus on prime, high-footfall flagship destinations, combined with the strength and popularity of our brand, means that intu offers enhanced footfall, dwell time and loyalty.

We are committed to our local communities, with our centres supporting nearly 130,000 jobs (representing about 3 per cent of the total UK retail workforce), and to operating with environmental responsibility. We have already met or exceeded a significant number of our 2020 environmental targets.

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