APAM

DEBENTURE PLC

PRIVATE & CONFIDENTIAL

Q4-22 QUARTERLY UPDATE

FEBRUARY 2022

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EXECUTIVE SUMMARY

KEY AREA	COMMENTARY
PURPOSE / INTRODUCTION	➢ The purpose of this document is to provide Stockholders with an update on Q4 2022 trading. This includes: – An update on the progress against the key strategic initiatives from the Business Plan that was published to Stockholders on 14 April 2022. – The impact of the ongoing rebasing of rents and the current tenant activity pipeline.
MARKET UPDATE	➢ Investment transaction volumes in the UK retail market in H2 2022 stood at £2.75bn compared to £3.52bn in H1 2022 *(Source: Knight Frank)*. The UK retail transaction market has been muted with many vendors pulling deals that failed to meet their appraisal of fair value post the impact of the mini budget. ➢ The short to medium term outlook remains challenging with high inflation and mortgage rates limiting consumer spending. ➢ Having peaked at 11.1% in October, annual CPI inflation slowed to 10.5% in December and is expected to ease significantly throughout 2023. ➢ The labour market remains tight with unemployment at 3.7% in the 3 months to November. ➢ HM Treasury forecasts show interest rates ending 2023 at between 3.75% and 4.5%. ➢ Gilt rates rose from 0.98% at the start of 2022 to a peak of 4.6% in October 2022 but have since come down to levels between 3.25% - 3.5%. ➢ Q4 retail sales values grew 3.6% *(Source: Knight Frank, Dec 2022)* year on year with sales volumes down 6% over the same period. ➢ Annually, total retail sales values grew 4.8% in 2022 but volumes decreased 3.4%. The strongest sub sectors of growth were carpets, footwear, clothing, cosmetics and telecoms with DIY, electricals and jewellery the weakest sub sectors. ➢ The GFK Consumer Confidence Index recorded consumer confidence at -49 points in January (from -19 in January 2022), remaining at near historic lows. ➢ Rent collection remains at near pre-pandemic levels. The small number of outstanding Covid arrears are being dealt with through negotiation or as directed under the terms of the lease.

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OPERATIONAL UPDATE	- The centres have been stabilised in respect to rent collection and occupation. The focus is now on the strategic priorities at each centre. There continues to be a good level of tenant enquiries for space with seven new leases and five renewals completing across the portfolio in Q4-22. However, occupier cautiousness is also causing delays when deals are in solicitor's' hands as they take a risk averse approach to terms. - YTD Rent and service charge collections are ahead of Business Plan at 98.1% and 98.4% respectively (vs Business Plan projection of 90.0%). 60+ days arrears decreased by £1.7m. - Incoming tenants continue to seek concession periods, CapEx contributions and flexible turnover-based arrangements. At lease expiry or break date, tenants continue to use the lease event to rebase rents instead of vacating the unit. - Footfall of 10.1m in Q4-22 is 30% less than pre-pandemic levels in Q4-19. The Q4-22 UK average being 22.9% less than in Q4-19 and Q4-22 Scotland average being 16.4% less than in Q4-19 *(Source: Cushman & Wakefield)*. - The portfolio is ahead of the BP NOI YTD by £5.2m (pre-exceptional items). This is driven mainly by higher than projected rental income. - Draft rateable values for the 2023 rating list have been published with reductions of 30% to 50% on retail space at Eldon Square, of c. 30% on Xsite and of c. 50% on Potteries. This will assist retailers in offsetting the labour and utility cost increases experienced in the past 12 months. On the basis of the approved 2022 Business Plan, the cash savings in 2023 resulting from the rateable values reduction are estimated at £1.0m. This takes into the account rates payable on vacant units and landlord shortfalls.
FINANCE, LIQUIDITY AND GOVERNANCE	- Focus is on improving financial and management accounting governance going forward. Protracted discussions with the auditor around the 2020 financial statements are now complete but has impacted preparation of the 2021 accounts. The 2020 audit completed in Q3 2022. The FY21 audit commenced during August 2022. Expectation is that the FY21 audit will complete within Q1 2023 and FY22 will begin in Q2 2022. APAM will assist Pradera and BDO to complete the audit before filing deadline at Companies House. - Healthy liquidity position of £31.2m at December 2022 excluding restricted cash and service charge balances albeit cash will be required to be retained within schemes to fund working capital and Business Plan tenant and investment CapEx. - Note that the YE2022 reported results do not reflect the year-end revaluation on investment property as the third-party valuations are not yet available.
RESTRUCTURING TERMS	- The documentation for the restructuring is largely in final form, however, in light of the developments with the Ski Slope at XSite Glasgow and the redevelopment of Debenhams at Eldon Square the Company and AHG would like the benefit of the new Asset Manager's business plan – in particular the level of cash generation to be properly understood for the purposes of the cash sweep mechanics in the Amended Trust Deed - to be finalised ahead of launching the restructuring and process for stockholder approval the Business Plan. We expect this planning process to be completed in the next few weeks, and once approved by the Board, the Company will proceed with a timetable to launch the restructuring as soon as possible. - TSA position closed out with net refund timing subject to completion of the restructuring.

ASSET MANAGEMENT UPDATE

CENTRE	COMMENTARY
❖ **ELDON SQUARE**	❖ Occupancy rate by NIA is 85.0% in Q4-22 facilitated by five new lettings. The former Debenhams department store is no longer let for mitigation purposes. ❖ Footfall in Q4-22 was 7.77m and continues to steadily improve and is now 28% less than pre-pandemic footfall level in Q4-19, with the Q4-22 UK average being 22.9% less than in Q4-19. ❖ Rent collection for Q4-22 is at 96.7% with an improved service charge collection rate of 98.2%. ❖ Historic total arrears (60+ days) have reduced by £1.3m from £5.4m in Q3-22 to £4.1m in Q4-22. ❖ Recovery of rent and service charge arrears continues through legal action, negotiated settlements and lease regears/renewals. ❖ Six new stores Angel Telecoms, Bravissimo, Calendar Club, Kick Game, Mango and Sports Traider and two restaurants Cosmo, George's Kitchen, opened in Q4-22. The first floor of Eldon Court office block is being fitted out as a training centre by the Newcastle Hospital NHS Trust and will open in April 2023. ❖ Five new lettings were completed and four lease renewals/regears were completed with Chaopraya, Clarks, Office and Starbucks. ❖ There are twelve lease renewals and five new lettings in legals/negotiations. ❖ CapEx Arbitration proceedings have been placed on hold pending the outcome of new discussions between NCC, Debenture Directors and Pradera Lateral. ❖ One retailer is expected to vacate before the end of Q1 - Aspen Pheonix Ltd trading as Paperchase has been sold in a pre-pack arrangement to Tesco and all UK stores will be closed within the next 2 months.

ASSET MANAGEMENT UPDATE

CENTRE	COMMENTARY
POTTERIES	❖ Occupancy decreased to 72.2% of NIA in Q4-22 as the former Debenhams unit is no longer let for mitigation purposes. ❖ Footfall in Q4-22 was 1.74m and is 39% less than pre-pandemic footfall level in Q4-19, with the Q4-22 UK average being 22.9% less than in Q4-19. ❖ Rent and service charge collections for Q4-22 were 95.5% for rent and 94.8% for service charge. ❖ Historic total arrears (60+ days) have reduced by £0.6m from £1.3m in Q3-22 to £0.7m in Q4-22. ❖ Solicitors are instructed on lease renewals for Supercuts (Unit 416), Jeff Baines (Unit 126), Schuh (Unit 112) and Jack & Jones (Unit 219). A regear is instructed for BB's (Unit 250-251). ❖ APAM has instructed Workman to produce a new formal PPM and the survey has been carried out. This will ensure that the centre is sale ready and will update the existing PPM process. ❖ Next vacated on the 23 June 2022. Next and APAM continue to negotiate the dilapidations settlement claim. The unit is being marketed. ❖ One lease renewal has completed with Millie's Cookies. A lease regear has completed with H&M (Unit 212-213) and a Deed of Variation has completed with Superdry (Unit 115). Superdry made payment of £103k against arrears. The remaining balance of £216k is subject to a payment plan documented by the Deed of Variation. ❖ Despite the ongoing uncertainty surrounding Cineworld and its rumoured takeover by Vue, the tenant continue to pay arrears in accordance with the payment plan documented by Deed of Variation. ❖ Dough & Co absconded Unit 2, The Hive. Apam is liaising with the new asset manager to resolve. In the meantime, rent and service charge is being demanded in line with the lease obligations.
XSITE	❖ The Q4-22 occupancy rate is 86.4% by ERV and 57.3% by area due to the removal of the ski slope operator. Occupational demand has weakened across the quarter with ongoing transactions taking longer to complete, partly due to the pressure of increased costs. ❖ Footfall in Q4-22 was 0.6m and is 22.8% less than pre-pandemic footfall level in Q4-19, with the Q4-22 Scotland average being 16.4% less than in Q4-19. ❖ Rent and service charge collection rates for Q4-22 were 93.5% for rent and 82.0% for service charge. ❖ Historic total arrears (60+ days) have increased by £0.2m from £1.7m in Q3-22 to £1.9m in Q4-22. ❖ A Court Order for the removal of the ski slope operator was granted on 15 November 2022 and possession has been secured. ❖ A new letting was completed to restaurant operator Monterey Jacks in Unit 13. In addition, lettings to three leisure operators continue to progress through legal negotiations.

Q4-22 INCOME STATEMENT

INCOME STATEMENT

£m	Q4 2022			FY22		
	BP Forecast	Unaudited Actual	Variance	BP Forecast	Unaudited Actual	Variance
Gross rent	5.5	6.7	1.3	22.0	24.6	2.6
Rent frees	(0.4)	(0.8)	(0.4)	(3.5)	(4.3)	(0.8)
Incentives	(0.2)	(0.3)	(0.1)	(1.3)	(1.4)	(0.1)
Turnover rent	0.4	0.9	0.5	1.7	2.2	0.6
Bad debt expense	(0.2)	2.0	2.2	(1.1)	2.2	3.3
Premiums received	-	-	-	-	0.2	0.2
Rental Income	**5.1**	**8.6**	**3.5**	**17.8**	**23.5**	**5.7**
Voids & shortfalls	(2.9)	(2.5)	0.4	(9.3)	(8.7)	0.6
Legal & Professional	(0.7)	(1.0)	(0.3)	(2.4)	(2.6)	(0.2)
Electricity & Gas	(0.2)	(0.1)	0.1	(1.0)	(0.3)	0.7
Repairs & Renewals	(0.1)	(0.2)	(0.1)	(0.5)	(0.7)	(0.2)
Advertising & marketing	(0.1)	(0.1)	0.0	(0.6)	(0.6)	(0.0)
Audit & Accountancy	(0.1)	(0.2)	(0.1)	(0.2)	(0.6)	(0.4)
Management Fee	(0.2)	(0.2)	(0.0)	(0.9)	(0.9)	(0.0)
Centre costs	**(4.5)**	**(4.4)**	**0.1**	**(14.9)**	**(14.5)**	**0.4**
Ground rent - fixed	(0.3)	(0.3)	-	(1.0)	(1.0)	-
Ground rent - variable	(0.5)	(0.8)	(0.3)	(3.9)	(4.7)	(0.9)
NOI	**(0.1)**	**3.2**	**3.3**	**(2.0)**	**3.3**	**5.2**
Exceptional items	-	(0.6)	(0.6)	(0.8)	(2.8)	(2.0)
NOI post-exceptionals	**(0.1)**	**2.6**	**2.7**	**(2.8)**	**0.5**	**3.2**

COMMENTARY

Q4 2022

- NOI in Q4-22 is £3.3m above the Business Plan pre-exceptional costs.

The main variances are:

- Deferred income previously reported included a historic VAT balance from 2020 take-on arrears which has been released to rental income in Q4-22.
- The Bad debt provision has been reduced due to an updated assumption on collection of arrears.
- Voids & Shortfalls – lower than forecast charges for Potteries (£0.3m) and Eldon (£0.2m) following service charge balancing credits received in Q4-22.
- Legal and Professional – higher legal and letting agent fees for Eldon and Potteries and legal fees associated with the court case against Snow Factor.
- Ground Rent – variable amount higher than forecast due to the increase in rent and lower costs invoiced.
- Exceptional Costs – additional legal and professional costs related to the restructuring due to the movement in the timing of the completion date.

YTD 2022

- YTD figures reflect income & expenditure from Q1-22 to Q4-22.
- Note that figures would be expected to change once the 31/12/2022 investment property valuations (not currently available) have been received and reflected in the accounts accordingly.

Q4-22 CASH FLOW

CASH FLOW

£m	Q4-22 BP Forecast	Q4-22 Unaudited Actual	Q4-22 Variance	FY22 BP Forecast	FY22 Unaudited Actual	FY22 Variance
NOI post-exceptionals	**(0.1)**	**2.6**	**2.7**	**(2.8)**	**0.5**	**3.2**
Non-cash items	0.1	-	(0.1)	3.9	3.9	0.0
Decrease/(Increase) Trade Debtors	0.2	(1.1)	(1.3)	4.1	2.5	(1.6)
Decrease/(Increase) Other Debtors	0.3	(1.1)	(1.4)	3.3	(0.7)	(4.1)
(Decrease)/Increase in Trade Creditors/Accruals	(0.5)	3.0	3.5	(3.6)	3.8	7.4
(Decrease)/Increase in Other Creditors	(2.0)	(1.4)	0.6	(5.9)	(1.4)	4.5
Asset Level Cash Generation	**(2.0)**	**1.9**	**4.0**	**(1.0)**	**8.6**	**9.6**
Maintenance CapEx	(0.5)	(0.4)	0.1	(3.0)	(0.4)	2.7
New/Reletting CapEx	(0.4)	-	0.4	(2.7)	-	2.7
CapEx	**(0.9)**	**(0.4)**	**0.5**	**(5.7)**	**(0.4)**	**5.3**
Proceeds from sales	-	-	-	-	-	-
Interest paid	-	-	-	-	-	-
Net Cashflow	**(2.9)**	**1.6**	**4.5**	**(6.7)**	**8.3**	**14.9**
Opening Available Cash	18.6	29.7	11.0	22.4	23.0	0.6
Closing Available Cash	**15.7**	**31.2**	**15.5**	**15.7**	**31.2**	**15.5**

COMMENTARY

- Actual cashflow for Q4-22 was an inflow of £1.6m, £4.5m ahead of the Q4-22 forecast.
- Increase in Q4-22 Trade Creditors/Accruals relates to the accrual of NCC Participation Rent and it was assumed to decrease in the BP forecast by £2m due to the forecast unwind of the head lease accrual. The YTD remains higher, mainly due to the outstanding payments due under the headlease.
- CapEx required at Potteries and Eldon is now projected to be incurred in 2023 and maintenance CapEx provision not utilised during Q4-22.

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