SHURGARD

Moderator: Marc Oursin
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10:00 a.m. CET

OPERATOR: This is Conference #: 7545939.

Operator: Good morning, and welcome to the Shurgard Half Year Results 2019 Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker remarks, there will be a question and answer session.

If you would like to ask a question during this time, simply press “star” then the number “1” on your telephone keypad. if you would like to withdraw your question, please press the “pound” key. Thank you. I would now like to hand the conference over to Caroline Thirifay. You may begin.

Caroline Thirifay: Thank you, Alyssa. Good morning, everyone. Thank you for joining us for the half year ending 30 June 2019 earnings call. I'm here with Marc Oursin and Jean Kreusch.

Before we begin, we want to remind you that all statements other than statements of historical facts included on this call are forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected by the statements.

These risks and other factors could adversely affect the business and future results that are described in our earnings release and in our publicly reported information. You can find our press release and an audio webcast replay of this conference call on the website, corporate.shurgard.eu.

With that, I will turn the call over to Marc.

Marc Oursin: Thank you, Caroline. So good morning to everybody, and I will go through the results with these numbers of the first half of the year 2019. We have a presentation that will be on page 2 of this presentation of the numbers. And starting with the buildup of our pipeline, which is taking care nicely.

So the major event, in Q2 versus what we shared with you in Q1 is the fact that we received 3 building permits out of 5 projects that are in the pipe. So it's moving on pretty well. And the 2 remaining permits, one in Paris, one in Berlin are on track in the process to get them.

Then the second thing is regarding the openings for the year '19. So 2 properties: One in London, Herne Hill; one in Randstad in Utrecht, will take place by the end of this year probably in December. And the expected return is exactly what we have shared with you, which is 8 percent to 10 percent at maturity.

We have simply the postponing of Berlin Oberschöneweide by a couple of quarters. We were expecting to conduct property by the end of this year, actually December, but due to some construction delays, the property will open actually in Q3 2020.

Then regarding redevelopments, and you remember that this is a significant part of our pipeline. So we have been able to open 2 redevelopments on the first half of this year with significant increase, one actually in Paris region and another one in London, very close to City Airport where we have almost doubled the size of the property, and this one opened in April and is filling up very nicely.

Then for the remaining part of the year in terms of redevelopment, we have actually one that is in Forest Hill in the U.K. and this one has been reopened at the end of July. And for 2020, we have already 2 other significant projects that are presenting more like EUR 8.6 million of CapEx in 3,000 square meter additional footage. And these 2, one in Paris, yes, and the other one is actually one of the former ABC property that we acquired last year in November in Southwark.

So let's jump to the Slide 3, which is the key accomplishments of H1 in terms of financial numbers. Well, a great quarter for us and great half of the year. We have been able to grow the revenues by 6 percent at constant exchange rate. Maintaining also the cost under control, the NOI has grown by 8.7 percent at constant exchange rates.

Meanwhile, this is for the total company, and meanwhile, the same store has grown their revenue by 1.3 percent, again at constant exchange rate. The margin has improved by 1.5 percentage points. And therefore, the earnings that we have been able to deliver grew by 10.6 percent with a value of EUR 50.9 million. Q2 is in line with also H1. I will not enter into the details. You can see the numbers there, actually in line with actually the H1 numbers.

If you go to Page 4 regarding the financing. Nothing significantly different between Q1 and Q2 on all the numbers. I will not go through that again. The key element is that we still have EUR 250 million more or less in cash, in cash position, and we will start to see the reduction of this cash position by year-end with the spending related to the evolution of the pipeline. In terms of a dividend, we have an interim dividend that is at EUR 0.45 per share and the payment would be early October.

So I will now let Jean go into the details of other slides.

Jean Kreusch: Thank you, Marc, and we're now on Page 5, take you through our strong financial performance in more detail. Our real estate operating revenue rose 5.4 percent at actual exchange rates and 5.9 percent at constant exchange rate to EUR 126 million. The increase is mainly driven by the acquisitions we did last year.

Our net income from real estate operations margin increased by 1.4 percentage points at actual exchange rate. The improvement was driven by operational efficiency at store level impact of the IFRS 16 accounting change and the performance uplift of our positions.

Our G&A went up mainly as a result of costs relating to being a public company. After some one-off proceeds relating to insurance basis, our EBITDA improved by 5.4 percent at actual exchange rates and 6 percent at constant exchange rate.

Finally, our adjusted EPRA earnings at EUR 50.9 million grew by 9.9 percent at actual exchange rates and 10.6 percent at constant exchange rate as a result of our improved operational performance and a favorable current tax income, which led to our adjusted EPRA earnings before tax at 15 percent, down from 17.5 percent in 2018.

Moving now on the next slide, Page 6. So if you look at the country-by-country performance for same-store portfolio, in our 2 largest markets, Netherlands and France, same-store revenue increased by 2 percent and 1.3 percent, respectively. In Sweden, at constant exchange rate, we continue to see an improvement in the trend of recovery quarter-over-quarter, driven by improvement in our in-place rent.

The U.K is showing a very strong revenue growth, 5.2 percent at constant exchange rate. This is driven by both occupancy gain and in-place rate boost. In Belgium, we saw a 1.6 percent deterioration of our revenue period-over-period as a consequence of a temporary impact of unit mix changes in 8 of our 21 stores. In spite of the negative impact of the unit mix change on square meter, we did rent more units at the end of June '19 than in June '18, which is positive for the coming quarters.

In Germany, we also did some unit mix changes late last year. Despite the low square meter occupancy, we also rented more units than last year at the same period and we got a strong increase our in-place rate leading to a 2.8 percent increase in revenue. Denmark saw a drop of 2 percent in same-store revenue in line with our Q1 performance.

Overall, total same-store revenue increased by 1.3 percent versus last year despite the decrease in occupancy, following the reduction of promotional activities in June '19 in our 2 biggest markets. Our in-place rent increased by 2.1 percent versus last year. On Slide 7, we have a look at our current operating results at constant exchange rate for all stores and by segments.

We continue to demonstrate our capacity to grow the top line while containing cost through our scalability and standardized platform, and we developed and we acquired stores as well. As a result, our revenue grew by 6 percent, faster than our expenses, leading to an NOI growth of 8.7 percent from EUR 70.8 million in the first half of '18 to EUR 77 million in H1 2019.

Our same-store segments represents all developed stores in operation for at least 3 full years and all acquired stores we owned for at least 1 full year as of the 1st of January 2019.

As we mentioned earlier, the reduction of our promotional activities in our larger market, combined with some temporary impact of unit mix changes, led to a slight decrease of the occupancy to 87.4 percent more than compensated by an increase of 2.1 percent of our in-place rate.

As a result, property operating revenue for same stores increased by 1.3 percent from EUR 117.2 million for H1 '18 to EUR 118.7 million in H1 '19. Our NOI for same-store increased by 3.8 percent as a result of top line growth and cost control. Our new store pool grew strongly as a result of our 2018 additions to developments and acquisitions and performance uplift.

Looking now on Page 8 on our year-on-year revenue evolution, we see that our 2018 acquisitions are largely contributing to the revenue growth. Starting from the first half 2018 revenue at actual exchange rates of EUR 119.4 million, our same store at constant exchange rate grew by EUR 1.5 million or 1.3 percent, the development contributed to a EUR 1.3 million at constant exchange rate as that continued to fill up and our acquisitions in Sweden and the U.K. generated an additional uplift of EUR 5.2 million at constant exchange rate, which led us, when taking into account foreign exchange rate impact, to a revenue of EUR 126 million for the first half of 2019, a 5.5 percent increase at actual rate or a 6 percent increase at constant rate.

Moving on to our operating expenses for all stores. Again, here, we're demonstrating the scalability of the platform with expenses growing at a slower speed than revenue. Payroll went up following the increased number of stores and better staffing overall. Marketing expense went up about EUR 300,000 versus the first half of 2018 as we increased the number of stores but also as we increased our online marketing spend to drive demand.

These increases were partially compensated by lower energy cost as a result of our focus on energy management initiatives we put in place to lower our consumption as well as the impact of IFRS 16 on lease accounting.

The NOI -- on Page 10, the NOI growth of 8.1 percent at the actual exchange rates and 8.7 percent at constant exchange rate is driven by same-store performance, reflecting the scalability of the platform and also is driven by our acquisitions.

Current tax expenses decreased by 6 percent from EUR 9.8 million in 2018 to EUR 9 million in the first half of '19, and our effective tax rate was at 15 percent compared to 17.5 percent for the same period last year. This is based on the current tax expense divided by the adjusted EPRA earnings before tax. However, as we use our net operating loss and based on current tax law, we still anticipate that the effective tax rate will stabilize between 18 percent to 20 percent in the medium term.

In the first 6 months of '19, the adjusted EPRA earnings were at EUR 50.9 million, a 9.9 percent increase over the same period last year. The growth was mainly driven by improved performance of operations and current tax savings.

Moving on to the balance sheet. When compared to June '18, our investment property increased mainly as a result of the addition of the 9 properties we acquired in '18 and the one development we opened in the second part of 2018. The adoption of IFRS 16 combined with an appreciation of the fair market value of our stores also contributed to the increase of our investment property.

Our cash increased, of course, as a result of the IPO proceeds. Our debt remains stable. We have a USPP, euro denominated, fixed rate with maturities scattered between 2021 and 2030. EPRA NAV grew from EUR 1.7 billion in June '18 to EUR 2.1 billion in December '18 and EUR 2.2 billion in June '19.

Finally, from a cash flow point of view, our cash inflows from operations cover the cash outflow from financing, including the 2019 dividend payments and the cash flow from investing.

Marc will take you now through our pipeline for the coming years.

Marc Oursin: Thank you, Jean. So we are on Page 15. So again, as I mentioned during the introduction, the key elements coming from Q2 are the following.

First, globally, we have more square meters. The way we measure that is as a percentage of what we call our fully built out, so the footage of the company from January 1st. By Q1, we were adding in the pipeline 4 percent equivalent to this footage. Now we have been able to grow it to actually 5 percent.

Secondly, the building permits, as I mentioned. So we got now 4 building permits. And in fact through the Berlin Oberschöneweide, we have 3 building permits out of the 5 projects that should be done in 2020. So we are on track to deliver these number of 5 for 2020.

The team is working hard in the different cities, but London, Paris region, Berlin, in order to fill up the, I would say, this pipeline for '21 and also the year after. Another element that is not on that slide is regarding M&A. So our team is very active and discussions are taking place with different potential targets.

Then if we go on the last page of the presentation, which is the company medium-term guidance. Here the key elements is that we do confirm this guidances, and specifically the revenue growth. So the all stores would be between 4 percent and 6 percent by year-end 2019. We will be at the bottom of the range for the same-store, so closer to 1.5 percent, right about that.

And regarding the openings, we will have 2 openings in '19 instead of 3. And in 2020, we should have actually 5 plus 1, so 6, and keeping that pace. If we can do more, we will do more. And regarding the acquisitions, still working to be on average with 3 stores acquired through M&A.

So thank you very much for your listening, and I think Caroline will take over now the call for the questions.

Caroline Thirifay: Thank you, Marc. And now we're opening the call to questions. Thank you.

Operator: At this time, I would like to remind everyone, in order to ask questions, press “star” then the number “1” on your telephone keypad. We will pause for just a moment to compile the Q&A roster. We don't have questions at this time. Presenters, you may continue.

Caroline Thirifay: Yes. Well, thank you all for joining us today. We look forward to reconnecting in this venue soon.

Marc Oursin: Thank you.

Operator: That does conclude our conference for today. Thank you all for participating. You may now disconnect.

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