DEBENTURE PLC – Q2 2022 REPORT

September 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 Q2 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. ▪ Updates on the current cash position of the group and a comparison to the Business Plan. ▪ The revised KPIs and Rent Income / NOI for each of the three centres, the impact of the ongoing rebasing of rents and the current tenant activity pipeline.
Market Update	❖ Shopping centre investment volumes totalled £1.24b in H1-22, up from £460m in the same period in 2021. Total investment for the year is expected to reach the 10-year average with a number of larger assets expected to come to the market. Activity has been driven by overseas and private equity investors. Nevertheless, yields are expected to ease during H2-22 as utility costs, inflation, interest rate increases and the cost of living crisis affects investor sentiment and retailer and F&B business performance. Valuers are already beginning to talk about yield drift. ❖ Having begun a recovery from Covid-19, the market now has to navigate the economic headwinds. Given the re-basing of rents that has been occurring since 2017, this is more likely to translate to a slower recovery rather than a significant destruction of value. There are starting to be signs of caution from some retailers and F&B as the economic headwinds increase costs and negatively impact shoppers' disposable incomes. As a result of these economic headwinds, APAM is expecting downward pressure on ERVs and a heightened risk of tenant failure. ❖ Rent collection remains at near pre-pandemic levels and APAM's experience is that the majority of historic arrears are being resolved through negotiation rather than through reference to the new Arbitration Scheme.

EXECUTIVE SUMMARY

Key area	Commentary
Operational Update	The centres have stabilised in respect to rent collection and occupation and the focus remains on the strategic priorities at each centre. Operationally the centres are well run. There continues to be a good level of tenant enquiries for space with ten new leases and five renewals completing across the portfolio in Q2-22. However, this is likely to ease as signs of caution from some retailers & F&B are experienced. ❖ Rent and service charge collections are ahead of Business Plan at 93.0% and 91.6% respectively (vs Business Plan projection of 90.0%). Progress continues to be made on historic arrears recovery, with £1.4m collected across the quarter. ❖ Headline rental values have bottomed out and, in some cases, are showing signs of growth. Incoming tenants continue to seek concession periods, CapEx contributions and flexible turnover-based arrangements, however, the levels of inducement required appears to have plateaued. At lease expiry or break date, tenants continue to use the lease event to rebase rents instead of vacating the unit. 3.4% of rental income is turnover-dependent. ❖ The Revised Business Plan assumed 15 new leases / renewals / regears being concluded in Q2-22 with contracted rent of £0.2m pa. Q2-22 actuals are ahead of this with 16 new leases / renewals / regears concluded with contracted rent of £0.5m pa. ❖ Tenant activity is supported by a 2.5% increase in quarter-on-quarter footfall. Footfall of 7.7m in Q2-22 is 33% less than pre-pandemic levels in Q2-19, with the Q2-22 UK average being 28.7% less than in Q2-19 and Q2-22 Scotland average being 23.2% less than in Q2-19. ❖ Generally, YTD the centres outperform the Revised Business Plan in terms of achieved rent in new leases / rent renewals, rent collection, arrears collection, and NOI.
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 is expected to be completed in Q3 2022. The FY21 audit commenced during August 2022. Expectation is that the FY21 audit will complete within the calendar year and FY22 will begin immediately post year end. ❖ Healthy liquidity position of £26.5m at June 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. ❖ Effective 15 June 2022, Simon Cooke resigned from the 10 subsidiary companies in the Debenture group and was replaced by John Heller, Barry Cox was appointed as director of Intu Debenture plc.
TSA Close Out	❖ TSA position closed out with net refund now expected in Q3-22, subject to completion of the restructuring.
Restructuring Terms	❖ Restructuring documentation, legal and tax steps plans are now in final form. New holding structure has now been approved by the Ad Hoc Group and steps are being taken to put it in place.

ASSET MANAGEMENT UPDATE

Key area	Commentary
Eldon Square	❖ Occupancy rate by NIA is 97.7% in Q2-22 with three termination vacancies mitigated by seven new lettings. The former Debenhams department store, has been relet again for rates mitigation purposes and therefore has not adversely impacted occupancy rates in Q2-22. ❖ Footfall in Q2-22 was 5.6m and continues to steadily improve and is now only 32% less than pre-pandemic footfall level in Q1-19, with the Q2-22 UK average being 28.7% less than in Q2-19. ❖ Rent collection for Q2-22 is at 91.1% with an improved service charge collection rate of 93.3% compared with Q1-22 service charge collection rate of 88.1%. ❖ Historic total arrears (60+ days) have reduced by £1.1m from £7.1m in Q1-22 to £6.0m in Q2 2022. ❖ Recovery of rent and service charge arrears continues through negotiated settlements and lease regears/renewals. No applications have yet been made under the new Arbitration Scheme. ❖ A surrender premium of £0.2m was received from a restaurant operator and the unit was relet to The Bake, a local restaurant. Ramsdens and iSmash opened new stores in Q2-22 with a jeweler and two food and beverage operators fitting out stores and restaurants. ❖ Works to provide a fashion retailer with a shell unit completed, and the new store in St Andrew's Way is expected open in September. The new letting to a fashion retailer is progressing and the store is also expected to open in September (exchanged post Q2-22). Three lease renewals/regears were completed and a further three lease renewals are in negotiation. ❖ Discussions continue with five leisure and two retail operators to relet the former Debenhams department store. The feasibility study to assess the costs of forming up to three lettable units for these occupiers has been completed. The retail feasibility study will be completed in Q3-22. ❖ Discussions are ongoing with Newcastle City Council (“NCC”) in respect of the headlease and both parties continue to resolve historic CapEx arrears.

ASSET MANAGEMENT UPDATE

Centre	Commentary
Potteries	❖ Occupancy decreased marginally to 89.0% of NIA in Q2-22. ❖ Footfall in Q2-22 was 1.5m and remains 37% less than the pre-pandemic levels in Q2-19, with the Q2-22 UK average being 28.7% less than in Q2-19. ❖ Rent and service charge collections for Q2-22 were 97.3% for rent and 88.7% for service charge. ❖ Historic total arrears (60+ days) have reduced by £0.1m from £1.8m in Q1-22 to £1.7m in Q2-22. ❖ Occupational demand has increased over the quarter with five deals in solicitor's hands with national operators. This momentum has continued with a run of lettings over the summer. ❖ Solicitors are instructed on a new lease to a restaurant operator on Unit 6, The Hive and interest has been received for Unit 4, currently Hanley Burger which has absconded. ❖ The whole of the former Topshop unit is in solicitors' hands to national retailers with a letting of the lower unit to a fashion retailer and the upper level to another fashion retailer with an amalgamation of two adjacent units. This is progressing well and estimated to both complete before the end of the year. Post quarter end Deichman completed on a 10 year lease with a target opening date of mid- Oct. ❖ Next vacated on the 23 June 2022. A dilapidations settlement continues to be negotiated. The unit is being marketed and there are ongoing discussions with a leisure operator. ❖ Solicitors have been instructed on new lettings of Unit 132 and Unit 222 to two retailers, one of which is international. ❖ Cineworld has filed for bankruptcy protection in the US which creates uncertainty for the UK business. At the Potteries the agreed rent payment plan is being adhered to. £0.2m of service charge arrears is outstanding. Cineworld has agreed to pay £0.18m towards service charge but a statutory demand has been served on the tenant for all service charge arrears. ❖ Investment, legal and technical information is being collated in readiness for a potential asset disposal.
XSite	❖ The Q2-22 occupancy rate is 91.8% of NIA; occupational demand remains positive with five units under offer and ongoing discussions with leisure and restaurant operators on a further two vacant units. ❖ Footfall in Q2-22 was 0.6m and is now 12% less than pre-pandemic footfall level in Q2-19, with the Q2-22 Scotland average being 23.2% less than in Q2-19. ❖ Rent and service charge collection rates for Q2-22 were 91.4% for rent and 83.6% for service charge. ❖ Historic total arrears (60+ days) have reduced by £0.1m from £2.0m in Q1-22 to £1.9m in Q2-22. ❖ A court order has been granted giving the landlord approval to exercise its rights of irritancy against Snow Factor in Administration. Four procedural hearings were attended, to bring forward the hearing of evidence dates. ❖ In Q2-22, lease re-gears were completed with The Restaurant Group, JD Wetherspoon and Climbzone and solicitors instructed on a new letting of unit 26 to a leisure operator. These transactions have generally been ahead of business plan.

ELDON SQUARE: PROGRESS AGAINST STRATEGIC INITIATIVES

Strategic initiative	Progress	Status	Next steps
Medium & Longer term (12-24 months):			
❖ Regear Headlease to reflect a modern head leasehold arrangement	❖ Further legal advice has been received in respect of commencing an arbitration process to resolve the issues around the treatment of CapEx under the Headlease.		❖ A final senior stakeholder meeting is in the process of being arranged. If both parties are unable to resolve the points of dispute, then the Arbitration process may be commenced in Q4 2022.
❖ Reconfigure and relet Debenhams space	❖ Feasibility study has been completed to form three leisure units. ❖ Offers received from five leisure operators and exploring interest from other retail and leisure operators.		❖ Progress on the feasibility study presented to the Board in July 2022 with recommendation setting out costs and tenant options. ❖ Progress discussions with two retailers before completing a retail feasibility study and submitting a recommended development option to the Board during Q4-22.
❖ Reconfigure the Recreation Centre to create leisure anchor supporting Grey's Quarter F&B offering	❖ Pending outcome of Debenhams reletting, direct some leisure interest to this unit.		❖ Short-term letting with existing leisure operator to complete in Q3 –22.
❖ Continue to deliver the repositioning of St Andrews Way	❖ New Letting to Mango exchanged and Bravissimo letting ISH. ❖ Renewals/regears completed with Monki, Apple and Paperchase. ❖ Lease events are in line with the BP. ❖ Explore right sizing/relocation opportunities.		❖ Complete lettings and renewals. ❖ Discussions on a downsize option for New Look and an upsize requirement for River Island are progressing. ❖ Assess cost of reconfiguring ex-Topshop unit into two units for new retailer requirements.

POTTERIES: PROGRESS AGAINST STRATEGIC INITIATIVES

Strategic initiative	Progress	Status	Next steps
Medium & Longer term (12-24 months):			
❖ Consider disposal as a whole or on sum of parts basis	❖ Collating information on a "ready for sale" basis by end of September 2022 ❖ Data site created with updated tenancy schedule, EPC schedule, asbestos report. Legal data site created including all leases and title plans. ❖ Vendor survey, PPM survey and appointment of investment agents to be completed ❖ Ongoing discussions with tax advisors as to the best option for disposal of the assets vs shares and the tax implications on both methods.		❖ Provide advice and agree potential disposal strategy and timing with the Board in Q3-22. The economics around a sale of the asset in parts looks less attractive than a sale of the whole ❖ Tax advisors are obtaining past information to establish if any unclaimed capital allowances are available in any of the group companies. ❖ The company can sell properties at current values without triggering a chargeable gain. There is significant headroom in the tax basis in the assets, but limited headroom in the tax basis of the shares.
❖ Focus on lettable units in the Hive	❖ One unit in solicitor's hands and one unit continues to be marketed. Unit 4 Hanley Burger has absconded. In discussions with another operator for a Burger concept.		❖ Unit 6- Complete current letting in solicitors' hands ❖ Unit 2 - progress marketing to let up the vacant unit ❖ Unit 4 – progress terms with the new operator.
❖ Rates mitigation for legacy Debenhams	❖ Mango Partnership Ltd is in situ for rates mitigation. ❖ There is early stage interest from a leisure use on part of the Debenhams.		❖ Seek further lettings that improve NOI in comparison to rates mitigation strategy.
❖ Defensive CapEx for sale	❖ Roof repair works at Lamb Street commenced August 2022. ❖ Car park works to commence September 2022.		❖ Complete roof repairs ❖ Complete car park works.

XSITE: PROGRESS AGAINST STRATEGIC INITIATIVES

Strategic initiative	Progress	Status	Next steps
Medium & Longer term (12-24 months)			
❖ Re-anchor Ski Slope	❖ A court order has been granted giving the landlord approval to exercise its rights of irritancy against Snow Factor. The administrator has acknowledged receipt of notice of irritancy. ❖ Four procedural hearings were attended, to bring forward the hearing of evidence dates. ❖ A new lease to a nationally recognised ski slope operator is in solicitor's hands. APAM understands this operator will not be adversely affected by the current spike in energy prices due to fixed price contracts.		❖ Hearing of evidence has been brought forward to either the 8-11 or 15-18 November 2022 in the Court of Session in respect of the landlord's claim to vacant possession. ❖ An agreement for lease will be exchanged with the new ski slope operator, subject to obtaining vacant possession.
❖ Strategy focused on leisure and casual dining tenants	❖ Unit 11 – Re-gear completed with Frankie & Benny's. ❖ Unit 21 – Re-gear completed with JD Wetherspoon.		❖ Unit 13 – In negotiations with a new restaurant operator. ❖ Unit 16B – In negotiations with a new leisure operator.
❖ Net reduction in vacant units of four	❖ Unit 1 – Planning consent granted for new leisure use. Landlord's works to the unit are being tendered. ❖ Unit 25A & 25B - Terms agreed and solicitors instructed on a new lease to a leisure user. ❖ Unit 26 – Terms agreed and solicitors instructed on a new lease to a leisure user.		❖ Unit 1 – Finalise documentation and exchange agreement for lease. Landlord's works to be undertaken upon completion of which the lease will complete. ❖ Unit 25A & 25B – Agree the scope of the tenant's amalgamation and fit out works. Complete documentation and monitor tenant's works. ❖ Unit 26 – Finalise documentation and exchange agreement for lease. Landlord's works to be undertaken upon completion of which the lease will complete.

Q2-22 INCOME STATEMENT

INCOME STATEMENT

£m	Q2 2022			H1 2022		
	BP Forecast	Unaudited Actual	Variance	BP Forecast	Unaudited Actual	Variance
Gross rent	5.6	5.8	0.2	11.2	12.1	0.9
Rent frees	(0.3)	(0.3)	(0.0)	(2.8)	(2.9)	(0.1)
Incentives	(0.2)	(0.2)	(0.0)	(0.9)	(1.0)	(0.0)
Turnover rent	0.4	0.2	(0.2)	0.8	0.7	(0.1)
Bad debt provision	(0.4)	(0.5)	(0.1)	(0.6)	(0.7)	(0.1)
Premiums received	-	0.2	0.2	-	0.2	0.2
Rental Income	**5.1**	**5.1**	**0.0**	**7.7**	**8.5**	**0.7**
Voids & Shortfalls	2.1	1.8	(0.3)	4.1	3.8	(0.2)
Legal & Professional	0.6	0.5	(0.1)	1.1	1.2	0.1
Electricity & Gas	0.3	0.0	(0.2)	0.5	0.1	(0.5)
Repairs & Renewals	0.1	0.1	(0.0)	0.3	0.3	0.0
Advertising & Marketing	0.1	0.2	0.1	0.3	0.3	0.0
Audit & Accountancy	0.0	0.0	0.0	0.0	0.0	0.0
Management Fee	0.2	0.2	0.0	0.5	0.5	0.0
Centre Costs	**3.5**	**2.9**	**(0.6)**	**6.7**	**6.3**	**(0.5)**
Ground rent - fixed	0.3	0.3	-	0.5	0.5	-
Ground rent - variable (participation rent)	1.3	1.3	0.1	2.5	2.7	0.2
NOI	**0.1**	**0.6**	**0.5**	**(2.0)**	**(1.0)**	**1.0**
Exceptional Costs	-	(0.9)	(0.9)	(0.8)	(1.6)	(0.8)
NOI Post-exceptionals	**0.1**	**(0.2)**	**(0.3)**	**(2.8)**	**(2.6)**	**0.2**

COMMENTARY

Q2 2022

- NOI in Q2-22 is £0.5m above the Business Plan pre-exceptional costs.

The main variances are:

- Higher gross rent of £0.2m and a surrender premium of £0.2m received from an F&B operator is partly offset by lower turnover rent.
- Turnover rent is falling behind the BP as many tenants' turnover period ends in Dec / Jan and hence the T/O rent was billed in Q1-22.
- Voids & Shortfalls – lower than forecast charges for Potteries (£0.1m), Eldon (£0.1m) and XSite (£0.1m) following the service charge reconciliations completion in Q2-22.
- Exceptional Costs – additional legal and professional costs for the updated Business Plan and related to the restructuring due to the movement in the timing of the completion date.

H1 2022

- YTD figures reflect income & expenditure from Q1 2022 and Q2 2022. H1-22 includes £0.2m Q1-22 additional cost adjustments.

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Specialist in UK Real Estate

Q2-22 CASH FLOW

CASH FLOW

£m	Q2 2022			H1 2022		
	BP Forecast	Unaudited Actual	Variance	BP Forecast	Unaudited Actual	Variance
NOI Post-exceptionals	**0.1**	**(0.2)**	**(0.3)**	**(2.8)**	**(2.6)**	**0.2**
Non-cash items	0.4	0.3	(0.1)	3.5	3.1	(0.4)
Decrease/(Increase) Trade Debtors	2.2	3.1	0.8	3.9	2.9	(1.0)
Decrease/(Increase) Other Debtors	2.4	(0.2)	(2.6)	2.7	0.4	(2.3)
(Decrease)/Increase in Trade Creditors/Accruals	0.7	(3.2)	(3.9)	(3.1)	0.2	3.3
(Decrease)/Increase in Other Creditors	(2.8)	(0.9)	1.8	(1.8)	(0.6)	1.2
Asset Level Cash Generation	**3.1**	**(1.2)**	**(4.3)**	**2.4**	**3.5**	**1.1**
Maintenance CapEx	(1.2)	-	1.2	(2.0)	-	2.0
New/Reletting CapEx	(1.1)	-	1.1	(1.1)	-	1.1
CapEx	**(2.2)**	**-**	**2.2**	**(3.1)**	**-**	**3.1**
Proceeds from sales	-	-	-	-	-	-
Interest paid	-	-	-	-	-	-
Net Cashflow	**0.9**	**(1.2)**	**(2.1)**	**(0.7)**	**3.5**	**4.2**
Opening Available Cash	20.8	27.7	6.9	22.4	23.0	0.6
Closing Available Cash	**21.6**	**26.5**	**4.8**	**21.6**	**26.5**	**4.8**

COMMENTARY

- Decrease in Q2-22 Trade Debtors due to additional arrears collected during Q2-22 vs Updated Business Plan projection and a reduced bad debt provision due to improved rent collection. YTD Trade debtors balance remains £1.0m higher than forecast mainly due to the invoiced annual insurance premiums which are yet to be fully recovered from tenants.
- Increase in Other Debtors - includes the projected £1.2m TSA refund and £1m of funding to be transferred to the landlord account from the service charge account.
- Decrease in Q2-22 Trade Creditors/Accruals relates to the payment of outstanding Legal & Professional Fees and Voids & Shortfall payments not made in Q1-22. YTD remains higher, mainly due to the outstanding payments due under the headlease to NCC.
- Increase in Q2-22 Other Creditors relate to the VAT owed by the landlord to the service charge for input VAT on SC invoices.
- CapEx required at Potteries for car park works is now projected to be incurred between Q3 and Q4 22 and maintenance CapEx provision not utilised during Q2-22. Further detail is provided on slide 15.

PERMANENT / TIMING DIFFERENCES TO BUSINESS PLAN CASH FLOW

CASH FLOW

£m	Q1 2022	Q2 2022	H1 2022
Actual net cashflow	4.7	(1.2)	3.5
Forecast cashflow	(1.6)	0.9	(0.7)
Difference to forecast	**6.3**	**(2.1)**	**4.2**
Permanent difference			
Net rent invoiced	0.7	-	0.7
Voids & Shortfalls	-	0.3	0.3
Participation rent	(0.2)	(0.1)	(0.3)
Exceptional Costs	-	(0.9)	(0.9)
Electricity & Gas	-	0.2	0.2
Permanent difference	**0.5**	**(0.4)**	**0.1**
Timing Difference			
Arrear collections	(0.7)	0.8	0.1
CapEx	0.9	2.2	3.1
TSA Refund	-	(1.2)	(1.2)
Other Debtors	(0.3)	(1.4)	(1.7)
NCC Headlease	-	3.2	3.2
Legal & Professional	1.0	(1.0)	-
Voids & Shortfalls	5.0	(5.5)	(0.5)
VAT	(0.1)	1.2	1.1
Timing Difference	**5.8**	**(1.6)**	**4.2**
Total Difference	**6.3**	**(2.1)**	**4.2**

COMMENTARY

- Actual cashflow for Q2-22 was an outflow of £1.2m, £2.1m behind the Q2-22 forecast but largely relating to working capital timing differences.
- YTD cash is £4.2m above BP, the majority of this is unspent CapEx (timing difference), £0.1m is due to permanent differences.

Permanent differences:

- Additional exceptional costs detailed on page 13 were invoiced in Q2-22 (-£0.9m).
- Electricity & Gas – additional costs were projected to be incurred by the landlord during Q2-22 for tenants in administration which were not required (+£0.2m).

Timing differences:

- Total arrears collection in Q2-22 was £0.8m higher than forecast in the Updated Business Plan, this includes additional rent collection of £0.1m and the insurance and car park income (£0.7m) invoiced in Q1-22.
- Car park works CapEx required at Potteries (committed, Q1-22) and solar panel works at Eldon Square £0.4m (Q2-22) and two tenant incentives £0.9m (Q2-22) is projected to be incurred in Q4-22. The quarterly CapEx contingency was not required.
- Other Debtors includes £1m of funding still to be transferred to the landlord accounts from the service charge accounts.
- Differences in amounts paid to NCC under the Headlease.
- Legal & Professional and Voids & Shortfalls outstanding from Q1-22 were funded during Q2-22.
- The positive VAT variance was delayed capital expenditure on Eldon Square and increased rent / arrears collection.

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