FINANCIAL REVIEW

Stor-Age delivered an excellent operating performance despite the COVID-19 impacted operating environment, with move-ins accelerating rapidly from both traditional and new drivers of demand, resulting in record move-ins and occupancy for the year.

INTRODUCTION

The portfolio closed at 90.1% occupancy (2020: 83.8%) with a year-on-year increase of 28 500m². Like-for-like organic rental income, excluding the impact of acquisitions, grew by 8.6% and 6.3% year-on-year in SA and the UK respectively.

In SA, year-on-year occupancy grew by 18 900m² and in the UK by 9 600m². Excluding the Flexi portfolio acquisition in December 2019, like-for-like occupancy in the UK increased by 6 700m² to close at 91.4%. The closing rental rate was up approximately 5.1% and 1.3% year-on-year in SA and the UK respectively. The table below summarises the Group's closing occupancy positions:

	31 March 2021			31 March 2020		
	GLA m²	Occupied m²	% occupied	GLA m²	Occupied m²	% occupied
SA	**366 000**	**329 300**	**90.0**	365 400	310 400	85.0
UK	**82 800**	**74 900**	**90.4**	82 800	65 300	78.8
Total	**448 800**	**404 200**	**90.1**	448 200	375 700	83.8

We proactively bolstered our liquidity position by raising R250 million in an oversubscribed bookbuild in May 2020 and retaining cash from dividend reinvestment plans. Although this resulted in dilution to the dividend per share for the full year, liquidity and access to funding were deemed paramount given the uncertainty as to how the COVID-19 crisis would unfold. This reflected in our year end LTV ratio of 24.1% and in our capital structure which makes use of moderate levels of debt. We also agreed terms with lenders to refinance debt facilities (R860 million in aggregate) expiring later this year.

Details of the Group's customer base is set out in the table below:

	31 March 2021		31 March 2020	
	SA	UK	SA	UK
Number of tenants	**27 300**	**11 100**	25 300	9 400
Commercial	**39%**	**27%**	40%	31%
Residential	**61%**	**73%**	60%	69%
Average length of stay – months (existing tenants)	**22.7**	**31.3**	23.1	26.2
Average length of stay – months (tenants vacating during the period)	**14.2**	**10.0**	13.8	9.6

Residential and commercial split analysed by area.

FINANCIAL RESULTS

The tables below set out the Group's underlying operating performance by geography:

SA	31 March 2021 LFL Rm	Acq Rm	Total Rm	31 March 2020 LFL Rm	Acq Rm	Total Rm	% change LFL %	Total %
Rental income								
Self storage	**404.7**	**5.8**	**410.5**	372.5	1.5	374.0	8.6	9.8
Other	**7.8**	**0.0**	**7.8**	8.2	0.0	8.2	(5.0)	(5.0)
Ancillary income	**16.4**	**0.4**	**16.8**	13.2	0.1	13.3	24.2	26.4
Sundry income	**1.1**	**–**	**1.1**	1.7	–	1.7	(36.1)	(36.1)
Bad debt	**(5.6)**	**(0.0)**	**(5.7)**	(2.8)	0.0	(2.8)	(100)	(102)
Direct operating costs	**(99.3)**	**(1.4)**	**(100.7)**	(97.0)	(1.2)	(98.2)	(2.4)	(2.6)
Net property operating income	**325.1**	**4.7**	**329.8**	295.8	0.14	296.2	9.9	11.3
Bad debt as a % of rental income	**1.40%**	**0.75%**	**1.40%**	0.76%	0.00%	0.76%	–	–

Acquisition ("Acq") = Craighall, acquired in August 2019 under the CPC structure.
Ancillary income includes sale of merchandise, late fees charged to customers on overdue accounts and administration fees.
Net property operating income excludes rental guarantee and rental underpin.

UK	31 March 2021 LFL £'000	Acq £'000	Total £'000	31 March 2020 LFL £'000	Acq £'000	Total £'000	% change LFL %	Total %
Rental income								
Self storage	**12 068**	**2 164**	**14 232**	11 352	606	11 958	6.3	19.0
Other	**450**	**67**	**517**	436	25	461	3.2	12.1
Ancillary income	**1 162**	**288**	**1 450**	1 088	82	1 170	6.8	23.9
Sundry income	**91**	**31**	**122**	171	11	182	(46.8)	(33.0)
Bad debt	**(17)**	**(12)**	**(29)**	(47)	(4)	(51)	63.8	43.1
Direct operating costs	**(3 907)**	**(1 043)**	**(4 950)**	(3 879)	(293)	(4 172)	(0.7)	(18.7)
Net property operating income	**9 847**	**1 495**	**11 342**	9 121	427	9 548	8.0	18.8
Bad debt as a % of rental income	**0.14%**	**0.55%**	**0.20%**	0.41%	0.66%	0.43%		

Acquisition ("Acq") = Flexi portfolio, a five-property acquired in December 2019.
Ancillary income includes sale of merchandise, late fees charged to customers on overdue accounts and customer insurance.

CONSOLIDATED	31 March 2021 LFL £'000	Acq £'000	Total £'000	31 March 2020 LFL £'000	Acq £'000	Total £'000	% change LFL %	Total %
Rental income								
Self storage	**662.3**	**52.0**	**714.3**	585.7	12.9	598.6	13.1	19.3
Other	**17.4**	**1.4**	**18.8**	16.4	0.5	16.9	6.1	11.6
Ancillary income	**41.2**	**6.5**	**47.7**	33.6	1.6	35.2	22.6	35.4
Sundry income	**3.0**	**0.7**	**3.7**	4.9	0.2	5.1	(37.6)	(27.3)
Bad debt	**(6.1)**	**(0.3)**	**(6.4)**	(3.7)	(0.1)	(3.8)	(63.7)	(69.4)
Direct operating costs	**(182.7)**	**(23.7)**	**(206.4)**	(169.8)	(6.7)	(176.5)	(7.6)	(17.0)
Net property operating income	**535.1**	**36.6**	**571.7**	467.1	8.4	475.5	14.6	20.2
Bad debt as a % of rental income	**0.92%**	**0.65%**	**0.90%**	0.64%	0.58%	0.63%		

Net property operating income excludes rental guarantee and rental underpin.

A reconciliation between the disclosures set out in the tables above and the consolidated statement of profit or loss and other comprehensive income is set out on page 216.

FINANCIAL REVIEW (continued)

Self storage rental income increased by 19.3% to R714.3 million (2020: R598.6 million) including organic growth, the impact of acquisitions in the prior year (earnings included for the full reporting period in FY21) and foreign exchange movements.

On a like-for-like basis, South African and UK rental income increased by 8.6% (occupancy 3.4%; rental rate 5.1%) and 6.3% (occupancy 3.9%; rental rate 2.3%) respectively.

With the introduction of the lockdown measures, there was an immediate reduction in activity resulting in a temporary decrease in occupancy which negatively impacted earnings in the first half of the year. We also suspended rental rate increases in April 2020 (recommenced in August 2020) and, in limited circumstances, offered discounts and rental concessions to entrench customer retention and support our commercial customers.

As restrictions eased we saw an acceleration in demand and move-in activity in the second half of the year as the inevitable disruption caused by COVID-19 gave rise to social and economic dislocation and change.

Other rental income (SA – R7.8 million; UK: £0.5 million) relates mainly to parking and the rental of office space at certain properties in the portfolio.

Bad debt as a percentage of rental income was 0.9% for the Group. While a slight deterioration was expected in the current operating environment, we are satisfied with maintaining a bad debt loss of below 1.0%. During the period we collected over 98% and 99% of rental due in SA and the UK respectively. In SA, we offered settlement discounts and concessions to customers of approximately R2.0 million to improve cash collections, reflected in reported bad debt. We saw a significant improvement in the second half of the year, indicating the impact of allocating additional resources to cash collections and improving our internal processes.

In the UK, cash collections were broadly in line with the prior year with bad debt actually decreasing slightly year-on-year.

Ancillary income of R47.7 million (2020: R35.2 million) reflects the positive contribution of acquisitions and organic growth. Although this income stream is a relatively small proportion of total revenue, each component makes a meaningful contribution to earnings with little capital investment. There is usually a direct correlation between move-in activity and ancillary income. In SA ancillary income increased by 24.2% year-on-year (excluding acquisitions), driven by significant growth in merchandise sales, late fees collected on overdue accounts (in effect an offset against bad debt losses) and administration fees. In the UK, ancillary income was up 6.8% on the prior year excluding the impact of acquisitions.

The increase in direct operating costs to R206.4 million (2020: R176.5 million) reflects the impact of acquisitions and foreign exchange movements which was offset by strict and disciplined cost control. Across both markets, property rates, staff costs, utilities, insurance, maintenance and marketing costs account for the majority of the operating cost base. In SA, direct operating costs increased by only 2.6% as a result of reduced staff costs at a property level, lower marketing costs and positive savings on electricity from the roll-out of solar power in our portfolio. In the UK, direct operating costs increased by 0.7% on a like-for-like basis, mainly due to lower marketing and maintenance spend.

Included in property revenue in the consolidated statement of profit or loss and other comprehensive income is a rental guarantee of R10.0 million (relating to the acquisition of the Managed Portfolio in October 2018) and a rental underpin of R5.5 million (relating to the CPC developments: Bryanston – acquired in September 2017; and Craighall – acquired in August 2019). Both, provided by the sellers of the properties, effectively provide income protection to Stor-Age as the properties lease-up to mature occupancy levels. A final amount of R4.5 million (in respect of both the rental guarantee and underpin) will be reflected in next year's earnings.

Other revenue of R4.5 million (2020: R4.7 million) comprises property and other management fees in SA, licence fee income from Storage King franchisee properties in the UK and a small contribution from Management 1st. The decrease relates to development fees earned on the Sunningdale development in the prior year.

Administration expenses amounted to R89.3 million (2020: R55.5 million). After adjusting for foreign exchange movements, the Conditional Share Plan charge, and non-recurring once-off items, we saw an increase in costs relating mainly to increased IT spend, staff costs (to support anticipated future growth) and lower cost recoveries.

The fair value adjustment to investment properties of R803.2 million reflects an increase in the carrying value of investment properties at 31 March 2021. Further details are set out in the Investment Property section on page 49. Other fair value adjustments to financial instruments of R62.7 million relate to the mark-to-market adjustments of interest rate swaps, forward exchange contracts and cross currency interest rate swaps ("CCIRS").

Interest income of R44.4 million (2020: R58.3 million) comprises interest received on the share purchase scheme loans (2021: R13.6 million; 2020: R14.2 million); CCIRS (2021: R24.3 million; 2020: R30.3 million), and call and money market accounts (2021: R6.5 million; 2020: R10.5 million).

Interest expense of R107.9 million (2020: R116.6 million) comprises mainly interest on bank borrowings. The year-on-year decrease is due to the lower interest rate environment offset by higher levels of debt in SA and the UK relating to acquisitions, expansion capex incurred at existing properties, and the development pipeline in SA. Further details of bank borrowings are set out in the Capital Structure section below.

CAPITAL STRUCTURE

Our financing policy is to fund our current needs to expand the portfolio and achieve our strategic growth objectives through a mix of debt, equity and cash flow. We may also offer a dividend reinvestment plan as a mechanism to conserve cash for future expansion, which allows shareholders to reinvest their cash dividends into additional shares in the Company.

Details of the Group's borrowing facilities at 31 March 2021 are set out below:

	ZAR facilities Rm	GBP facilities £m	GBP facilities Rm	Total facilities Rm
Total debt facilities	**1 555.0**	**57.7**	**1 176.8**	**2 731.8**
Undrawn debt facilities	**419.7**	**0.9**	**18.3**	**438.0**
Gross debt	**1 135.3**	**56.8**	**1 158.5**	**2 293.8**
Gross debt net of cash held in facilities	**835.8**	**56.8**	**1 158.5**	**1 994.3**
Net debt	**729.7**	**53.6**	**1 093.6**	**1 823.3**
Investment property (net of lease obligations)	**4 654.7**	**142.7**	**2 912.9**	**7 567.6**
Subject to fixed rates	**650.0**	**44.5**	**907.3**	**1 557.3**
% hedged on:				
– Gross debt	**57.3%**	**78.3%**	**78.3%**	**67.9%**
– Gross debt net of cash held in debt facilities	**77.8%**	**78.3%**	**78.3%**	**78.1%**
– Net debt	**89.1%**	**83.0%**	**83.0%**	**85.4%**
Effective interest rate	**6.14%**	**3.49%**	**3.49%**	**4.80%**
LTV ratio[1]	**18.2%**	**33.6%**	**33.6%**	**24.1%**

[1] *LTV ratio is defined as net debt as a percentage of gross investment property of R7.869 billion less lease obligations relating to leasehold investment property of R301.7 million.*

£5.650 million of the GBP facilities is secured against SA investment property assets. For the purposes of the above table, the SA LTV ratio includes the outstanding balance of this facility.

Stor-Age is well capitalised with sufficient access to cash resources and funding options.

Our cash position at 31 March 2021, including cash held in our debt facilities, amounted to R470.6 million. Total undrawn borrowing facilities amounted to R437.9 million at year end and the average cost of debt for the Group was 4.80%.

At 31 March 2021 the Group had ZAR loan facilities of R1.555 billion with a weighted average maturity of 1.5 years (excluding a three-month rolling note of R160 million refinanced on a quarterly basis). The Group has agreed terms with lenders for the extension of two ZAR debt facilities (R745.0 million in aggregate, of which R671.6 million has been utilised), which are

FINANCIAL REVIEW (continued)

due to expire at the end of September 2021, for a further three years on similar terms. This will increase the weighted average maturity from 1.5 to 3.2 years.

The GBP loan facilities comprise a £52.0 million facility (expiry date November 2024[1]) and a £5.65 million facility (expiry date September 2021) with a weighted average maturity of 3.7 years. Terms have also been agreed for the extension of the £5.65 million facility for a further three years.

In order to broaden our GBP debt funding sources to support the future growth of the UK business, a refinance process has been initiated and is in an advanced stage. Key terms have substantially been agreed with lenders and completion is subject to final credit approval, due diligence and formal contract documentation.

On a net debt basis, 85.4% of borrowings were subject to fixed rates at year end. Net debt stood at R1.823 billion at year end with a LTV ratio of 24.1%.

Subsequent to year end, the Group entered into a three-year fixed interest rate swap (R100 million) in respect of its SA debt.

The table below summarises the expiry profile of our debt facilities:

SA Expiry period	Facility Rm	Drawn Rm	Undrawn Rm	% of facility drawn
FY22	**905.0**	**831.6**	**73.4**	**91.9%**
FY23	**–**	**–**	**–**	**–%**
FY24	**650.0**	**303.7**	**346.3**	**46.7%**
FY25	**–**	**–**	**–**	**–%**
Total	**1 555.0**	**1 135.3**	**419.7**	**73.0%**

FY22 includes a three-month rolling note (R160 million), refinanced quarterly, and the two facilities (R745 million as noted above) expiring in September 2021 which are to be extended.

UK Expiry period	Facility £m	Drawn £m	Undrawn £m	% of facility drawn
FY22	**5.7**	**5.7**	**–**	**100%**
FY25	**52.0**	**51.1**	**0.9**	**98.3%**
Total	**57.7**	**56.8**	**0.9**	**98.4%**

[1] *Includes two 12-month extension options.*

NET ASSET VALUE PER SHARE

	31 March 2021 Rm	31 March 2020 Rm
Total equity – statement of financial position	**5 656.7**	4 605.4
Less: Non-controlling interest	**(38.6)**	(33.1)
Net assets	**5 618.1**	4 572.3
Less: Goodwill and intangible assets	**(147.0)**	(152.3)
Net tangible assets	**5 471.1**	4 420.0
Number of shares in issue (million)	**432.9**	397.8
Net asset value per share excluding non-controlling interest (R)	**12.98**	11.58
Net tangible asset value per share excluding non-controlling interest (R)	**12.64**	11.19

INVESTMENT PROPERTY

A fair value gain to investment property of R803.2 million recognised in the statement of profit or loss and other comprehensive income combined with capital expenditure and offset by exchange rate fluctuations, resulted in an increase in investment property of R795.0 million from R7.074 billion to R7.869 billion at year end.

The table below summarises the increase in our investment properties over the year:

	SA R million	UK £ million	UK R million	Total R million
Balance at 31 March 2020	**4 132.0**	**132.9**	**2 942.3**	**7 074.3**
Capital expenditure on new developments	**37.7**	**–**	**–**	**37.7**
Capital expenditure on existing properties	**38.3**	**3.0**	**61.8**	**100.1**
Capital expenditure on properties under construction	**83.3**	**–**	**–**	**83.3**
Revaluation gain	**408.0**	**19.4**	**395.2**	**803.2**
Exchange rate fluctuations	**–**	**–**	**(229.7)**	**(229.7)**
Other	**0.4**	**–**	**–**	**0.4**
Balance at 31 March 2021	**4 699.7**	**155.3**	**3 169.6**	**7 869.3**
Lease obligations relating to leasehold investment property	**(45.0)**	**(12.6)**	**(256.7)**	**(301.7)**
Investment property net of lease obligations	**4 654.7**	**142.7**	**2 912.9**	**7 567.6**

FINANCIAL REVIEW (continued)

Investment properties are valued using the discounted cash flow ("DCF") method to arrive at a fair value. The valuation of freehold and long leasehold properties is based on a DCF of the net operating income over a 10-year period and a notional sale of the asset at the end of the 10th year. The same DCF methodology is used for short leasehold properties, except that the cash flows reflect only the unexpired lease period from the date of valuation. The DCF assumes a notional management fee of 6.0% of income, subject to a cap and collar, which is deducted from net operating income. The notional management fee represents an allowance for the central administration costs on the basis that the properties would be externally managed.

In SA, 25 of the 50 trading properties in the SA portfolio were valued independently by Mills Fitchet Magnus Penny (Member of the South African Institute of Valuers) at 31 March 2021 for financial statement purposes. The remaining properties were valued internally by the board using the same methodology applied by the external valuer. These properties will be valued independently by an external valuer at the interim reporting date of 30 September 2021. This will ensure that every property is externally valued in a 12-month reporting cycle. In the UK, the entire portfolio was valued independently by CBRE (Registered Valuers of The Royal Institution of Chartered Surveyors in the UK) at 31 March 2021 for the purposes of the financial statements. Further details of the assumptions used in the valuations are set out in the Group financial statements.

In determining the valuations at 31 March 2020, we adopted a very conservative view on growth and the underlying assumptions impacting the forecasted future cash flows in the COVID-19 context. In addition, we did not take account of any planned cost-savings arising from our response to managing the financial impact of the pandemic. At 30 September 2020, the Group recognised a fair value gain to investment property of R467.6 million for the six-month period. A further fair value gain of R335.6 million was recognised in the six-month period to 31 March 2021.

The table below summarises the breakdown of investment properties as at 31 March 2021:

SA	% of portfolio	Valuation (R million)
Short leasehold	**0.6%**	**26.4**
Gross value		**48.6**
Lease obligations		**(22.2)**
Freehold and long leasehold*	**99.4%**	**4 628.3**
Investment property net of lease obligations	**100.0%**	**4 654.7**
Trading properties	**94.0%**	**4 372.7**
Properties under construction^	**3.5%**	**164.9**
Development properties	**2.5%**	**117.1**
Total investment property	**100.0%**	**4 654.7**

* *Includes one long leasehold property (remaining lease term 30.3 years).*
^ *Properties under construction relates to Cresta and Tyger Valley.*

UK	% of portfolio	Valuation £ million	Valuation R million
Short leasehold	12.1%	17.3	353.6
Gross value		29.9	610.3
Lease obligations		(12.6)	(256.7)
Freehold+	87.9%	125.4	2 559.3
Investment property net of lease obligations	100.0%	142.7	2 912.9
Trading properties	99.8%	142.4	2 906.9
Development property#	0.2%	0.3	6.0
Total investment property	100.0%	142.7	2 912.9

+ *Freehold includes two properties with 999 year peppercorn leases which are classified as virtual freeholds.*
# *Development property relates to a vacant portion of land adjacent to the Chester property.*

In the UK, eight of the 21 properties are short leaseholds with remaining lease periods ranging from 11.2 to 18.8 years. Short leaseholds comprise 12.1% of the total UK property valuation but contribute more than 25.0% of net operating income. The property valuation for short leaseholds is conservatively based on future cash flows until the next contractual lease renewal date which, all things being equal, would result in a reduction of the valuation over the remaining lease period. Management expects to successfully re-gear leases several years before renewal. We also benefit from the Landlord and Tenant Act that protects our rights for renewal except in the case of redevelopment. Our leasehold stores have building characteristics or locations in retail and industrial parks that make self storage either the optimal and best use of the property or the only one authorised by planning. The majority of our landlords are property investors who value the tenancy of Storage King and would typically prefer to extend the length of the leases that they have in their portfolio.

The table below summarises the significant inputs applied to the properties using the DCF methodology:

	Average value per m^2 (R)	Discount rate %	Exit cap rate %
SA – Trading properties	11 900	14.11%	8.36%

	Average value per sq.ft (£)	Discount rate %	Exit cap rate %
UK – Trading properties	178	9.05%	6.01%

Exit cap rate relates to freehold and long leasehold properties only.