FINANCIAL REVIEW

The business delivered a resilient financial performance in 2020 through all of the challenges from Covid-19.

"Our performance reflects the acquisition and integration of Liberty Living and the loss of income and cost-savings resulting from Covid-19."

Joe Lister Chief Financial Officer

Income statement

A reconciliation of loss before tax to EPRA earnings measures is set out in summary below and expanded in section 8 of the financial statements.

The performance of the business has been materially impacted in the year by the effects of Covid-19. This reflects the impact of rent rebates for the summer term of 2019/20 and lower occupancy in the 2020/21 academic year, partially offset by cost savings made during the year.

	2020 £m	2019 £m
EPRA earnings	97.3	110.6
Valuation losses/gains and loss on disposal	(178.8)	198.1
Impairment of goodwill and intangibles	–	(384.1)
Integration/acquisition costs	(9.2)	(22.8)
Changes in valuation of interest rate swaps and debt break costs	(35.9)	(5.4)
Minority interest, tax and other items	6.5	2.4
IFRS loss before tax	**(120.1)**	**(101.2)**
EPRA earnings per share	25.5p	39.1p
IFRS basic earnings per share	(31.8)p	(31.5)p

The loss before tax of £120.1 million (2019: £101.2 million loss) includes valuation losses and losses on disposal of £178.8 million (2019: £198.1 million gain), reflecting the income shortfall resulting from Covid-19, as well as £35.9 million of costs associated with the repayment of the Group's secured debt facilities and changes in the valuation of interest rate swaps (2019: £2.7 million), which together more than offset EPRA earnings of £97.3 million (2019: £110.6 million).

Share placing

We completed a placing of 34.5 million new ordinary shares in June 2020 at a price of 870p per share, raising gross proceeds of £300 million. The Company consulted with a significant number of its shareholders prior to the Placing and respected the principles of pre-emption through the allocation process insofar as possible.

The net proceeds, coupled with debt up to our 35% LTV target, will be used to commit to new development or University partnership opportunities in central London and prime provincial markets for delivery in 2023 and 2024. We have already secured c.£175 million of new development opportunities since the placing across two sites in central London and Edinburgh and have a healthy pipeline of further opportunities that we are evaluating.

The placing proceeds were initially used to repay £207 million of secured debt at a cost of 4.8% ahead of being deployed into new developments. As a result, the placing is immediately accretive to total accounting returns and earnings neutral, with earnings accretion as new development opportunities are delivered.

Cash flow and net debt

The Operations business generated £57.3 million of net cash in 2020 (2019: £85.4 million) and see-through net debt reduced to £1,742 million (2019: £1,884 million). The key components of the movement in see-through net debt were:

- Net proceeds from the share placing (£294 million)
- Total capital expenditure of £140 million
- Operational cash flow of £65 million on a see-through basis
- Swap cancellation and debt break fees of £30 million
- A £47 million outflow for other items including lease payments and integration costs

In 2021, we expect net debt to increase slightly as planned capital expenditure on investment and development activity will exceed anticipated asset disposals.

Debt financing and liquidity

As at 31 December 2020, the wholly owned Group had £379 million of cash and debt headroom (31 December 2019: £332 million) comprising of £329 million of drawn cash balances, and £50 million of undrawn debt (2019: £27 million and £305 million respectively).

The Group maintains a disciplined approach to managing leverage, with see-through LTV of 34% at 31 December 2020 (31 December 2019: 37%).

The reduction in LTV during the year was primarily driven by the net proceeds from the Group's share placing, which more than offset the impact of the valuation loss. We intend to dispose of £200–300 million of assets in 2021 and £150-200 million per annum on an ongoing basis (Unite share basis) to fund our development activity and manage our LTV target to 35% on a built-out basis.

FINANCIAL REVIEW CONTINUED

With greater focus on the earnings profile of the business, we are continuing to monitor our net debt to EBITDA ratio, which we target to return to 6–7x over the medium term.

The Unite Group PLC has maintained investment grade corporate ratings of BBB from Standard & Poor's and Baa2 from Moody's, reflecting Unite's robust capital position, cash flows and track record.

Debt covenants

We continue to monitor our banking covenants. Given the disruption to income caused by Covid-19, our principal focus is on our ICR covenants, which vary between 1.5–2.0x depending on the facility.

We remain compliant with all ICR covenants across the Group and its funds and joint ventures. Our tightest ICR covenant requires us to collect 70% of contracted rent for the 2020/21 academic year and we have collected 66% to date.

This requires us to collect less than 10% of rents due or outstanding for the balance of 2020/21 to maintain covenant headroom at the March and June 2021 quarter end tests. Given current progress on cash collection, scheduled payments by Universities and physical occupancy in our buildings, we are confident in retaining headroom under our ICR covenants.

From Q2 2021, headroom under our ICR covenants is expected to increase materially as the impact of cancellations in Q2 2020 are removed from the 12-month historical ICR calculation.

Interest rate hedging arrangements and cost of debt

Our average cost of debt based on current drawn amounts has reduced to 3.1% (31 December 2019: 3.3%) and the Group has 75% of investment debt subject to a fixed or capped interest rates (31 December 2019: 93%) for an average term of 4.2 years (31 December 2019: 5.4 years). The reduction in the average cost of debt during the year reflected the drawdown of our revolving credit facilities at a lower marginal cost, to ensure access to liquidity due to the uncertainty created by Covid-19. This also resulted in a reduction in the average term and hedge ratio on our investment debt, which we expect to reverse in 2021 as we refinance and repay our revolving credit facilities.

We will continue to proactively manage debt maturity profiles, diversify our lending base and look to lock into longer-term debt at rates below our current average cost of debt. Borrowings for the combined Group are well diversified across lenders and maturities, with only limited maturities before late 2022.

We plan to publish a sustainable finance framework in the coming weeks, aligned to our new Sustainability Strategy, which will enable future sustainable debt issuance and provide the opportunity to further diversify our sources of debt.

Key debt statistics (Unite share basis)	31 December 2020	31 December 2019
Net debt	£1,742m	£1,884m
LTV	34%	37%
Net debt:EBITDA ratio	10.1	6.8[1]
Interest cover ratio	2.5	3.5
Average debt maturity	4.2 years	5.4 years
Average cost of debt	3.1%	3.3%
Proportion of investment debt at fixed rate	75%	93%

1. 2019 calculation based on average net debt, pro rata for completion of Liberty Living acquisition in late November 2019.

Dividend

We are proposing a final dividend payment of 12.75p per share (2019: nil), making 12.75p for the full year (2019: 10.25p). The final dividend will be fully paid as a Property Income Distribution (PID) of 12.75p which we expect to fully satisfy our PID requirement for the 2020 financial year.

This represents a payout ratio of 50% for FY2020, which will increase to at least 80% as market conditions stabilise.

Subject to approval at Unite's Annual General Meeting on 13 May 2021, the dividend will be paid in either cash or new ordinary shares (a 'scrip dividend alternative') on 21 May 2021 to shareholders on the register at close of business on 16 April 2021. The last date for receipt of scrip elections will be 29 April 2021.

Further details of the scrip scheme, the terms and conditions and the process for election to the scrip scheme are available on the Company's website.

Tax and REIT status

The Group holds REIT status and is exempt from tax on its property business. During the year, we incurred £1.5 million of corporation tax (2019: £2.5 million), relating primarily to profits on our property management activities, and a £0.3 million tax credit in respect of prior years (2019: £2.4 million).

The table below summarises the key financials at 31 December 2020 for our co-investment vehicles.

	Property Assets £m	Net debt £m	Other assets £m	Net assets £m	Unite share of NAV £m	Total return	Maturity	Unite share
USAF	2,798	(843)	(60)	1,895	418	(3.9)%	Infinite	22%
LSAV	1,324	(462)	(49)	813	406	0.0%	2022/2027	50%

Funds and joint ventures

USAF and LSAV have delivered a resilient performance in the year, despite the challenging environment resulting from Covid-19. USAF's total returns do not reflect retained distributions which, if included, increase the effective total return of the fund to (2.0)%. LSAV's stronger underlying total return reflects a more modest reduction in property valuations over the year, due to £ for £ income deductions made in relation to Covid-19 having a less material impact on its lower yielding properties.

USAF is fully invested at present, based on a year-end LTV of 30%. Unitholders are supportive of further fundraising by USAF later in the year when there is greater visibility on the 2021/22 academic year, and we continue to monitor acquisition opportunities for the fund from both Unite's own balance sheet and the wider market.

There have been no distributions by USAF since January 2020, however they are expected to be reinstated in April to reflect positive progress around rent collection for the 2020/21 academic year and increasing confidence over reservations for the 2021/22 academic year.

The secondary market for USAF units continues to operate effectively with £41 million of units trading in 2020 at a modest average discount to NAV.

We are in advanced discussions with GIC for a long-term extension of our LSAV joint venture, reflecting its success since its creation in 2005 and subsequent extension and expansion in 2012. As part of the extension, Unite intends to maintain its stake in LSAV at 50%.

Fees

During the year, the Group recognised net fees of £18.6 million from its fund and asset management activities (2019: £21.2 million). The reduction was driven by the reduction in NOI and asset valuations resulting from Covid-19 and the absence of an acquisition fee in USAF that was generated from the Liberty Living acquisition.

The London portion of our LSAV joint venture has a scheduled maturity in 2022, at which point Unite is due to receive a performance fee accrued over the life of the JV. As part of the discussions with our joint venture partner GIC over the future of the vehicle, we expect to crystallise the performance fee during 2021 on completion of the extension of the JV. The 2019 results recognised an initial £5.7 million for Unite's share of this fee (£4.6 million net of tax) and we have recognised a further £5.7 million of this fee (£4.6 million net of tax) in 2020, bringing the total amount to date to £11.4 million (£9.2 million net of tax). Based on current expectations, Unite's remaining share of the performance fee is expected to be c.£15–20 million.

	2020 £m	2019 £m
USAF asset management fee	10.7	11.2
LSAV asset and property management fee	3.3	3.2
USAF acquisition fee	–	2.2
Net performance fee	4.6	4.6
Total fees	18.6	21.2

Joe Lister
Chief Financial Officer
16 March 2021