

RNS Acquisition



ACQUISITION OF ADDITIONAL STAKE IN JV FOR £196M

[SUPERMARKET INCOME REIT PLC](#)

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SUPERMARKET INCOME REIT PLC
(the "Company")
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Acquisition of Additional Stake in Joint Venture for £196 million

Supermarket Income REIT plc (LSE: SUPR), the real estate investment trust providing secure, inflation-protected, long income from grocery property in the UK, announces an update in relation to its joint venture (the "JV") with British Airways Pension Trustees Limited ("BAPTL").

The Company has acquired BAPTL's 25.5% beneficial interest in the Sainsbury's Reversion Portfolio (the "SRP Portfolio") for £196 million (excluding acquisition costs), resulting in the Company's beneficial interest in the SRP Portfolio increasing to 51.0%. The remaining 49.0% beneficial interest in the SRP Portfolio is held by Sainsbury's plc ("Sainsbury's"). The ownership structure of the SRP Portfolio will contractually unwind in March 2023 and July 2023 as detailed below.

Background

The SRP Portfolio comprises the freeholds to 26 Sainsbury's supermarkets of which 21 properties (the "Option Stores") will be acquired by Sainsbury's for £1,040 million in two tranches in March 2023 and July 2023.

Beneficial ownership of the five remaining stores is held between the Company and Sainsbury's in the same proportions as the beneficial interests. Sainsbury's has entered into new 15-year leases on four of these stores with five yearly open market rent reviews and a tenant break option at year 10. It is expected that the one store that has not been regearred will be sold at vacant possession value.

As a result of Sainsbury's purchasing the Option Stores, the Company will receive a minimum of £380 million in cash from Sainsbury's in two tranches, £264 million in March 2023 and £116 million in July 2023.

The Company's investment in the SRP Portfolio has generated high returns for shareholders. To date, it has produced an estimated money-on-money multiple of 1.9x and an IRR of 26%, representing 8 pence per share in NTA growth.

The acquisition is expected to be attractive versus SUPR's target property returns and accretive to the Company's expected return from the SRP Portfolio.

The acquisition of BAPTL's beneficial interest also gives the Company a 51.0% stake in this strategically important transaction with Sainsbury's.

Financing

The acquisition has been funded entirely by a new debt facility (the "Facility") provided by JPMorgan Chase Bank. The Facility has no recourse to any of SUPR's assets other than its interest in the SRP Portfolio. The Facility has a margin of 1.5% over

SONIA and an arrangement fee of 2.0%.

The Facility will be repaid in full following receipt of the first payment from Sainsbury's in March 2023.

Based on the Company's last published property portfolio valuation as at 30 June 2022, the pro forma loan-to-value ratio ("LTV") following the acquisition is 39% (from 36% pre-transaction). The LTV is expected to decline to 31% following the repayment of the Facility in March 2023 and to 26% in July 2023 following receipt of the second tranche of proceeds from Sainsbury's.⁽¹⁾

Further information:

Background to the acquisition

In May 2020, the Company formed a 50:50 joint venture with BAPTL to acquire from British Land Plc a 25.5% stake in the SRP Portfolio, one of the UK's largest portfolios of supermarket properties, for £102 million, excluding acquisition costs. Subsequently, in February 2021 the JV acquired a further 25.5% stake in this portfolio from Aviva for £115 million, excluding acquisition costs.

The SRP Portfolio was created in 2000 through two sale and leaseback transactions which were funded by bonds issued under two securitisations, Highbury Finance B.V. ("Highbury") and Dragon Finance B.V. ("Dragon"). Highbury and Dragon comprise 16 and 10 Sainsbury's supermarkets respectively.

The Occupational Leases and Sainsbury's Purchase Option

Sainsbury's occupies the stores under the current occupational leases (the "Occupational Leases") and pays 100% of the rents. The Occupational Leases expire coterminously with the maturity of the bonds in March 2023 (in relation to Highbury) and July 2023 (in relation to Dragon).

The income from the Occupational Leases services the interest and principal repayments of the bonds. The bonds amortise out of the rental income, with a remaining debt balance of £315 million on expiry.

In September 2021 and in January 2022, Sainsbury's exercised options to acquire 21 stores within the SRP Portfolio. The purchase price on the 21 Option Stores is contractually agreed at £1,040 million. Sainsbury's will acquire the stores in March 2023 (£678 million) and July 2023 (£362 million) on expiry of the Occupational Leases.

Joint Venture Investment Adviser fees

Under the terms of the Joint Venture Limited Partnership Agreement ("LPA") put in place May 2020, an affiliate of the Investment Adviser to the Company, Atrato Halliwell Limited ("Atrato Halliwell"), has a carried interest promote entitlement (the "Promote") over the investment returns from the SRP Portfolio. The amount of Atrato Halliwell's Promote entitlement is unchanged as a result of this transaction.

Further details regarding the estimated value of the Promote relating to the Company's investment in the SRP Portfolio are included in note 14 to the 30 June 2022 Annual Report and Accounts.

Having significantly exceeded the IRR hurdle rate under the original terms of the LPA, £7.5 million will be paid to Atrato Halliwell representing BAPTL's share of the Promote.

There are no additional management advisory fees payable by the Company in respect of this investment.

FOR FURTHER INFORMATION

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NOTES TO EDITORS:

Supermarket Income REIT plc (LSE: SUPR) is a real estate investment trust dedicated to investing in grocery properties which are an essential part of the UK's feed the nation infrastructure. The Company focuses on grocery stores which are omnichannel, fulfilling online and in-person sales. All of the Company's supermarkets¹ are let to leading UK supermarket operators, diversified by both tenant and geography.

The Company provides investors with attractive, long-dated, secure, inflation-linked, growing income with the potential for capital appreciation over the longer term and targets a 7% to 10% p.a. total shareholder return⁽²⁾. The Company has increased its dividend every year since IPO.

The Company is listed on the premium segment of the Official List of the UK Financial Conduct Authority and its Ordinary Shares are traded on the Main Market of the London Stock Exchange, having listed initially on the Specialist Fund Segment of the Main Market on 21 July 2017.

Atrato Capital Limited is the Company's Investment Adviser.

Further information is available on the Company's website www.supermarketincomereit.com

1. *Loan to value calculation is based on pro forma balance sheet included in the September 2022 results presentation, adjusted for Direct Portfolio acquisitions, borrowings, Investment Adviser fees and dividends paid to date. The loan to value ratio includes the new financing for this acquisition and the value of the SRP Portfolio is based on SUPR's minimum distributions from Option Stores.*
2. *There is no certainty that these illustrative projections will be achieved*

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