

RNS Disposal



SALE OF SAINSBURY'S REVERSION PORTFOLIO INTEREST

[SUPERMARKET INCOME REIT PLC](#)

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SUPERMARKET INCOME REIT PLC
(the "Company")
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SALE OF SAINSBURY'S REVERSION PORTFOLIO INTEREST

Supermarket Income REIT plc (LSE: SUPR), the real estate investment trust providing secure, inflation-linked, long income from grocery property in the UK, announces the exchange of contracts for the sale of its interest in the Sainsbury's Reversion Portfolio (the "SRP Portfolio") to Sainsbury's for a total gross consideration of £430.9 million (excluding costs).

The sale completes the previously announced acquisition by Sainsbury's of 21 of the 26 SRP Portfolio properties and concludes the contractual unwind of the SRP Portfolio structure (see further information below).

The transaction is expected to close on 17 March 2023 with the £430.9 million consideration received in three tranches. £279.3 million will be received on 17 March 2023 and £116.9 million on 10 July 2023. The third tranche of £34.7 million is conditional on the sale of the remaining five stores in the SRP Portfolio.

Sainsbury's has entered into new 15-year leases on four of the five remaining stores, with five yearly open market rent reviews and a tenant break option in year ten. Following completion of the transaction, SUPR has an option to acquire these four stores benefitting from the new Sainsbury's 15-year leases for a net consideration of £28.3 million (net of SUPR's existing interest and excluding acquisition costs). It is expected that the one remaining store will be sold at vacant possession value.

SUPR's investment in the SRP Portfolio has generated a highly attractive return for shareholders and following this transaction, it is estimated that the investment will have provided a money-on-money multiple of 1.9x and an IRR of 30%¹.

Use of proceeds

The net proceeds are expected to be used to reduce the Company's existing debt facilities, further strengthening the Company's balance sheet. Based on the Company's last published portfolio valuation as at 31 December 2022, the Company's LTV is expected to decline to c.34.4% in March 2023 and c.29.7% in July 2023 following receipt of the first two tranches of the consideration².

Ben Green, Director of Atrato Capital Limited, the Investment Adviser to Supermarket Income REIT plc, said:

"This investment has been highly accretive for our shareholders and is further evidence of the long-term strength and value of UK grocery property."

Patrick Dunne, Director of Group Property, FM & Procurement at Sainsbury's, commented:

"We are pleased to have reached a positive outcome to conclude our joint venture and look forward to continuing to work with Supermarket Income REIT in the future."

Further information:

Background to the transaction

In May 2020, the Company formed a 50:50 joint venture ("the JV") with British Airways Pension Trustees Limited ("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).

On 12 January 2023 the Company announced that it had acquired BAPTL's 25.5% beneficial interest in 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 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 £300.5 million on expiry.

In September 2021 and in January 2022, Sainsbury's exercised options to acquire 21 stores within the SRP Portfolio (the "Option Stores"). The purchase price on the 21 Option Stores is contractually agreed at £1,040 million.

Joint Venture Investment Adviser fees

Under the terms of the Joint Venture Limited Partnership Agreement ("LPA") established in 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 value of Atrato Halliwell's Promote entitlement remains unchanged as a result of this transaction.

Further details regarding the 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 is expected to be paid to Atrato Halliwell. This represents the Company's share of the Promote following this transaction and is expected to be paid following receipt of proceeds in July.

There are no additional investment management 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 supermarkets 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 over the medium term⁽¹⁾. 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. *There is no certainty that these illustrative projections will be achieved. IRR and money-on-money multiple based on gross returns excluding 12 January 2023 BAPTL stake acquisition.*
2. *Based on drawn debt of £691m as at 13 March 2023. Excludes cash and unamortised arrangement fees. Excludes Cash and cash equivalents, Interest rate derivatives and Unamortised arrangement fee assets.*

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