In 2019 we introduced a new five-year strategy to address the challenges and position us to take advantage of the opportunities

"In a world where it is harder for retailers to increase profits, our centres offer them the best opportunity."

Matthew Roberts
Chief Executive

In addition to having been a challenging year, 2019 has been a year of change for intu. I took over as Chief Executive in April and in the summer I introduced our five-year strategy. With the pace of change accelerating in our sector, radical transformation was required, so we carried out a comprehensive review of the business and tested our findings to develop the strategy.

Our review of the business looked at the risks and opportunities of the evolving retail market, and along with an assessment of our underlying strengths, helped formulate our strategy for the next five years. This will reshape the business by way of four strategic objectives, detailed below. I am pleased to say we have already taken steps to deliver this strategy.

However, there are challenges. In the year, we made a loss of £2.0 billion, predominantly due to a property value deficit of 23 per cent, which is now 33 per cent down from the peak in December 2017. This results in our debt to assets ratio increasing to 65 per cent (adjusted for the Spanish disposals), highlighting the importance of fixing the balance sheet in our strategy. Although we were unable to proceed with an equity raise, we have a range of options including alternative capital structures and asset disposals.

The store is not dying, it is evolving

The right stores in the right locations will always play a vital role for retailers but, with all the recent commentary around the death of the store, you could believe that no one will be going shopping in the future. Two statistics from recent research by CACI illustrate the importance of the store. First, around 90 per cent of all retail spend is influenced by a physical store, and second, the presence of a physical store can double a retailer's online sales in that local catchment.

If we look ahead to 2026, research carried out by CACI and Revo suggests that 77 per cent of transactions will still touch a store, even with the overall percentage of online sales increasing from around 20 per cent to 30 per cent. If this is considered with the expectation that overall store numbers in the UK will decrease, there will be continued demand from brands for high-quality, high-footfall locations where they can maximise their productivity and profitability.

As the role of the store changes, then the relationship with our retail customers will change too. Data and insight are becoming increasingly important and it is key that we and our customers join forces and share data to ensure we both benefit and potentially share the risk and reward.

Centres are transforming

The transformation of centres is nothing new but the speed of change is increasing. Our view is that the best locations will deliver theatre and world class service, maximising footfall and increasing dwell time. These will be the locations that our customers focus on as they rationalise their store portfolios.

In addition to the retail and leisure mix, we will also see further intensification of sites introducing uses including residential, office and hotels which will cement our centres' importance at the heart of their communities.

intu's fundamental strengths

There are challenges, but we also have many strengths.

We own nine of the UK's top-20 centres (source: GlobalData), on average a million people a day visit one of our centres and our satisfaction scores and brand relevance continue to grow. Our centres have high occupancy at 95 per cent and we are seen as innovators – we introduced the first nationwide shopping centre brand and have been at the forefront of technology in our sector, from our online shopping mall, intu.co.uk, through to our recent launch of intu Pocket, our in-store cashback app.

All this means that we are a first stop and major provider of space in the UK for many global brands, such as Apple, Inditex, Victoria's Secret and Abercrombie & Fitch, as well as new digital native brands such as Morphe and AliExpress, which opened its first European store at intu Xanadú in 2019.

Delivering a strategy for the 2020s

I believe our strategy addresses the challenges and will position us to take advantage of the opportunities. With a largely new Board and a restructured executive team, we are already making progress.

2019 results

Our results are evidence of the challenges in our market, in particular structural changes ongoing in the retail sector, with some weaker retailers struggling to remain relevant in a multichannel environment. This has led to a higher level of administrations and CVAs and has been exacerbated by the continued weak consumer confidence from the political and economic uncertainty in the UK.

Putting the right team in place

Our Executive Committee is a smaller, more focused team. Five of the eight members are new or new in post and, with this new expertise and fresh perspective, our decision-making will be bolder and more effective.

See page 56

The impact of this can be seen in the reduction in revenue. Like-for-like net rental income reduced by 9.1 per cent in 2019, with over half the change coming from CVA and administration processes which were predominantly agreed in the first half of the year.

This has also impacted the investment market where 2019 saw the lowest level of shopping centre transactions since 1993. This weak sentiment has weighed heavily on valuations. We have seen reductions in the year of 23 per cent and around 33 per cent from the peak in December 2017. This property valuation deficit was the main contributor to the £2.0 billion loss for 2019.

Outlook

Looking in to 2020, we would expect like-for-like net rental income to be down, but by a lower amount than 2019. The Covid-19 situation is rapidly evolving and we are closely monitoring the impact on our centres (see focus on risk). Our footfall is broadly unchanged for the first 10 weeks of 2020.

For UK valuations, we would expect some further downward pressure in 2020, although we believe the decline in values in the second half of 2019 from the impact of yield and ERV movements suggests an acceleration towards the point where we believe valuations should start to stabilise.

In the short term, fixing the balance sheet is our top priority. The notes accompanying these financial statements indicate a material uncertainty in relation to intu's ability to continue as a going concern. However we have options including alternative capital structures and further disposals to provide liquidity, and will seek to negotiate covenant waivers where appropriate. These would address potential covenant remedies and the upcoming refinancing activities, with the first material debt maturities in early 2021.

We are focusing all our energies on moving the business forward. We own many of the best shopping centre locations in the UK, with dedicated staff looking after our visitors who are coming to our centres in the same numbers and like intu more than ever. In a world where it is harder for retailers to increase profits, our centres offer them the best opportunity and many, such as Next, Primark and JD Sports, are thriving. But we cannot stand still, and as we have always done, we will focus on placemaking, curating our space to ensure it remains the place visitors love to be.

Matthew Roberts
Chief Executive