

SFL posts record results for 2019

Rental income: €198.7 million (up 3.1% like-for-like)
EPRA earnings: €119.2 million (up 11.8%)
Attributable net profit: €589.8 million
Portfolio value (excl. transfer costs): €7,158 million (up 9.0%)
EPRA NNAV: €95.9 per share (up 11.1%)

The financial statements for the year ended 31 December 2019 were approved by the Board of Directors of Société Foncière Lyonnaise on 6 February 2020 at a meeting chaired by Juan José Brugera.

2019 business indicators were particularly robust, with rental income and EPRA earnings at a record high as a direct result of strong lettings performances, an excellent occupancy rate and a further reduction in borrowing costs. Added to this, the period saw further gains in the portfolio's appraisal value and the Company's net asset value.

The auditors have completed their audit of the annual financial information and are in the process of issuing their report.

Consolidated data (€ millions)

	2019	2018	Change
Rental income	198.7	193.5	+2.7%
Adjusted operating profit*	172.8	162.1	+6.6%
EPRA earnings	119.2	106.7	+11.8%
Attributable net profit	589.8	351.6	-

* Operating profit before disposal gains and losses and fair value adjustments

	31/12/2019	31/12/2018	Change
Attributable equity	4,485	4,010	+11.9%
Consolidated portfolio value excluding transfer costs	7,158	6,570	+9.0%
Consolidated portfolio value including transfer costs	7,632	7,005	+8.9%
EPRA NNAV	4,461	4,017	+11.1%
EPRA NNAV per share	€95.9	€86.3	

Results: business indicators at a record high

Rental income:

Rental income amounted to €198.7 million in 2019 versus €193.5 million the previous year, an increase of €5.2 million (2.7%).

- On a like-for-like basis (excluding all changes in the portfolio affecting year-on-year comparisons), rental income was €5.6 million (3.1%) higher. The increase was attributable to new leases signed in 2018 and 2019, mainly in the Cézanne Saint-Honoré, Washington Plaza and Louvre Saint-Honoré properties, and to index increases.
- Rental income from spaces being redeveloped was down by €2.9 million, mainly reflecting the departure of all the tenants from the 83 Marceau building, which is currently being renovated and remarketed, and the refurbishment of several floors in the 176 Charles de Gaulle building in Neuilly that were vacated at the end of 2018.
- Lastly, income from various penalties was up by €2.4 million, mainly due to the early termination of a lease at 103 Grenelle in the third quarter.

Operating profit before disposals and fair value adjustments to investment property amounted to €172.8 million in 2019, an increase of 6.6% from €162.1 million the year before.

Portfolio appraisal value:

The portfolio's appraisal value grew by 9.0% over the year, despite the absence of any property acquisitions. The increase led to the recognition of positive fair value adjustments to investment property of €526.9 million in 2019 compared with positive adjustments of €289.0 million in 2018.

Net profit:

Net finance costs amounted to €28.1 million in 2019 versus €52.0 million the previous year. The €23.9 million decrease was primarily due to the high basis of comparison created in 2018 by the non-recurring costs recorded on €300 million worth of bond buybacks. Recurring finance costs, which came to €26.4 million, declined by a significant €4.2 million over the year, reflecting a further improvement in average refinancing costs.

After taking into account these key items, the Group reported attributable net profit for the year of €589.8 million, versus €351.6 million in 2018.

Excluding the impact of disposals, changes in the fair value of investment property and financial instruments and the related tax effect, the Group's EPRA earnings rose by a strong 11.8% in 2019 to a record high of €119.2 million compared with €106.7 million the previous year.

Operations: SFL continues to enjoy brisk letting activity in a buoyant market, while development projects move ahead at full pace

Rental operations:

In 2019, the office rental market in the Paris region continued to perform very well, supported by strong demand especially for prime properties, a historically low vacancy rate and rising rental values.

In this environment, SFL signed leases on around 56,000 sq.m. in 2019 on very good terms. The main new leases concerned:

- Louvre Saint-Honoré, with the fulfilment of the conditions precedent of the turnkey lease signed with the Cartier Foundation for 20,100 sq.m. GLA of retail space on the lower floors of the building to be delivered in 2023.
- 106 Haussmann, with approximately 12,000 sq.m. pre-let to WeWork.
- 103 Grenelle, with a total of some 5,000 sq.m. let to several different tenants including ADP, Huawei and Wemanity.
- Edouard VII, with around 2,500 sq.m. let to Netflix.
- 176 Charles de Gaulle in Neuilly, with three refurbished floors let to FHB and Manpower.

In addition, new leases were signed with existing tenants such as GIE Carte Bancaire, Facebook, Zurich Insurance and Edouard Denis Développement, on expiry of their previous lease or to meet their changing needs.

Nominal rents for office leases signed in 2019 averaged €754 per sq.m., with effective rents averaging €659 per sq.m. for an average non-cancellable term of 8.1 years, reflecting the previously mentioned good performance of the rental market and the quality of SFL's buildings.

The physical occupancy rate for revenue-generating properties continued to hold firm, at 97.4% at 31 December 2019 versus 97.3% a year earlier. The EPRA vacancy rate remained at a very low 1.6%. These ratios confirm SFL's ability to keep its lettable properties fully occupied.

Development operations:

Properties undergoing development at 31 December 2019 represented roughly 18% of the total portfolio. They consist mainly of the Group's current three flagship projects concerning:

- Retail space in the Louvre Saint-Honoré complex, for which the planning appeal process for the new building permit obtained in March 2019 has now ended, allowing renovation work to begin in first-half 2020. Delivery is scheduled for 2023 under the turnkey lease signed with the Cartier Foundation.
- The Biome office complex on avenue Emile Zola (approximately 24,500 sq.m.), which will be comprehensively remodelled over the next two years. The planning appeal process for the building permit obtained in May 2018 has ended (the permit is now final). The property has been cleared and prepared for renovation and remodelling work has recently begun, with delivery scheduled for late 2021.
- The office building at 83 avenue Marceau (approximately 9,600 sq.m.), which is in the process of being redeveloped with delivery scheduled for the first half of 2021.

Capitalized work carried out in 2019 totalled €49.9 million and concerned the above three redevelopment projects, as well as the full renovation of several floors in the Washington Plaza, 9 Percier and 176 Charles de Gaulle (Neuilly) buildings.

Portfolio operations:

No properties were purchased or sold during 2019.

Financing: historically low debt and average borrowing costs

Several financing transactions were carried out during the year as part of the process of active debt management. The aim of these transactions was to take advantage of the low interest rate environment to further reduce the Company's average borrowing costs while also extending the average maturity of its fixed rate hedges.

The €390 million five-year syndicated revolving line of credit set up in June has increased the amount and extended the maturity of the Company's undrawn confirmed lines of credit, which totalled €990 million at 31 December 2019.

The Company also took advantage of the very low interest rates available in the third quarter of 2019 to increase its fixed rate hedges by setting up forward swaps and a collar on a total notional amount of €300 million expiring between September and November 2026.

In addition, maximum issuance under the negotiable European commercial paper (NEU-CP) programme was increased to €500 million. Issuance under the program amounted to €387 million at 31 December 2019.

Net debt at 31 December 2019 amounted to €1,732 million, compared with €1,688 million at 31 December 2018, representing a loan-to-value ratio of 22.7%. The average maturity of net debt was 4.2 years and the average cost after hedging was 1.4%, down from the year-earlier level. At the same date, the interest coverage ratio stood at 6.6x.

EPRA NNAV up 11.1%

The consolidated market value of the portfolio at 31 December 2019 was €7,158 million excluding transfer costs, an increase of 9.0% from €6,570 million at 31 December 2018. The increase reflected a targeted narrowing of yields on prime Paris properties, a further increase in rental values resulting from the Company's good lettings performance during the year, and changes in the status of properties undergoing redevelopment in 2019 with the completion of major administrative and marketing phases.

The average EPRA topped-up net initial yield (NIY) was 3.0% at 31 December 2019, down slightly from 3.2% at 31 December 2018.

EPRA NNNAV stood at €4,461 million or €95.9 per share at 31 December 2019, an increase of 11.1% versus €86.3 per share at 31 December 2018 (after payment of a dividend of €2.65 per share in April 2019).

Dividend

At the Annual General Meeting to be held on 3 April 2020, the Board of Directors will recommend paying a dividend of €2.65 per share.

EPRA indicators

	2019	2018
EPRA Earnings (€m)	119.2	106.7
<i>/share</i>	€2.56	€2.29
EPRA Cost Ratio (including vacancy costs)	13.3%	13.9%
EPRA Cost Ratio (excluding vacancy costs)	12.4%	12.6%

	31/12/2019	31/12/2018
EPRA NAV (€m)	4,623	4,142
<i>/share</i>	€99.4	€89.0
EPRA NNNAV (€m)	4,461	4,017
<i>/share</i>	€95.9	€86.3
EPRA Net Initial Yield (NIY)	2.7%	2.8%
EPRA topped-up NIY	3.0%	3.2%
EPRA Vacancy Rate	1.6%	1.6%

Alternative Performance Indicators (APIs)

API EPRA earnings

€ millions	2019	2018
Attributable net profit	589.8	351.6
Less:		
Profit (loss) on asset disposals	-	-
Fair value adjustments to investment property	(526.9)	(289.0)
Fair value adjustments to financial instruments, discounting adjustments to debt and related costs	1.7	21.4
Tax on the above items	14.0	5.3
Non-controlling interests in the above items	40.6	17.3
EPRA earnings	119.2	106.7

API EPRA NNAV

€ millions	31/12/2019	31/12/2018
Attributable equity	4,485	4,010
Treasury shares	8	10
Unrealised capital gains	23	19
Fair value adjustments to fixed rate debt	(55)	(22)
EPRA NNAV	4,461	4,017

API net debt

€ millions	31/12/2019	31/12/2018
Long-term borrowings and derivative instruments	1,441	1,494
Short-term borrowings and other interest-bearing debt	393	269
Debt in the consolidated statement of financial position	1,834	1,763
Less:		
Current account advances (liabilities)	(50)	(52)
Accrued interest, deferred recognition of debt arranging fees, negative fair value adjustments to financial instruments	1	2
Cash and cash equivalents	(54)	(25)
Net debt	1,732	1,688

More information is available at www.fonciere-lyonnaise.com

About SFL

Leader in the prime segment of the Parisian commercial real estate market, Société Foncière Lyonnaise stands out for the quality of its property portfolio, which is valued at €7.2 billion and is focused on the Central Business District of Paris (#cloud.paris, Edouard VII, Washington Plaza, etc.), and for the quality of its client portfolio, which is composed of prestigious companies in the consulting, media, digital, luxury, finance and insurance sectors. As France's oldest property company, SFL demonstrates year after year an unwavering commitment to its strategy focused on creating a high value in use for users and, ultimately, substantial appraisal values for its properties.

Stock market: Euronext Paris Compartment A – Euronext Paris ISIN FR0000033409 – Bloomberg: FLY FP – Reuters: FLYP PA

S&P rating: BBB+ stable outlook