FINANCIAL REVIEW

A STRONG SET OF FINANCIAL RESULTS

DARREN LITTLEWOOD
GROUP FINANCE DIRECTOR

WHAT WE DID IN 2021

The Group performed strongly in 2021, increasing activity levels across the Group

- 23% increase in operating profit, generated by land disposals and property valuation gains
- Invested £60m across the Group to grow our pipeline of opportunities

The Group has delivered a strong set of financial results as markets have adapted and recovered from CV-19 and, we have made further significant investments in our key markets, redeploying cash and debt facilities into operational assets.

Occupier and investor demand in the industrial and logistics market has driven both development and valuation gains within our property investment and development segment, which, along with an increase in the average selling prices of Stonebridge Homes, has resulted in a 274% increase in the segment's operating profit. UK housebuilding demand has also driven increased strategic land activity within our land promotion segment, resulting in a 23% increase in operating profit, generated by the disposal of 3,008 residential plots during the year.

The Group itself has made significant capital investments, increasing investment property by £21.5m to £104.2m (£125.9m including our share of JVs) and inventories by £34.5m to £235.3m, through acquisition of new development opportunities, ongoing development of existing assets and strategic land purchases. Along with further investments in our joint venture businesses, we continue to grow our pipeline of opportunities in each segment, which will help us meet our future strategic growth and return targets.

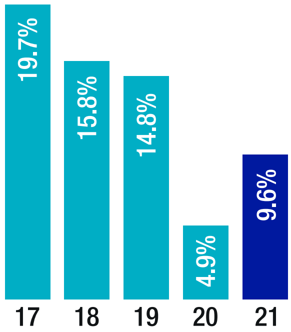
"WE HAVE MADE FURTHER SIGNIFICANT INVESTMENTS IN OUR KEY MARKETS, REDEPLOYING CASH AND DEBT FACILITIES INTO OPERATIONAL ASSETS."

SUMMARY OF FINANCIAL PERFORMANCE

Scheme	2021 £'m	2020 £'m	Change %
Total revenue			
Property investment and development	**69.4**	85.5	-19
Land promotion	**58.6**	21.0	+179
Construction	**102.6**	115.9	-11
	230.6	222.4	+4
Operating profit/(loss)			
Property investment and development	**18.3**	4.9	+273
Land promotion	**17.5**	14.2	+23
Construction	**9.0**	6.5	+38
Group overheads	**(9.3)**	(8.1)	-14
	35.5	17.5	+103
Net finance cost	**(0.4)**	(0.4)	–
Profit before tax	**35.1**	17.1	+105

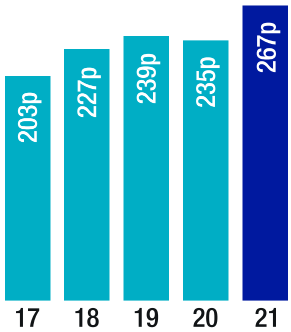
RETURN ON CAPITAL INVESTMENT

9.6%



NAV PER SHARE

267p



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Revenue increased 4% to £230.6m (2020: £222.4m) as transactional activity in the land promotion segment improved disposing of 3,008 plots (2020: 2,000) and the average selling price by Stonebridge Homes increased 38% to over £500k per unit (2020: £368k). Revenue within the property investment and development segment reduced overall as we are increasingly transacting through joint venture entities reported on a net basis in share of profits of joint ventures and associates. The construction segment completed the £89m Glass Works urban development scheme in Barnsley and commenced new urban development works on the Heart of the City and Kangaroo Works schemes in Sheffield, effectively securing revenue for 2022.

Gross profit of the Group increased 37% to £55.5m (2020: £40.5m), a gross profit margin of 24% (2020: 18%) reflecting the higher margin returns from land promotion activities. Administrative expenses increased by £3.4m (2020: £0.9m decrease) including £0.8m full repayment of the Coronavirus Job Retention Scheme monies as well as an increase in staff costs and general expenditure, which were curtailed during the prior year due to CV-19.

Pension expenses of £6.0m (2020: £4.6m) are £1.4m higher than the prior year. Following a consultation with active members of the defined benefit pension scheme early in 2021, the Group closed the scheme to future accrual with an associated cost of £2.2m.

Property revaluation gains of £8.0m (2020: £1.3m) were the net effect of uplifts of £10.3m (2020: £5.7m) generated largely from increases in the fair value of industrial assets, from the re-gearing of existing leases and from completion of assets under construction, offset by the recognition of valuation deficits of £2.3m (2020: £4.4m) on a number of other properties, which, for the most part are those subject to future development.

Profit on the sale of investment property of £1.3m (2020: loss of £0.1m), includes the opportune disposal of a newly developed retail site in Huyton to a national supermarket retailer.

Share of profit of joint venture and associates of £8.9m (2020: £1.8m) includes industrial development disposals and valuation uplifts on a number of schemes in the property investment and development segment.

Profit on disposal of joint ventures and subsidiaries in the prior year of £7.4m principally included the disposal of a 50% interest in a joint venture entity in our land promotion segment.

Overall, operating profits increased by 103% to £35.6m (2020: £17.5m) and, after adjusting for net finance costs, we delivered a PBT of £35.1m (2020: £17.1m).

The segmental result analysis shows that property investment and development produced an increased operating profit of £18.3m (2020: £4.9m), arising from growing commercial rent rolls, increases in the fair value of industrial properties, profits from joint ventures in Huddersfield, Enfield and Wakefield, the profit on disposal of a retail unit at Huyton and an increase in the average selling price of housing units. Land promotion operating profit increased 23% to £17.5m (2020: £14.2m) as we disposed of 3,008 residential plots during the year (2020: 2,000). Construction segment operating profits increased to £9.0m (2020: £6.5m) as productivity levels increase and due to a prior year impairment charge of £2.0m. We continue to show how the benefits of a broad-based operating model allow us to manage the impact in these cyclical markets during challenging times and capitalise on market recoveries in the aftermath.

FINANCIAL REVIEW

We maintain a significant pipeline of property development and consented residential plots, the variable timing of the completion of deals in these areas does give rise to financial results, which can vary depending upon when contracts are ultimately concluded. We mitigate this through the mix of businesses within the Group and our business model which, over the longer term, will ultimately see the blended growth of the Group delivered.

TAX

The tax charge for the year was £4.5m (effective rate of tax: 12.8%) (2020: £3.4m; effective tax rate: 20%) and is lower (2020: higher) than the standard rate of tax due to adjustments in respect of earlier years arising from additional loss relief on asset disposals (2020: due to impairment of ineligible goodwill and a dry tax charge on transfer of an asset from inventory to investment property offset by joint venture profits presented net of tax). Current taxation on profit for the year was £1.1m (2020: £3.1m), deferred tax was £3.4m (2020: £0.3m).

EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share increased 135% to 21.2p (2020: 9.0p) as performance continues to recover post CV-19 and in line with the increase in profits attributable to owners of the Parent Company. Total dividend for the year increased 10% to 6.05p (2020: 5.50p), with the proposed final dividend increasing to 3.63p (2020: 3.30p), payable on 1 June 2022 to shareholders on the register as at 6 May 2022. The ex-dividend date is 5 May 2022.

RETURN ON CAPITAL EMPLOYED (ROCE)

Higher operating profit in the year saw an increased ROCE[1] to 9.6% in 2021 (2020: 4.9%). While this shows a significant recovery from the initial impact of CV-19, we continue to believe that a target return of 10%–15% is appropriate for our current operating model and the markets in which we operate. We will continue to monitor this important performance measure over the business cycle.

FINANCE AND GEARING

Net finance costs remain at £0.4m (2020: £0.4m). Having maintained a cash surplus during the uncertainties of Brexit and CV-19, the Group made a number of strategic investments in 2021, bringing us back within our optimal gearing range of 10%–20%. While interest rates are beginning to rise, they remain at low levels and are an effective source of funding for the Group.

Interest cover, expressed as the ratio of operating profit (excluding the valuation movement on investment properties, disposal and joint venture profits) to net interest (excluding interest received on other loans and receivables), was 31 times (2020: 13 times). No interest incurred in either year has been capitalised into the cost of assets.

The Group's banking facilities were agreed on 23 January 2020 at £75.0m. The facility includes an additional accordion facility of £30.0m, which can be called upon at the Group's request. The facility with Barclays Bank PLC, HSBC UK Bank plc and National Westminster Bank Plc runs for three years and includes two one-year extensions. On 19 January 2022, the banks agreed to the Group's second extension taking the facility to 23 January 2025. The Group had drawn £50.0m of the facility at 31 December 2021 (2020: £nil).

On 20 December 2021, the Group signed an additional £25.0m receivables purchase agreement with HSBC that allows it to draw funds on transfer of deferred income receivables to the bank. The risk and rewards of ownership are deemed to fully transfer to HSBC and, therefore, this agreement is recorded off balance sheet. No amounts were utilised under the terms of the agreement at 31 December 2021; however, the Group did make its first drawdown of £6.2m in January 2022.

2021 year-end net debt[3] was £43.5m (2020: net cash £27.0m) resulting in the Group net debt having gearing of 12.2% (2020: no gearing). Total year-end net cash includes £2.9m (2020: £2.9m) of Homes and Communities Agency (HCA) funding, which is repayable from the future sale of residential units. All bank borrowings continue to be from facilities linked to floating rates or short-term fixed commitments. Throughout the year, we operated comfortably within the facility covenants and continue to do so.

CASH FLOW SUMMARY

	2021 £'m	2020 £'m
Operating profit	**35.6**	17.5
Depreciation and other non-cash items	**(13.9)**	(5.1)
Net movement on equipment held for hire	**(4.8)**	(1.0)
Movement in working capital	**(55.5)**	9.7
Cash generated from operations	**(38.6)**	21.1
Net capital investment	**(20.9)**	(9.5)
Net interest and tax	**(5.0)**	(6.8)
Net dividends	**(6.2)**	(3.6)
Other	**0.2**	(1.2)
Change in net cash	**(70.5)**	—
Net cash brought forward	**27.0**	27.0
Net (debt)/cash[3] carried forward	**(43.5)**	27.0

During 2021, the cash outflow from operations amounted to £38.6m (2020: £21.1m inflow) after net investment in equipment held for hire of £4.8m (2020: £1.0m), and cash outflows from a net increase in working capital of £55.5m (2020: £9.7m decrease). Our increase in working capital arises from additional investment in property developments in progress, our housebuilding land portfolio and from growing trade receivables as commercial activity levels rise.

Net capital investment of £20.9m (2020: £9.5m) arose from additions to investment property and property, plant and equipment of £18.4m (2020: £12.9m) and investment in joint ventures of £13.7m (2020: nil), which were offset by disposals of investment property and property, plant and equipment and joint ventures of £10.7m (2020: £3.4m).

Net dividends, totalled £6.2m (2020: £3.6m), with those paid to equity shareholders of £7.6m (2020: £4.6m) increasing by 65% and, dividends to non-controlling interests of £0.7m, being offset by dividends received from joint ventures during the year of £2.2m (2020: £2.2m).

After net interest and tax of £5.0m (2020: £6.8m), there was an overall outflow in net cash of £70.5m (2020: no movement), resulting in net debt of £43.5m (2020: £27.0m net cash).

NOTES:

1 Return on Capital Employed is an alternative performance measure (APM) and is defined as operating profit/average of total assets less current liabilities at the opening and closing balance sheet dates.

2 Net Asset Value (NAV) per share is an APM and is defined using the statutory measures net assets/ordinary share capital.

3 Net (debt)/cash is an APM and is reconciled to statutory measures in note 32.

4 Total Accounting Return is an APM and is defined as the growth in NAV per share plus dividends paid, expressed as a percentage of NAV per share at the beginning of the period.

STATEMENT OF FINANCIAL POSITION SUMMARY

	2021 £'m	2020 £'m
Investment properties	**104.2**	82.7
Intangible assets	**3.7**	4.3
Property, plant and equipment, including right-of-use assets	**27.9**	25.9
Investment in joint ventures and associates	**12.2**	5.8
	148.0	118.7
Inventories	**235.3**	200.8
Receivables	**114.0**	85.6
Payables	**(85.1)**	(89.6)
Other	**(1.2)**	7.4
Net operating assets	**411.0**	322.9
Net (debt)/cash[3]	**(43.5)**	27.0
Retirement benefit obligations	**(12.2)**	(36.4)
Net assets	**355.3**	313.5
Less: Non-current liabilities	**20.4**	51.4
Capital employed	**375.7**	364.9

Investment properties increased in value to £104.2m (2020: £82.7m), following the acquisition of two industrial sites at Skelmersdale and City Court, Manchester, both of which present medium-term redevelopment prospects and the construction and retention of an industrial asset at Wakefield, partially offset by the opportune disposal of a newly developed retail site in Huyton.

Intangible assets reflect the Group's investment in Road Link (A69) of £2.3m (2020: £2.7m) and goodwill of £1.4m (2020: £1.6m). The treatment of the Road Link investment as an intangible asset is a requirement of IFRIC 12 and arises because the underlying road asset reverts to National Highways at the end of the concession period in 2026.

Property, plant and equipment comprises Group occupied buildings valued at £6.6m (2020: £6.9m) and plant, equipment and vehicles with a net book value of £21.3m (2020: £19.0m), including £1.6m (2020: £2.1m) of right-of-use assets under IFRS 16. Property, plant and equipment, along with right-of-use assets, have increased as new additions of £6.8m (2020: £3.6m) are offset by disposals and the depreciation charge for the year. Right-of-use assets have decreased in the year as the Group's lease liabilities unwind.

Investments in joint ventures and associates increased £6.4m to £12.2m (2020: £5.8m) arising from the Group's share of profits of £8.9m, including fair value uplifts of £7.0m. We continue to undertake property development projects with other parties where we feel there is a mutual benefit. We anticipate that these opportunities will continue to increase as we finalise several schemes with interested parties partnering with us to utilise our development expertise.

Inventories were £235.3m (2020: £200.8m) with property inventory increasing to £75.2m (2020: £44.4m) as the Group invested in a BtR opportunity in Birmingham, a speculative multi-let industrial/warehouse scheme in Welwyn Garden City and further progressing existing development schemes. Increasing our housebuilder land and work in progress to £52.5m (2020: £39.2m) as we continue to invest in land, expand regionally into the North East and having reservations against 77% of its 2022 sales target. We continue to invest in owned land and land interests held under agency agreements at a lower capital cost. Inventories are held at the lower of cost or net realisable value, in accordance with our accounting policy and, as such, no uplift in value created from securing planning permission is recognised within our accounts until disposal.

Receivables increased £28.4m to £114.0m (2020: decreased £85.6m) due to an increase in commercial activity. Deferred payment receivables remain a function of the number and size of strategic land development schemes sold, and levels of construction contract activity undertaken.

Payables decreased to £85.1m (2020: £89.6m) with trade and other payables decreasing to £73.9m (2020: £75.1m), provisions increasing to £6.3m (2020: £5.9m) as strategic land provisions grow, contract liabilities decreasing to £5.0m (2020: £7.4m), arising from payments received for work not yet undertaken.

Net debt[3] included cash and cash equivalents of £11.1m (2020: £42.1m), borrowings of £52.9m (2020: £12.9m) and lease liabilities of £1.7m (2020: £2.2m). In total, net debt was £43.5m (2020: 27.0m net cash).

At 31 December 2021, the IAS 19 pension deficit relating to retirement benefit obligations was £12.2m, compared with £36.4m at 31 December 2020, the favourable movement is due to an increase in the discount rate applied to future liabilities to 2.0% (2020: 1.4%). The pension scheme's assets continue to be invested globally, with high-quality asset managers, in a broad range of assets. The pension scheme Trustee regularly considers the merits of both the managers and asset allocations and, along with the Company, reviews the returns achieved by the asset portfolio against the manager benchmarks. They then make changes, as the Trustee considers appropriate, in conjunction with investment advice from ISIO.

Overall, the net assets of the Group increased by 13.3% to £355.3m (2020: £313.5m) from retained profits and the decrease in retirement benefit obligations less distributions to shareholders. NAV per share[2] increased 13.6% to 267p (2020: 235p).

DARREN LITTLEWOOD
GROUP FINANCE DIRECTOR

13 April 2022