

CHIEF EXECUTIVE OFFICER REVIEW



MATERIAL PROGRESS MADE TOWARDS OUR MEDIUM-TERM STRATEGIC TARGETS

TIM ROBERTS
CHIEF EXECUTIVE OFFICER

We have had a good year with profits ahead of our expectations, NAV per share up by 13.6%, and material progress made towards our medium-term strategic targets.

Against a backdrop that was heavily impacted by COVID-19 (CV-19) throughout 2021, we have made good progress with our refreshed strategy to focus, grow and gain appropriate scale in our three key markets, all of which have performed well. CBRE research shows that the UK industrial & logistics market has performed particularly strongly with values up over 35% in 2021. This has been fuelled by another year that has seen near UK record take up of warehouse space, relatively low levels of vacancy and strong investor demand. The UK Price Index states that the residential market has also been buoyant with UK house price inflation of nearly 11% in 2021, which led to residential land prices increasing by c.9% according to Savills research. There are also signs of our big regional cities bouncing back, with more footfall, while Build-to-Rent

(BtR) rents increased by an average of 8% according to Zoopla research. Furthermore, key office markets, like Manchester, are seeing take up recover to pre-CV-19 levels, with a clear flight to quality.

In anticipation of a recovery in our markets, and in line with our refreshed strategy, we started to increase both our employed and committed capital as early as the summer of 2020. We continued this in 2021 investing over £60m primarily into the acquisitions of land, development sites and

investment properties. This increase in activity delivered PBT ahead of management expectations in 2021 with £35.1m of PBT and will also help to restore our profit, ahead of schedule, to near pre-CV-19 levels in 2022.

Moreover, we are also progressing well in realising our medium-term strategic targets. Achieving these targets will result in a larger, more sustainable business, with appropriate scale in our chosen markets, backed by a modern, progressive team all set within a strong ESG framework.

A more detailed review of our refreshed strategy is set out below, including highlights of this year's operational progress towards our medium-term strategic targets:

- As a result of strong demand from housebuilding clients, Hallam Land Management (Hallam Land) has sold 3,008 plots (2020: 2,000 plots).
- Henry Boot Developments (HBD) has completed developments of £303m GDV (HBD share £69m) (2020: £58m) but more importantly, the committed programme has materially increased to £277m (2020: £85m) – including nearly 1m sq ft of industrial, of which 92% is pre-let or pre-sold.
- Significantly, along with our joint venture partner Greater Manchester Pension Fund (GMPF), we have committed to the £66m (HBD share £33m) speculative office redevelopment of the Island, in the centre of Manchester. It will be one of the UK's first Net Zero Carbon (NZC) office buildings.
- Our investment portfolio has grown to £126m, including JVs (2020: £92m), delivering a strong total return of 19.5% during the year.

92,667

RESIDENTIAL LAND PLOTS
(2020: 88,070)

£1.1bn

HBD DEVELOPMENT PIPELINE GDV
(2020: £1.1BN)

- Our jointly owned housebuilder, Stonebridge Homes, grew sales to 120 units in 2021 (2020: 115) and has plans to build on this momentum with a sales target of 200 units in 2022. The land bank has also grown, specifically land with planning has increased to 912 plots (2020: 657) mitigating against the impact of ongoing planning delays on our growth.
- With gearing at 12.2%, against a conservative balance sheet where our strategic land bank is held at cost, we are comfortably positioned within our stated optimum range of 10–20%.
- ROCE at 9.6% is close to our stated medium-term target range of 10–15% and, this year, we believe it will be firmly within this range. NAV per share increased by 13.6%, ahead of expectations, and is now 11.7% above the 31 December 2019 level, driving a TAR of 8.0% per annum over the last two years.
- We have also started 2022 well with secured revenue through Hallam Land pre-selling 1,880 plots. The committed development programme is 72% pre-let or presold and Stonebridge Homes has 77% reservations against 200 units. Henry Boot Construction continues to successfully win work, with 100% of its order book secured for 2022, and Banner Plant's monthly trading is above 2019 levels.

In relation to this, I am proud of the level of dedication and commitment that our team has shown in these uncertain, yet busy times, and also very pleased to be leading a business that is responding to the environmental and social challenges we are all facing. We have a Responsible Business Strategy, which not only sets out clear actions and targets that will be more respectful to our people, planet, places and partners, but will also further embed ESG into our commercial decision making. Whilst this approach will involve some evolution of mind set and investment, I strongly believe it will help us anticipate demand from our customers, and better support the communities that we work in. So, ultimately, it will be the right thing in the long term for the business and, therefore, in the interests of our various stakeholders.

Finally, after a remarkable 40 years of service, Jamie Boot, our Chairman, will be retiring from the Board following the Company's Annual General Meeting (AGM) in May of this year. Everyone at Henry Boot would like to express their thanks to Jamie for his outstanding contribution and wish him well in his retirement. On a personal note, it has been a real pleasure working with Jamie and I greatly appreciate his leadership and support. After undertaking

a considered selection process, the Group is pleased that current Non-executive Director (NED), Peter Mawson, will be appointed as Chair. Peter has been on the Board since 2015 and brings a wealth of property and commercial experience. As a consequence of Peter's changing role, the Senior Independent Director position will be assumed by Joanne Lake, an existing NED. Also, the Nomination Committee, supported by a consultant, has started the recruitment of an additional NED.

I look forward to working with the Board, under Peter's Chairship, and the rest of our team on the next exciting phase of Henry Boot's journey.

OUTLOOK

The immediate outlook for our markets remains positive with high levels of occupier and investor demand for industrial and logistics space, a strong forward sales position for Stonebridge Homes and continued demand from housebuilders for residential land. Not surprisingly, therefore, we have had a very good start to 2022 with high levels of secured sales.

However, as an industry we face several headwinds. Build cost inflation is stubbornly high, supply restrictions are being seen and it's a competitive employment market. All of these challenges have been overshadowed recently by the conflict in Ukraine. At the moment, we are managing these challenges, maintaining our margin through sales inflation and doing a good job of motivating and retaining our team.

We remain a long-term business and one of our main advantages is our attractive pipeline. With potential for over 92,500 plots Hallam Land has one of the largest strategic land banks in the country, HBD has maintained its pipeline at £1.1 bn (75% in industrial) despite committing to £277m of development over the year and Stonebridge Homes with a land bank of 1,157 plots is readying itself to become a truly multiregional premium housebuilder.

With a strong balance sheet, low levels of gearing, an engaged team and a portfolio rich with opportunity, we are ready to meet demand and to continue making excellent progress against our medium-term strategic targets.

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This report contains the following alternative performance measures (APM): Return on Capital Employed. Net Asset Value (NAV) per share. Net (debt)/cash. Total Accounting Return. More details can be found on page 40.

£126m

INVESTMENT PORTFOLIO VALUE
(2020: £92m)

1,157 UNITS

STONEBRIDGE HOMES TOTAL
LAND BANK
(2020: 1,119)