Financial Review

Delivering results for the years ahead.

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Darren Littlewood,
Group Finance Director

Summary financial performance

	2018 £m	2017 £m	Change %
Total revenue			
Property investment and development	**221.6**	250.4	–12
Land promotion	**74.8**	76.2	–2
Construction	**100.7**	81.9	+23
	397.1	408.5	-3
Operating profit/(loss)			
Property investment and development	**20.1**	30.4	-34
Land promotion	**27.9**	23.2	+20
Construction	**8.9**	9.6	–7
Group overheads	**(7.7)**	(7.0)	–10
	49.2	56.2	–12
Net finance cost	**(1.4)**	(1.5)	+7
Share profit of joint ventures and associates	**0.8**	0.7	+14
Profit for the year	**48.6**	55.4	–12

The Group has once again delivered strong results with good cash generation and a notable reduction in net debt. The continued delivery of The Event Complex Aberdeen, our Markham Vale scheme in Derbyshire and a growing contribution from residential house sales by Stonebridge Homes underpinned our performance for the year. The continued strength of the UK residential housing market meant that UK housebuilder appetite for good quality residential development land remained high as they replenish their stocks, delivering a 20% profit increase within our land promotion segment. Property investment and development has, however, been impacted by the current market uncertainty along with protracted planning negotiations during the year, albeit the prior year did benefit from strong residential sales at the former Terry's Chocolate Factory which made a significant contribution to that year's results.

We continue to take a long-term strategic approach to land promotion and property development while at the same time focusing on the delivery of the existing pipeline which should deliver good results for the years ahead. While negotiations between the UK and the EU continue to drive uncertainty within our markets, which lead to commencement delays in projects and developments, we enter 2019 with a significant amount of property development work in progress, several land sales already exchanged awaiting completion and a strong order book within our construction business.

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Group Finance Director

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What we did in 2018

— Produced a strong set of results, despite uncertainty in the market
— Reduced Net Debt to £18.6m, gearing at 6%
— Increased final year dividend by 12%, bringing the total to 5.8p per ordinary share.
— Grew Net Asset Value per Share by 12% to 227p

Consolidated Statement of Comprehensive Income

Revenue decreased 3% to £397.1m (2017: £408.5m) resulting from lower activity within the property investment and development segment arising from work which will now commence in 2019, offset by an increased level of activity within Construction as we continued the delivery of The Glass Works, a £35m town centre redevelopment scheme for Barnsley Metropolitan Borough Council. Gross profit decreased 10% to £78.0m (2017: £86.7m) and reflects a gross profit margin of 20% (2017: 21%). Administrative expenses increased by £1.4m (2017: £4.7m), resulting from the continued expansion of Stonebridge Homes and a modest level of wage inflation linked to employee retention.

During the year, the High Court issued its judgement relating to the Guaranteed Minimum Pension equalisation case with Lloyds Bank plc. This resulted in increased obligations for defined benefit pension schemes which are to be recognised as a past service cost. Accordingly, pension expenses increased by £1.6m (2017: £0.6m) to include a one-off provision of £1.5m relating to Guaranteed Minimum Pensions, along with a general increase due to rising employee numbers. Without this one-off provision, Group overheads would have fallen during the year helped by reduced employee bonus provisioning.

Property revaluation losses of £0.1m (2017: £3.6m) were the net effect of uplifts of £2.9m (2017: £5.2m) in the fair value of certain existing completed investment properties, largely in the industrial and mixed-use categories, offset by the recognition of valuation deficits of £3.0m (2017: £8.8m) on a number of other properties, most notably retail assets.

Overall, operating profits decreased by 12% to £49.2m (2017: £56.2m) and, after adjusting for net finance costs and our share of profits from joint ventures and associates, we delivered a profit before tax of £48.6m (2017: £55.4m).

The segmental result analysis shows that property investment and development produced a reduced operating profit of £20.1m (2017: £30.4m) arising from continued activity on The Event Complex Aberdeen and contributions from our Markham Vale industrial development. Land promotion operating profit increased 20% to £27.9m (2017: £23.2m) as we disposed of 3,573 residential plots during the year (2017: 2,169). Construction segment operating profits decreased slightly to £8.9m (2017: £9.6m) after Plant Hire and Road Link performed in line with expectation but Construction returns were impacted by pre-commencement works, on several potential future schemes, on which the company only recovers costs. The nature of deal-driven property and land promotion businesses, dependent upon demand from the major UK housebuilders and reliant on the UK planning regime, is demonstrated in the movements within our mix of business streams. We continue to show how the benefits of a broad-based operating model brings stability in what are highly fluid business environments. While 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 significantly depending upon when contracts are ultimately concluded. We mitigate this through the blend 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 £8.2m (effective rate of tax: 17%) (2017: £9.8m and effective rate: 18%) and is lower than the standard rate due to a prior year adjustment relating to non-taxable capital gains. We currently have a £3.5m unrecognised deferred tax asset (2017: £3.2m) which can be utilised to offset future capital gains if they arise. Current taxation on profit for the year was £8.1m (2017: £9.7m), with the 2018 charge

being lower than the standard rate of corporation tax due to the previously mentioned prior year adjustment. Deferred tax was £0.1m (2017: £0.1m).

Earnings per share and dividends

Basic earnings per share decreased in line with profits to 28.3p (2017: 32.1p), however, total dividend for the year increased by 13% to 9.00p (2017: 8.00p), with the proposed final dividend increasing by 12% to 5.80p (2017: 5.20p), payable on 29 May 2019 to shareholders on the register as at 26 April 2019. The ex-dividend date is 25 April 2019.

Return on capital employed ('ROCE')

Slightly lower operating profit in the year saw a reduced ROCE[1] of 14.9% in 2018 (2017: 18.6%), the prior year benefited from the impressive result within property development that year. While we continue to review our strategic target rate of return, we continue to believe that a target return of 12%–15% is appropriate for our current operating model. We will continue to monitor this important performance measure over the business cycle, given the potential for market conditions to change quickly.

[1] ROCE is calculated as operating profit divided by total assets less current liabilities.

Finance and gearing

Net finance costs reduced slightly to £1.4m (2017: £1.5m). We saw a reduction in our net debt levels throughout 2018 as we collected several deferred land sale receipts and concluded the disposal of our retail investment at St Anne's Square in Manchester. Average borrowing rates were slightly higher than the previous year due to the increase in the base rate from 0.50% to 0.75% in the year. We anticipate that interest costs will rise through 2019 from increased borrowings to support higher levels of development activity. We also expect to see slight rises in interest rates during 2019, although this will not result in a material change to our borrowing costs. We continue to invest in both our land and property development assets, as we recycle capital into future opportunities and development activity.

Interest cover, expressed as the ratio of operating profit (excluding the valuation movement on investment properties and disposal profits) to net interest (excluding interest received on other loans and receivables), was 33 times (2017: 38 times). No interest incurred in either year has been capitalised into the cost of assets.

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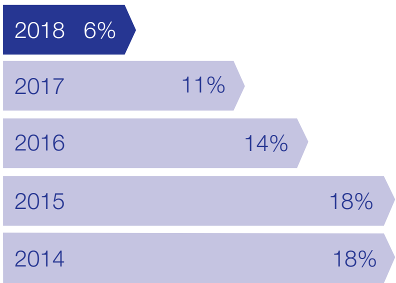
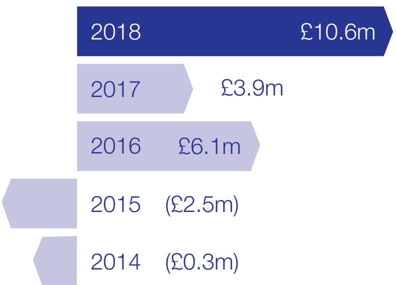
Gearing levels

6%



Cash Generation

£10.6m



Our completed investment property portfolio has decreased to £118m (2017: £127m) against which we secure bank funding to allow us to undertake property development and land promotion, neither of which is readily funded using traditional low-cost bank debt. Our investment property assets continue to provide the key covenant support for our banking facilities. Our agreed facilities remained at £72m throughout the year and have a renewal date in February 2020. Initial conversations have been undertaken with several banks regarding the renewal in 2020 and feedback suggests that there is a good level of interest in tendering for the facilities during 2019 either as a sole provider or under a syndicated arrangement.

The 2018 year-end net debt fell to £18.4m (2017: £29.0m) resulting in gearing, on net assets of £302.3m, falling to a very conservative 6% (2017: net assets £270.1m; gearing 11%). Total year-end net debt includes £3.6m (2017: £6.1m) 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.

Summary of net debt

	2018 £m	2017 £m
Operating profit	49.2	56.2
Depreciation and other non-cash items	4.8	8.5
Net movement on equipment held for hire	(3.3)	(2.6)
Movement in working capital	(28.4)	(15.8)
Cash generated from operations	22.3	46.3
Acquisition of subsidiary	–	(2.7)
Net capital disposals/(expenditure)	13.4	(17.6)
Net interest and tax	(11.3)	(9.5)
Dividends	(13.6)	(12.0)
Other	(0.2)	(0.6)
Reduction in net debt	10.6	3.9
Net debt brought forward	(29.0)	(32.9)
Net debt carried forward	(18.4)	(29.0)

During 2018, cash generated from operations amounted to £22.3m (2017: £46.3m) after net investment in equipment held for hire of £3.3m (2017: £2.6m) and, after a net investment in working capital of £28.4m (2017: £15.8m). Our investment in working capital arises from the continued growth in our land portfolio and higher levels of contracting activity.

Net capital disposals of £13.4m (2017: expenditure £17.6m) arose from sales of investment property and property, plant and equipment of £20.1m (2017: £11.1m), which were offset by new investment in property development and plant hire assets of £6.7m (2017: £28.7m).

Dividends paid, including those to non-controlling interests, totalled £13.6m (2017: £12.0m), with those paid to equity shareholders of £11.1m (2017: £9.6m) increasing by 16%.

After net interest and tax of £11.2m (2017: £9.5m), the overall reduction in net debt was £10.6m (2017: £3.9m), resulting in net debt of £18.4m (2017: £29.0m).

Statement of financial position summary

	2018 £m	2017 £m
Investment properties and assets classified as held for sale	**121.0**	134.8
Intangible assets	**5.1**	5.4
Property, plant and equipment	**26.2**	26.5
Investment in joint ventures	**6.7**	5.9
	159.0	172.6
Inventories	**155.0**	144.6
Receivables	**114.9**	96.1
Payables	**(95.0)**	(96.0)
Other	**3.5**	4.6
Net operating assets	**337.4**	321.9
Net debt	**(18.4)**	(29.0)
Retirement benefit obligations	**(16.7)**	(22.8)
Net assets	**302.3**	270.1

Investment properties and assets classified as held for sale reduced in value to £121.0m (2017: £134.8m), largely following the disposal of our retail investment at St Anne's Square in Manchester, whilst retaining the upper floors for future residential development.

Intangible assets reflect the Group's investment in Road Link (A69) of £4.2m (2017: £4.5m) and goodwill of £0.9m (2017: £0.9). 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 Highways England at the end of the concession period in 2026.

Property, plant and equipment comprises Group occupied buildings valued at £7.9m (2017: £8.1m) and plant, equipment and vehicles with a net book value of £18.3m (2017: £18.4m), broadly unchanged as new additions of £5.8m (2017: £10.3m) were offset by the depreciation charge for the year.

Investments in joint ventures and associates increased to £6.7m (2017: £5.9m) as we continue to invest in 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 a number of schemes with interested parties partnering with us to utilise our development expertise.

Inventories were £155.0m (2017: £144.6m) and saw an increase in the land portfolio to £107.9m (2017: £101.7m) as we continue to invest in owned land, option or agency agreements. 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. Property development work in progress increased to £47.1m (2017: £42.9m) as we invest in our housebuilder operation, and commercial development work in progress.

Receivables increased to £114.9m (2017: £96.1m) due to increased deferred land sales and construction contract receivables. We anticipate that these deferred payment receivables will now stabilise, but it remains a function of the number and size of strategic land development schemes sold.

Payables reduced to £95.0m (2017: £96.0m) with trade and other payables, contract liabilities and provisions broadly in line with the prior year and current tax liabilities reducing to £3.9m (2017: £5.8m).

Net debt included cash and cash equivalents of £10.9m (2017: £10.3m), once again a result of cash received in December not able to be offset against short-term borrowings of £29.3m (2017: £39.3m). In total, net debt reduced to £18.4m (2017: £29.0m).

At 31 December 2018, the IAS 19 pension deficit relating to retirement benefit obligations was £16.7m, compared with £22.8m at 31 December 2017, helped by an increase in the discount rate applied to future liabilities to 2.8% (2017: 2.5%). The pension scheme's assets continue to be invested globally, with high quality asset managers, in a broad range of assets. The pension scheme Trustees regularly consider the merits of both the managers and asset allocations and, along with the Company, review 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 KPMG.

Overall, the net assets of the Group increased by 12% to £302.3m (2017: £270.1m) from retained profits and the reduction in retirement benefit obligations less distributions to shareholders. Net asset value per share increased 12% to 227p (2017: 203p) as we continue to increase the scale of our operations and portfolio of opportunities through retained earnings.

Darren Littlewood
Group Finance Director
11 April 2019