

Financial Review



“Our continued long-term strategic approach to land promotion and property development has generated increasing pipelines to deliver results for the years ahead.”

DARREN LITTLEWOOD
Group Finance Director

Key highlights of our financial performance in 2017

- Profit before tax increased by 40% to £55.4m
- Basic earnings per share increased by 49% to 32.1p
- Dividends per ordinary share for the year increased by 14% to a record 8.00p
- Return on capital employed increased by 29% to 18.6%

The delivery of our residential conversion scheme at the former Terry’s Chocolate Factory and the progress made on the new Aberdeen Exhibition and Conference Centre delivered results in advance of management’s original expectations. These, coupled with a generally strong underlying performance in our operations, resulted in these impressive Group results. A commendable achievement by our talented people and a credit to all those businesses with whom we engage to achieve our goals.

Our continued long-term strategic approach to land promotion and property development has generated increasing pipelines to deliver results for the years ahead. We remain cautious of where negotiations between the UK and the EU may end and believe continuing uncertainty within our markets could lead to commencement delays in projects and developments. However, as we enter 2018 we have a significant amount of property development work currently in delivery, a number of land sales already exchanged awaiting completion, residential properties in stock, carried over the year end, for which demand remains high and we have a strong order book within our construction business.

Consolidated Statement of Comprehensive Income

Revenue increased 33% to £408.5m (2016: £306.8m) resulting from increased activity within all segments of the Group. This was driven most notably from the continued delivery of the new conference and exhibition centre for Aberdeen City Council, sales of residential apartments at the former Terry’s Chocolate Factory in

York and increased residential land sales within the land promotion segment. Gross profit increased 39% to £86.7m (2016: £62.3m) and reflects a gross profit margin of 21% (2016: 20%), broadly in line with that achieved in the previous year. Administrative expenses increased by £4.7m, resulting from the continued expansion of Stonebridge Homes, the acquisition of two plant depots in Leicester, the opening of a new regional office in Birmingham, and employee costs which rose as we recruited additional staff across the Group to support the increased activity achieved in recent years, and we made provision for higher levels of profit share and bonuses, given the Group’s performance over the year, and saw a modest level of wage price inflation linked to employee retention.

Pension expenses increased by £0.6m (2016: £0.1m) as employee numbers increased and auto-enrolment contributions increased in accordance with statutory requirements.

Property revaluation losses of £3.6m (2016: £1.8m) were the net effect of uplifts of £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 £8.8m on a number of other properties, most notably retail assets in secondary locations.

Overall, operating profits increased by 42% to £56.2m (2016: £39.5m) and, after adjusting for net finance costs and our share of profits from joint ventures and associates, we delivered a profit before tax of £55.4m (2016: £39.5m), an increase of 40%.

The segmental result analysis shows that property investment and development produced a significantly improved operating profit of £30.4m (2016: £15.1m) arising from a full year’s activity on the Aberdeen Exhibition and Conference Centre, final residential sales from the York Chocolate Factory conversion and continuing contributions from our Markham Vale industrial development. Land promotion operating profit also showed a strong performance,

increasing to £23.2m (2016: £18.6m) as we disposed of 2,169 residential plots during the year (2016: 1,609). Construction segment operating profits decreased slightly to £9.6m (2016: £10.3m) after improved results from Plant Hire, following the acquisition of the Leicester depots, and Road Link were offset by lower Construction returns which were marginally impacted by the reduced turnover on secured schemes which did not come forward as quickly as expected. The movements within our mix of business streams demonstrates the nature of deal-driven property and land promotion businesses, dependent upon demand from the major UK house builders but combined with the relatively stable returns from our Construction segment. This continues to demonstrate the benefits of our broadly based operating model, working together to the benefit of our Group. Whilst we have a greater pipeline of property development and a larger number of consented residential plots than ever before, 2017 saw returns achieved which we had expected to deliver through 2018 and into 2019, and further evidences the deal-driven nature of our land promotion and property development businesses giving rise to financial results which can vary significantly from year to year.

Tax

The tax charge for the year was £9.8m (effective rate of tax: 18%) (2016: £8.9m and effective rate: 23%), and arises from the net investment property revaluation deficit, which is not tax deductible until realised, offset by other permanent differences. We currently have a £3.2m unrecognised deferred tax asset (2016: £2.7m) which can be utilised to offset future capital gains if they arise. Current taxation on profit for the year was £9.7m (2016: £8.9m), with the 2017 charge being lower than the standard rate of corporation tax due to permanent tax differences. Deferred tax was £0.1m (2016: £0.04m), due to the elimination of any property revaluation deferred tax asset and no deferred tax asset arising on the increased pension scheme deficit as contributions have exceeded cumulative charges to the income statement.

Earnings per share and dividends

Basic earnings per share increased by 49% to 32.1p (2016: 21.5p). Total dividends payable for the year increased by 14% to 8.00p (2016: 7.00p), with the proposed final dividend increasing by 16% to 5.20p (2016: 4.50p), payable on 30 May 2018 to shareholders on the register as at 27 April 2018. The ex-dividend date is 26 April 2018.

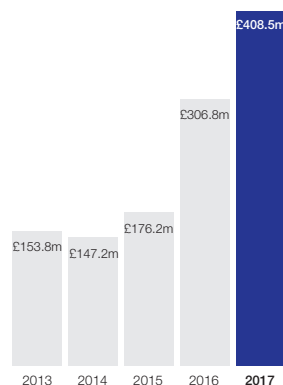
Return on capital employed ('ROCE')

Increased pre-tax profits in the year helped ROCE⁽¹⁾ improve to 18.6% in 2017 (2016: 14.4%). This improvement was aided considerably by the impressive performance within property development mentioned above. Whilst we continue to review our strategic target rate of return, given that we are currently able to forward fund and sell property development, we believe that a target return of 12%-15% is appropriate to 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.

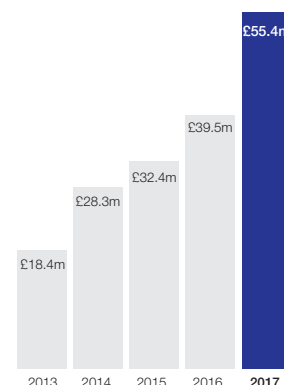
Revenue

£408.5m



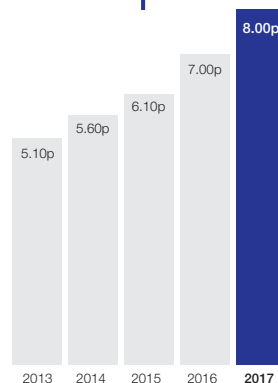
Profit before tax

£55.4m



Dividends per ordinary share

8.00p



Financial Review continued

Finance and gearing

Net finance costs were unchanged at £1.5m (2016: £1.5m). We saw a reduction in our net debt levels towards the end of 2017 as we collected a number of deferred land sale receipts and concluded a number of property disposals. Average borrowing rates were lower than the previous year although we expect interest costs to rise through 2018, as we increase borrowings to support higher levels of development activity. It is also possible that we will see rises in interest rates during 2018, although this will not result in a material change to our borrowing costs. We expect to continue to invest in both our land and property development assets, as we recycle capital into future opportunities and anticipated 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 38 times (2016: 28 times). No interest incurred in either year has been capitalised into the cost of assets.

Our completed investment property portfolio has increased to £127m (2016: £101m) against which we secure bank funding to allow us to undertake property development and land promotion, neither of which are readily funded using bank debt. Our investment property assets continue to provide the key covenant support for our banking facilities. Our facilities were increased to £72m in August 2017 to support the increased property development work, taking the renewal date to February 2020. In addition, we have a £5m revolving loan facility within Stonebridge Homes, our joint venture house builder. This loan is secured against work in progress.

2017 year-end net debt fell by £3.9m to £29.0m (2016: £32.9m) resulting in gearing on net assets of £270.1m falling to a conservative 11% (2016: net assets £233.6m; gearing 14%). Total year-end net debt includes £6.1m (2016: £7.6m) 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.

Statement of cash flows

During 2017, we increased operating cash flows before movements in working capital by £21.5m to £62.1m (2016: £40.6m) and, after a net investment in working capital of £15.8m (2016: £12.0m), cash generated from operations was £46.3m (2016: £28.5m). Our investment in working capital arises from the increase in levels of property development activity and continued investment in our land portfolio. Cash outflows from investing activities of £19.7m (2016: outflow of £2.4m) arising from disposals of £11.1m (2016: £9.9m) of investment property and property, plant and equipment sales, offset by new investment of £31.4m (2016: £13.4m) in new property development, plant purchases and the acquisition of Premier Plant Tool Hire & Sales Limited, adding two new depots to our plant hire business. Dividends paid, including those to non-controlling interests, totalled £12.0m (2016: £10.6m), with dividends paid to equity shareholders increasing by 16%.

Statement of financial position

Investment properties and assets classified as held for sale were valued at £134.8m (2016: £124.7m), increasing after the acquisition of a retail investment at St Anne's Square in Manchester and a distribution unit investment let to Imperial Tobacco in Nottingham, both acquired with longer term development opportunities. The value of investment property under construction within investment properties was £6.2m (2016: £22.7m) as we develop these assets into investment properties and either keep or sell the completed product.

Intangible assets reflect the Group's investment in Road Link (A69) of £4.5m (2016: £4.9m) and goodwill of £0.9m (2016: £nil), on the acquisition in the year of two plant depots in Leicester. 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.

Property, plant and equipment comprises Group occupied buildings valued at £8.1m (2016: £6.5m), increasing on the acquisition of office space in Leeds, from which our housebuilding operation is being managed, and plant, equipment and vehicles with a net book value of £18.4m (2016: £15.4m). This increase arose largely from the acquisition of the Leicester plant depots but also from continued investment in new plant and plant delivery vehicles.

Non-current trade and other receivables have reduced to £2.9m (2016: £5.6m) due to a net decrease in long-term house builder land sale payment plans. We anticipate that the level of deferred payment receivables will start to increase as we market and dispose of some of our larger strategic land development schemes over the coming years.

Investments in joint ventures and associates increased to £5.9m (2016: £5.1m) as we continued to invest in property development projects with other parties where we feel there is a mutual benefit. We anticipate that these opportunities will increase as we see a number of interested parties looking to harness our expertise in bringing schemes forward.

The non-current deferred tax asset reduced because of the lower IAS 19 pension deficit. In total, non-current assets increased to £178.0m (2016: £166.5m).

Within current assets, inventories were £144.6m (2016: £137.9m) and saw a reduction in the land portfolio to £101.7m (2016: £107.9m) as we sold, in part, our more capital-intensive owned land whilst investing further in land under option or agency agreements. Property development work in progress increased to £42.9m (2016: £30.0m) as we grow our house builder operation, and increased work in progress on active property development schemes. Trade and other receivables increased to £93.2m (2016: £66.9m) resulting from land sales made on short-term payment deferrals and an increase in construction contract receivables. Cash and cash equivalents increased to £10.3m (2016: £7.4m) and was a result of cash received in December not offset against short-term borrowing at that time. In total, current assets increased to £250.1m (2016: £213.3m).

Current liabilities increased to £125.2m (2016: £105.9m) as trade and other payables increased to £79.4m (2016: £61.1m), resulting from increased property development activity, accounted for as construction contracts. The portion of debt classed as current increased to £34.3m (2016: £33.3m) and provisions decreased to £5.6m (2016: £6.7m) as we continue to meet our infrastructure planning obligations on two land development schemes.

Net current assets increased to £124.9m (2016: £107.4m). This increase is predominantly due to the increase in debtors, offset in part by the increase in creditors, resulting from higher levels of property development activity and house builder deferred income on land disposals.

Non-current liabilities decreased to £32.8m (2016: £40.4m) after trade and other payables decreased to £2.7m (2016: £4.6m) and borrowings decreased to £4.9m (2016: £6.9m), both reductions being a transition to current liabilities and IAS 19 pension liabilities decreased to £22.8m (2016: £26.4m).

Overall, net assets increased by 16% to £270.1m (2016: £233.6m) largely from the increase in retained profits. Net asset value per share increased 15% to 203p (2016: 177p) as we increase the scale of our operations via retained earnings.

Pension scheme

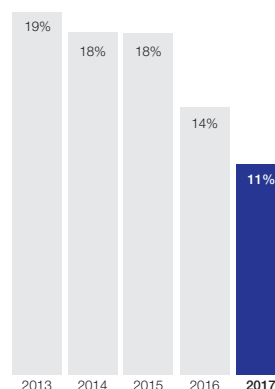
The IAS 19 deficit at 31 December 2017 was £22.8m compared with £26.4m at 31 December 2016 and was again adversely impacted by a further fall in the discount rate applied to future liabilities to 2.5% (2016: 2.8%). Despite this, the Company's contributions and an excellent performance from the pension scheme's assets saw the net deficit reduced by £3.6m (2016: increase £6.8m). As we have noted in previous years, the application of a 3.8% discount rate would result in a negligible deficit and the 2017 scheme asset return was comfortably ahead.

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 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.

DARREN LITTLEWOOD
Group Finance Director
20 April 2018

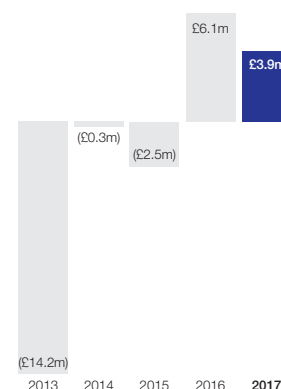
Gearing Levels

11%



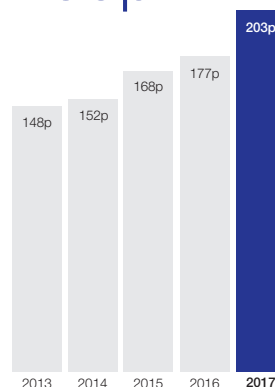
Cash Generation

£3.9m



NAV per Share

203p



Pension Scheme Deficit

£22.8m

