FINANCIAL REVIEW

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CHIEF FINANCIAL OFFICER

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STRONG RESULTS DESPITE A CHALLENGING BACKDROP

£37.3m

PROFIT BEFORE TAX (2022: £45.6M)

306p

NET ASSET VALUE PER SHARE (2022: 295P)

Summary of financial performance

	2023 £'m	2022 £'m	Change %
Total revenue			
Property investment and development	**191.9**	169.0	+14
Land promotion	**68.0**	43.8	+55
Construction	**99.5**	128.6	-23
	359.4	341.4	+5
Operating profit/(loss)			
Property investment and development	**22.2**	25.7	-14
Land promotion	**21.4**	17.3	+24
Construction	**6.5**	12.1	-46
Group overheads	**(9.9)**	(8.6)	+15
	40.2	46.5	-14
Net finance cost and other	**(2.9)**	(0.9)	+222
Profit before tax	**37.3**	45.6	-18

The Group performed well in 2023, with only a 14% fall in operating profit despite the backdrop of an economy in a technical recession. Group profit before tax of £37.3m (2022: £45.6m) or £36.7m on an underlying profit basis[1] (2022: £56.1m) remains very credible and testament to the Group's resilience.

Our focus on high quality land and development opportunities in prime locations across our three key markets continues to support this resilience.

Our land promotion business Hallam Land traded well in the year disposing of 1,944 residential plots (2022: 3,869) at an increased average gross profit per plot of £15.5k (2022: £6.1k), generating an operating profit of £21.4m (2022: £17.3m) as demand for well located premium sites continued, despite falling house prices and volumes across the UK.

Property investment and development exceeded expectation with HBD successfully completing a number of significant development schemes, particularly in the industrial sector. It also made opportune disposals of property assets at a premium to book value and progressed three speculative schemes in Manchester, Birmingham and London. Meanwhile Stonebridge increased its output 43%, completing 251 homes (2022: 175) in line with its medium term growth target of delivering 600 units per annum. Together resulting in an operating profit of £22.2m (2022: £25.7m) from the property investment and development segment.

Consolidated Statement of Comprehensive Income

Revenue increased 5% to £359.4m (2022: £341.4m) as the land promotion business made disposals at a premium site in Tonbridge increasing the segment's revenue 55% to £68.0m (2022: £43.8m). The ongoing growth of Stonebridge (43% increase in output) resulted in a 38% increase in revenue to £97.2m (2022: £70.6m). Construction segment revenue declined £29.1m in a challenging market where clients are taking longer to make decisions. We continued to deliver urban development works in Sheffield and from a number of framework agreements, while becoming increasingly selective of future opportunities.

Gross profit of the Group reduced £4.8m to £76.8m (2022: £81.6m), a gross profit margin of 21% (2022: 24%) and reflects healthy returns across all our operating segments. Other income of £4.8m (2022: nil) relates to a legal settlement on a property development contract completed in 2016. Administrative expenses, including pension expenses, increased by £3.9m (2022: £2.2m) as we continued to invest in our people and processes to support future growth.

Property revaluation gains amounted to £0.4m (2022: £8.2m losses), incorporating £0.3m revaluation gains (2022: £4.9m losses) on wholly owned investment property and £0.1m revaluation gains (2022: £3.2m losses) on our share of investment property held in joint ventures.

Property revaluation gains/(losses)	2023 £'m	2022 £'m
Wholly owned investment property:		
- Completed investment property	0.5	(7.3)
- Investment property in the course of construction	(0.2)	2.4
	0.3	(4.9)
Joint ventures and associates:		
- Completed investment property	0.1	(3.2)
- Investment property in the course of construction	–	–
	0.1	(3.2)
	0.4	(8.2)

Profit on sale of investment properties of £0.7m (2022: £0.6m), relates to the disposal of legacy assets at Bath and Malvern and an industrial unit at Southend. Profit on disposal of assets held for sale of £1.6m (2022: £0.1m loss) relates largely to the disposal of the Group's former head office in Sheffield.

Share of profit of joint ventures and associates of £0.4m (2022: £9.1m) includes completion and sale of two industrial units in Preston and completion of a development in Wakefield, all by the property investment and development segment. Joint ventures continue to be a key part of our operating model however the timing of returns will vary.

Profit on disposal of joint ventures and subsidiaries were £nil (2022: 0.7m), with the prior year reflecting the Group's disposal of a long standing 50% interest in a joint venture entity in Huddersfield by the property investment and development segment.

Overall, operating profits decreased by 13.5% to £40.2m (2022: £46.5m) and, after adjusting for net finance costs, we delivered a profit before tax of £37.3m (2022: £45.6m).

The segmental result analysis shows that:

- Property investment and development operating profit decreased to £22.2m (2022: £25.7m) following a very strong result in 2022, 40% up on 2021, offset by an increase in Stonebridge housing unit disposals to 251 (2022: 175), and a valuation gain on wholly owned investment property of £0.3m (2022: £4.9m loss).
- Land promotion operating profit increased to £21.4m (2022: £17.3m) as we completed on disposals at seven sites, including a high margin site in Tonbridge that increased our average gross profit per plot in the year to £15.5k (2022: £6.1k).
- Construction segment operating profits decreased to £6.5m (2022: £12.1m) as our construction business experienced difficult operating conditions, with performance on two significant projects impacted by the availability of materials and the resultant delays. Plant hire and our PFI concession continued to generate healthy contributions to the segment.

We continue to demonstrate the benefits of a broad-based operating model and how this allows us to manage the impact of cyclical markets during challenging times and capitalise on market recoveries that follow. 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 £8.8m (effective rate of tax: 23.5%) (2022: £7.7m; effective tax rate: 16.9%) and is in line with (2022: lower) the standard rate of tax (2022: due to adjustments for joint ventures and associates reported net of tax). Current taxation on profit for the year was £6.7m (2022: £8.5m), deferred tax was a charge of £2.1m (2022: £0.8m credit).

Earnings per share and dividends

Basic earnings per share decreased 21% to 19.7p (2022: 25.0p) in line with the fall in profits attributable to owners of the Parent Company. Total dividend for the year increased 10% to 7.33p (2022: 6.66p), with the proposed final dividend increasing to 4.40p (2022: 4.00p), payable on 31 May 2024 to shareholders on the register as at 3 May 2024. The ex-dividend date is 2 May 2024.

Return on capital employed[2] ('ROCE')

ROCE[2] decreased in the year to 9.9% (2022: 12.0%), given current challenges in our markets this is expectedly toward the bottom end of the Group's target range of 10%–15% which we believe remains appropriate for our current operating model and the markets we operate in.

Finance and gearing

Net finance costs increased to £2.9m (2022: £0.9m) reflecting the increase in UK interest rates and higher borrowing levels during the year.

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 9 times (2022: 22 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 with Barclays Bank PLC, HSBC UK Bank plc and National Westminster Bank Plc runs for three years and includes two one-year extensions. On 20 January 2022, the banks agreed to the Group's second extension taking the facility to 23 January 2025 and on 9 October 2022 to a call on the accordion increasing the total committed facility to £105.0m. The Group has agreed terms with lenders to refinance for a further five year period but while this facility is being formalised the Group has put in place an option to extend the existing facility for a further year to 23 January 2026 which provides security of funding throughout the going concern period. The Group had drawn £83.5m of the facility at 31 December 2023 (2022: £65.0m).

On 20 December 2021, the Group signed a £25.0m receivables purchase agreement with HSBC Invoice Finance UK Limited (HSBC) that allows it to sell 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. The Group had sold £14.7m of receivables under the agreement at 31 December 2023 (2022: £7.6m).

2023 year-end net debt[4] was £77.8m (2022: £48.6m) resulting in gearing of 19.0% (2022: 12.3%), at the upper end of our targeted range of 10%-20% following continued investment in our prime land portfolio, growing our premium housebuilder and delivering our high quality committed development programme.

All bank borrowings continue to be from facilities linked to floating rates or short-term fixed commitments. Throughout the year, we operated within the facility covenants and continue to do so.

Cash flow summary

	2023 £'m	2022 £'m
Operating profit	**40.2**	46.5
Depreciation and other non-cash items	**(1.1)**	(3.4)
Net movement on equipment held for hire	**(2.1)**	(4.1)
Movement in working capital	**(31.2)**	(55.6)
Cash generated from/(used in) operations	**5.8**	(16.6)
Net capital (investments)/disposals	**(16.4)**	16.6
Net interest and tax	**(7.4)**	(3.6)
Dividends paid	**(12.8)**	(12.4)
Dividends received from joint ventures	**0.9**	7.1
Other	**0.7**	0.8
Change in net debt	**(29.2)**	(8.1)
Net debt brought forward	**(48.6)**	(40.5)
Net debt carried forward	**(77.8)**	(48.6)

During 2023, the cash inflow from operations amounted to £5.8m (2022: £16.6m outflow) after net investment in equipment held for hire of £2.1m (2022: £4.1m), and cash outflows from a net increase in working capital of £31.2m (2022: £55.6m). Our increase in working capital arises from additional investment in housebuilder inventories, strategic land sales on deferred terms and the ongoing development of schemes in progress.

Net capital investment of £16.4m (2022: £16.6m disposals) arose primarily from investment in joint ventures of £13.4m (2022: £2.3m redemption) the prior year containing significant disposals of an industrial unit in Wakefield and a motorway service station in Kent.

Net dividends, totalled £11.9m (2022: £5.3m), with those paid to equity shareholders of £9.3m (2022: £8.4m), increasing by 10%, and dividends to non-controlling interests of £3.5m (2022: £4.0m), being offset by dividends received from joint ventures during the year of £0.9m (2022: £7.1m).

After net interest and tax of £7.4m (2022: £3.6m), there was an overall outflow in net cash of £29.2m (2022: £8.1m), resulting in net debt of £77.8m (2022: £48.6m).

Wholly owned investment properties increased in value to £100.6m (2022: £97.1m), following the retention of newly completed industrial assets in Luton and Pool with a combined book value of £19.0m. Offset by disposals of an office in Bath, a leisure asset in Malvern and an industrial unit in Southend, together they sold at a premium to December 2022 book value of £7.0m. Property revaluation gains amounted to £0.4m (2022: £8.2m loss), incorporating £0.3m gains (2022: £4.9m loss) on wholly owned investment property and a £0.1m gain (2022: £3.2m loss) on our shares of investment property held in joint ventures.

Intangible assets reflect goodwill of £1.0m (2022: £1.2m), being Road Link (A69) of £0.1m (2022: £0.3m) and Banner Plant depots £0.9m (2022: £0.9m) and the Group's investment in Road Link (A69) of £1.2m (2022: £1.7m). 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 March 2026.

Property, plant and equipment comprises Group occupied buildings valued at £4.7m (2022: £7.0m), leasehold improvements of £2.4m (2022: nil), and plant, equipment and vehicles with a net book value of £26.1m (2022: £22.8m), including £4.0m (2022: £1.0m) of right-of-use assets under IFRS 16.

Statement of financial position summary

	2023 £'m	2022 £'m
Investment properties and assets classified as held for sale	**100.6**	97.1
Intangible assets	**2.2**	2.9
Property, plant and equipment, including right-of-use assets	**33.2**	29.8
Investment in joint ventures and associates	**10.5**	10.0
	146.5	139.8
Inventories	**297.6**	291.8
Receivables	**129.3**	122.9
Payables	**(88.1)**	(113.6)
Other	**(5.2)**	(4.2)
Net operating assets	**480.2**	436.7
Net debt	**(77.8)**	(48.6)
Retirement benefit asset	**7.7**	6.2
Net assets	**410.1**	394.3
Less: Non-current liabilities and pension asset	**6.6**	4.8
Capital employed	**416.7**	399.1

Property, plant and equipment, along with right-of-use assets, have increased as new additions of £11.3m (2022: £3.8m) are offset by disposals, transfers and the depreciation charge for the year. Leasehold improvements and right-of-use assets have increased largely due to the lease of the Group's new head office in Sheffield.

Investments in joint ventures and associates increased £0.5m to £10.5m (2022: £10.0m), being the Group's share of profits of £0.4m (2022: £9.1m) (including fair value increases of £0.1m), additional investment of £1.0m (2022: £2.1m), less distributions of £0.9m (2022: £7.2m) and net disposals of £nil (2022: £6.2m). We continue to undertake property development projects with other parties where mutually beneficial.

Inventories were £297.6m (2022: £291.8m) as we increased our housebuilder land and work in progress to £96.2m (2022: £80.6m). We continue to invest in land, expand regionally into the North East and increase annual plot disposals. Property inventory decreased to £77.4m (2022: £91.2m) as the Group completed committed developments in York and Southend, and retained an industrial scheme which was transferred to investment property. In our strategic land business we continue to invest in owned land and land interests under promotion agreements at a lower capital cost amounting to £42.2m (2022: £28.2m). 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, including contract assets, increased £6.5m to £129.3m (2022: £122.9m) due to an increase in loans to joint ventures and associates and as we progress development schemes. 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 £88.1m (2022: £113.6m) with trade and other payables decreasing to £76.0m (2022: £100.0m), provisions decreasing to £4.4m (2022: £5.4m) as strategic land provisions unwind and we near the end of our PFI concession arrangement. Contract liabilities decreased to £1.1m (2022: £4.0m), as large construction schemes near completion.

Net debt included cash and cash equivalents of £13.0m (2022: £17.4m), borrowings of £86.5m (2022: £65.0m), including £3.0m other loans (2022: £nil) arising from sale and lease back, and lease liabilities of £4.3m (2022: £1.0m). In total, net debt was £77.8m (2022: 48.6m).

At 31 December 2023, the IAS 19 pension valuation was a surplus of £7.7m (2022: £6.2m surplus), driven by interest on the existing surplus and contributions paid by the Group to the scheme. 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 received.

Overall, the net assets of the Group increased by 4.0% to £410.1m (2022: £394.3m), arising from retained profits less distributions to shareholders with NAV per share[3] increasing 3.7% to 306p (2022: 295p).

DARREN LITTLEWOOD
CHIEF FINANCIAL OFFICER

1 Underlying profit is an alternative performance measure (APM) and is defined as profit before tax excluding revaluation movements on completed investment properties. Revaluation movement on completed investment properties includes gains of £0.5m (2022: £7.3m losses) on wholly owned completed investment property and a gain of £0.1m (2022: £3.2m losses) on completed investment property held in joint ventures. This APM is used as it provides the users with a measure that excludes specific external factors beyond management's control and reflects the Group's underlying results. This measure is used in the business in appraising senior management performance.

2 Return on Capital Employed is an APM and is defined as operating profit/capital employed where capital employed is the average of total assets less current liabilities and pension asset/obligation at the opening and closing balance sheet dates.

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

4 Net debt is an APM and is reconciled to statutory measures in note 34.

5 Total property return is a metric that combines capital and income returns for the investment portfolio. It is calculated as the percentage value change plus net income accrual, relative to the capital employed and is calculated on a monthly basis and then indexed in line with the benchmark.

6 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.