CHIEF EXECUTIVE OFFICER UPDATE

TIM ROBERTS
CHIEF EXECUTIVE OFFICER

> “I believe we have performed well against a slowing economy, rising interest rates and high inflation. I am clear that our focus on high quality land and development in prime locations has helped us to deliver a resilient set of results”.

WE ARE PLEASED WITH THE RESULTS, WHICH WERE IN LINE WITH OUR EXPECTATIONS

306p
NET ASSET VALUE PER ORDINARY SHARE (2022: 295P)

£410m
NET ASSET VALUE (2022: £394M)

Henry Boot performed relatively well against a backdrop of a slowing economy, rising interest rates, high inflation and decreasing volumes in our key markets. Our focus on high quality land, commercial property development and housebuilding in prime locations has meant demand for our product remained resilient, allowing us to complete £248.5m (2022: £241.9m) of sales. Whilst we have worked hard to mitigate the pressures facing the business, they have inevitably had an effect on PBT at £37.3m (2022: £45.6m). However, in the circumstances, we are pleased with this result, which was in line with our expectations.

In line with our strategy, we continue to grow the business, with NAV, on a statutory basis, increasing by 4.0% to £410m (2022: £394m), generating a total accounting return[6] of 6.1% (2022: 12.8%). With our 100,972 plot strategic land portfolio and £1.3bn development pipeline all held at the lower of cost or net realisable value, rather than being regularly revalued on a mark-to-market basis, there is significant latent value across the Group not reflected in our understated NAV.

The rapid and sustained rise in interest rates has affected our key markets. The resultant increase in mortgage rates has materially slowed down house sales, with new build sales typically down in volume by c.20%. House prices, at best, have stopped growing but, in most cases, have fallen, decreasing by 1.8% in 2023 according to Nationwide.

Despite this, Stonebridge Homes (SH), has managed to increase volume by 43% and sell at prices slightly ahead of budget. SH is one of our most ambitious growth targets. The business has grown total homes sold since setting our medium-term objectives in 2021 by 109%. This year, reflecting 50% forward sales (2022: 56%) and what is anticipated to be a slowly recovering market, we have been marginally more cautious and expect completions to increase by 10% to 275 homes in 2024. We remain committed to hitting our medium-term objective of scaling this business up to 600 homes per annum.

According to Savills Research, UK greenfield land values decreased by 6.5% in 2023. Against this backdrop, our land promotion business Hallam Land Management (HLM) performed well, selling 1,944 plots (2022: 3,869) and maintaining profitability through a higher percentage of freehold sales. More crucially, since the start of 2024 HLM has already disposed of 276 plots and exchanged on a further 793 plots for completion across 2024-2026, as well as having an additional 1,556 plots under offer. In the current constrained planning environment, it shows our main customers, the national housebuilders, are still acquiring prime strategic sites. Not all of these transactions will contribute to profit in 2024, as a number of sites have been sold with staggered completions as housebuilders have adjusted their land acquisition strategies to reflect the reduction in sales volumes.

The Government has consistently failed to carry out much needed reform of what, I am afraid to say, is an increasingly dysfunctional and under resourced planning system. The delays and uncertainties caused by planning not only affect housing and commercial property, but also investment and productivity in the UK. The recent CMA market study into housebuilding (which we contributed data to) concluded that land banking was more a symptom of the issues identified with the complex planning system, rather than it being a primary reason for the shortage of new homes. The Government's latest updates to the National Planning Policy Framework (NPPF) are at best tactical but may lead to marginally speeding up development plan preparation. Labour have made it clear if they are in government they will prioritise reviewing planning. Our plots with planning have fallen in recent years to 8,501 (2022: 9,431), primarily due to difficulties of the planning system, accentuated by delays during COVID. However, at 13,468 (2022: 12,297) we now have a high number of plots in for planning and an additional 8,227 have an allocation or draft allocation. Given our long term track record we believe we are as skilled as anyone in the country at navigating the planning system. So, as we continue to grow the portfolio, and convert applications, we expect to build back up our valuable store of plots with planning consent.

On industrial investment, in line with the slowdown in the wider UK real estate market, volumes were down 52% in 2023 to £5.1bn according to JLL. There was also lower activity in occupational markets, with Gerald Eve data showing that take up declined c.30% in 2023 to 44.5m sq ft. Nevertheless, when factoring in that 2022 demand was boosted by COVID, last year's take up is now back in line with the 2015-19 average. However, industrial performance remained strong with rental value growth at 6.9% during 2023 according to the CBRE UK Monthly Index, meaning capital values were up by 1.4% despite further modest yield expansion. This sustained occupier demand allowed us to successfully complete 661,000 sq ft of industrial development, all of which was pre-let or pre-sold. Industrial will continue to be the largest element of our development business going forward. Our aim is to drawdown on our £1.3bn Gross Development Value (GDV) pipeline (59% of which is in industrial) over the next twelve months or so to build back up our committed programme towards our medium-term objective of completing £200m of development per annum. For the time being, new development will be pre-sold or pre-let led, and therefore likely to contribute towards profit in 2025 and beyond.

Cities are continuing to recover from the social and economic effects caused by COVID, not least both businesses and people's slightly misguided, and now seemingly reducing, desire to work from home. The major cities outside of London where we focus will, therefore, continue to attract people to live, work and play. This is demonstrated by the rise in residential rents this year at a very healthy 8.3%, although the increase in interest rates has, for the time being, cooled investor demand for funding Build-to-Rent (BtR). However, whilst investment activity has fallen across all real estate sectors, BtR has proven more resilient with investment volumes of £4.3bn during 2023, down a modest 3% on 2022 according to Cushman & Wakefield. Likewise, the demand for prime office buildings with strong ESG credentials, as businesses look to fulfil their NZC commitments and attract talent back into the office, is still healthy with regional prime office rental growth of 5.0% in 2023. Investor demand for prime offices, like that for BtR, has waned with the rise in interest rates but, as rates fall, investors are likely to return to these growth markets.

With committed development of £240m (HB share) in 2022, we have tactically reduced our committed programme to £159m (HB share) in 2023 as markets have slowed, of which 50% is pre-let or pre-sold (including units reserved at Setl). A key focus for 2024 will be converting customer interest in our three speculative schemes which will all complete this year: Setl – our premium apartments to sell in the heart of the Jewellery Quarter in Birmingham City Centre; Island – our prime, NZC office building in Manchester City Centre; and Rainham our high quality NZC industrial development in Greater London. Our target is to sell all apartments in Setl this year and, in this respect, we have reservations/exchanged in-line with pricing expectations on 30% already. On Island, we are now looking to lease the building on a floor-by-floor basis and our aim is to secure our first letting prior to completion in Q3 24. On Rainham, which completes in Q2 24, our aim is to have the majority of the scheme let within a year. As we do this the level of pre-let / pre-sold will rise above our strategic target of 65% which will give us greater scope to replenish our committed developments.

The Group's investment portfolio (IP) has outperformed again, with a total return of 6.7%, compared to the CBRE UK Index total return of 1.7% in 2023. A capital return of 1.5% against commercial markets, which fell by 1.4%, helped the market value of the portfolio grow to £112.9m (2022: £108.6m). Our structural weighting towards industrial assisted this out performance and, as we did last year, we helped ourselves by making selective accretive sales. We sold four investments plus Banner Cross Hall, the Group's former HQ, for a total of £12.7m at an average 23% premium to December 2022 valuations. We also retained three completed developments in Luton, Markham Vale and Pool with a combined value of £21.2m. We have been patient in growing the IP to its medium-term target of £150m and based on market corrections in 2022 and 2023, this has proven to be the correct approach. Going forward there will be plenty of opportunity to grow this portfolio.

Our construction segment, like the rest of the UK construction market, had a challenging year. Henry Boot Construction's (HBC) performance on two of our largest projects of which both are in the centre of Sheffield, the BtR Kangaroo Works (£40m contract value) and the Heart of the City mixed use scheme (£42m contract value), were hit by the availability of materials and suffered delays. HBC starts 2024 with 49% of its order book secured (against a target of 65%), as we remain determined not to take on work where either the terms or pricing are commercially unattractive. With Pre-Construction Services Agreements (PCSAs) of £50m there are opportunities for us to secure further new work in 2024 but, again, some of this turnover could slip into 2025.

Banner Plant traded slightly below budget in a market where demand has fallen, and sales have been volatile. Road Link (A69), yet again, has traded broadly in line with expectation. Significantly, given that S&P UK Construction PMI has been running below the neutral 50.0 level for much of 2023, showing a fall in activity, the construction segment overall still contributed to the Group's profit.

CHIEF EXECUTIVE OFFICER UPDATE CONTINUED

Cost inflation remained challenging throughout 2023, and, whilst we have learned that there can be external shocks, it feels that its effect will be more subdued in 2024. We are planning for build cost inflation in SH and HBC to be running at between 3-4%.

In line with our ambition to grow the business, we have invested a combined total of £60.4m in increasing our strategic land portfolio to 100,972 plots, completing and building out our high-quality development programme, and growing the landbank of our premium housebuilder, SH. This has helped us to increase our capital employed by 4% to £417m. It has, however, meant our gearing has risen to 19.0% (net debt £77.8m), but is still within our optimal stated range of 10-20%. Whilst the Group's £105m facility runs until January 2025, we have agreed terms with existing lenders and expect to have a new facility in place during Q2 24.

So, all in all we are pleased with the way the business has performed, during what for our key markets has been a difficult year. We are now firmly focused on 2024 and our medium term growth targets – which remain very achievable. Whilst there is a path to lower inflation and reduced interest rates the expected recovery is very likely to be weighted towards the second half of the year. More detail on this is in the outlook, following a review of our medium term targets and operations below.

Outlook

Looking ahead it feels the economy has turned a corner, with inflation falling and the path of interest rates trending down. This is very likely to move us on from the shallow recession we faced at the end of 2023 into a recovering economy. This is encouraging news for our rate sensitive markets. The demand for houses and, therefore, residential land should pick up. Lower rates will also stimulate investor interest in commercial property and BtR. All of this in turn boosts construction activity. However, planning uncertainties and delays will continue to be a problem and we also face the unpredictability of a General Election during 2024.

Not surprisingly, we do not have clear visibility on how all of this will unfold and, with key transactions to execute and complete this year in both land promotion and development, we expect 2024 results will be heavily second half weighted.

We have confidence in the long term fundamentals of our key markets, with growing conviction that our concentration on prime, high quality buildings and projects together with our focus on developments with strong ESG credentials will reward us with improved liquidity and enhanced returns. Our balance sheet remains rock solid and, with agreed terms from our banks on renewing and enlarging our facilities expected to be in place during Q2 24, we have the resources to continue to grow the business in line with our medium term targets.

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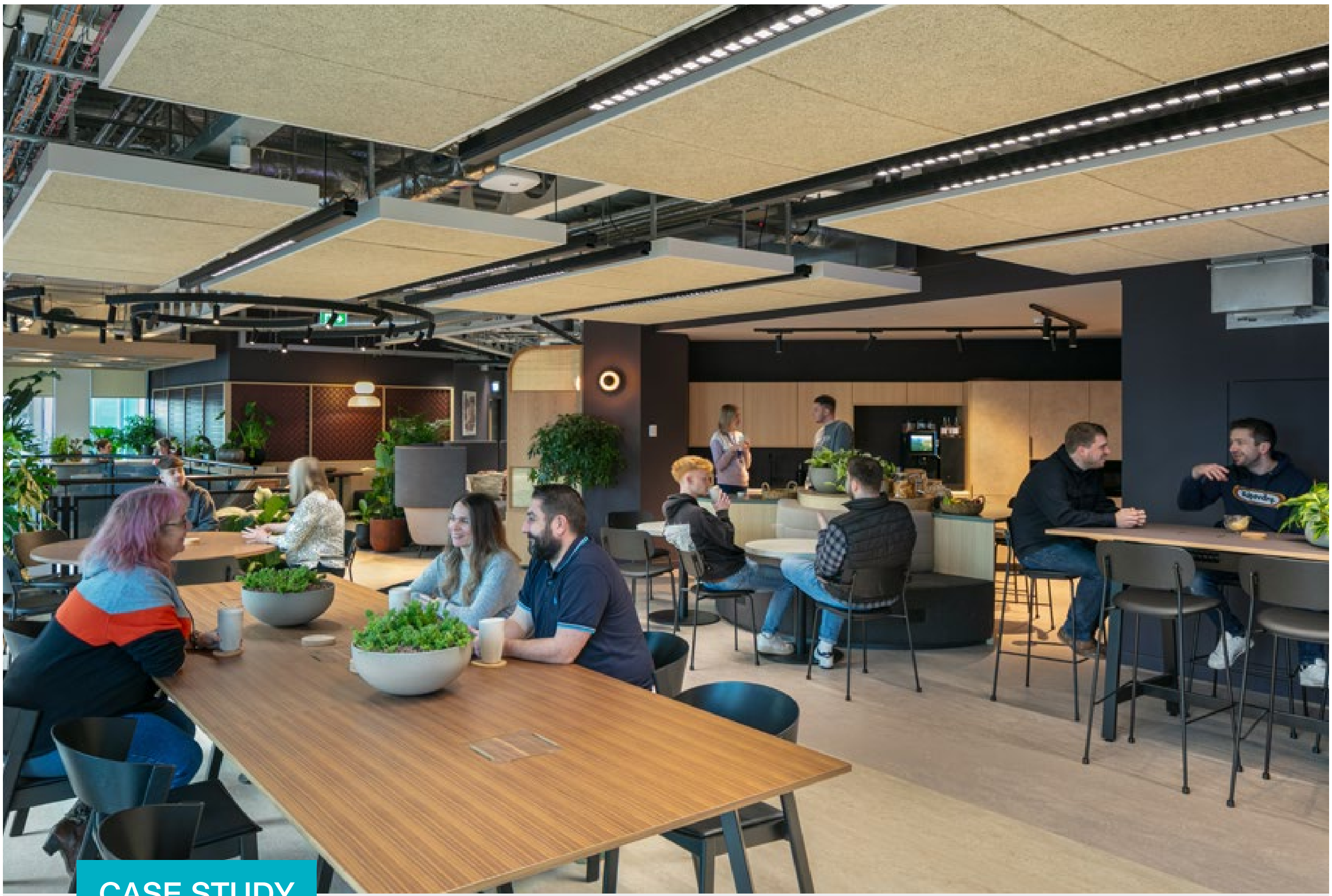
NOTES:

This report contains the following alternative performance measures (APM): Underlying profit. Return on Capital Employed. Net Asset Value (NAV) per share. Net (debt)/cash. Total Property Return. Total Accounting Return.

More details can be found on page 47.



CASE STUDY

OUR NEW HEAD OFFICE

In November 2023 we relocated our head office to the Isaacs Building, in Sheffield city centre.

We have taken 12,800 sq ft of space across the top three floors of the Isaacs Building, providing our team and partners with a more contemporary, sustainable and flexible workspace. Over 90 people from across our Group are based at Isaacs, who can now take advantage of a broad range of spaces to complement multiple working styles and to better support their health and wellbeing.

The new office supports Henry Boot's ambitious growth plans by encouraging greater collaboration and cohesiveness across our diverse network of teams and businesses, as well as attracting new talent and supporting retention.

Colleagues based in the Isaacs Building benefit from the building's wellbeing-focused approach, with collaboration zones, breakfast bars, cycle storage, changing facilities, shower rooms and surrounding complementary retail and leisure facilities in the city centre.

The move also plays a significant role in the Company's aim to reduce its carbon footprint and support its goal of being net zero carbon by 2030, with an expected carbon emission reduction of 79% compared to the former HQ at Banner Cross Hall. Since 2019, Henry Boot has reduced both its Scope 1 and 2 emissions by 14%. An ambition to accelerate reductions in energy use and emissions was a material factor behind the move.

The seven-storey Isaacs Building has been developed with sustainability at its core, achieving a BREEAM 'Very Good' rating. To further enhance the building's energy efficiency, it has been connected to Sheffield's District Energy Network, providing low-cost, sustainable energy.

The new city centre location also takes the firm back to its roots, bringing it closer to its original headquarters on Moore Street. The Isaacs Building, situated on Charles Street, around half a mile from Moore Street, was built between 1904-05 by paperhanging merchant David Isaacs and has recently been refurbished and extended to provide over 38,375 sq ft of high-quality workspace.