CHIEF EXECUTIVE OFFICER UPDATE

WE HAVE CONFIDENCE IN ACHIEVING OUR MEDIUM-TERM GROWTH AND RETURN TARGETS

TIM ROBERTS
CHIEF EXECUTIVE OFFICER

Henry Boot had a good 2022, delivering our best ever underlying profit of £56.1m. Even after allowing for downward valuation movements of £10.5m in our completed investment property portfolio as UK commercial property values declined, our statutory profit before tax still increased by 30% to £45.6m (2021: £35.1m). This is a highly satisfactory result amidst the macro economic headwinds faced in the second half.

The year started off buoyantly with encouraging levels of demand across our three key markets, which offset cost pressures and supply constraints, but with energy prices fuelling inflation and rising interest rates, we saw a marked slowdown in Q4 22. However, as we enter 2023 there are encouraging signs that the economy is proving slightly more resilient than expected, and demand is recovering with a resumption of activity in our markets.

The Group's results for the year were driven primarily by residential land sales at Hallam Land Management (HLM), a mix of land sales and development profits at HBD and house sales at Stonebridge Homes (SBH). We profitably sold £279m of land, buildings and houses during the year making the most of strong markets in H1 22 and took a very selective approach to acquisitions totalling £28.4m, which included growing HLM and SBH's land holdings.

On a statutory basis NAV increased by 11% to £395m, or excluding the pension surplus was up by 5% to £388m. Capital employed increased by 6.2% over the year to £399m, consistent with our medium-term target of £500m. Profitable sales also helped us to effectively manage our gearing, which at 12.3%, remains at the bottom of our 10-20% target range. The strength of our balance sheet, plus recently refreshed banking facilities of £105m, which are secured to 2025, means we are well positioned for a period of continued uncertainty ahead. As was the case when we came out of COVID, we have the capacity to buy land, maintain and potentially expand the committed development programme, and continue to grow our JV housebuilder, which puts us in a competitive position to act opportunistically.

With the disposal of 3,869 plots, HLM had its best ever year in terms of volume, making the most of a buoyant land market in H1 22, primarily due to a major disposal of 2,170 plots at Didcot. This project is a great example of HLM's depth of expertise in dealing with increasingly complex planning matters, and not only will it deliver much needed housing supply, but it also includes 80 acres of open space alongside extensive green infrastructure and cycle networks.

HLM grew its land bank to c.96,000 plots (2021: c.93,000) during the period, of which 9,431 plots have planning permission. I am increasingly convinced that the UK planning system is in need of urgent reform. The delays and complexities can no longer be blamed on COVID. Whilst we would derive greatest satisfaction from a more efficient system on account of the benefits this would bring local communities, the challenges of the current situation mean that the land we successfully promote and the expertise we bring in navigating the planning system remain increasingly in demand.

Towards the end of 2022, our major land customers, the national housebuilders, saw a well reported slowdown in house sales and consequently became more selective on land acquisitions. Early signs are that confidence is returning and, together with 992 plots (2021: 1,880 plots) unconditionally exchanged at year-end, we anticipate a reasonable year ahead in terms of land sales.

HBD continues to grow completed development activities with a Gross Development Value (GDV) of £117m (HBD share: £83m) (2021: £303m GDV, HBD share: £68m) of which 92% has been let or sold. The committed programme now totals £395m (HBD share: £240m GDV), 63% of which is currently pre-let or pre-sold. Whilst there are signs that construction cost inflation is slowing, we continue to actively manage risk with 97% of the development costs fixed.

Although investment markets have adjusted rapidly, our underlying occupational markets remain in fundamentally good shape. Structural demand persists for Industrial & Logistics (I&L) space, with national take up in 2022 a very healthy 65.8m sq ft (according to Gerald Eve), which, whilst down on the record high in 2021, was still the second most active year on record with rents increasing by 10.3% during the year. The build to rent (BtR) occupational market remains very buoyant with residential rents growing by 12.1% according to Zoopla in 2022. On offices there is a clear trend of people returning to our major cities and the workplace, with particularly strong demand for buildings that offer strong environmental credentials that assist occupiers in achieving their own NZC goals.

The part of the committed programme not pre-let or pre-sold is primarily in three high-quality schemes where we remain confident of demand:

- In Rainham, we have recently committed along with our JV partner, Barings, (HBD share: £24m GDV) to a 380,000 sq ft speculative I&L scheme. Whilst marketing has not yet begun, this NZC urban logistics development serving Greater London is already experiencing strong occupier interest.
- In the centre of Birmingham, we are part way through construction of 101 premium apartments (HBD share: £32m GDV) which we expect to launch successfully for sale in the summer of this year.
- Finally, in Manchester city centre in partnership with the Greater Manchester Pension Fund, we are building 91,000 sq ft of prime, NZC offices (HBD share: £33m). With the scheme responding to several identified office requirements, we expect good occupier interest.

As we make progress on letting or pre-selling these schemes, we have a number of high-quality I&L and BtR projects within our £1.25bn development pipeline that we can bring forward at the appropriate time.

As we highlighted at the time of the interim results, we tactically identified several properties for sale and I am pleased to report we sold three properties for a total of £29.6m, a 17% premium to the last reported book value. As a result, against a backdrop of falling values, we have delivered relative out performance on our investment portfolio (current value including our share of JVs £106m) with a total return of -1.5 % versus the CBRE UK index of -9.1%. Over the next few years, through a combination of retaining completed developments and acquisitions, we will look to build the portfolio up to our strategic target of £150m.

We made further progress with our JV housebuilder Stonebridge Homes (SBH), with a 46% increase in the number of homes delivered to 175 completions (2021: 120). Whilst supply chain issues at the tail end of the year meant we did not reach our target of delivering 200 homes, we marginally beat our profit expectations. This was driven by our ability to achieve sales prices that were over 10% ahead of budget, which meant cost inflation running at 9% was absorbed. With a target of 250 completions in 2023, and 139 homes already forward sold, we remain firmly on track to continue scaling up and hit our ambitious medium-term strategic target of 600 completions per annum.

The Construction segment has done remarkably well to trade ahead of our expectations. Henry Boot Construction (HBC) has made progress on all its projects despite dealing with very challenging supply and labour restrictions, although there are some signs that these restrictions and cost inflation are easing. HBC begins the year with 68% of the 2023 order book secured and a healthy pipeline of opportunities. Banner Plant (BP) has seen record levels of trading activity and is successfully growing its customer base.

Against a challenging near-term backdrop, we expect 2023 profits to be more subdued than 2022, but we will remain active, pushing ahead with our strategic and growth ambitions from a position of strength, further details of which are covered in the strategy and outlook sections below.

Outlook

Whilst the immediate outlook is uncertain, a number of leading indicators suggest that the economic slowdown will not be as severe as forecasts in the final quarter of last year predicted. It looks increasingly like interest rates are close to the so called 'pivot', we are seeing early signs that supply restrictions are lifting and with that some prospect of cost pressures easing.

There are early signs that our markets are improving. Occupier demand for I&L has remained resilient, and whilst yields moved out quickly during the second half of 2022, there are investors already looking to buy, tempted by the strong fundamentals of the market. Likewise, whilst data is available only for the first two months, housebuilders generally and SBH specifically, have seen a partial recovery in home buyer interest this year from the lows experienced in the final quarter of 2022. The march of the BtR sector, both in terms of customer and investor demand, continues.

So, for Henry Boot, we remain focused on building out our high-quality development programme. As we increase forward sales and pre-lettings above the present 63%, we will selectively look to replenish, and potentially expand, committed development, primarily by drawing down schemes which are ready to go from our £1.25bn development pipeline. With an ever restrictive planning environment demand for our well located consented plots will come back as the UK remains critically short of housing. In the meantime, we are partially insulated by the 992 land promotion plots that are already unconditionally exchanged and we start the year with 56% of SBH's 250 target completions for 2023 already forward sold.

We will continue to work towards a more progressive, diverse and responsible business by meeting targets outlined in our Responsible Business Strategy, and investing in key areas such as marketing, customer relations and business improvement processes, including technology. At the same time, we will continue to nurture the great culture within Henry Boot and engage with people who, despite the ups and downs of the last few years have remained energetic and fully committed. Moreover, we have confidence in the long-term fundamentals of our markets, business model and have the operational and financial resources to continue to meet our strategic growth and return objectives.

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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 Accounting Return.

More details can be found on page 49.

Key Highlights

95,704	**£1.25bn**	**£106m**	**1,094 units**
RESIDENTIAL LAND PLOTS (2021: 92,667)	HBD DEVELOPMENT PIPELINE GDV (2021: £1.1BN)	INVESTMENT PORTFOLIO VALUE (2021: £126M)	STONEBRIDGE HOMES TOTAL LAND BANK (2021: 1,157)