25 April 2018

HARDMAN & CO.
CORPORATE

# INLAND HOMES PLC

## INL:DNA (interim results)

Deoxyribonucleic acid is a thread-like chain of nucleotides carrying the genetic instructions used in growth and development. In essence, it stores bio information and the DNA backbone is resistant to cleavage. Inland and its organic make-up are of the terrestrial and what occupies it: identify; separate; build; and vend. The company also possesses great connexion and continuity of purpose.

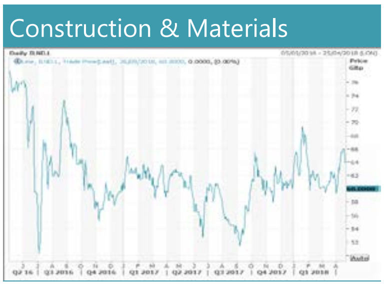
- **Make-up:** DNA was first isolated by Friedrich Miescher in 1869, with Inland's sequester in 2005 and IPO morphing in 2007. The chain of nucleotides, however, runs back much further to Country & Metropolitan plc (C&M), which was founded in 1990 by Stephen Wicks, CEO of Inland. C&M was sold to Gladedale in 2005 for £72m (C&M's float price was £6.9m). Do the math.
- **Core 1:** A brownfield regeneration specialist in the UK gene pool, which means it finds land, procures it, wins reproductive planning and sells it 'scientifically ready' to housebuilders/developers. This saves the latter significant laboratory time and reduces the capital lock-up experiment (popular mechanics).
- **Core 2:** Like DNA, Inland also possesses four master developer nucleobases, meaning that not only is it a land experimenter and improver but it also builds houses in its own right, works as a residential contractor and develops commercial premises. Its Board also uniquely holds 13% of Inland's shares.
- **Interim results:** On 28 March, another empirical milestone was passed with Inland's half-year results for the period ended 31 December 2017. These were tidily structured results. Revenue rose four-fifths to £61m, with underlying EBIT doubling - and margins clearing 10%. In turn, Pre-tax profit rose 8% to £5.4m, underlying EPS added 18% and the dividend was raised 30%. NAV per share increased 14% and adjusted EPRA by a further 6% to 97.63p.
- **Investment summary:** The company is unique in structure and its biological make-up is diverse from the more conventionally structured UK housebuilders. The unique material properties of DNA have made it an attractive molecule for material scientists and engineers interested in micro and nano-fabrication. Inland investors can do the same; and do so at a discount of some 40%.

### Financial summary and valuation

| Year end Dec (£000) | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|
| Total revenue | 114 | 102 | 91 | 131 | 159 | 180 |
| Underlying PBT | 19.5 | 15.7 | 19.6 | 18.8 | 22.1 | 25.5 |
| Underlying EPS (p) | 8.56 | 5.09 | 7.09 | 7.60 | 8.90 | 10.30 |
| Statutory EPS (p) | 14.67 | 14.01 | 7.82 | 7.60 | 8.90 | 10.30 |
| Net (debt)/cash | -34.9 | -54.6 | -68.0 | -66.4 | -62.4 | -55.4 |
| Shares in issue (m) | 202.2 | 201.8 | 202.0 | 202.1 | 202.1 | 202.1 |
| P/E (x) | 7.5 | 12.6 | 9.0 | 8.4 | 7.2 | 6.2 |
| DPS (p) | 1.00 | 1.30 | 1.70 | 2.20 | 2.60 | 3.00 |
| Yield | 1.6% | 2.0% | 2.7% | 3.4% | 4.1% | 4.7% |
| NAV (p) | 44.44 | 57.66 | 64.62 | 69.69 | 73.74 | 79.19 |
| EPRA NAV adjust. (p) | 43.92 | 92.34 | 96.22 | 103.88 | 110.79 | 119.46 |
| EPRA discount | na | 31% | 34% | 38% | 42% | 47% |

*Source: Hardman & Co Research*

### Construction & Materials



*Source: Eikon Thomson Reuters*

### Market data

| | |
|---|---|
| EPIC/TKR | INL |
| Price (p) | 63.9 |
| 12m High (p) | 70.50 |
| 12m Low (p) | 50.75 |
| Shares (m) | 202.1 |
| Mkt Cap (£m) | 129.1 |
| EV (£m) | 197.2 |
| Free Float | 99.0% |
| Market | AIM |

**As defined by AIM Rule 26*

### Description

Inland Homes is a brownfield regeneration specialist, housebuilder and mixed-use developer. Its core skills are acquiring largely unconsented sites principally in southern England, taking them through planning to breaking ground, development and sale.

### Company information

| | |
|---|---|
| CEO | Terry Roydon |
| CFO | Stephen Wicks |
| Chairman | Nishith Malde |

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### Key shareholders

| | |
|---|---|
| M H Dixon | 8.41% |
| Janus Henderson | 5.02% |
| P&KS | 3.07% |
| Management | 12.76% |

### Diary

| | |
|---|---|
| Sept'18 | Final results |

### Analysts

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Disclaimer: Attention of readers is drawn to important disclaimers printed at the end of this document

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# Prologue

Deoxyribonucleic acid (*aka* DNA) is a thread-like chain of nucleotides carrying the genetic instructions which are essential to the growth, development, functioning and reproduction of all known living organisms.

DNA stores biological information and its backbone is resistant to cleavage or discontinuity; and both strands of its double-stranded structure store the same biological information.

Each strand is called a polynucleotide, which, in turn, is comprised of simpler monomer units called nucleotides (as above); and each of these is composed of four nitrogen-containing nucleobases, plus sugar and a phosphate group. Here, too, it is the sequence of these four bases along the backbone which actually encodes biological information.

Inland Homes plc (INL:DNA) and its organic make-up are of the terrestrial and what occupies it: identify; separate; build; and vend. In these endeavours, too, the company possesses great connexion and continuity of purpose. Prosaically, it is a brownfield regeneration specialist which finds land, wins planning and then sells it on to housebuilders and developers. It can also be master developer in its own right. The company's emergence is timely, too, given that a majority of the listed UK housebuilders is experimenting with the 'capital light' progression.

DNA was first isolated by Friedrich Miescher in 1869. Its molecular structure took longer to be identified – being achieved in 1953 by James Watson and Francis Crick at the Cavendish Laboratory within the University of Cambridge. In turn, their model-building efforts were guided by X-ray diffraction data acquired by Raymond Gosling, a post-graduate student of Rosalind Franklin.

Inland was first isolated on 16 June 2005 by the current CEO, Dr Stephen Wicks, and an IPO catalyst followed 21 months later, in April 2007, at a thread-like price of 50p per share and a double-stranded market capitalisation of £81m. The chain of monomer units or nucleotides evolved much earlier, though, from within Country & Metropolitan plc (C&M). It was identified in 1990, again by Dr Wicks, as a residential and commercial developer with a specialism in brownfield raw materials i.e. land. Similarly, Inland's current CFO, Nishith Malde, was a core part of the team at C&M, as was Inland's Land Director, Paul Brett. For the record, Paul stepped down from the Board this month (April 2018) but remains as an advisor.

C&M was floated in December 1999 at 69p per share and a £6.9m market value. In May 2005, the company was bought by Gladedale Holdings PLC at 300p per share and with a market value of £72m. This is an average per annum return of 172%.

On 28 March, another empirical milestone was passed with Inland's half-year results for the period ended 31 December 2017. These were tidily structured results. Revenue rose four-fifths to £61m, with underlying EBIT doubling to £6.4m and margins clearing 10%. Pre-tax profit rose 8% to £5.4m. On lower tax, EPS put 18% on EPS to 2.19p and the dividend was raised 30% to 0.65p, although cover is still 3.4x (versus 3.7x last time).

More significant, though, was the company's land portfolio, equivalent to 7,372 residential units and possessing a gross development value (GDV) in excess of £2.2bn. Of this, too, 68% has planning consent or a resolution to do so; and 60% is owned (and the sharp-eyed will have spotted that these two categories overlap).On the same day as its interim results, Inland Homes also announced it biggest deal to date, with the submission of an outline planning application at Cheshunt Lakeside in Broxbourne, Hertfordshire. This will potentially deliver up to 1,853 homes and in excess of 18,000 sqm of commercial, retail, community, leisure and education space. Note, too, that the company is the majority landowner of the 30-acre site, which has a GDV in the region of £650m.

In the first half of its current fiscal year, Inland also built and sold off 96 houses in its own right, at an average price of £322.000 (+5.2%). At the close of the half, too, the company's order book of private houses was £38.9m i.e. plus 22%.

Elsewhere, its contracting unit is growing like Topsy and in the latest half year saw revenue almost treble to £5.25m. It essentially builds affordable and social housing units for housing associations and, at its balance sheet date of 31 December 2017, it was active on three sites which will deliver some 220 homes from a total contract value of £43m. In the latest reporting period, too, Inland generated a gross margin on this activity of 14.1%.

Its other activities include investments, investment properties and rental income including a hotel where the site it occupies awaits development. This is typical of Inland's DNA.

Looking forward, Inland can be expected to see a very significant rise in revenue in fiscal 2018 (44%), to be followed by gains of 21% and 13% in 2019 and 2020 respectively. Similarly, the gross margin was 21.5% in fiscal 2017 and we expect this to be sustained at a per annum average of 23.1% in 2018, 2019 and 2020.

Underlying EBIT was a touch under £12m in fiscal 2017, with a margin of 13.2%. We forecast that this will rise to 16.1% this year, before settling at around 15% in fiscal 2019 and 2020; and, in the latter year, underlying EBIT will have more than doubled to £26.6m.

In terms of cashflow, we forecast that Inland will be cash-positive each year in 2018, 2019 and 2020. In this latter year, too, balance sheet gearing will be 35% against 67% in 2014. This also means that the net interest charge will fall over the piece; and, with it, interest cover will more than double between 2017 and 2020 to 9.9x.

Another feature of the forecast period is the positive contribution of JVs and Associates from 2018 through 2020.

Pre-tax profit will consolidate in fiscal 2018 before growing at 17% and 16% in 2019 and 2020, respectively, on our estimates.

Turning to statutory EPS, these will dip in 2018, but on an underlying basis they will rise by 7% after a step change in fiscal 2017 from 5.09p to 7.60p. Thereafter, we forecast that EPS will rise, in line with pre-tax profit, to 10.30p in 2020 on both measures (underlying and statutory), which means per annum earnings growth of 13% in the three years 2018, 2019 and 2020.

At the same time, net profit margins will be sustained at an average of 11.5% p.a.

Our projection for dividends is average growth of 18% in the three fiscal years to 2020, at which time cover will still be 3.4x.

Finally, in terms of the balance sheet, we have already touched on the movement in net debt and gearing through 2020. In this latter year, too, net debt is projected to be £55.4m and gearing 35%.

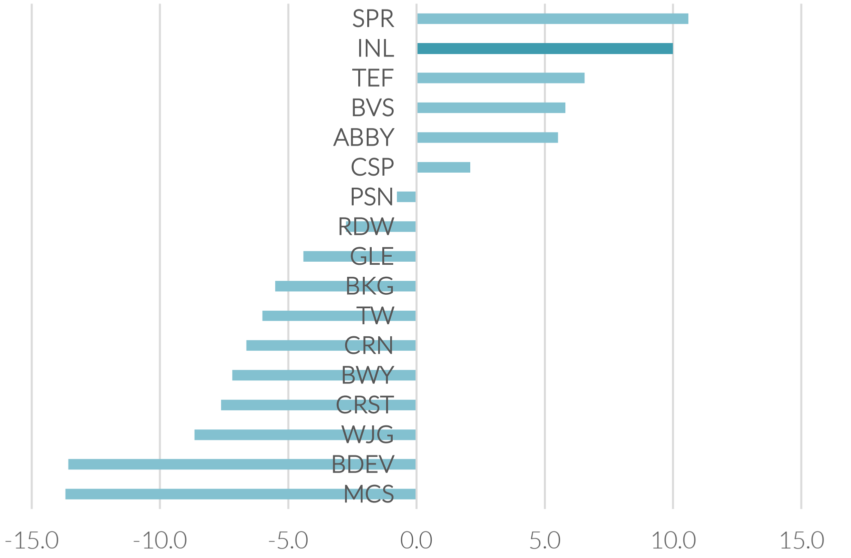
In fiscal 2018, 2019 and 2020, we expect net assets to grow at 7% p.a. to reach £160m in 2020.

Liquidity also remains good with a projected quick ratio of 1.77 in 2020 which compares with 0.42 in 2016.

DNA is used by researchers as a molecular tool to explore physical laws and theories, such as the ergodic theorem and the theory of elasticity. The unique material properties of DNA have made it an attractive molecule for material scientists and engineers interested in micro and nano-fabrication.

The company is equally molecular and attractive and its make-up is distinct from the UK housebuilders with which it is often compared. This means that Inland cannot be sensibly measured by the same metrics. Therefore, it has adopted EPRA NAV as a means of measuring the unrealised value in its land bank (see later section). Also doing this are the likes of Harworth, St Modwen and Urban & Civic, all extra-mural to the housebuilders too. The closest DNA to that of Inland is Urban & Civic (see further on); and it is at a 5% premium to adjusted EPRA NAV not a discount.

## Inland vs. the UK Housebuilders: % change in year-to-date (20/04/18)



*Note: Abbey (ABBY); Barratt (BDEV); Bellway (BWY); Berkeley (BKG); Bovis (BVS); Cairn (CRN); Countryside (CSP); Crest Nicholson (CRST); Gleeson (GLE); Inland (INL); McCarthy & Stone (MCS); Persimmon (PSN); Redrow (RDW);Springfield (SPR); Taylor Wimpey (TW); Telford (TEF); & Watkin Jones (WJG):*
*Source: Hardman & Co Research*

In fiscal 2015 and 2016, adjusted EPRA NAV rose 48% and 110%, respectively, which is palpable momentum. Last year was more about galvanising those gains i.e. +4% to 91.88p per share.

The first half of the company's fiscal year 2017-18 saw its plain vanilla NAV rise 14% to 67.02p and adjusted NPRA NAV by 6% to 97.63p, which is very good to be getting on with.

As noted above, in fiscal 2018, 2019 and 2020, we expect both net assets and net assets per share to grow at 7% p.a. to reach £160m at the end of this period. At the same time, adjusted EPRA per share is projected to grow at 7.5% which is based on a detailed analysis of each of Inland's investments, scheme by scheme. We also expect that this will prove conservative.

In the first 16 weeks of 2018 (through 20 April), Inland' shares rose 10% which was second only to Springfield in the UK Housebuilders Sector. What is more, 11 of 17 Sector companies here were lower in this opening period of 2018.

Turning to a more scientific catchment (see table below), Inland is second only to Urban & Civic in 'The Gang of Four' in terms of share price appreciation this year. However, Inland still trades at a 31% discount to its adjusted EPRA NAV, while Urban & Civic – its nearest DNA peer – sits at a 5% premium and the other three are at discounts of 8% (Harworth) and 19% (St Modwen). Not for the first time we say in this report 'do the math'.

*"Each blade of grass has its spot on earth where it draws its life, its strength; and so is man rooted to the land from which he draws his faith together with his life"* – Joseph Conrad

## What's wrong with this picture?

### Comparatives

| | Price (p) | Market cap (£m) | TSR 12 mths | Price YTD (%) | TTM PER (x) | EPRA % discount |
|---|---|---|---|---|---|---|
| Inland Homes | 64 | 129 | 5.2 | +7 | 8.2 | 34 |
| Harworth | 111.5 | 359 | 11.8 | +3 | 7.1 | 6 |
| Urban & Civic | 320 | 464 | 25.9 | +12 | Na | +5 |
| St Modwen | 401.8 | 894 | 17.4 | -1 | 14.9 | 14 |

*Notes:*
*(i) priced at 20 April 2018;*
*(ii) Total Shareholder Return (TSR) is sourced from Bloomberg;*
*(iii) YTD is year-to-date;*
*(iv) TTM is 'Trailing Twelve Months' and is sourced from Bloomberg; and*
*(v) Other sources: Hardman & Co Research*

# UK economic and industry outlook

## GDP

GDP growth in 2017 rounded out at 1.7%, which was a better result than looked likely in the middle of last year. However, this still represented a second consecutive year of below-trend expansion. Inflation exceeded average earnings growth for most of last year, putting pressure on real disposable incomes, which barely rose in 2017. This has inevitably led to a slowdown in household spending growth, from 2.6% in 2016 to 1.8% last year. Note, too, that household expenditure accounts for almost two-thirds of GDP – on the expenditure measure – and this is the primary reason for the below-trend GDP rise in 2017. GDP growth was confirmed at 0.4% in 4Q'17 (vs. 3Q'17) and at 1.7% for the year. Business investment, meantime, grew at 2.1% last year.

The impact of lower household expenditure growth was mitigated, in part, by a reasonable investment performance, which increased by 3.5% over the year and was one of the best export growth performances in recent years (5%). The recent strength of the British Pound could be an issue here, though – i.e. while it cools inflation, it can also cause export volumes to rise – which tends to dent volumes.

Meantime, back at the empirical pressure on disposable incomes, this has already begun to ease, too, with inflation falling to 2.5% in March and average earning growth accelerating to 2.8% (on both a regular and total pay basis; the latter includes bonuses). Note also that Experian expects inflation to continue to subside towards the Bank of England's target CPI of 2.0% in 2019; and, while average earnings growth is not projected to rise above 3.0% during the current forecast period, this will still enable disposable income growth to rise above its current negligible rate.

That said, increases in household spending are projected to remain relatively modest over the 2018 to 2020 period, at around 1.5% a year at best; and there is expected to be a slow rise in interest rates and a marginal uptick in unemployment – which will additionally counteract some of the positive effects of better income growth. In terms of the former, the bank base rate is predicted to trend up slowly over the forecast period and reach 1.5% by the end of 2020, still historically very low, but given such a long period of ultra-low rates, its impact on consumer confidence remains uncertain.

Similarly, employment is expected to continue to rise, although not at the rate seen recently and not fast enough to account for net additions to the workforce. Thus, the unemployment rate is likely to augment upwards, albeit modestly, to around 4.6% by 2020. In the March quarter of this year, the unemployment rate was 4.2%, down from 4.3% in January and against 4.6% a year ago. March 2018 was the lowest level since 1975.

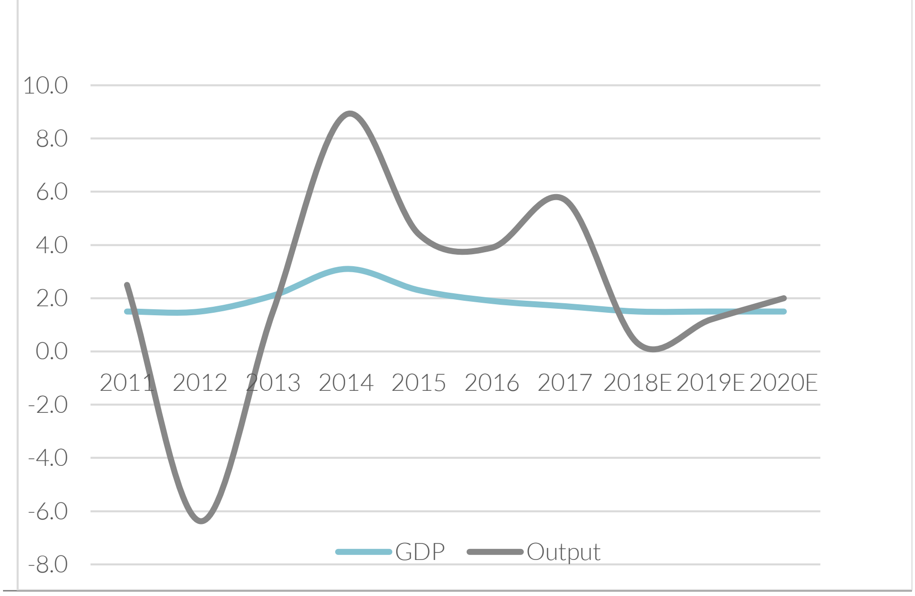
All in all, this means that Experian has made little change to its turn-of-year GDP forecast for this year, i.e. 1.5%. However, both 2019 and 2019 have been downgraded somewhat, to around 1.5% in each year, giving continuing three years of well below trend growth. On this prognosis, GDP is expected to be around £37bn lower in 2020 than it would have been if the economy had grown at 2.0% trend in the five years 2016 through 2020.

### Macro metrics

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| GDP (at market prices) | 1.7 | 1.5 | 1.5 | 1.5 |
| Household Consumption | 1.7 | 1.1 | 1.3 | 1.5 |
| Government Consumption | 0.3 | 1.7 | 0.3 | 1.0 |
| Gross Fixed Investment | 3.5 | 2.3 | 1.5 | 2.0 |
| Bank Base Rate (annual avg.) | 0.3 | 0.6 | 0.9 | 1.2 |
| CPI | 2.7 | 2.5 | 2.0 | 2.0 |

*Source: Experian*

### Growth in UK GDP and construction output, 2011-20E (% change) Chanchange)ange)onstruction output in 2016: % share by sub-sector



*Source: Hardman & Co Research*

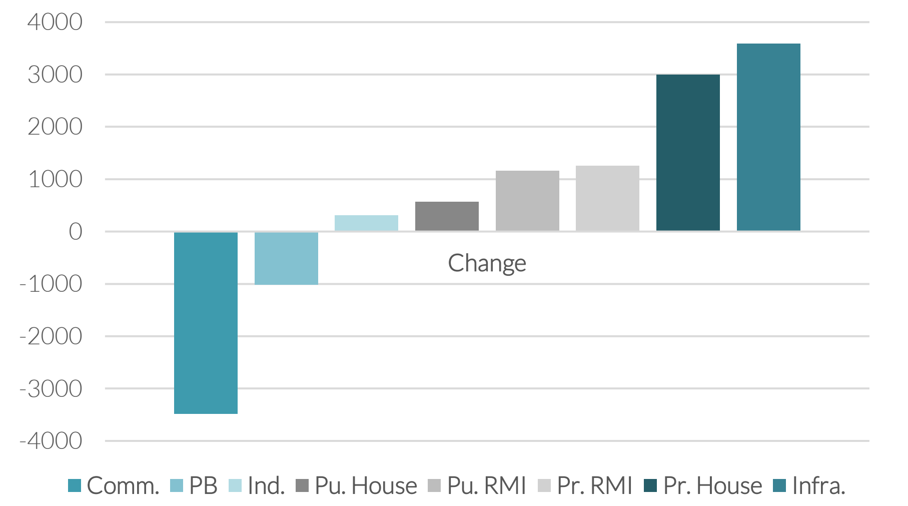
## Construction

Despite a fairly poor performance in three of the four quarters of last year, the outturn for construction growth in 2017 as a whole was a robust 5.7% – the best growth rate since 2014 and taking output to a new high of £157.2bn (2015 prices).

The principal drivers of expansion were the housing sectors, both public (‘Pu.’) and private (‘Pr.’), and ‘repair, maintenance & improvement’ (RMI). For the record, too, since sustained growth returned to the industry in 2013, it has expanded by 27% in real terms (i.e. chain-linked GBP million at 2015 prices).

Looking forward, however, prospects for growth are not so good. Output is likely to be largely flat this year (i.e. +0.2%) and, while expansion is expected to return from 2019, the annual average rate over the three years to 2020 is projected to be a modest-to-marginal 1.1%.

Financial contribution to UK construction growth, 2018-20E (£m)



*Source: Experian; chain-linked £m at 2015 prices*

Public housing ('Pu. House' in chart) output rose by 14% in 2017, to £5.54bn (2015 prices), its highest level since 2014. Indeed, the tone of the debate on social housebuilding has changed significantly, with the Government recognising that the sector has a critical role in delivering on its own aspirations, even to the extent of encouraging local authorities to become involved again. While new orders data suggest that this year will be much weaker, output should pick up in 2019 and 2010.

Private housing ('Pr. House') output posted its fifth successive year of strong growth to reach £32bn (2015 prices) – and it is more than a third higher than at the height of the previous boom in 2006. Be that as it may, cyclical residential demand, as evidenced by housing transactions and mortgage approvals, remains weak; and it is likely that build-to-rent will be the core driver of what will be a more moderate overall rate of growth over the next three years.

In terms of infrastructure ('Infra.'), the value of new projects recently commenced or imminent – such as Thames Tideway, HS2 and Hinkley Point (the new nuclear power station) – should more than compensate for those completing, such as Crossrail and Thameslink. In turn, the best year for growth in the infrastructure sector is expected to be 2019 as activity on HS2 builds up and main construction begins at Hinkley.

However, with the focus so clearly on housing and infrastructure, it is difficult to see any trend but down for public non-residential construction ('PB') at present, with capital expenditure on education (universities excepted) and health projected to fall between now and 2020. This will be mitigated, in part, by work in the defence arena under the Army Basing Plan, whereby all British troops currently stationed in Germany will return to the UK by 2019.

Turning to industrial ('Ind.'), this is dogged by relatively modest growth in manufacturing output, from which a rational man would deduce that general demand for new factory floorspace will be weak. This is compensated, though, by warehouses, where demand is driven by distribution and logistics space – and this is expected to be somewhat stronger (Internet is approaching a fifth of total UK retail sales). Overall, then, industrial construction output is projected to grow modestly per annum through 2020.

In the Commercial ('Comm.') Sector, retrenchment has started, with annual output turning negative this year and in 2019, before comparative stability in 2020. Included here are office building, where there are risks on the downside (new orders fell 27% last year), the leisure sector, which will do a bit better, and shops, where there is no growth as such due both to a morphing high-street and an internecine supermarket price war.

Finally, RMI (35% of total UK construction output last year) should grow very slightly quicker than overall output but will still be modest (+1.4% p.a. over 2018-20). This is expected to be led by the private non-residential sub-sector ('Pr. RMI') although public residential RMI ('Pu. RMI') could spike with remedial, fire safety work on residential high risers. One retrospective surprise, though, has been private housing RMI (included in the above sub-sector), which rose 7.2% in 2016 and 10.9% last year. Okay, it is forecast to flatten this year and next but its spurt seems counter-intuitive given the pressure on disposable incomes.

Experian is forecasting overall growth in UK construction output this year, in real terms, of 1.0%, followed by 0.7% in 2018 (as it shadows GDP) and then a modest pick-up in 2019 of 2.1%.

## Housing

The value of private housing output rose 9% in 2017, with private house completions hitting an expected 153,000 – which is a rise of 15%. Meantime, private housing starts rose 7% to an estimated 159,000. Note that these physical data are for Great Britain not the UK i.e. they exclude Northern Ireland (last year 7,445 houses were started in the Province – a dip of 0.2%).

In the public sector, activity is around one-fifth that of the private sector and, in 2017, GB starts and completions were 32,000 (+3%) and 34,000 (+10%) respectively.

### GB housing starts and completions, 2013-20E

| Thousands of units | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|---|
| Private | | | | | | | | |
| Starts | 115 | 131 | 141 | 149 | 159 | 165 | 173 | 173 |
| Completions | 102 | 111 | 129 | 133 | 153 | 161 | 166 | 166 |
| Public/Social | | | | | | | | |
| Starts | 29 | 33 | 32 | 31 | 32 | 33 | 36 | 37 |
| Completions | 28 | 29 | 37 | 31 | 34 | 33 | 33 | 35 |
| Total | | | | | | | | |
| Starts | 144 | 164 | 173 | 180 | 191 | 198 | 209 | 210 |
| Completions | 130 | 140 | 166 | 164 | 187 | 194 | 199 | 201 |

*Source: MHGLG, Experian*

Turning to the latest mortgage data, these come from UK Finance, which now (since July last year) incorporates the numbers from the BBA (British Bankers Association) and CML (Council of Mortgage Lenders), which essentially covers the high-street lending market. In any event, total homeowner house purchases in February reached 50,000, the highest level for February since 2007.

Within this tally, too, there were 25,200 new first-time buyer mortgagees, up some 2.4% on the same month a year ago, and the £4bn of new lending here in the month was 2.6% more year-on-year. For the record, the average first-time buyer is 30 years-old, with a gross household income of £41,000. In addition, there were 24,800 new home-mover mortgages completed in February, the same as in February a year earlier, and the £5.3bn of new lending associated with this group was 1.9% up annualised. Note, too, that the average home mover is 39 years-old, with a gross household income of £55,000.

The buy-to-let side, however, was less busy, with an 8.8% fall to 5,200 for new house purchase mortgages, which reflects, in part, the impact of recent legislative and tax changes. But there was better news on re-mortgages, with a 20.5% rise to 14,100.

Clearly, re-mortgagees in both camps reflect home or asset owners seeking to fix costs amid anticipation of further interest rate rises.

Turning to Bank of England data, they showed that new residential mortgage commitments rose 5.2% in 4Q'17 year-on-year to £64.9bn, albeit the tally was -6.8% on 3Q'17. As above, too, the share of buy-to-let lending decreased to 12.7% in 4Q'17; this was the lowest percentage since 3Q'13. Coming right up to date, the BoE also said that in February 2018, the actual number of mortgages was off 4.8% at 63,910.

On house prices, the Nationwide reported -0.2% in March, albeit +0.8% in 1Q and +2.1% on an annualised basis. The bank also spoke of subdued economic activity and the ongoing squeeze on household budgets. Nonetheless, it still forecasts +1% or so in prices for 2018 as a whole.

The Halifax index also shows monthly fluctuations around a broadly flat trend and year-on-year growth of 2.7% in March. Note, too, in terms of the Nationwide index, it employs data from the mortgage offer stage; in turn, this means that it is possible that there is a lag between a buyer deciding to purchase a property and subsequently applying for a mortgage.

Meantime, Rightmove said that the average price of 'newly marketed asking houses' was up 1.6% annualised in April and up 0.4% month-on-month – coming in at a record £305,732, which beats the old mark of £304,943 set in July 2017. By region, all 11 were higher year-on-year (with the North West at +4.3%), save for London which was off 1.6% on the year and 0.6% on the month.

Similarly, the Royal Institution of Chartered Surveyors (RICS) said its gauge of prices remained at zero in March, as it did in February, with declines in London and the South East being offset by gains in the East Midlands, Northern Ireland and Wales. Also, new buyer inquiries fell for a 12th consecutive month, reflecting affordability concerns and a lack of fresh properties coming onto the market. For example, the number of houses being put up for sale declined further – and average stock levels remained near an all-time low. At the same time, London estate agents reported an increase in the number of homes being withdrawn from sale.

Finally, the Reuters Housing Market Poll (to which I contribute) expects a median +2.0% for UK house price inflation in 2018 (including -0.5% in London), and then 2.0% in 2019 and 2.3% in 2020.

On the actual transactions front, HMRC seasonally adjusted estimates show that the number of UK residential property transactions decreased by 0.3 % between January 2018 and February 2018. On the same basis, the change was -0.7% year-on-year. On an annual basis, the number of UK residential property transactions has remained static at around the 1.2 million mark for each of the past four years (2013-17). The continuing rise in house prices, too, is attributed largely to a quieter market in terms of supply, rather than any great surge in demand.

Elsewhere, the Prime Minister recently announced that a further £10bn will be available for the Help to Buy equity loan scheme, which should enable another 135,000 households to buy their own home by 2021; to date the scheme has helped 225,000 house buyers. It is a moot point, however, according to Experian, whether a majority of these units would not have been built anyway. Experian also highlights the concern, in some quarters, that Help to Buy's main effect has been to prop up house prices and house builders' profits, ultimately making mortgages even more unaffordable for those that currently cannot get onto the property ladder.

An area in which significant growth is expected is in the Build to Rent sector and one of the country's largest new housing projects in the pipeline – a 7,600 unit development at Wembley Park – will be 90% for tenants. It will also benefit from £65m of public money and completion is expected in 2020. Furthermore, the Government is looking to further support Build to Rent with changing planning rules so that councils can proactively plan for more, new rented homes – where there is a need – making it easier for developers to offer affordable private rents in place of other types of affordable homes and introducing longer tenancies which are more family-friendly and provide better security.

Another example is Aberdeen, where there are two long-term residential-led schemes: Grandhome at the Bridge of Don (some 7,000 units), now up and running; and a 3,000 unit scheme at Countesswells.

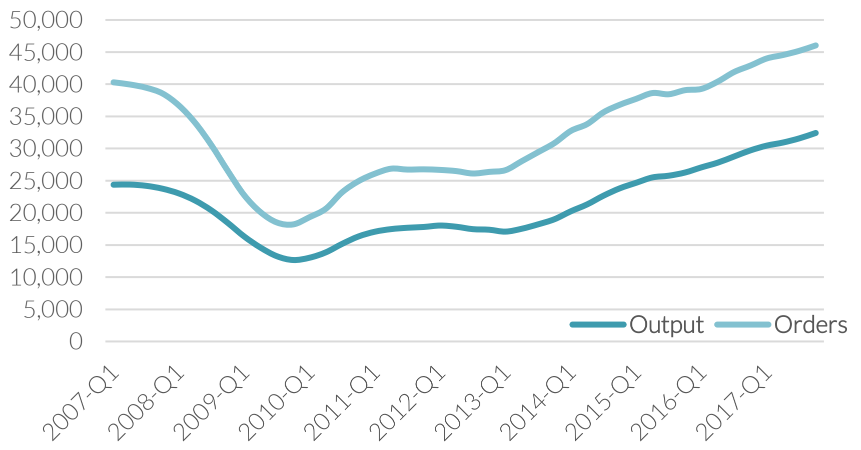
Similarly, in Wales, there is a £2bn planned new garden city to the northwest of Cardiff, called Plasdŵr. The scheme will be built over a 15- to 20-year period and includes 7,000 new homes plus social infrastructure, retail and leisure facilities. In addition, there are other significant developments ongoing or in the pipeline including Barry, Swansea, Holyhead, Fishguard, Haverdfordwest and Flint.

Finally, it is expected that continuing strong underlying demand for new housing means that, short of a recession, the likely trajectory for private housing output is upwards. However, given that output, if not units, is at a record high, further growth is expected to be steady rather than spectacular. This means that after 9% growth in 2017, the estimates for this year and 2019 are +4% and +3%, respectively, followed by just +2% in 2020.

Translating this into starts and completions, the private sector will likely see starts peak at 173,000 in 2019, with completions tallying 168,000 the following year, i.e. 2020. Meantime, in the public sector, starts are forecast to reach 37,000 in 2020 (2017: 31,000) with completions at 35,000 (2017: 34,000).

Finally, and by way of a straw in the wind, while UK Construction Output fell by 3.9% in volume in February 2018 versus February last year (all data are non-seasonally adjusted volumes), Private Housebuilding Output rose 7.5% annualised. Similarly, the three months December, January and February saw a gain of 8.7% year-on-year, albeit it was sharply lower (i.e. minus 11.5%) quarter-on-quarter (i.e. versus September, October and November 2017).

Private housing orders and output, 2007-17: four quarter moving totals (£m)



*Source: Experian; chain-linked £m at 2015 prices*

## The UK property investment market

Gerald Eve's Winter 2017/18 INVBRIEF remained reasonably positive.

The commercial property market is expected to remain steady as investors defer some of their investment activity in the first half of 2018. Eve also believes that investor sentiment will pick up towards the end of the year. Details of any trade agreement in a post-Brexit World may become clearer in 3Q'18 at the very earliest but are only likely to be understood at the beginning of 2019, at which point there will likely be a potential release of pent-up investment activity.

While Brexit negotiations are unquestionably holding back growth in the UK economy, the medium- to long-term prospects of the UK are slowly improving and Eve expects continued improvements throughout 2018.

The resilience of the commercial real estate market has continued to surprise many commentators too. Eve also says that there has been no collapse in sentiment towards commercial property as an investment asset, for both domestic and non-domestic investors. The awaited correction across a number of sectors does not seem to have materialised, despite development projects being put on hold or postponed. Indeed, Eve says that the markets on which it is forecasting are close to their peak values. Also, Mark Carney, the Governor of the Bank of England, has observed "property priced at such low yields is likely to be vulnerable to interest rate increases"; and the prospect of further interest rate rises has been signalled by the Bank for some time.

Across the board, performance will be driven by income return. With the prospect of little or no favourable yield impact, investors will be looking for stable income. Consequently, longer-term leased retail property will likely be in strong demand. Dependable long-term income will be the order of the day over the medium term, and, therefore, will be highly valued by investors. Needless to say, properties with secure stable income profiles will command a premium.

Gerald Eve's current base-case scenario is that central London office markets will deliver the lowest returns in both 2018 and 2019. In the current year, for example, total returns in the City are forecast at 2.0%, with 1.7% in the West End. In 2019, an improvement is expected, with total returns rising to 5.6% and 6.2% respectively. More broadly, South East offices are expected to outperform the central London office markets by a considerable margin, delivering positive total returns in both 2018 and 2019 at 7.2% and 7.7%, respectively.

While the mood among retailers appears to be restrained, the continuing growth in e-commerce bodes well for distribution warehouses which will attract attention from investors. The combination of restricted supply and robust demand for industrial space will ensure that industrials will be the best overall performing sector in 2018 and 2019.

Over the five-year period 2017-21 standard industrials are expected to deliver the best performance, averaging annual total returns of 8%. All of the industrial sectors are expected to deliver annual average returns in excess of 7% in 2017-21.

In 2018, all property total returns are forecast to be 4.5%, rising to 6.4% in 2019. Over the five-year period 2017-21, average annual total returns are expected to be in the region of 6%.

Okay, this is half the average annual figure from the previous five years i.e. 2012-16 but it is certainly still alright to be getting on with – in a yield-hungry world.

Total return forecast by type of property in the UK

| % per annum | 2018E | 2019E | Avg. 2017-21E |
|---|---|---|---|
| Standard shops | 3.0 | 7.0 | 5.1 |
| Shopping centres | 4.2 | 5.9 | 5.1 |
| Retail warehouses | 4.8 | 6.9 | 5.9 |
| West End offices | 1.7 | 6.2 | 5.4 |
| City offices | 2.0 | 5.6 | 5.2 |
| South East offices | 7.2 | 7.7 | 6.3 |
| All offices | 3.5 | 6.0 | 5.5 |
| Standard industrial | 7.5 | 6.7 | 8.0 |
| Dist. warehouses | 6.8 | 6.4 | 7.4 |
| Total | 4.5 | 6.4 | 6.0 |

*Source: Gerald Eve*

# Interims results

## Introduction

Inland promulgated its interim results for the six months to 31 December 2017 on 28 March 2018. It has five significant revenue streams: land development and sale; housebuilding; contracting; investments; and investment properties including a hotel (while the site awaits development).

This means that Inland is not your common or garden housebuilder and, in terms of measurement, its chosen metre is EPRA NAV. You will be familiar with NAV, or Net Asset Value, and, for the uninitiated, EPRA stands for European Public Real Estate Association – which has sought to quantify the unrealised value headlines in property assets. Later in this document, we provide an EPRA pen portrait but suffice it to say that, in Inland's case, the EPRA calculation focuses on the unrealised value in its land bank. Here, we tend to focus on the adjusted EPRA which excludes the dilutive effect of options, treasury stock, growth shares and the like – in the same way that underlying earnings per share or EPS do. Lyrically, too, EPRA enumerates the Midas touch of finding land, processing its planning and bringing it to market; which Inland does very well indeed.

By way of eating the pudding, too, the first half of the company's fiscal year 2017-18 saw its plain vanilla NAV rise 14% to 67.02p and adjusted NPRA NAV by 6% to 97.63p, which is very good to be getting on with.

Half-year asset values

| | 31 December 2016 | 31 December 2017 |
|---|---|---|
| NAV (p) | 58.73 | 67.02 |
| EPRA – adjusted (p) | 92.34 | 97.63 |
| % change | | |
| NAV | 10 | 14 |
| EPRA – adjusted | 8 | 6 |

*Note: adjusted EPRA NAV excludes the dilutive effect of options etc.*
*Source: Hardman & Co Research*

## Profit and loss

Turning next to the company's profit and loss account, there was a striking surge in revenue by more than four-fifths to £61.2m which was driven by land sales (i.e. there were not many land sales in the corresponding half – but this time around the figure was north of £20m).

## Divisional performance

Land sales and housebuilding dominate the company's revenue generation. Up first is the former, with £20.2m which comprised 338 residential plots – and this compares with just £479,000 of revenue in the corresponding half year, excluding the exceptional divestment mentioned above which was approaching 177 plots.

Housebuilding added 13% to its divisional revenue to top £31.0m which arose from the sale of 96 houses (versus 101) at an average price of £322.000 (+5.2%). The company has also experienced strong demand at this price point and 61% of private sales utilised the UK Government's Help to Buy scheme.

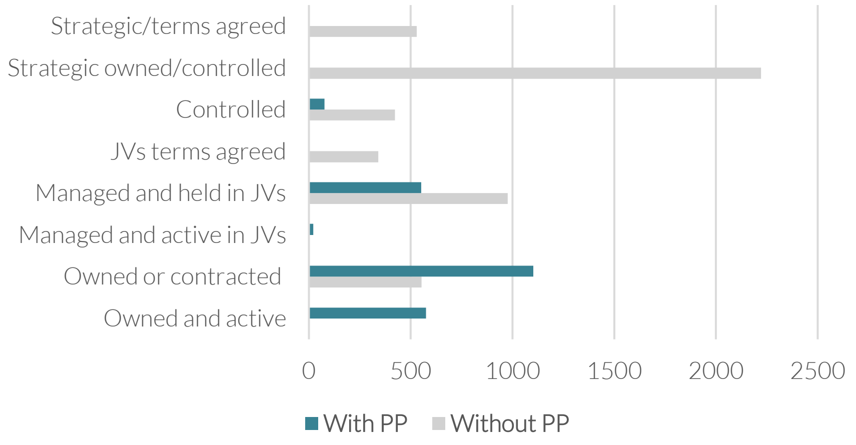
## Gross profit by activity

| £m | 2016-17 | 2017-18 |
|---|---|---|
| **Revenue** | 1H | 1H |
| Land sales | 0.479 | 20.285 |
| Housebuilding | 27.484 | 31.025 |
| Contracting | 1.829 | 5.245 |
| Rent | 0.669 | 0.366 |
| Hotel | 1.509 | 1.389 |
| Other | 0.599 | 3.540 |
| **Total** | **32.569** | **61.211** |
| | | |
| **Profit** | **1H** | **1H** |
| Land sales | 0.240 | 3.878 |
| Housebuilding | 5.501 | 3.539 |
| Contracting | -0.234 | 0.737 |
| Rent | 0.609 | 0.366 |
| Other | 0.000 | 0.000 |
| Hotel | 0.229 | 0.132 |
| Other | 0.517 | 2.726 |
| **Total** | **6.862** | **11.378** |

*Source: Hardman & Co Research*

In terms of the divisional gross profit contribution in the first half of the current fiscal year, land sales brought in £3.9m (versus £240,000 officially, excluding the exceptional profit of almost £6m mentioned above). It is not particularly relevant to look at gross margins, i.e. 50.1% in 1H'17 and 19.1% in 1H'18 – as it is really about contribution. By their nature, too, these profits are lumpy and less predictable than putting a brick on a brick; but nor do they go away; hence the EPRA measurement. For example, at the close of the half year, the company held a land portfolio equivalent to 7,372 residential units, which possess a GDV in excess of £2.2bn. Of this, too, 68% has planning consent or a resolution to do so; and 60% is owned. Do we need to mention EPRA again?

## Land bank at 31 December 2017 (7,372 plots)



*Source: Hardman & Co Research*

On the same day as its interim results, Inland Homes also announced it biggest deal to date, with the submission of an outline planning application at Cheshunt Lakeside in Broxbourne, Hertfordshire. This will potentially deliver up to 1,853 homes and in excess of 18,000 sqm of commercial, retail, community, leisure and education space.

Note, too, that the company is the majority landowner of the 30-acre site, which has a GDV in the region of £650m.

Inland Homes acquired the original 13-acre site, which includes Tesco's former HQ, by way of a 50:50 JV with a third party in July 2016 and has since assumed control of a number of additional parcels of land which form part of this application.

Returning to the company's divisional performance, housebuilding is next up and here the gross contribution in the first half was £3.5m (vs. £5.5m) with a margin of 11.4%, down from 20.0%. This lower quantum and profitability reflect a business in transition, as Inland morphs away from utilising primarily external main contractors to doing it itself. Inevitably, this has cost momentum and money, not least in the recruitment of directly employed staff. For example, in the fiscal year 2016-17, the company's average headcount broadly doubled from 33 to 59; and at the year-end itself, the number of Inland people was 72 in total.

The company believes that this will create a more efficient business and one less prone to the vagaries – and colour – of the wider UK contracting market. For example, in 1H'16-17, a key contractor working for Inland went bust. Here, too, Inland's Chairman Terry Roydon (who, in previous lives, has been there and got the T-shirt) said that "material improvements are expected in gross on new developments" – which is good news.

As at 31 December 2017, too, the company's order book of private houses was £38.9m which was up a very healthy 22%. Also, there were 70 houses reserved in the first quarter of calendar 2018 and, as at 31 March, Inland had 560 units under construction with a GDV of £144.4m.

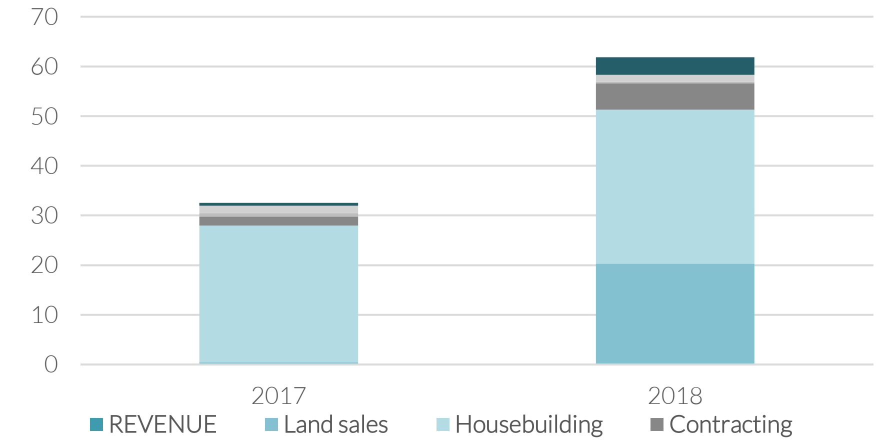
Inland's other activities are smaller but underpin the company's versatility and resourcefulness. The most important here is its Contracting unit which is growing like Topsy and, in the latest half year, saw revenue almost treble to £5.25m.

Here, Inland essentially builds affordable and social housing units for housing associations and, at its balance sheet date of 31 December 2017, it was active on three sites which will deliver some 220 homes from a total contract value of £43m. In the latest reporting period for the half year, too, Inland generated a gross margin on this activity of 14.1% which compares with a marginal loss last time. The latter arose from another business failure – this time a sub-contractor. In turn, though, this led to significant costs and "liquidated ascertained damages" on the two housing association jobs.

Happily, this is now in the rear-view mirror, and at the time the company reported its interim figures, orders had been won for a further 220 partnership houses worth almost £38m.

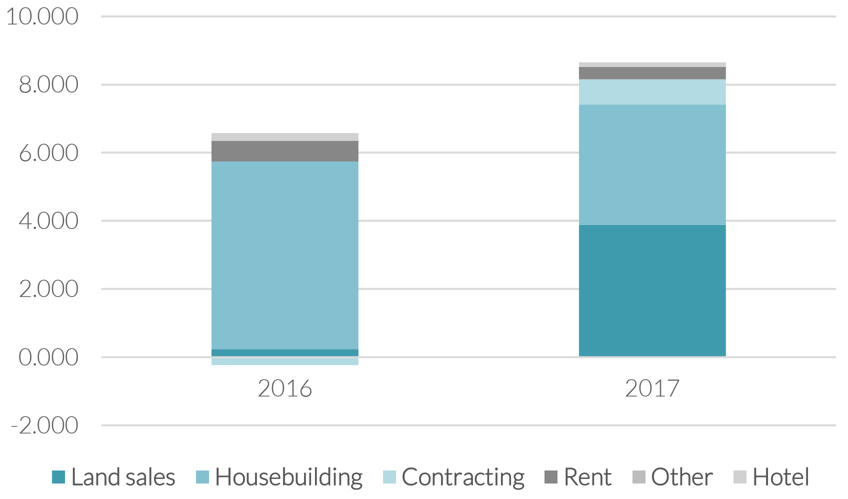
Looking forward, the will seek to increase this type of activity which will result in an increasing proportion of its revenue and profit being recognised on a percentage of completion basis over the life of a development. These forward-funded construction contracts will also provide additional development profits without the need to engage in development loans and related expenditure. At the same time, a higher level of forward orders will also afford some protection to the inevitable cyclicality of the housing market. As a result, Inland is prepared to accept a reduced net margin on such transactions.

## Revenue: 1H fiscal 2016-17 and 1H fiscal 2017-18 (£m)



*Source: Hardman & Co Research*

## Divisional profit: 1H fiscal 2016-17 and 1H fiscal 2017-18 (£m)



*Source: Hardman & Co Research*

Rental income is an adjunct profit and dipped in the half year from £0.7m to 0.4m. Essentially, this derives from the company's flagship, but embryonic, site at Wilton Park in Beaconsfield. Outline planning permission has been received already for this 100-acre/350 residential unit site but, near term, Inland pockets the rent and, in the first half, a 100% margin on it.

The company also has a hotel (why wouldn't it?) – the Wessex in Bournemouth – which added £132,000 of income in the latest half year (versus £229,000 last time). Of course, it will not stay as the Wessex because Inland has already received planning consent for 88 residential units and a new 46,000 square foot hotel with associated car parking facilities. Yes, the net contribution towards operating profit here is modest, but it saves costs in respect of security, rates, insurance, maintenance and the like whilst taking the site through the planning process.

# Balance sheet and cashflow

Reserves rose 14% in the first half to £114.4m at 31 December 2017 on the back of retained profits. Net assets also rose 14% to £134.7m.

At the same time, fixed assets increased 4% to £54.5m. In turn, invested capital edged upwards 2% to £198.7m.

Net current assets as at 31 December 2017 were £147m (1H'16: £214m) which produced a current of 3.65 (1H'16: 4.58). Similarly, stocks/inventories were lower, which made for a of 1.18 (1H'16: 1.22).

## Interim results – balance sheets

| To 31 December (£m) | 1H'16 | 1H'17 |
|---|---|---|
| Shareholders' funds | 118.609 | 134.727 |
| Cumulated goodwill | 0 | 0 |
| Total equity | 118.609 | 134.727 |
| Share capital | 20.360 | 20.366 |
| Reserves | 98.249 | 114.361 |
| Capitalised R&D | 0 | 0 |
| Minorities | 0 | 0 |
| Provisions | 0 | 0 |
| Deferred tax | 0.960 | 2.062 |
| Long-term loans | 94.144 | 94.640 |
| Bank overdrafts | 1.793 | 0.000 |
| less: cash & securities | -17.576 | -24.787 |
| less: marketable securities | -3.184 | -7.938 |
| less: non-core investments | 0 | 0 |
| Invested capital | 194.746 | 198.704 |
| | | |
| Fixed assets | 52.639 | 54.527 |
| Intangible assets | 0 | 0 |
| Capitalised R&D | 0 | 0 |
| Goodwill | 0 | 0 |
| Stocks | 148.147 | 137.113 |
| *Trade debtors* | 14.695 | 20.617 |
| *Other debtors* | 21.535 | 25.761 |
| *Trade creditors* | -15.151 | -12.000 |
| *Tax liability* | -5.004 | -3.539 |
| *Other creditors* | -22.115 | -23.775 |
| Debtors less creditors | -6.040 | 7.064 |
| Invested capital | 194.746 | 198.704 |
| | | |
| Metrics: | | |
| Net cash/(debt) (£m) | -78.4 | -69.9 |
| Net debt/equity (%) | 66 | 52 |
| Current ratio | 4.6 | 3.7 |
| Quick ratio | 1.2 | 1.2 |

*Source: Hardman & Co Research*

Company operating cashflow was positive to the tune of £1.3m versus an outflow of £10.4m, with a push from disposals (£12.2m) and a pull from working capital (£11.0m). Interest costs and tax were both lower, as was capex which led to free cashflow in excess of £0.7m, against an outflow of £13.5m last year.

Little else was significant which meant that net debt reduced by £8.5m year-on-year and increased a touch (£1.8m) between the annual balance sheet date (30 June 2017) and the latest interim one (31 December 2017).

Net debt at 31 December 2017 was £69.9m against £78.4m on 31 December 2016 and £68.0m on 30 June 2017.

Note, too, that Inland's borrowings are 100% repayable after one year and 54% repayable between three and five years. Development activities are financed using a £20m committed revolving credit facility expiring in the autumn of 2019, while land purchases run off a £25m committed revolving credit facility expiring in over three years.

Inland has also procured a £43.3m term facility secured against the existing residential units and land at Wilton Park. In addition, there are the Zero Dividend Preference (ZDP) Shares which have an accrued liability of £17.9m and these are repayable on 10 April 2019. They were issued by Inland ZDP plc; for a fuller explanation see the later relevant section of this note.

Cash balances at the half year-end were £24.8m which compares with £17.6m at 31 December 2016 and £26.5m at 30 June 2017.

Note, too, that the majority of the gross debt relates to a single site, Wilton Park.

## Interim results – cashflow

| To 31 December (£m) | 1H'16 | 1H'17 |
|---|---|---|
| Trading profit | 6.304 | 5.835 |
| Depreciation | 0.112 | 0.135 |
| Amortisation | 0.000 | 0.000 |
| Stocks | -17.881 | -4.686 |
| Working capital | 1.440 | -10.976 |
| Exceptionals/provisions | 0.033 | 0.000 |
| Disposals | -0.009 | 12.136 |
| Other | -0.410 | -1.153 |
| **Company op. cashflow** | **-10.411** | **1.291** |
| Net interest | 1.352 | 0.464 |
| Tax | -3.869 | -0.918 |
| **Operational cashflow** | **-12.928** | **0.837** |
| Capital expenditure | -0.600 | -0.100 |
| Capitalised R&D | 0 | 0 |
| Sale of fixed assets | 0 | 0 |
| **Free cashflow** | **-13.528** | **0.737** |
| Dividends | 0.000 | 0.000 |
| Acquisitions | 0.000 | 0.000 |
| Disposals | 0.000 | 0.000 |
| Other investments | -0.954 | -0.463 |
| **Cashflow after investments** | **-14.482** | **0.274** |
| Share repurchases | 0 | 0 |
| Share issues | 0.452 | -0.458 |
| Currency effect | 0 | 0 |
| Borrowings acquired | -9.767 | -1.660 |
| **Change in net debt*** | **-23.797** | **-1.844** |
| Opening net cash | -78.361 | -68.009 |
| Closing net cash | -54.564 | -69.853 |
| Change* | -23.797 | -1.844 |

**change in each consecutive six-month period*

*Source: Hardman & Co Research*

# The official half-year report

Inland promulgated its interim results for the six months to 31 December 2017 on 28 March 2018. We think it helpful to reproduce this in full as part of our note. Additionally, we would point out that this is an erudite 2,188 words and a number of the UK housebuilders could take note. A number of them produces tombs that run to 15,000 words. "Me thinks the man doth protest too much".

## *Highlights*

- 13.6% increase in Net Asset Value to £134.7 million (2016 restated: £118.6 million)
- EPRA NAV up 5.2% to 92.78p (2016 restated: 88.16p)
- Adjusted EPRA NAV up 5.7% to 97.63p (2016 restated: 92.34p)
- Profit before tax of £5.37 million (2016 restated: £4.95 million)
- 30% increase in interim dividend to 0.65p (2016: 0.5p) per share.

Investment in in-house construction operations delivering diversified revenue streams and record output

- Sale of 338 residential plots and completion of the sale of 96 private homes, at an average sales price of £322,000 (FY 2016: £306,000), generating profits of £7.4 million (2016: £5.7 million) and an 87.9% increase in revenues to £61.2 million (2016: £32.6 million)
- Current forward order book of £38.9 million (2016: £31.8 million) +22.3%
- A record 560 private homes under construction with an anticipated gross development value of £144.4 million
- Construction contracts in place to deliver 220 homes across three sites for the increasingly important partnership housing business, Inland Partnerships, with a total contract value of over £43 million
- Construction underway at major schemes:
    - 239 private homes at Lily's Walk and 40 private homes at Castle House, both in High Wycombe, achieving forward sales of £5.5 million and £5.0 million respectively
    - Development of the first phase of 72 homes at Chapel Riverside
- Expansion of the land bank to 7,372 plots (2016: 7,151), with an anticipated gross development value in excess of £2.2 billion, including 2,218 plots with planning consent (2016: 2,440), demonstrating Inland's ongoing market-leading planning and remediation expertise:
    - Outline planning application submitted for 350 homes at flagship 100-acre site at Wilton Park in Beaconsfield
    - Post-period end (March 28) planning application submitted for 1,853 homes and in excess of 18,000 square metres of commercial space at Cheshunt Lakeside, a major South East UK regeneration scheme.

Supportive government measures, strong buyer demand and favorable macro-factors under-pinning market buoyancy

- Government initiatives, notably Help to Buy, maintaining demand from buyers for our homes in South and South East England, with sales rates being sustained at good levels given our price point
- Housing associations and other residential landlords such as PRS funds or Local Authorities increasingly targeting residential investment and development through strategic partnerships.

CEO Stephen Wicks said: "this is an encouraging set of results, delivering NAV, profit and revenue growth, and ultimately validating the significant investment we have made in our housebuilding operations over the past twelve plus months. We expect further benefits to be seen as we improve the gross margin on our new developments and continue to bring in sector specialists to support our ambitious growth targets. Furthermore, our ability to deliver a high quality, turnkey offering is allowing us to identify and partner with a range of different stakeholders via our increasingly important Inland Partnerships business, as well as through Joint Ventures. Despite some near term headwinds, the overall outlook for the sector remains favorable, especially at the price point at which we operate, and as a business we believe we are in a strong position to continue delivering long term value for our shareholders".

## *Notes to Editors*

Incorporated in the UK in 2005, Inland Homes plc is an AIM listed specialist housebuilder and brownfield developer, dedicated to achieving excellence in sustainability and design. Inland Homes acquires brownfield land in the South and South-East of England principally for residentially led development schemes. The business then enhances the land value by obtaining planning permission, before building open market and affordable homes or selling surplus consented land to other developers to generate cash. The Company is committed to extensive public and community consultation in order to ensure that, where possible, local community needs and objectives are met. Inland's aim is to create sustainable communities and homes which set a benchmark for all future developments in the South of England. The Company is always looking for brownfield sites without planning permission for future development.

## *Chairman's statement*

This has been an encouraging first half, as we continue to scale up our housebuilding operations and expand our partnership housing division, where we deliver homes for housing associations and other residential landlords such as PRS funds or Local Authorities. As the number of homes we build in-house continues to grow, there will be a rebalancing of our income streams with less reliance on land sales to other housebuilders and a growing focus on disposals to buyers from whom we can then secure the build package.

## *Results and performance*

Revenue for the period increased by 87.9% to £61.2 million (2016: £32.6 million) derived predominantly from the sale of 338 building plots (2016: 177 plots) generating revenues of £20.3 million and completion of the sale of 96 private homes (2016: 87 private homes) resulting in revenues of £31.0 million (2016: £27.5 million). The average sales price of our residential units was £322,000 (2016: £319,000), remaining firmly in a part of the market that continues to see strong demand driven by the Government initiatives to help first time buyers get onto the housing ladder- 61% of our private sales used the Help to Buy scheme.

Our current forward order book for the sale of private homes stands at £38.9million (2016: £31.8 million) with 70 homes reserved since 1 January 2018.

We have invested heavily in our construction division and believe we have recruited some of the best people in the sector. This expertise is now enabling us to build the majority of our homes utilising the resource of our in-house team and the benefits of this are starting to come through. Whilst our housebuilding margins are still lower than the Sector average, primarily as a legacy of our former reliance on main contractors to build our homes, we expect to see material improvements in gross margin on new developments. It also provides the platform for our partnership housing business where we are currently on three sites delivering 220 homes with total contract values of over £43 million. Contract income for the period was £5.2 million (2016: £1.8 million) and we are in advanced discussions with a view to securing further partnership contracts during the remainder of this financial year.

During the period we commenced the construction of 239 private homes at Lily's Walk and 40 private homes at Castle House, both in High Wycombe, achieving forward sales of £5.5 million and £5.0 million respectively. We also commenced development of the first phase of 72 homes at Chapel Riverside, where we have a Development Agreement with Southampton City Council to build 457 new homes and 60,000 square feet of commercial space. We have secured a development facility of £11.5 million from the Homes and Communities Agency for this project.

At the half year end we had 560 private homes under construction with an anticipated GDV of £144.4 million and a further 220 homes for partnership housing with future contract income of £37.6 million.

Construction of 43 homes at our joint venture project in Gardiners Lane, Basildon is well advanced with 22 of the 30 private homes sold as at 31 December 2017 realising a sum of £8.4 million. We have two more joint venture developments at Europa Way, Ipswich and Bucknalls Lane, Garston with anticipated revenues of £45.0 million with work beginning on these sites imminently.

The Group achieved a profit before tax and before revaluation of investment properties of £5.37 million (2016 restated: £4.95 million).

The EPRA net asset value and the adjusted EPRA net asset value of the Group at 31 December 2017 were 92.78p (2016 restated: 88.16p) and 97.63p (2016 restated: 92.34p) per ordinary share respectively and have been determined as follows:

### *Land portfolio and planning*

We continue to expand our high-quality land portfolio that now has a development pipeline of 7,372 homes with an anticipated GDV in excess of £2.2 billion.

The outline planning application for 350 homes at our flagship 100 acre site at Wilton Park in Beaconsfield was submitted in September 2017. We are continuing our negotiations with the local authority which are progressing very well. The site is producing gross annual rental income of £1.6 million via residential and commercial lettings.

The Group has also exchanged contracts to acquire additional land at Cheshunt Lakeside, Hertfordshire where our joint venture either owns or controls 1,317 plots. Representing Inland's largest development to date, the outline masterplan planning application for 1,853 plots and 18,000 square metres of commercial and retail space has been submitted and we are excited about the huge potential of this regeneration scheme.

We currently have planning applications submitted on 2,312 plots across five sites and are in pre-application talks with planning authorities on six strategic sites for 451 plots and planning applications are expected to be submitted shortly on all these sites. The Group continues to focus on strategic land and has successfully secured options over 29 sites for approximately 2,750 plots.

### *Dividend*

Reflecting the Group's progress, the Board is pleased to have increased the interim dividend by 30% to 0.65p (2016: 0.5p) per share. The dividend will be paid on 29 June 2018 to shareholders on the register at the close of business on 8 June 2018. The ex-dividend date is 7 June 2018.

### *Our people*

The Inland team is a vital cog in the delivery of our ambitious growth plans. I should like to thank all members of staff for their efforts in integrating within their respective teams and across the various disciplines during the expansion of our construction division. I should also like to take this opportunity to thank Paul Brett, our Land Director who has decided to leave the Group with effect from 16 April 2018, for his part in the growth of the Company since its incorporation. I am pleased that Paul will continue to work for the Group as a consultant, particularly in relation to the ongoing planning application processes at our key sites at Wilton Park and Cheshunt Lakeside.

### *Outlook*

With the Government committed to building 300,000 new homes per annum in the UK, there are several measures in place supporting the housebuilding sector in the drive to deliver more homes, particularly at the price point at which we operate. Whilst the Sector continues to be hindered by local planning difficulties and higher construction costs, we are optimistic that overall conditions for housebuilders to meet the demand for new homes will continue to be largely favourable.

With our lower priced high-quality homes and strengthening construction capability, together with a significant land bank, Inland is in a strong position to capitalise on the current favourable market conditions. We have identified and are delivering on clear operational priorities for 2018 that will transform the business and have made positive progress towards achieving this.

## Inland ZDP plc

The company promulgated its interim results for the six months to 31 December 2017 on 26 March 2018. Nishith Malde, Inland's CFO, is ZDP's Chairman.

## Background

Inland ZDP plc (INLZ) was incorporated on 22 November 2012 as a wholly owned subsidiary of Inland. INLZ was formed especially for the issuing of Zero Dividend Preference Shares (ZDP Shares). It raised £8.5m before expenses on 20 December 2012 by a placing of 8,500,000 ZDP shares, which are listed on the UK Official List and admitted to trading on the London Stock Exchange. Further issues in each subsequent year have increased the number of ZDP Shares in issue to 12,444,200.

Pursuant to a loan agreement between INLZ and Inland, INLZ has lent the proceeds received from all the ZDP Share issues to Inland. The loan is non-interest-bearing and is repayable three business days before the ZDP share redemption date of 10 April 2019 or, if required by INLZ, at any time prior to that date in order to repay the ZDP Share entitlement. The funds raised form part of the Inland Group's financing arrangements for its property development business. The company is considering various methods of refinancing the ZDP Shares when they fall due for redemption.

A contribution agreement between INLZ and Inland has also been made, whereby Inland undertakes to contribute such funds as would ensure that INLZ will have in aggregate sufficient assets on 10 April 2019 to satisfy the final capital entitlement of the ZDP Shares.

## Interim management report

The company was incorporated solely to issue ZDP Shares and has never traded. No important events occurred during the first six months of the financial year and no events had a material impact on the condensed set of financial statements set out below. During the first six months of the current financial year, the accrued Capital Entitlements attributable due to ZDP Shareholders increased from £17.12m as at 30 June 2017 to £17.73m as at 31 December 2017.

I am pleased to report that, as at 31 December 2017, Inland had complied with all its covenants under the Loan Note, Contribution Agreement and related security documentation.

As at 31 December 2017, each ZDP Share had an accrued capital entitlement of 142.52p (137.55p as at 30 June 2017).

The cover ratio and gearing ratio as at 31 December 2017 have been calculated as follows:

| | |
|---|---|
| Cover ratio (assets/financial indebtedness) | 21x |
| Gearing ratio | 4% |

*Source: Hardman & Co Research*

The definition of financial indebtedness and the calculation of the gearing ratio are stated net of cash balances and exclude liabilities falling due after 10 October 2019, being six months after the redemption date of the ZDP Shares. As at 31 December 2017, the Inland Group had cash balances of £24.8m and, apart from the liability to holders of ZDP Shares, had £16.1m of indebtedness repayable before 10 October 2019.

Capital entitlement, assets, financial indebtedness, and the cover ratio and gearing ratio have been determined as set out in the Prospectus published by Inland ZDP PLC on 14 December 2012.

### *Principal risks*

The principal risks facing the company are substantially unchanged since the date of the company's Annual Report for the period ended 30 June 2017 and continue to relate to the risk of Inland being unable to satisfy its obligations to INLZ under the Loan Agreement and Contribution Agreement. These comprise liquidity risk and credit risk, as set out in note 9 of the Annual Report. In addition, and due to the company's dependence on Inland to repay the loan and provide a contribution to meet the capital entitlement of the ZDP shareholders, certain other risks faced by the Inland Group are considered to apply to INLZ as set out in the Prospectus published by INLZ on 14 December 2012. These comprise operational risks (e.g. planning and environmental) which may be specific to individual sites and risks associated with the housebuilding sector (such as falling house prices or variations in the availability of credit for buyers).

In particular, the Inland Group's business includes the purchase of land whose development potential is subject to a variety of risks, including the risk of planning consents being refused, contested at considerable expense and/or delayed. Such risks could, depending on their scale and timing, reduce or delay Inland's ability to honour its obligations under the Contribution Agreement or the Loan Agreement; however, there is over a year before the date when the company is due to pay the Final Capital Entitlements and no events have occurred to suggest any increase in the risk of a breach of the terms of the Contribution Agreement or the Loan Agreement. The company's directors consider that none of the events that have occurred pose any increase in the risks facing the company.

### *Responsibility statement of the Directors in respect of the half-yearly report*

"We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in compliance with the IAS34 'Interim Financial Reporting' and gives a true and fair view of the assets, liabilities and financial position of the Company; and

- the interim management report and notes to the half-yearly report include a fair view of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

This half-yearly report was approved by the Board of Directors on 26 March 2018 and the above responsibility statement was signed on its behalf by Nishith Malde, Chairman".

# EPRA

Inland Homes' model targets growth in the EPRA NAV of its portfolio to underpin shareholder return.

The European Public Real Estate Association (EPRA) is a non-profit association representing Europe's publicly listed property companies. It is run by an independent Board of Directors chaired by Christophe Cuvillier, CEO of Unibail-Rodamco. It was formed in Amsterdam in 1999, partnering initially with Euronext and later with FTSE Group and the National Association of Real Estate Investment Trusts (NAREIT). These three bodies established the FTSE EPRA/NAREIT Global Index series, which is now used as the global indices platform from which to benchmark the performance of stock exchange-quoted property companies and real estate investment trusts. The Association has been located in Brussels since 2009.

On a financial reporting level, the EPRA's aim is to establish consistent reporting across the real estate sector. The Association encourages the adoption of an industry-wide set of financial reporting KPIs, and Gold, Silver, Bronze and Most Improved Best Practice Recommendations. Awards are delivered to companies based on the analysis of annual reports by auditor Deloitte.

EPRA net asset value (EPRA NAV) is calculated from the net assets attributable to equity shareholders of a company, adjusted for the revaluation surpluses on trading properties and eliminating any deferred tax liabilities for revaluation surpluses.

In addition, EPRA triple net asset value (EPRA NNNAV) is also used and is simply EPRA NAV adjusted to include tax on property valuations and capital allowances.

Inland Homes uses EPRA and 'Adjusted EPRA', which excludes the dilutive effect of options, deferred bonus shares and growth shares in the denominator of the calculation here.

# Outlook

In terms of the top line, by division, we expect land sales to grow significantly on a per annum basis, as the company brings its products to market, with, on average, around one-third of revenue flowing through to gross profit.

On housebuilding, growth is forecast at 38% this year, followed by 25% in 2019 and then 11% in 2020, when unit build will be 330 against 225 in 2017. Margins will also rise in 2018 through 2020, when we conservatively forecast 15%.

Contracting will see a step change in 2018 in terms of revenue, with a shift from £3.1m in 2017 to £11.3m; and an even more dramatic step from loss to profit and a 12% margin, which we expect to be sustained through 2020, with revenue growth of 7% in 2019 and 8% in 2020.

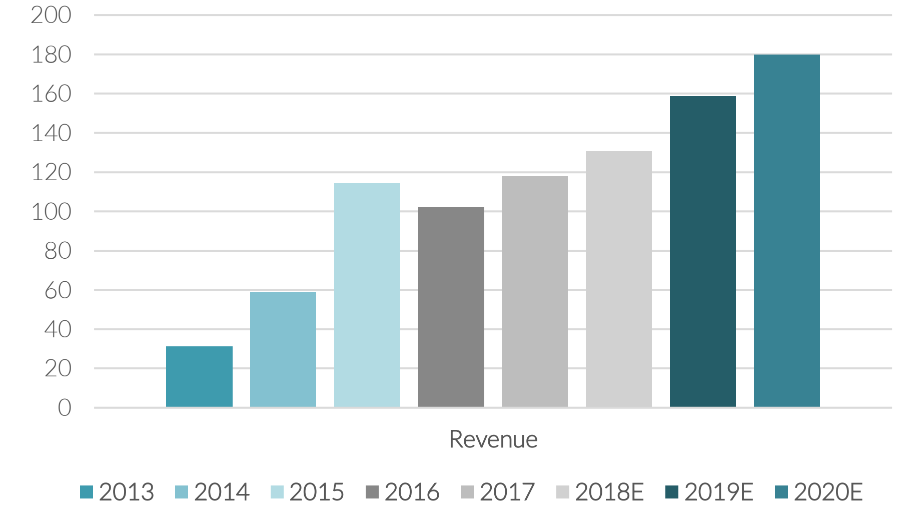
Divisional split, 2017A through 2020E

| Revenue (£m) | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|
| Land sales | 22.384 | 31.285 | 41.000 | 50.000 |
| Housebuilding | 57.771 | 79.808 | 100.105 | 111.216 |
| Contracting | 3.112 | 11.245 | 12.000 | 13.000 |
| Rent | 2.358 | 1.295 | 3.000 | 2.600 |
| Hotel | 2.623 | 2.414 | 0.000 | 0.000 |
| Sub-total | 88.248 | 126.047 | 156.105 | 176.816 |
| Management fees | 2.479 | 2.354 | 2.500 | 3.000 |
| Other | 0.000 | 2.363 | 0.000 | 0.000 |
| Total | 90.727 | 130.764 | 158.605 | 179.816 |
| | | | | |
| Operating income (£m) | | | | |
| Land sales | 12.143 | 12.878 | 14.000 | 15.000 |
| Housebuilding | 8.732 | 10.856 | 14.015 | 16.682 |
| Contracting | -0.249 | 1.343 | 1.440 | 1.560 |
| Rent | 2.079 | 1.088 | 1.000 | 1.100 |
| Hotel | 0.212 | 0.132 | 0.000 | 0.000 |
| Other | 0.212 | 0.132 | 0.000 | 0.000 |
| | | | | |
| Sub-total 1 | 22.917 | 26.297 | 30.455 | 34.342 |
| Investments | 6.965 | 0.000 | 0.000 | 0.000 |
| Investment props. | 1.466 | 0.480 | 0.000 | 0.000 |
| Management fees | 2.479 | 2.246 | 2.500 | 2.271 |
| Other | -7.472 | -8.000 | -9.000 | -10.000 |
| | | | | |
| Sub-total 2 | 26.355 | 21.023 | 23.955 | 26.613 |

*Source: Hardman & Co Research*

In total, Inland can be expected to see a very significant rise in revenue in fiscal 2018 (44%) to be followed by gains of 21% and 13% in 2019 and 2020, respectively. These forecast numbers have been raised since our big introductory note on Inland in November last year: "….in land we trust" (40 pages).

Revenue, 2013-20E (£m)



*Source: Hardman & Co Research*

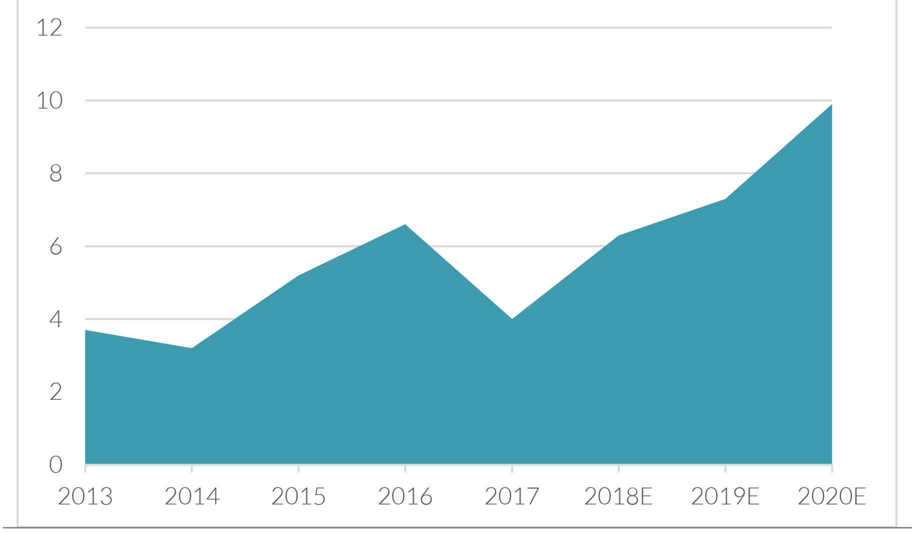
Towards the end of this note, we digest the historic profit and loss account in full and forecast its evolution to 2020.

The gross margin was 21.5% in fiscal 2017 and we expect this to be sustained at a per annum average of 23.1% in 2018, 2019 and 2020.

Underlying EBIT was a touch under £12m in fiscal 2017, with a margin of 13.2%. We forecast this rise to 16.1% this year, before settling at around 15% in fiscal 2019 and 2020; and in the latter year, underlying EBIT will have more than doubled to £26.6m.

In terms of cashflow, we forecast that Inland will be cash-positive each year in 2018, 2019 and 2020. In this latter year, too, balance sheet gearing will be 35% against 67% in 2014. This also means that the net interest charge will fall over the piece; and with it, interest cover will rise more than double between 2017 and 2020 to 9.9x.

Interest cover, 2013-20E (x)



*Source: Hardman & Co Research*

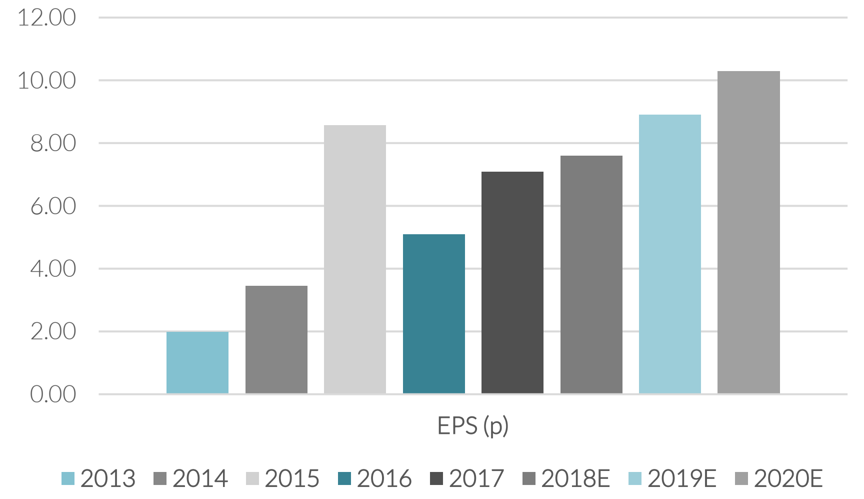
Another feature of the forecast period is the positive contribution of JVs and Associates from 2018 through 2020.

Pre-tax profit will consolidate in fiscal 2018, before growing at 17% and 16% in 2019 and 2020, respectively. And, yes, the sharp-eyed will note that we have shaved £200,000 off our pre-tax profit projections in 2018, 2019 and 2020, on the back of the interims. However, we believe this is simply fine-tuning. Note, too, that the underlying EPS remain unchanged due to a lower-than-expected tax charge.

Turning to statutory EPS, these will dip in 2018, but, on an underlying basis, they will rise by 7% after a step change in fiscal 2017 from 5.09p to 7.60p. Thereafter, we estimate that EPS will rise in line with pre-tax profit to 10.30p in 2020, on both measures (underlying and statutory), which means per annum earnings growth of 13% in the three years 2018, 2019 and 2020.

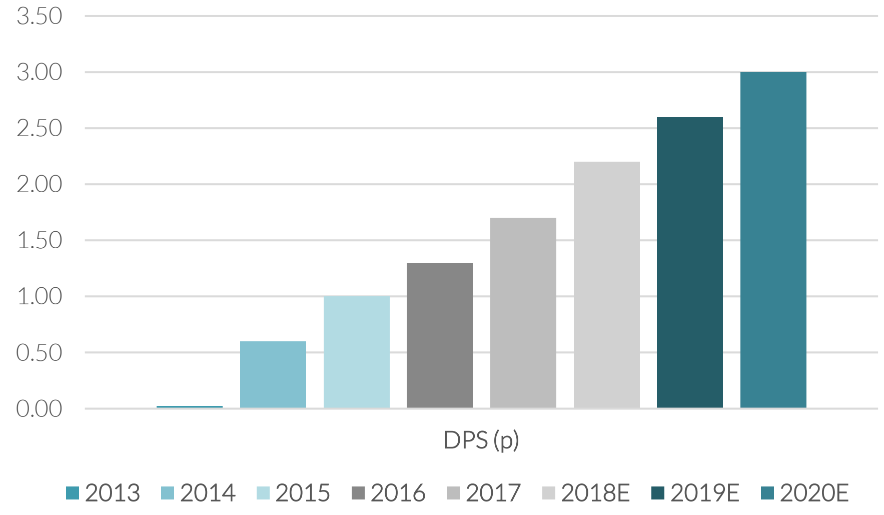
At the same time, net profit margins will be sustained at an average of 11.5% p.a., on our estimates.

Underlying EPS (p), 2013-20E



*Source: Hardman & Co Research*

DPS (p), 2013-20E



*Source: Hardman & Co Research*

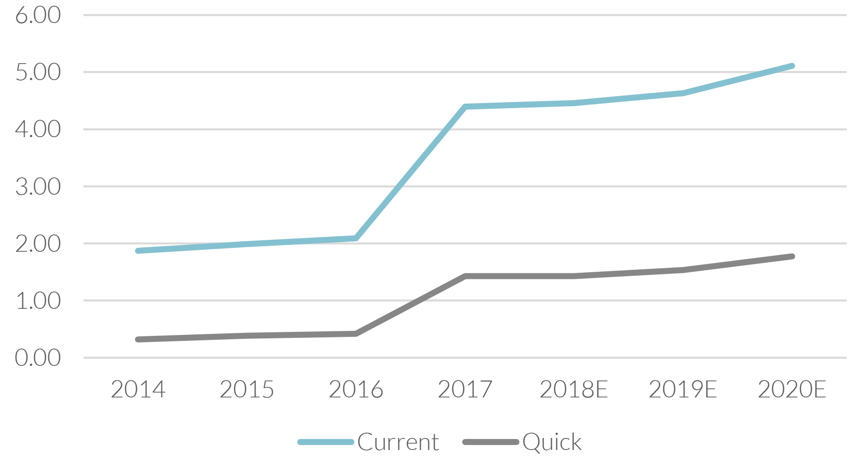
Our projection for dividends is average growth of 18% in the three fiscal years to 2020, at which time cover will still be 3.4x.

Finally, in terms of the balance sheet, we have touched on the movement in net debt and gearing through 2020. In this latter year, net debt is projected to be £55.4m and gearing 35%.

In fiscal 2018, 2019 and 2020, we expect net assets to grow at 7% p.a., to reach £160m in 2020.

Liquidity also remains good, with a projected quick ratio of 1.77 in 2020, which compares with 0.42 in 2016.

## Current and quick ratios, 2014-20E

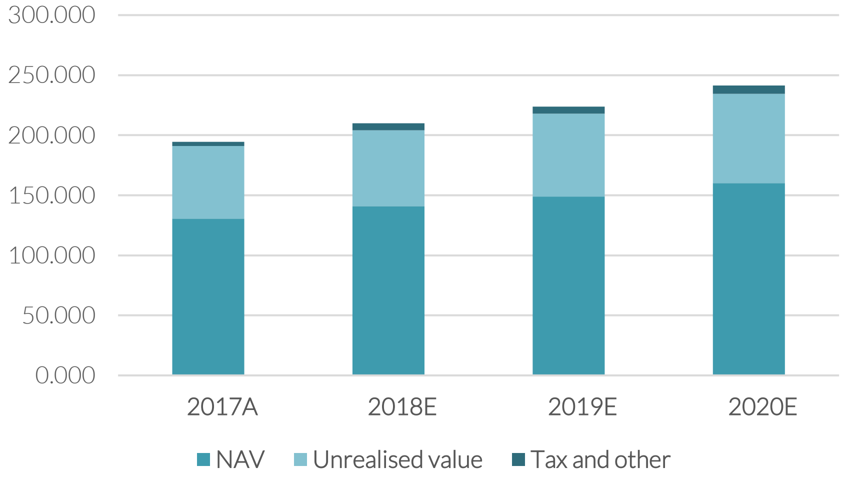


*Source: Hardman & Co Research*

# EPRA analysis and forecasts

In fiscal 2018, 2019 and 2020, we expect both net assets and net assets per share to grow at 7% p.a., to reach £160m at the end of this period. At the same time, we project adjusted EPRA per share to grow at 7.5%, which is based on a detailed analysis of each of Inland's investments, scheme by scheme. We also expect that this will prove conservative.

## EPRA totals, 2017A through 2020E (£m)



*Source: Hardman & Co Research*

## Asset values, 2017-2020E

| | 2017A | 2018E | 2019E | 2020E |
|---|---|---|---|---|
| NAV (p) | 64.62 | 69.69 | 73.74 | 79.19 |
| EPRA – adjusted EPRA (p) | 96.22 | 103.88 | 110.79 | 119.46 |
| % change | | | | |
| NAV | 12 | 8 | 6 | 7 |
| EPRA – adjusted | 4 | 8 | 7 | 8 |

*Note: adjusted EPRA NAV excludes the dilutive effect of options, etc.*

*Source: Hardman & Co Research*

## Profit & Loss

| Year-end June (£m) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|---|
| Sales | 31.116 | 58.909 | 114.219 | 101.910 | 90.727 | 130.764 | 158.605 | 179.816 |
| COGS | -23.431 | -42.857 | -79.841 | -72.329 | -71.226 | -99.911 | -122.126 | -1358.818 |
| **Gross profit** | **7.685** | **16.052** | **34.378** | **29.581** | **19.501** | **30.853** | **36.479** | **40.998** |
| SG&A | -2.603 | -4.369 | -5.901 | -6.118 | -7.323 | -9.530 | -12.149 | -13.916 |
| R&D | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Dep. & amortisation | -0.049 | -0.071 | -0.120 | -0.179 | -0.242 | -0.300 | -0.375 | -0.469 |
| Licensing/Royalties | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Other income | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Underlying EBIT** | **5.033** | **11.612** | **28.357** | **23.284** | **11.936** | **21.023** | **23.955** | **26.613** |
| Share-based costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exceptional items | 0.048 | 1.478 | 13.978 | 16.918 | 14.419 | 0.041 | 0.000 | 0.000 |
| Statutory operating profit | 5.081 | 13.090 | 42.335 | 40.202 | 26.355 | 21.064 | 23.955 | 26.613 |
| Finance income | 0.309 | 0.166 | 0.201 | 0.48 | 0.458 | 0.654 | 0.700 | 0.800 |
| Finance cost | -1.689 | -4.256 | -8.373 | -6.58 | -6.998 | -3.976 | -4.000 | -3.500 |
| Associates/JV | 1.219 | 0.613 | -0.135 | -0.370 | -0.225 | 1.070 | 1.400 | 1.600 |
| Net financial income | 0.292 | 0.000 | 0.000 | 0.000 | -0.001 | 0.000 | 0.000 | 0.000 |
| **Pre-tax profit** | **5.212** | **9.613** | **34.028** | **33.733** | **19.589** | **18.812** | **22.055** | **25.513** |
| Exceptional items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reported pre-tax | 5.212 | 9.613 | 34.028 | 33.733 | 19.589 | 18.812 | 22.055 | 25.513 |
| Reported taxation | -1.559 | -2.137 | -5.078 | -4.841 | -3.810 | -3.461 | -4.058 | -4.695 |
| Minorities | 0.000 | -0.479 | 0.730 | -0.599 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Underlying net income** | **3.653** | **6.997** | **29.680** | **28.293** | **15.779** | **15.351** | **17.997** | **20.818** |
| Statutory net income | 3.653 | 6.997 | 29.680 | 28.293 | 15.779 | 15.351 | 17.997 | 20.827 |
| | | | | | | | | |
| Period-end shares (m) | 201.310 | 202.799 | 202.156 | 201.779 | 202.027 | 202.099 | 202.099 | 202.099 |
| Weighted average shares (m) | 184.860 | 202.093 | 202.368 | 201.957 | 201.875 | 202.069 | 202.099 | 202.099 |
| Fully-diluted shares (m) | 201.299 | 214.885 | 208.996 | 211.397 | 211.384 | 212.566 | 212.596 | 212.696 |
| | | | | | | | | |
| **Underlying basic EPS (p)** | **1.98** | **3.46** | **8.56** | **5.09** | **7.09** | **7.60** | **8.90** | **10.30** |
| **U/l fully-diluted EPS (p)** | 1.80 | 2.72 | 8.51 | 6.53 | 1.97 | 7.22 | 8.47 | 9.79 |
| Statutory basic EPS (p) | 1.98 | 3.46 | 14.67 | 14.01 | 7.82 | 7.60 | 8.90 | 10.30 |
| Stat. fully-diluted EPS (p) | 1.81 | 3.26 | 14.20 | 13.38 | 7.46 | 7.22 | 8.47 | 9.79 |
| **DPS (p)** | **0.03** | **0.60** | **1.00** | **1.30** | **1.70** | **2.20** | **2.60** | **3.00** |

*Source: Hardman & Co Research*

## Balance Sheet

| 30 June (£m) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|---|
| Shareholders' funds | 53.132 | 61.093 | 89.833 | 116.347 | 130.550 | 140.846 | 149.030 | 160.047 |
| Cumulated goodwill | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total equity | 53.132 | 61.093 | 89.833 | 116.347 | 130.550 | 140.846 | 149.030 | 160.047 |
| | | | | | | | | |
| Share capital | 20.131 | 20.280 | 20.281 | 20.281 | 20.366 | 20.366 | 20.366 | 20.366 |
| Reserves | 30.016 | 39.811 | 69.280 | 96.066 | 110.184 | 120.480 | 128.664 | 143.681 |
| Capitalised R&D | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Minorities | 2.985 | 1.002 | 0.272 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Provisions | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Deferred tax | -1.411 | -1.476 | -0.548 | 0.960 | 2.026 | 2.000 | 2.000 | 2.000 |
| Long-term loans | 18.046 | 32.732 | 31.096 | 35.742 | 31.241 | 91.864 | 88.864 | 82.864 |
| Bank overdrafts | 1.613 | 19.192 | 25.192 | 35.545 | 63.227 | 0.000 | 0.000 | 0.000 |
| less: cash & securities | -16.100 | -11.064 | -21.377 | -16.723 | -26.459 | -25.500 | -26.500 | -27.500 |
| less: marketable securities | -0.001 | -0.001 | -0.001 | -0.001 | 0.000 | 0.000 | 0.000 | 0.000 |
| less: non-core investments | -1.606 | -0.541 | -4.734 | -2.223 | -7.052 | -8.000 | -10.000 | -12.000 |
| Invested capital | 53.673 | 99.935 | 119.461 | 169.647 | 193.533 | 200.210 | 203.394 | 205.411 |
| | | | | | | | | |
| Fixed assets | 9.673 | 11.953 | 34.332 | 52.185 | 54.246 | 57.671 | 63.452 | 65.106 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capitalised R&D | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Stocks | 59.352 | 104.282 | 121.795 | 148.438 | 139.898 | 135.000 | 130.000 | 125.000 |
| Trade debtors | 5.966 | 10.432 | 7.998 | 6.816 | 22.491 | 20.000 | 19.000 | 18.00 |
| Other debtors | 1.055 | 0.055 | 0.055 | 13.53 | 24.097 | 23.000 | 23.000 | 24.000 |
| Trade creditors | -7.074 | -14.654 | -14.862 | -18.656 | -20.537 | -11.000 | -9.000 | -7.000 |
| Tax liability | -0.625 | -2.809 | -6.347 | -7.618 | -6.532 | -3.461 | -4058 | -4.695 |
| Other creditors | -14.674 | -9.324 | -23.510 | -25.048 | -20.130 | -20.000 | -19.000 | -15.000 |
| Debtors less creditors | -15.352 | -16.300 | -36.666 | -30.976 | -0.611 | 8.539 | 9.942 | 15.305 |
| Invested capital | 53.673 | 99.935 | 119.461 | 169.647 | 193.533 | 201.210 | 203.394 | 205.411 |
| | | | | | | | | |
| Net cash/(debt) | -3.559 | -40.860 | -34.911 | -54.564 | -68.009 | -66.364 | -62.464 | -55.364 |
| Net debt/equity (%) | -6.7 | -66.9 | -38.9 | -46.9 | -52.1 | -47.1 | -41.8 | -34.6 |
| After-tax ROIC | 6.8% | 7.0% | 24.8% | 16.7% | 8.2% | 7.6% | 8.8% | 10.1% |
| Interest cover (x) | 3.7 | 3.2 | 5.2 | 6.6 | 4.0 | 6.3 | 7.3 | 9.9 |
| Dividend cover (x) | 67.2 | 5.4 | 14.2 | 10.3 | 4.4 | 3.3 | 3.3 | 3.3 |
| Cap-ex/depreciation (x) | 3 | 1 | 2 | 2 | 2 | 7 | 11 | 2 |
| Cap-ex/sales (%) | 13 | 13 | 58 | 17 | 23 | 16 | 16 | 16 |
| Net asset value/share (p) | 26.39 | 30.12 | 44.44 | 57.66 | 64.62 | 69.69 | 73.74 | 79.19 |
| Debtor days | 82 | 65 | 26 | 73 | 187 | 120 | 97 | 85 |
| Creditor days | 255 | 149 | 123 | 157 | 164 | 87 | 64 | 45 |

*Source: Hardman & Co Research*

## Cashflow

| Year-end June (£m) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|---|
| Pre-tax profit | 5.212 | 9.613 | 34.028 | 33.733 | 19.589 | 18.812 | 22.055 | 25.513 |
| Depreciation | 0.049 | 0.071 | 0.120 | 0.179 | 0.242 | 0.300 | 0.375 | 0.469 |
| Amortisation | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Stocks | 0.161 | -37.048 | 13.819 | -16.797 | -6.926 | 5.000 | 5.000 | 5.000 |
| Working capital | -10.484 | -2.315 | -5.436 | -2.112 | -1.318 | -6.346 | -1.000 | -3.324 |
| Exceptionals/provisions | 0.000 | -2.300 | -14.519 | -18.015 | -1.466 | -0.041 | 0.000 | 0.000 |
| Disposals | 1.063 | -0.003 | 0.000 | -0.009 | -7.202 | 0.000 | 0.000 | 0.000 |
| Other | 1.728 | 1.065 | 0.676 | 0.370 | 0.225 | -1.070 | -1.400 | -1.600 |
| Company op. cashflow | -2.271 | -30.917 | 28.688 | -2.651 | 3.144 | 16.655 | 25.030 | 26.058 |
| Net interest | 0.392 | 0.784 | 1.199 | 0.896 | 2.434 | 2.422 | 3.300 | 2.700 |
| Tax | 0.000 | 0.000 | -0.678 | -2.158 | -3.576 | -3.461 | -4.058 | -4.695 |
| Operational cashflow | -1.879 | -30.133 | 29.209 | -3.913 | 2.002 | 15.616 | 24.272 | 23.063 |
| Capital expenditure | -0.145 | -0.048 | -0.299 | -0.317 | -0.450 | -2.000 | -4.000 | -1.000 |
| Capitalised R&D | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sale of fixed assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Free cashflow | -2.024 | -30.181 | 28.910 | -4.230 | 1.552 | 13.616 | 20.272 | 23.063 |
| Dividends | -0.122 | -0.540 | -1.217 | -2.832 | -2.850 | -4.446 | -5.255 | -6.063 |
| Acquisitions | 0.219 | 0.000 | -13.353 | -2.278 | -0.558 | -0.425 | -3.017 | -1.000 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investments | 0.000 | 1.000 | -3.246 | -10.076 | -12.260 | -6.600 | -8.000 | -9.000 |
| Cashflow after investments | -1.927 | -29.721 | 11.094 | -19.416 | -14.116 | 2.145 | 4.000 | 7.000 |
| Share repurchases | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share issues | 4.793 | 1.025 | 0.243 | 0.334 | 1.275 | -0.500 | 0.000 | 0.000 |
| Currency effect | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Borrowings acquired | -0.015 | -8.604 | -5.388 | -0.571 | -0.604 | 0 | 0 | 0 |
| Change in net debt | 2.851 | -37.300 | 5.949 | -19.653 | -13.445 | 1.645 | 4.000 | 7.000 |
| | | | | | | | | |
| Opening net cash | -6.411 | -3.560 | -40.860 | -34.911 | -54.564 | -68.009 | -66.364 | -62.364 |
| Closing net cash | -3.560 | -40.860 | -34.911 | -54.564 | -68.009 | -66.364 | -63.464 | -55.364 |
| Hardman cashflow/share (p) | -1.09 | -14.93 | 14.29 | -2.09 | 0.77 | 6.74 | 10.03 | 11.41 |

*Source: Hardman & Co Research*

# Notes

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