

Chief Executive Officer Update



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Tim Roberts
Chief Executive Officer

WELL PLACED FOR THE FUTURE

Just over a year into my new role and I find myself very proud of the way our people have responded to the pandemic, along with many other institutions, businesses and communities across the country.

It gives me added confidence that we are not only well placed in the three key markets we serve, together with our strong financial position, but that we also have a team that shows it can cope with significant change and uncertainty.

The safety and welfare of our people, customers, supply chain, and the communities in which we operate have been the key priorities in Henry Boot’s response to the CV-19 outbreak and I’m relieved to say that the safety procedures we have installed have allowed us to continue operating safely. We have monitored infection rates closely using lateral flow testing, including in our largest construction site at Barnsley, and there is no data to suggest that the people who have been working on site and in our depots have been at greater risk. Whilst I want to thank everyone at Henry Boot, I would like to give

special thanks to those who have worked on site or in our depots so effectively, away from the relative safety of home working.

The Group utilised the Government’s CJRS due to the initial reduction in construction, housebuilding and plant hire activity but only ever had a minority of people on furlough, with the business topping their pay up to 100%. We stopped using the CJRS by August 2020 and paid back all furlough grants claimed under the scheme in February 2021, as we are confident activity levels have now stabilised.

The Group also made various adjustments in response to further support the business during the pandemic. This included: reducing the Board’s executive and non-executive pay by 20% for six months; paying a reduced final dividend to shareholders for 2019; and only paying 50% of bonuses to employees and directors for the full year of 2019 in 2020. We also made the difficult decision to restructure our construction division, which included making some redundancies.

In terms of operations, HLM performed well after the housing market recovered and was unexpectedly buoyant in H2. We sold 2,000 plots (2019: 3,427) on nine sites, achieving a profit per plot of £6,456, and exchanged on 1,744 plots that will provide profit for the Group in 2021. We invested £10.0m in our land bank growing it to 16,607 acres (2019: 14,898 acres) and ended the year with over 15,000 plots where we have planning secured.

Henry Boot Developments adjusted to the uncertain environment by slowing down development but still successfully completed on a total GDV of £58m (our share £55m), with 100% of these schemes either sold or let (£41m) or retained (£17m) in our investment portfolio. Towards the end of 2020, we started to increase our developments, particularly in response to growing industrial demand with commitments on 206,100 sq ft of industrial and logistic space. In H2 2021 we will complete on our 533-unit BTR Kampus scheme in Manchester, which has been forward-funded with us retaining a 5% equity stake. We also purchased two opportunities at a combined price of £12.6m during the year, Mabgate in Leeds, and St John’s College in Manchester with existing buildings of 60,000 sq ft and 27,000 sq ft respectively. We also entered into a development agreement on Phoenix 10 in Walsall, which adds a further 620,000 sq ft to our industrial and logistic offering. Committed development currently stands at £312m (Henry Boot Developments share £85m) and our development pipeline has been maintained at £1.4bn (Henry Boot Developments share £1.1bn), 78% of which is in industrial & logistics.

Our jointly owned housebuilder, Stonebridge Homes, achieved 115-unit sales (2019: 159 sales), which was ahead of our target and, with a buoyant housing market, maintained a strong sales rate of 0.61

88,070
 Strategic land plots
 (2019: 77,144)

Henry Boot
 Developments
 Pipeline GDV
£1.1bn
 (2019: £1.1bn)

Stonebridge Homes
 Total Land Bank
1,119 plots
 (2019: 1,023)

2021 Construction
 Orderbook
£80m
 (2020: £86m)

units per site per week during the year. 2021 has started well with sales already agreed on 69 units to date, well ahead of the business plan. However, growth in Stonebridge has been hampered by a slow process for getting planning on our land bank, partly caused by CV-19. We are addressing this by taking a more portfolio approach in planning terms to our 1,119 plot landbank (2019: 1,023 plots), helped by securing a site just before Christmas in Wakefield with planning for 149 plots. We are determined to grow this business so that it benefits from more operational scale and becomes a multi-regional premium housebuilder.

Henry Boot Construction Limited delivered revenue of £86.2m (2019: £89.7m), which was significantly ahead of our expectation despite earlier disruptions from CV-19. During the year, we successfully secured a £40m contract to deliver a BTR scheme, and post year-end we started work on a £42.5m mixed use scheme both in the ‘Heart of Sheffield’. As a result, we now have a full construction order book for 2021, and with our public sector bias, expect to play our part in the Government’s plans to Build Back Better.

Our balance sheet has remained rock solid, with no stranded assets needing to be written down. With £38.5m of cash in the bank (as at 28 February 2021), as well as committed and undrawn facilities of £75m, we are in a very strong position to fund our growth plans. However, like all businesses, we need to be clear about our strategic objectives, and there are also areas where we can develop our approach and skills. In this respect, I set out a summary of our evolving strategy together with a new approach to ESG in the next two sections, followed by the normal business review. I am confident that with a greater strategic focus on our three key markets, the growth prospects driven by existing opportunities within our portfolio, our strong financial resources, plus our highly engaged people, the outlook is very encouraging.

Pictured: MV55 is a 55,000 sq ft warehouse located at Markham Vale, a 200-acre industrial and logistics development located at Junction 29A of the M1 in Derbyshire.



Chief Executive Officer Update

Responsible Business

As a 135-year-old business, we understand sustainability and long-term value creation. This year, we will formalise and coordinate our approach to ESG as we launch our new ESG Strategy. This will guide our business to deliver an ambitious and strategic approach to ESG and align all our current and prospective responsible business activities with a clear focus. Henry Boot would not be here today without sustainability being at our core. The new ESG Strategy will see us formalise ESG factors in our discussions of business risks and opportunities and will allow us to measure our progress against clear ESG objectives. We understand that now is a time for action and for driving and communicating clear progress on these important factors.

The implementation of our ESG Strategy will take a two-phase approach and will clearly align our responsible business ambitions with key societal issues, with particular focus in the first phase on how we will achieve Net Zero Carbon (NZC) and develop increasing equality, diversity and inclusion in our business and the sector we represent.

135 Henry Boot is phase one of our ESG Strategy. This strategic framework will guide us as we launch three long-term initiatives:

1. Our Pathway to NZC and enhancing our environmental stewardship
2. Our new Equality, Diversity, and Inclusion Strategy
3. Our Community Partnership Plan to provide funds, time, resources, and expertise to support our community partners

135 Henry Boot will see our business build on our strong foundations of responsibility and create engagement with all of our stakeholders as we address and respond to crucial issues faced by our communities and environments.

Phase two of our ESG Strategy will launch in January 2022 and will be influenced by further consultation and engagement with our people and partners. This will ensure we focus on the most material issues and will have regard to the United Nations Sustainable Development Goals that we believe we can impact most positively. It will incorporate all of our existing responsible business initiatives and guide us to achieve long-term ambitious targets and create long-lasting and meaningful social value and impact. We will also be ensuring alignment with the requirements of the Taskforce on Climate-Related Financial Disclosures in preparation for the enhanced reporting requirements, that will apply fully to our activities for the 2021 Annual Report and Accounts onwards.

To provide oversight and support to the Group's ESG ambitions and commitment, we have established a new Board Committee. The Responsible Business Committee will support the business to embed ESG factors into our Commercial Strategy. The Committee will be chaired by Non-executive Director Peter Mawson. Our timeline for key initiatives is:



Whilst formulating our long-term ESG Strategy, I am pleased to report that we have maintained our focus on supporting our people and communities in the unprecedented circumstances of CV-19. Amid the challenging working environment of a pandemic, we have:

- supported and maintained regular communications with our people; our Employee Net Promoter Score (eNPS) has increased to an outstanding score of 46;
- continued to provide support to, and work closely with the communities in which we operate;
- collaborated with regulatory bodies including the Construction Leadership Council, National Federation of Builders, Confederation of British Industry and UK Government Ministers, to ensure our services continue to adhere to best practice and guidance;
- directly supported the NHS Nightingale Hospital programme, as a unit at our joint venture development scheme in Sunderland, the International Advanced Manufacturing Park, was selected for conversion into a temporary hospital, and
- our charitable giving programme donated a total of nearly £68,000 to 28 organisations who needed support during the pandemic.

We recognise this approach is a unique way to deliver our ESG ambitions. However, we believe it will enable us to successfully embed ESG factors within our business decision-making and activities and to engage with our people and partners, in order to create a meaningful strategic approach to responsible business and the social value created through our operations. It is the Henry Boot Way!

Looking Forward

As I write, there are reasons to be cautiously optimistic; the successful ongoing national roll out of the vaccine, infection rates falling and the Government's road map setting out some form of social and economic recovery. Importantly over the last year, we have shown that our business has adjusted and, whilst not immune, still offers a resilient, viable and relevant business model.

As for the immediate outlook I am encouraged. We start the year with strong forward sales and very healthy order books. Land plots pre-sold last year, and sold at the start of this year, total 2,039, our committed developments of £312m (HB share £85m) are already 88% presold or let (HB share 69%), sales have now been agreed on 57% of our housebuilding target for 2021, plus the year's orderbook for construction is fully secured. Just as importantly, with cash on the balance sheet, together with a portfolio rich with opportunity, we are ready to respond to signs of increasing demand in our key markets.

Moreover, our strategy focuses on growth in three long-term markets – industrial & logistics, residential and urban development – that are driven by long-term trends, which in a post pandemic world, we are confident will endure. We also have a good record of serving public sector clients in key regional construction areas, at a time when the Government is looking to invest money in the regions.

We remain committed to working with our clients and various stakeholders in building on the good start to the year and in realising our long-term strategy.

Tim Roberts
Chief Executive Officer