

Our New Strategy Going Forward

OUR STRATEGY IS DRIVEN BY LONG-TERM STRUCTURAL TRENDS

Our strategy is focused around three key markets: industrial & logistics, residential and urban development. These markets are driven by positive long-term structural trends which we expect to give momentum to our future operational and financial performance.

In this regard, the population of the UK continues to grow with the number of households rising, accentuated by the average size of households dropping. Supply of housing generally fails to meet the Government target of 300,000 new homes a year. At the same time, and whilst CV-19 might temper the trend short term, people are moving to large urban centres not just for work but also the lifestyle on offer. 90% of the UK population is predicted to be living in urban areas exceeding 300,000 population by 2050. This will create demand for good quality schemes for people to work and live in. BTR will be an important element of supply. Pre-CV-19 there has been a growth in demand for industrial & logistics, but with online sales up by c.40% over the last 12 months or so, take up, especially in big boxes, has been at record highs. This is likely to be accelerated by more onshoring.

With focus on our three key markets, and within the framework of our existing four strategic pillars of Growth, Delivery, People and Safety, we have reworked our strategic priorities. Our values, which were developed as part of The 'Henry Boot Way', endure, and shape our culture.

We have extremely skilled, experienced, and highly engaged teams focused on our three key markets. The vast majority of our £365m of capital is already employed in these markets and our aim is to gain greater scale by growing our capital employed to over £500m through achieving the following key medium-term objectives:

- **Land Promotion** – Grow our market-leading land promotion business to sales of 3,500 plots per annum (currently 2,039 plots) with increasing emphasis on the Midlands and the South. Through a blend of freehold purchases, planning promotion agreements and options to purchase, we will leverage the significant expertise within HLM to unlock value through the planning process.
- **Development** – Grow our development activities to £200m per annum with a broad split of two-thirds industrial and one-third urban residential (including BTR). We continue to manage market risk through pre-funding/sales/lettings and JVs. In the short term, we will be selective in committing to urban development, as markets adjust to a post CV-19 world. We remain positive that over the longer term, population growth will continue, and cities will outperform in terms of GVA output.
- **Investment** – Double the size of our property investment portfolio to around £150m (currently c.£80m), again with a focus on our key markets. This will be achieved through a mix of buying income-

producing buildings, with redevelopment or refurbishment potential and retaining certain of our own high-quality developments. The aim will be to create a recurring, resilient income stream with the added potential for capital growth which will show a total return of 6.0% p.a.

- **Housebuilding** – Grow our premium housebuilding operations to an output of 600 units per annum, extending our regional presence from Yorkshire into the North East and the Midlands. To support this growth, we will build up a three to four-year landbank of sites, primarily via options to purchase, but also through selective freehold acquisitions.
- **Construction** – Grow a profitable, cash generative business focused primarily on public sector projects in our existing regional markets. We believe we can play a valued role in the Government's Levelling Up agenda and its Build Back Better plan for growth. Our emphasis will remain on repeat work generating above industry margins. We aim to start each financial year with a minimum of 65% of our order book secured.

There are significant opportunities to grow in each of our three key markets and we have embedded value within our conservatively valued balance sheet. With over 16,000 acres of strategic land, a development pipeline of £1.4bn (Henry Boot Developments share £1.1bn), and £18m of developments we have identified for our investment portfolio, plus 1,119 plots in Stonebridge's landbank, we have all the building blocks to deliver our ambitious plans for growth.

We have a long track record of managing our gearing levels well. With a strong balance sheet, net cash of £38.5m (as at 28 February 2021), committed debt facilities of £75m and material retained earnings we are in a strong position to fund our growth strategy and, if required, will look to take a conservative approach to gearing, in a range of 10% to 20% of net assets.

We are confident our strategy can generate attractive market returns (average ROCE between 10–15% p.a.), without high levels of financial gearing, and will lead to growth in our profits to beyond pre pandemic levels, enabling us to continue with a progressive dividend policy.

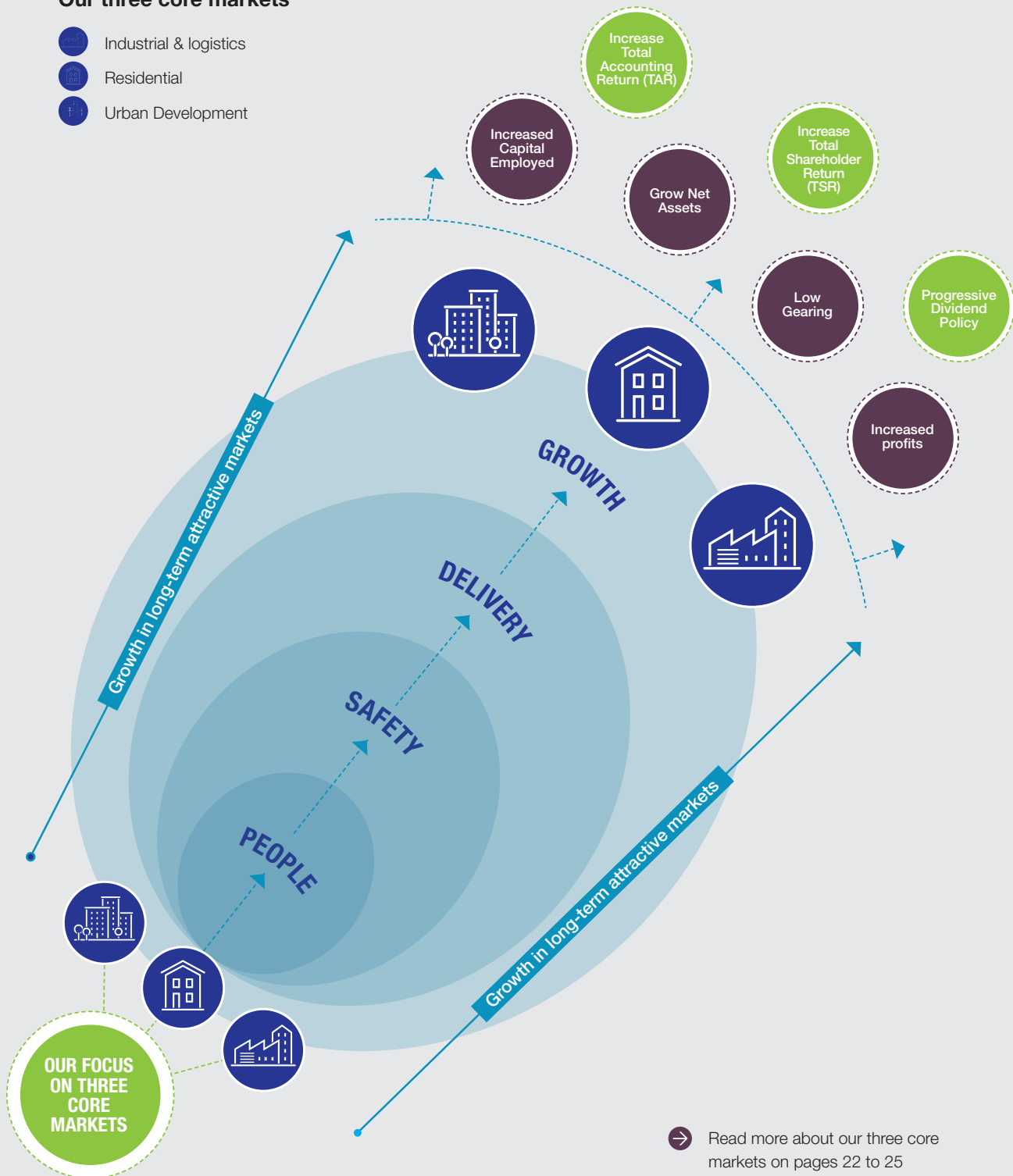
Each of our divisions has a clear focus and is driven by specific financial and strategic targets. We have also established an Executive Committee (Ex Co) to facilitate greater collaboration and the development of existing cross-functional expertise serving our key markets. In addition, we have identified and intend to take advantage of opportunities to create further synergies and efficiencies in how we operate as a Group.

As a modern, open, and progressive business, our aim is to attract, retain and develop a diverse range of talent. Our people strategy is at the heart of our business and together with the formation of Executive Committee (Ex Co) as a high-performing senior leadership team, it will allow us to continue to build on our positive culture and our strong operational record.

Henry Boot celebrates its 135th anniversary this year and we are proud of our heritage. We have grown over the years with a clear culture of looking after our people and stakeholders, and in return, levels of team engagement within the business are very high. We understand the need for further commitment to deal with issues at the heart of ESG. We have also launched 135 Henry Boot, phase one of our ESG approach, which will be an integral part of the Group's strategy going forward.

Our three core markets

-  Industrial & logistics
-  Residential
-  Urban Development



➔ Read more about our three core markets on pages 22 to 25