

# Springfield Properties plc

Interim Results for the six months ended 30 November 2022



Springfield Properties – Bertha Park, Perth – Sustainable Development of the Year (WhatHouse? Awards 2022)

## Presentation team

**Innes Smith, Chief Executive Officer**

- Joined Springfield as FD in 2005 and became CEO in 2012
- KPMG qualified Chartered Accountant (1991-1996)
- Previously FD at subsidiary of NASDAQ and Deutsche Bourse listed RK Carbon Fibres and another family owned, entrepreneurial company
- Executive board member of Homes for Scotland since 2016

**Michelle Motion, Chief Financial Officer**

- Joined Springfield as Finance Director in 2013
- Over 30 years' experience in property and construction industry with Morrison Developments Ltd and Avant Group (then known as Gladedale Group)
- MBA and qualified CIMA accountant

**Martin Egan, Chief Operating Officer**

- Over 30 years' experience in delivery of private residential and mixed tenure urban regeneration schemes
- Former Managing Director of Dawn Homes prior to its acquisition by Springfield
- B.Sc (Distinction) Quantity Surveying and M.Sc (Distinction) Construction Innovation

## Overview

- Achieved strong revenue growth – driven by private housing – against a challenging market backdrop
  - Private housing growth achieved on an organic basis and contribution from acquisitions of Tulloch Homes and, in period, Mactaggart & Mickel Homes
- Multiple headwinds experienced:
  - Market turmoil following UK government’s mini-budget
  - Build cost inflation – particularly in affordable housing
  - PRS plans withdrawn following Scottish Government intervention in rent control
  - Land buying stalled across the industry rendering terms and prices for land sales unfavourable
- Decisive action taken to address challenging market conditions – including completing one land sale
- Signs of recovery now being experienced – improving outlook
- Well-positioned – with platform to be strengthened by net debt reduction – for when market conditions improve

**REVENUE**  
**£161.9m**  
 (H1 2022: £87.3m)

**Adj. PBT**  
**£6.6m**  
 (H1 2022: £6.4m)



# Financial Review



Walker Group – Monarch's Way, West Calder

## Results summary

£(m)	H1 2023	H1 2022
Revenue	161.9	87.3
Gross profit	22.7	16.1
Gross margin	14.0%	18.5%
Administrative expenses*	(14.7)	(9.4)
Operating profit*	8.2	6.8
Operating margin*	5.1%	7.8%
Profit before tax*	6.6	6.4
Exceptional items	0.6	0.2
Profit before tax inc. exceptional items	5.9	6.2
Taxation	0.9	1.2
Profit after tax inc. exceptional items	5.0	5.0

\* Adjusted to exclude exceptional items

- Record six-month revenue driven by acquisitions and organic growth in private housing
- Margin impacted by build cost inflation primarily in affordable housing
  - Build cost inflation in private housing largely offset by house price inflation
- Administrative expenses, excluding exceptional items, reduced as a proportion of revenue to 9.1% (H1 2022: 10.8%)
- Bank interest paid of £1.5m (H1 2022: £0.5m) due to increased interest rates and net debt increase
- Exceptional items relate to Mactaggart & Mickel Homes acquisition
- Decisive action taken to reduce fixed cost base expected to generate annualised cost savings of c. £3.0m

## Results by housing type

- Private housing:
  - Revenue growth driven by organic sales and acquisitions
  - ASP increase reflects regional and housing-type mix, including acquisitions, as well as house price inflation
  - Cost price inflation softened by house sales price inflation
- Affordable housing impacted by cost pressures:
  - Gross margin significantly impacted by inflation due to industry-wide model of fixed-price contracts
  - Revenue reduction reflects strategic decision to pause entering new affordable housing contracts
- Contract housing revenue increased primarily due to PRS housing delivery, with final handovers completed post period:
  - Plans for PRS expansion on hold following Scottish Government's intervention in rent control

	H1 2023	H1 2022
<b>Private Housing</b>		
Completions	429	197
ASP	£277k	£240k
Revenue	£118.6m	£47.3m
<b>Affordable Housing</b>		
Completions	175	204
ASP	£159k	£155k
Revenue	£27.9m	£31.7m
<b>Contract Housing</b>		
Completions	69	58
Revenue	£10.6m	£7.5m

## Summary balance sheet

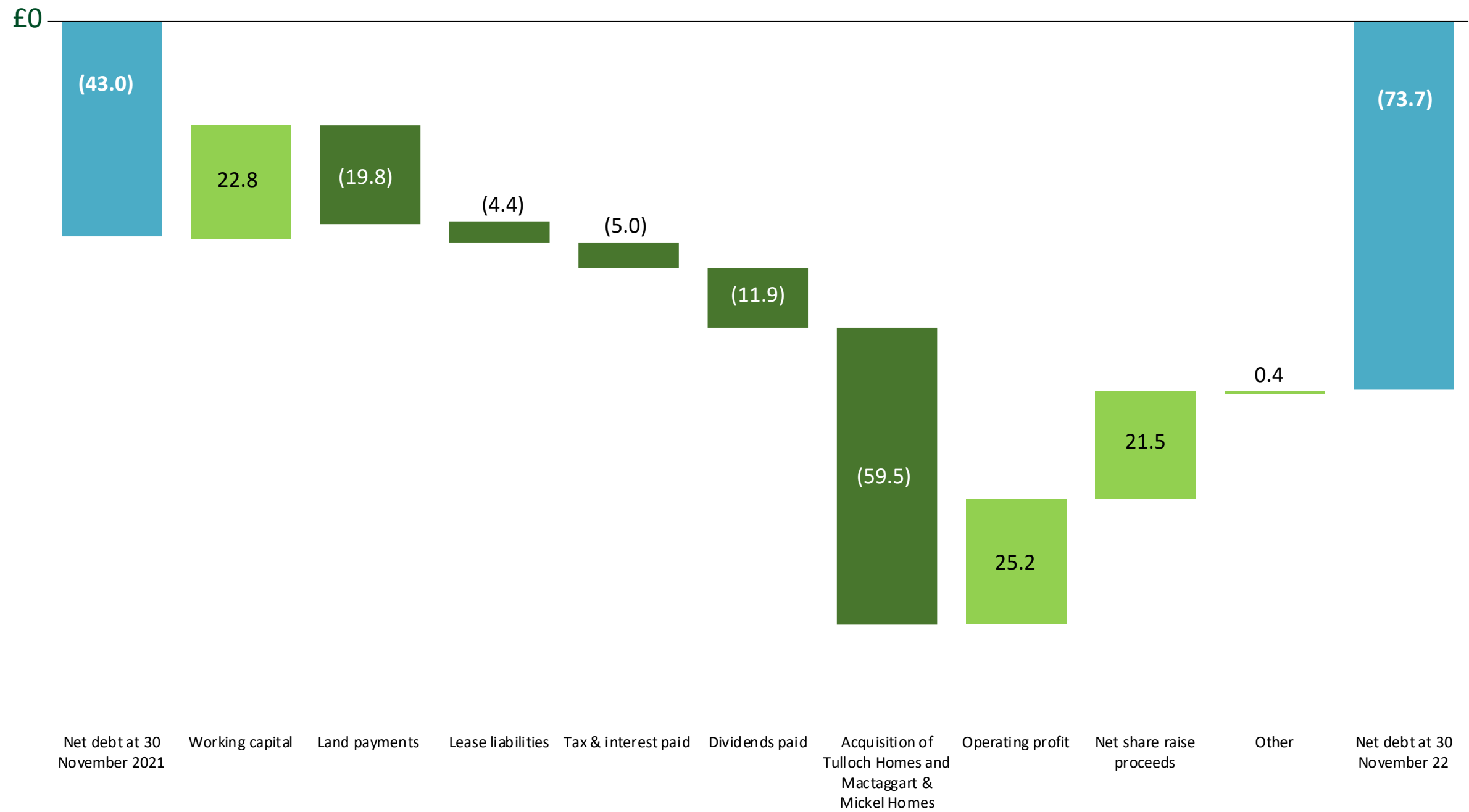
£(m)	H1 2023	H1 2022	Change
<b>Total assets</b>	349.8	292.1	+19.8%
<b>Other liabilities*</b>	(132.6)	(136.6)	-2.9%
<b>Net debt</b>	(73.7)	(43.0)	+71.4%
<b>Net assets</b>	143.5	112.5	+27.6%

\* Total liabilities excluding net debt

- Total assets increase primarily due to WIP from the Tulloch Homes and Mactaggart & Mickel Homes acquisitions
- Net assets increase due to share capital increase as part of fundraising for Tulloch Homes acquisition in December 2021 and due to the profits generated over the 12 months
- Net debt increase primarily reflects the funding of the Tulloch Homes and Mactaggart & Mickel Homes acquisitions
- RCF facility of £87.5m in place until January 2025
- Post period, overdraft facility of £2.5m increased to £12.5m for the period to May 2023 – provides extra security through the current challenging period

# Net debt analysis

(£m)





# Operational & Strategic Review



Springfield Properties – Dykes of Gray, Dundee

## Decisive action to address market challenges

### ***Strategic actions***

- Paused entering new long-term affordable-only housing contracts
- Significantly reduced land buying activity
- Seeking opportunities for strategic land sales – with £3.7m sale completed during the period

### ***Operational and financial actions***

- Actions taken to reduce fixed cost base expected to generate annualised savings of c. £3.0m
  - Paused recruitment and reducing staffing levels in areas most impacted
  - Maintaining tight cost control, including identifying synergies across the business
  - Restructured Mactaggart & Mickel Homes
- Taking a cautious approach to opening new developments, including undertaking ‘soft launches’
- Entering shorter contracts with suppliers and subcontractors to be able to negotiate better value as commodity prices reduce

## Affordable housing

- Affordable housing accounted for 17% of Group revenue
- Significant impact continued from build cost inflation due to the industry's model of fixed-price contracts
  - In particular, impacted by two large contracts signed in 2020 – combined with three key subcontractors going out of business
- Scottish Government still to review affordable housing investment benchmark
- Action taken to protect Group margins by pausing entering new large affordable-only fixed-price contracts
- Fundamentals of affordable housing remain strong:
  - Provides strong cash flow dynamics with high visibility and low capital exposure
  - Chronic undersupply of affordable housing – Scottish Government target of delivering 110,000 energy efficient affordable homes by 2032
  - Strong partnership network – Springfield is well-positioned for when normal activity resumes



Springfield Partnerships – Bertha Park, Perth

## Private housing

- Significant increase in completions and revenue reflects growth across most brands and regions as well as contributions from Tulloch Homes and Mactaggart & Mickel Homes – now one of top 3 housebuilders in Scotland
- Demand sustained for much of H1 against a challenging backdrop; reservations materially impacted towards the end of the period – but strengthening since January
- Current year revenue largely protected by Scottish missive system
  - Homes delivered, missed or reserved currently represent 94% of FY 2023 forecast private housing revenue
- Sustained focus on customer service with initiatives, including launch of new corporate and brand websites
- Received customer satisfaction rating of 94%



## Private housing market

- Homebuyer confidence impacted towards the end of the period by increase in interest and mortgage rates combined with cost-of-living pressures
- However, there are now signs of improvement:
  - Price of commodities and general inflation reducing
  - Turbulence following UK Government's mini-budget now dissipating
  - Mortgage rates continue to reduce
  - Increase in customers visiting sales offices and in reservations during January and February
- Springfield customers less impacted by higher interest rates as majority are second-, third- or fourth-time buyers – less than 15% are first-time buyers
- Selling prices remaining stable across Springfield Group developments reflecting strength of product offering – house price growth not expected in short term:
  - Energy efficient, high quality homes with a generous specification as standard



Mactaggart & Mickel Homes – Sandringham Gate, Newton Mearns

## Housing delivery in Scotland

- Market fundamentals remain strong:
  - Greater affordability of private housing in Scotland compared with the wider UK
  - Undersupply of housing across all tenures in Scotland, exacerbated by a period of low sales, reduction in affordable housing delivery and no new supply of PRS
  - Scottish Government target to deliver 110,000 energy efficient affordable homes by 2032 remains in place
- Market in Scotland has been operating without Help to Buy (Scotland) since February 2021
- Springfield's large land bank, over half of which has planning, provides an excellent platform from which to take advantage when markets normalise:
  - Opening new sites for private and affordable
  - Land sales to other housebuilders
- Scottish legal system:
  - Sales secured through missive c. 6 months ahead of completion
  - All homes are sold freehold

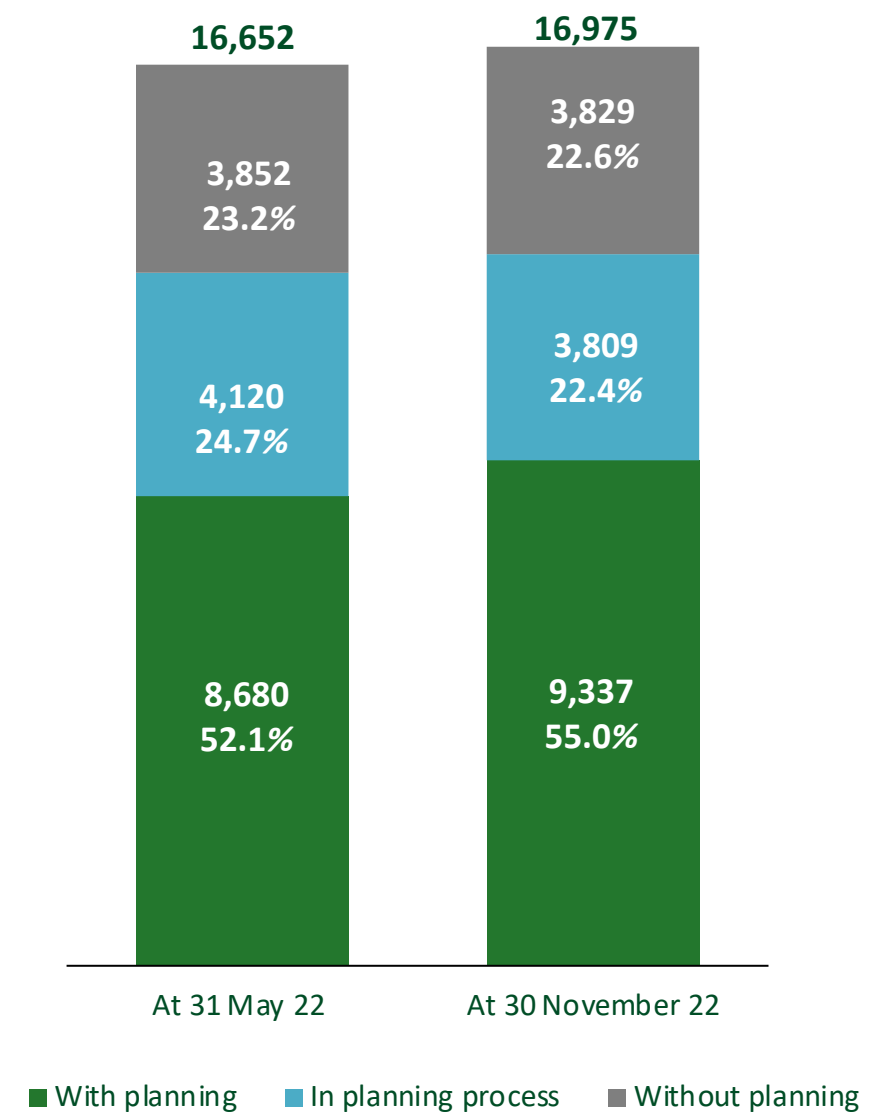
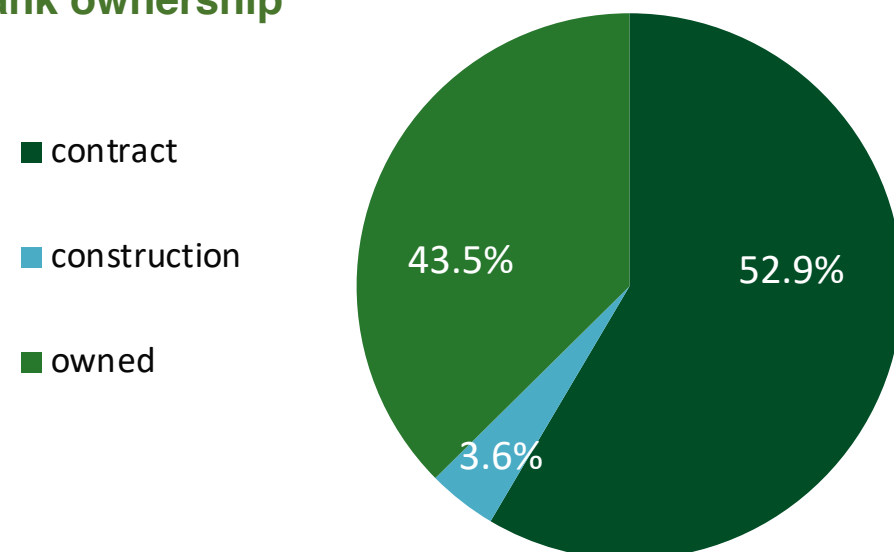


Tulloch Homes – The Maples, Inverness

## Land bank highlights

- GDV of £3.7bn at 30 November 2022 (31 May 2022: £3.5bn)
- 14 years of activity at current sales rates
- Strengthened land bank with acquisition of Mactaggart & Mickel Homes
- Added 15 sites (of which 9 were Mactaggart & Mickel Homes) and completed 10 sites – active on 56 sites at period end
- Planning gained on 753 plots on 6 developments
- Received additional 533 plots with planning from Mactaggart & Mickel Homes acquisition
- Land buying activity reduced – focus on realising value of existing substantial land bank
- Seeking strategic opportunities for land sales – with one completed during the period for £3.7m

### Land bank ownership



## Management of supply chain

- Supply chain stabilising due to:
  - Disruption from war in the Ukraine starting to dissipate
  - Normalisation of demand across construction industry
- Springfield Group well positioned:
  - Buying power increased through further acquisitions
  - Local relationships with established suppliers maintained
  - Addition of second timber frame factory secures in-house kit supply – and new commercial opportunities arising
- Taking actions to support supply chain management such as signing shorter contracts to be able to negotiate better value as commodity prices reduce



Constructing a timber kit



Timber frame factory near Glasgow

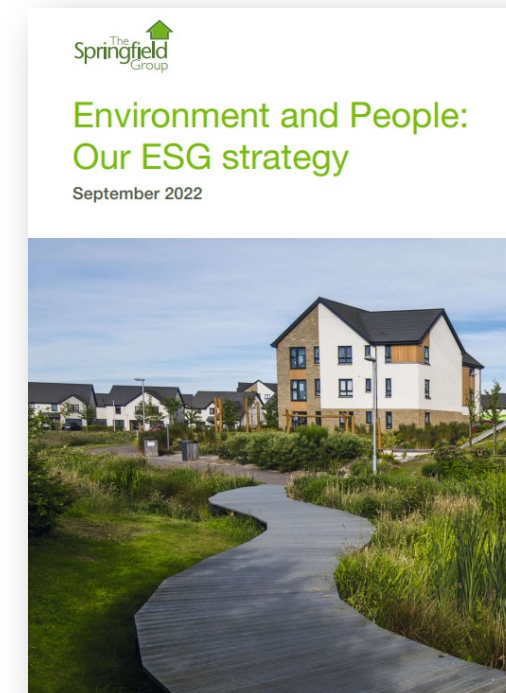


Timber frame factory in Elgin



## ESG – Environment &amp; People

- Springfield's Bertha Park Village recognised as Best Sustainable Development across the UK at the WhatHouse? Awards 2022
- Strong, inherent culture of looking after the environment and people:
  - Delivering energy efficient homes within sustainable communities
  - Engagement with local communities, looking after customers and employees
- Publication of Springfield's first ESG strategy in September 2022 – with good progress made against a number of objectives:
  - Creation of ESG Board Committee led by Chief Executive
  - Published first Equality Diversity & Inclusion Policy
  - Achieved ISO14001 for Environmental Management System



## Outlook

- On track to deliver good revenue growth for FY 2023 – supported by missive system
- Improving macro situation with increasing sales office footfall and falling commodity prices
- Private reservations increasing through Q1 of calendar year
- Our large land bank, over half of which has planning permission already granted, provides forward visibility – and short-term opportunities for strategic sales
- Market fundamentals remain supportive:
  - Undersupply of housing of all tenures across Scotland – with Scottish Government committed to investing in the delivery of more affordable homes
  - Sustained demand for high quality, energy efficient and attractive communities delivered across the Group
  - Greater affordability of housing in Scotland compared with the wider UK
- While the current period is not without its challenges, the Board remains highly confident in the Group's prospects

