

Springfield Properties plc

Full Year Results for the year ended 31 May 2023



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

Presentation team

**Sandy Adam, Chairman**

- Over thirty years' experience of property development and investment
- Started housebuilding in the late eighties
- Final decision maker on land transactions
- Former Chairman of Homes for Scotland, the association of Scottish housebuilders

**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

**Iain Logan, Chief Financial Officer**

- Appointed CFO in July 2023, having been interim CFO since March
- Joined Springfield as FD and Group Financial Controller in 2020
- Over 20 years post-qualification experience, including 13 with responsibility for financial reporting for PLCs
- PwC qualified Chartered Accountant

Well-positioned for the medium term

- Achieved record level of completions and revenue – driven by private housing – against a challenging market backdrop
- Decisive action taken to address challenging market conditions – including implementing cost savings of £4.0m annualised
- Significantly lower levels of private housing reservations due to reduced homebuyer confidence
- Affordable housing activity paused during the year – activity resumed post year end
- Plans for PRS expansion on hold following Scottish Government’s introduction of rent control
- Strategic focus on maximising cash generation to reduce debt
- Large, high-quality owned land bank – 83% with planning permission – and strategic options over a further 3,255 acres equating to c. 33,000 plots
- Progress made against first-year objectives in ESG Strategy

REVENUE
£332.1m
 (2022: £257.1m)

Adj. PBT
£16.0m
 (2022: £20.8m)

COMPLETIONS
1,301
 (2022: 1,242)



Managing short-term issues

Decisive action taking during the year

- Actions taken to reduce fixed cost base to generate annualised savings of £4.0m
- Adopted a cautious approach to opening new private developments
- Paused entering new long-term affordable-only housing contracts
- Ceased land buying activity and completed £3.7m land sale

Further action being taken post year end

- Strategic focus on cash generation to reduce debt
- Carefully managing working capital with all speculative private housebuilding paused
- Recommenced signing shorter-term affordable-only housing contracts
- Actively pursuing land sales – targeting sales of 800-1,000 plots within two years
- Further action will be taken to reduce cost base if necessary
- Dividend payments paused until bank debt materially reduced
- Agreed new 12-month £18.0m bank facility

Financial Review



Walker Group – Monarch's Way, West Calder

Results summary

£(m)	FY 2023	FY 2022
Revenue	332.1	257.1
Gross profit	48.0	43.1
Gross margin	14.5%	16.8%
Administrative expenses*	(28.0)	(20.9)
Operating profit*	20.7	22.6
Operating margin*	6.2%	8.8%
Profit before tax*	16.0	20.8
Exceptional items	(0.7)	(1.1)
Profit before tax inc. exceptional items	15.3	19.7
Taxation	(3.2)	(3.7)
Profit after tax inc. exceptional items	12.1	16.1

* Adjusted to exclude exceptional items

- Record revenue driven by acquisitions and organic growth in private housing
- Margin impacted primarily by build cost inflation, particularly in affordable housing
- Administrative expenses, excl. exceptional items, maintained as a proportion of revenue at 8.4% (2022: 8.1%)
- Bank interest paid of £4.3m (2022: £1.6m) due to increased interest rates and net debt increase
- Decisive action taken to reduce fixed cost base generated annualised cost savings of £4.0m

Results by housing type

- Private housing:
 - Revenue growth driven by acquisitions and organic sales
 - ASP increase reflects the contribution from Mactaggart & Mickel Homes, as well as general 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 delivery of contract for PRS housing

	FY 2023	FY 2022
Private Housing		
Completions	866	712
ASP	£293k	£245k
Revenue	£253.4m	£174.5m
Affordable Housing		
Completions	328	405
ASP	£164k	£159k
Revenue	£53.9m	£64.3m
Contract Housing		
Completions	107	125
Revenue	£19.7m	£16.5m

Summary balance sheet

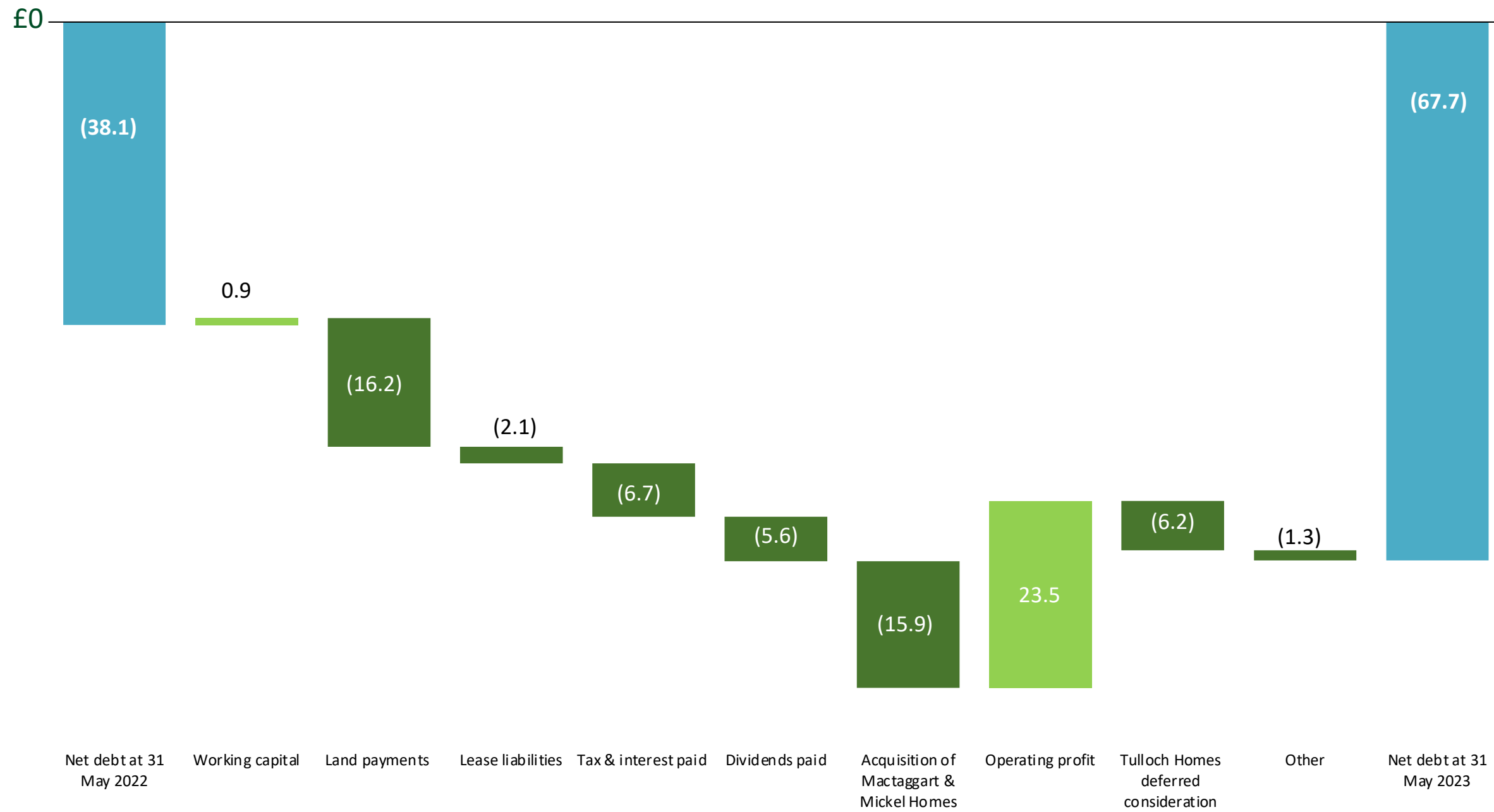
£(m)	FY 2023	FY 2022	Change
Total assets	329.7	287.7	+14.6%
Other liabilities*	(111.4)	(106.1)	-5.0%
Net debt	(67.7)	(38.1)	+77.7%
Net assets	150.6	143.5	+4.9%

* Total liabilities excluding net debt

- Total assets increase primarily due to WIP from Mactaggart & Mickel Homes acquisition
- Net debt increase primarily reflects the funding of the acquisitions
- RCF facility of £87.5m in place until January 2025
- Overdraft facility increased to £12.5m during the year and expiry extended to 30 September 2024 – attracts an interest rate of 3.0% p.a. above Bank of England base rate
- Additional 12-month term loan of £18.0m agreed post year end to provide extra headroom – attracts an interest rate of 2.75% p.a. above Bank of England SONIA

Net debt analysis

(£m)



Large, high-quality land bank

Owned land bank per balance sheet

- 6,712 plots owned - 83% with planning*
- Generating 5 years of activity with a GDV of £1.9bn
- Land mainly secured off market resulting in an attractive cost per plot of c. £16k
- Strategy to sell further land to housebuilders, housing associations and PRS providers where the terms are beneficial

Inventories total per balance sheet	£278m
Land	c. £110m
WIP	c. £168m

* Includes detailed and outline planning

Strategic Land

- Options over 3,255 acres
 - Equating to c. 33,000 plots
 - c. 14% with planning

- Added 15 active sites (of which 7 were Mactaggart & Mickel from June 22) and completed 16 sites – active on 50 sites at year end
- Land buying activity stopped in Sept 22 following the UK Government mini-budget to allow us to focus on realising value of existing substantial land bank
- Decision taken to no longer pursue Gavieside (2,500 plots), a site with a difficult planning environment, resulting in a £750k WIP write off
- Land bank sale completed during the year for £3.7m – intend to sell further £50m of land within next two years

Operational & Strategic Review



Springfield Properties – Dykes of Gray, Dundee

Affordable housing

- Build cost inflation substantially reduced gross margin due to industry's model of fixed-price contracts:
 - In particular, impacted by two large contracts that had been signed in 2020
 - Scottish Government maintained affordable housing investment benchmarks during the year
- Action taken to protect Group margins by pausing entering new large affordable-only fixed-price contracts
- Post year end, affordable housing investment benchmarks were increased by 16.9% – and cost inflation reducing
- Recommended engaging with partners:
 - £9.7m contract signed 31 May 2023 and £8.1m contract signed post year end
 - 13 contracts, representing 460 homes, currently under negotiation
- 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 and large land bank



Springfield Partnerships – Bertha Park, Perth

Private housing

- Significant increase in completions and revenue, primarily reflecting contributions from Tulloch Homes and Mactaggart & Mickel Homes, but also organic growth
- Reservation rates impacted by reduction in affordability and homebuyer confidence – which has continued post year end; adopted strategic focus on maximising cash generation by only building once a home is reserved
- Selling prices remaining stable across Springfield Group developments – reflecting strength of product and of the Scottish market
- Sustained focus on customer service:
 - Continue to offer high level of specification as standard
 - Adopted New Homes Quality Board Code of Practice
- Received customer satisfaction rating of 94% (2022: 93%)
- Undertook a rationalisation of house types across the Group:
 - Standardisation of construction and component parts to maximise efficiencies and lower cost

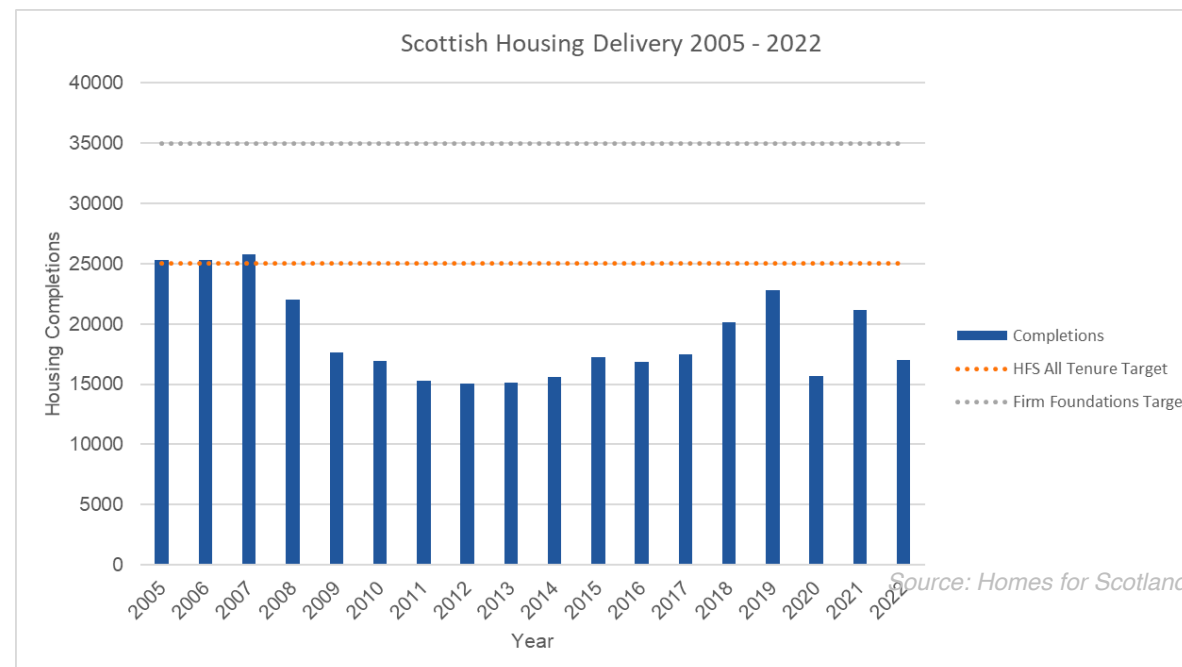


Walker Group homes at One Dalhousie, Bonnyrigg

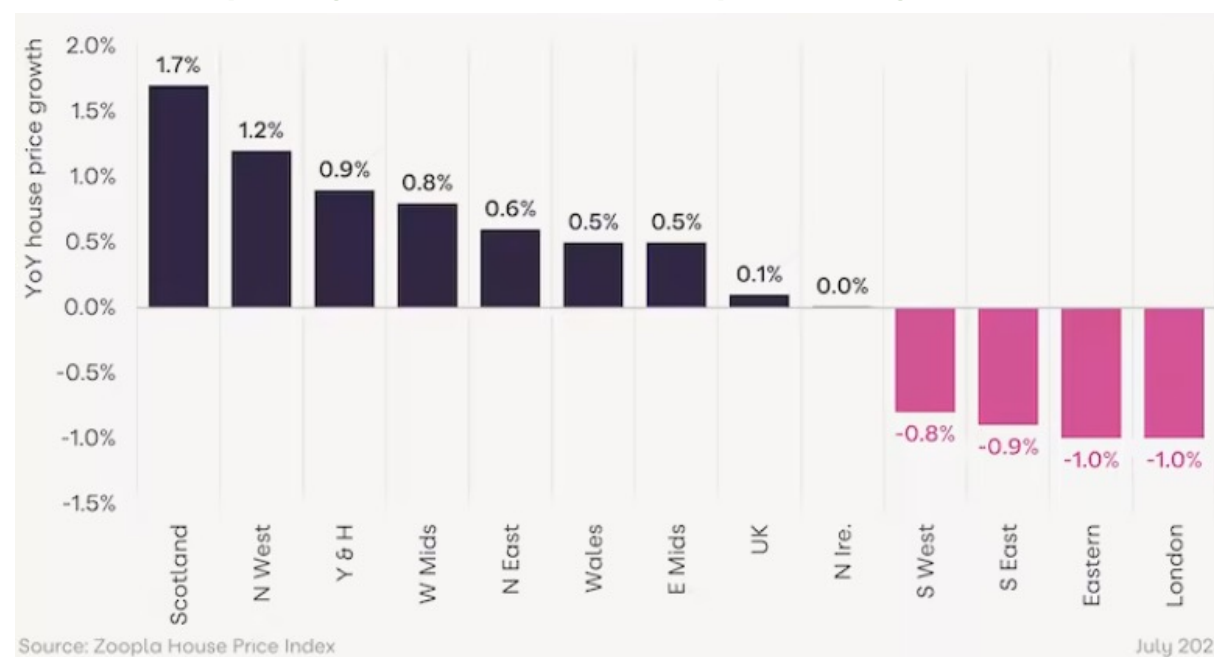
Housing delivery in Scotland

- Undersupply of housing across all tenures in Scotland
- Homes for Scotland calculate an accumulated shortfall of 114,000 homes since 2008
- Shortfall has been exacerbated by a period of low sales, reduction in affordable housing delivery and no new supply of PRS
- New National Planning Framework in Scotland (NPF4) creating more challenging planning environment, resulting in higher demand and value for sites with planning in place
- Scottish Government target to deliver 110,000 energy efficient affordable homes by 2032 remains in place – and affordable housing investment benchmarks recently increased by 16.9%
- Year-on-year house price growth in Scotland – showing greater resilience than the rest of the UK
- Scottish legal system:
 - Sales secured through missive c. 6 months ahead of completion
 - All homes are sold freehold

Scottish housing shortfall



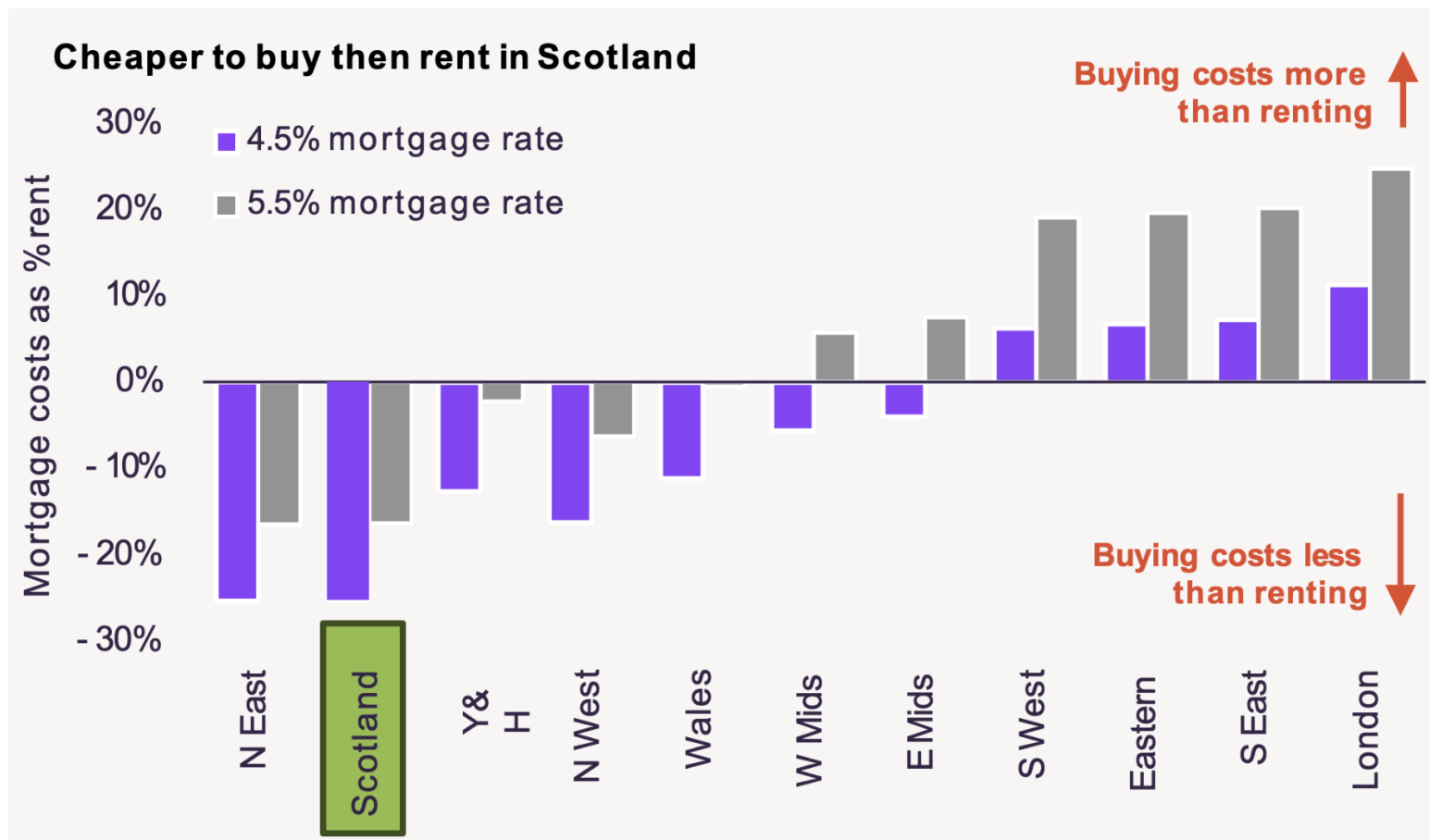
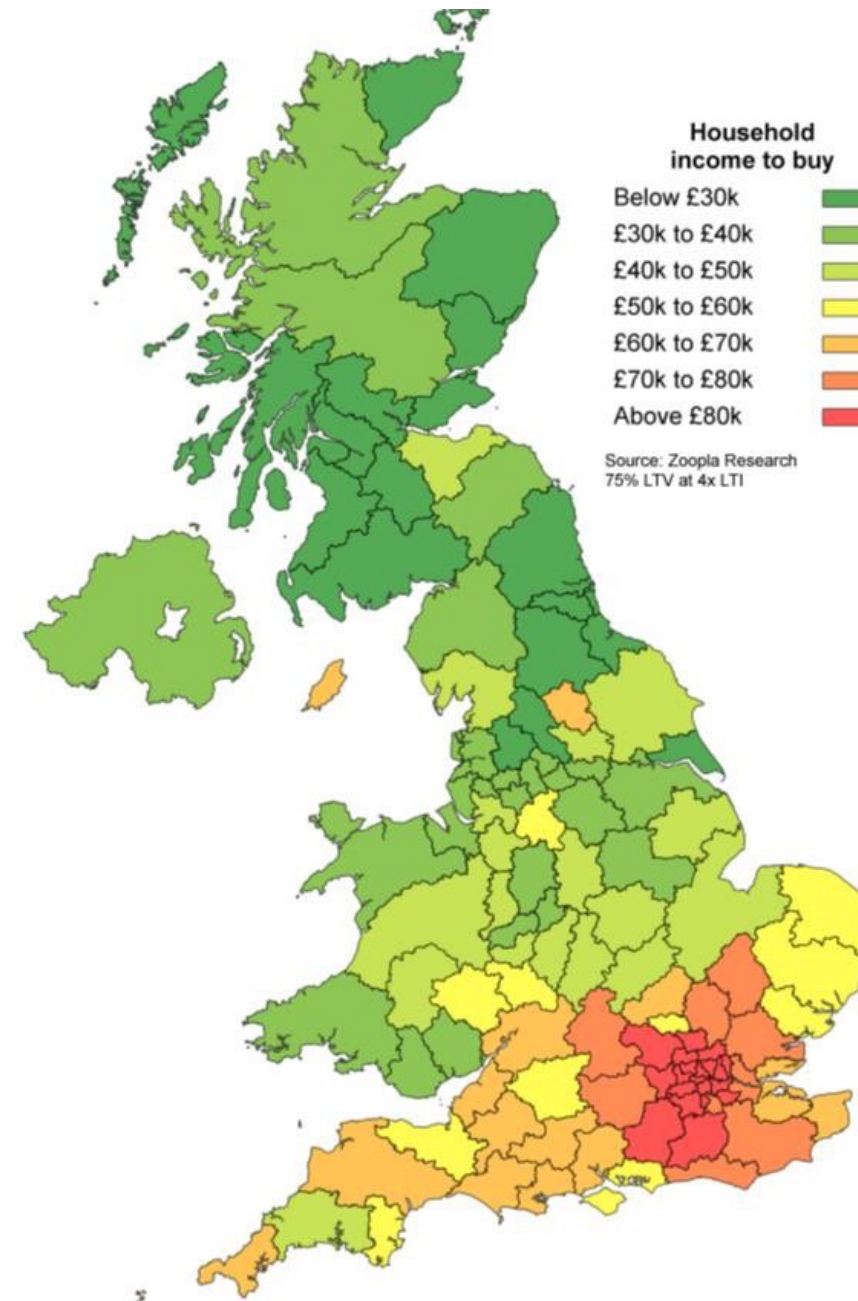
YoY house price growth – Scotland outperforming the rest of the UK



Housing affordability in Scotland

- Greater affordability of private housing in Scotland compared with the wider UK, with lower loan to income levels
- Data shows monthly mortgage payments continue to be lower than the rental market making it cheaper for people to buy than rent
- Market in Scotland has been operating without Help to Buy (Scotland) since February 2021

Household income to buy lower in Scotland



Source: Zoopla Research – assumes renter buys the home they rent using a 30 year term with an 85% LTV mortgage

ESG: our approach

- Authentic in our approach: delivering meaningful actions for the environment and for people
- Update on first year of ESG strategy delivery published
- Striving towards Net Zero ahead of 2045:
 - Publication of pathway
 - Acknowledge reliance on innovative technologies emerging in supply chain

Buildings and property	Implement energy efficiency measures in company property. 50% of Group electricity use from renewable sources.	Develop plan for phasing out gas across the Group. 100% of electricity from renewable sources.	Implement plan to remove fossil fuel heating from company property.	Continue to monitor and report zero fossil fuel energy consumption in company property.
Plant and vehicles	Trials of low carbon plant on site. Trial of electric vans in commercial fleet.	Set targets based on trials for rollout of low carbon plant. 55% of fleet vehicles with zero emissions by 2030.	50% of plant and machines with zero emissions. 100% of vehicles with zero emissions.	100% of plant to be zero emissions.
Low carbon supply chain	Engage with supply chain to explore scope 3 emission reduction opportunities.	Low carbon requirements in procurement policy; 67% net zero target for supply chain emissions.	90% of supply chain emissions to be covered by net zero target.	Continue engaging with suppliers to opt for lower embodied carbon materials.
Waste reduction	Map current waste streams and establish plans to increase the reuse and recycling of key materials.	Establish zero waste to landfill target.	Monitor zero waste to landfill performance against target.	Continue monitoring and reporting progress against targets.
	Now	2026	2030	2040
				2045

ESG: benchmarking and awards

- Benchmarking through Next Generation Initiative showing strengths
 - Leading the way in 'Environment':
 - Over two decades' experience in modern methods of construction
 - Two off-site kit factories – 100% of homes constructed from timber kits in 2023
 - Head start in use of air-source technology – 60 developments onsite or complete without fossil fuels
 - Strong performer in 'Social':
 - Investment in employees far exceeding industry practice
 - Excelling in engagement with communities
 - 'Governance' strengthened:
 - Established ESG Committee
 - Publication of first TCFD report
- Multiple awards received in recognition of the sustainable communities created at Springfield Villages



Springfield Properties – Dykes of Gray



Community sponsorship



Kit Factory – Glasgow

Conclusion

- Record revenues and completions in FY 2023 – one of Scotland’s top 3 housebuilders
- Short-term order book impacted by market conditions resulting in PBT now expected to be c. £10m-£14m for FY 2024
- Strong focus on reducing debt position – planning to reduce net debt to c. £55m at 31 May 2024
- Excellent platform to take advantage of market up turn:
 - Large owned land bank – 83% with planning permission – and substantial land bank under strategic option
 - Well-established brands providing high-quality, energy-efficient housing across Scotland
 - Excellent track record in affordable housing delivery and established partnerships
- Scottish housing market fundamentals remain supportive – including undersupply of housing across all tenures
- Well positioned for the medium term

