Finance Director's review

"Our priority is to build on the strong financial performance during the year and, with a significantly enlarged, highly qualified team in place, we believe we are now in a position to effectively manage this increasingly broad range of activity and to meet our growth ambitions for Inland Homes."

Nishith Malde
Group Finance Director

EPRA NAV per share up

6.3%

Recurring profit before tax up

6.6%

The Group generated record revenues of £147.4m (2017: £90.7m) with recurring profit before tax of £19.3m (2017: £18.1m), being an increase of 6.6% over the previous year. The Group's revenues are derived principally from the following activities:

- Trading parcels of land to other housebuilders
- Disposal of parcels of land to Registered Providers or PRS operators as part of our Partnership Housing business
- Private homes built by the Group for open market sale

Group income statement

The rise in revenues has resulted predominantly from the increase in our housebuilding activities and disposals of land parcels to both developers and Registered Providers. The Group sold 837 plots (2017: 780 plots) for £59.3m (2017: £49.4m) as shown in the table below.

The Group's revenues continue to grow with substantial sales being generated from its land trading activity. This is increasingly being supported by Partnership Housing that involves the sale of land followed by a construction contract to build the homes.

Partnership Housing has led to a surge in contract income by 287%, from £3.1m to £12.0m. The Group recognises the revenue on construction contracts based on the proportion of the contract completed. As a typical construction contract has a build programme of more than 12 months, this includes revenue from construction contracts that were entered into in previous years and continued during the financial year ended 30 June 2018 as well as new contracts exchanged during the year. A key focus of the Group's strategy is to grow its Partnership Housing business and, as at the year end, the construction order book under this activity amounted to £98.0m which will be delivered over the next five years. This activity enables the Group to recognise revenue and profitability much earlier compared to the sale of homes on the open market to private purchasers. It also de-risks part of the Group's operations and reduces net borrowings.

We completed the sale of 275 private homes during the financial year (2017: 188 homes) at an average price of £293,000 (2017: £306,000) producing revenues of £70.2m (2017: £57.7m).

	2018		2017	
	Plots	**£m**	Plots	£m
Land assets sold directly	**837**	**59.3**	207	22.4
Disposal of interest in joint venture	**–**	**–**	400	11.0
Land sold by corporate disposal	**1**	**1.2**	173	16.0
Total plot sale revenues	**838**	**60.5**	780	49.4

Gross profit was £31.8m (2017: £19.5m) representing a total margin of 21.6% (2017: 21.5%). The gross profit from land sales was £18.3m (2017: £19.2m) including the disposal of our interest in a joint venture and land sold via a corporate disposal) representing a margin of 30.2% (2017: 38.9%). The gross profit from private housebuilding was £7.7m (2017: £8.7m), delivering an 11.0% margin (2017: 15.1%). As stated in my previous year's report, the lower margin is due to an increase in site-wide costs on certain large project and continued additional remedial costs on some historic projects. Our margins on new developments for open market sale are expected to increase as the expansion in the Group's in-house build capacity results in additional buying power and general efficiencies within the supply chain. The gross profit from construction contracts was £1.8m (2017: loss of £0.3m), representing a margin of 15.0% (2017: loss of 9.7%). We expect a minimum margin of 10% on Partnership Housing construction contracts. This is in addition to the margin made on the related land disposal which varies from site to site.

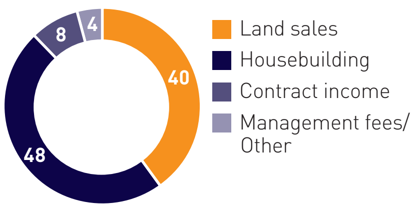
Our average number of employees has increased by 58% from 59 to 93 during the year as the Group has expanded its in-house construction capabilities to self-deliver most of our sites and increase its operational capacity for growth. This investment into the Group's growth and expertise has inevitably led to a rise in our administrative costs by 22.1% from £7.7m to £9.4m, representing 6.4% of revenues.

Gross finance costs reduced by 23.5% from £8.1m to £6.2m, partly due to notional interest of £1.4m charged in the previous year that has not been incurred this year. It also reflected a general reduction in some of our funding costs in spite of gross borrowings, having increased from £94.5m to £120.1m. Included within finance costs is £1.1m (2017: £1.1m) in respect of the coupon on zero dividend preference ("ZDP") shares. The Group capitalised £1.1m (2017: £1.1m) of finance costs within the carrying value of the Wilton Park site in accordance with IAS 23 Borrowing Costs, as it is constructed over a significant period of time and is complex in nature.

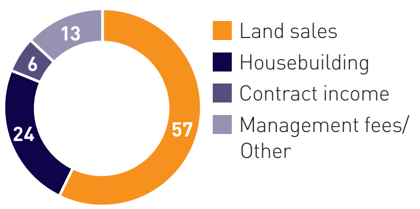
Tax charge

The total tax charge of £3.9m represents 20.2% of the profit before tax. The current corporation tax rate is 19% and the small difference arises due to the disallowance of the interest accrued on the zero dividend preference shares together with other expenditure disallowed for tax purposes.

Revenue by segment (%)



Gross profit by segment (%)



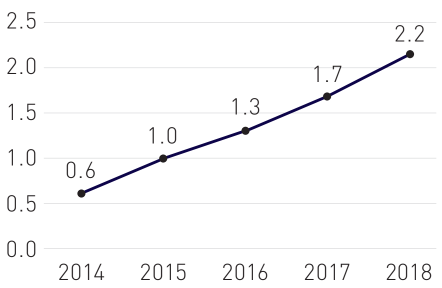
Finance Director's review continued

Earnings per share and dividend

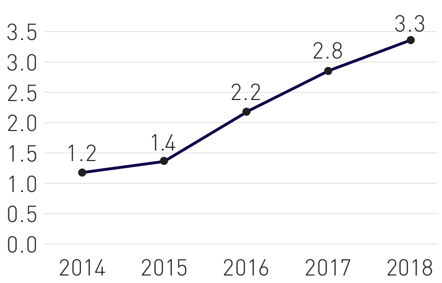
Basic earnings per share reduced by 2.3% to 7.64p (2017: 7.82p) per share while the basic earnings per share excluding revaluation gains has increased by 7.8% from 7.09p to 7.64p.

The Company continues to maintain a progressive dividend policy having already increased the interim dividend by 30% to 0.65p (2017: 0.50p) per share, that was paid on 29 June 2018. The Board has recommended a final dividend of 1.55p (2017: 1.20p) per share, giving a total increase of 29.4% over the previous year and delivering a yield of 3.3% based on the share price at the financial year end of 67.5p. The proposed final dividend will be paid on 25 January 2019 to shareholders on the register at the close of business on 28 December 2018. The ex-dividend date is 27 December 2018.

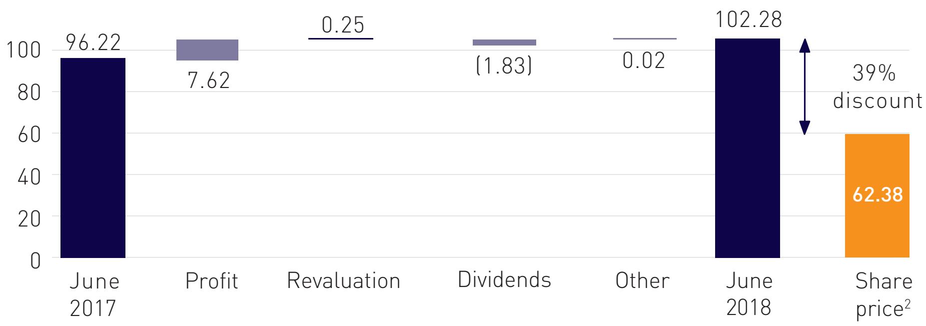
Dividend growth (p)



Dividend yield (%)



EPRA NAV[1] p



[1] On an undiluted basis.
[2] At 19 September 2018.

Group balance sheet

Net assets of the Group have increased to £142.4m at 30 June 2018 from £130.6m, principally due to retained earnings for the financial year net of the dividends paid in January and June 2018. This translates to net assets of 70.46p per share (2017: 64.62p). The undiluted EPRA net asset value per share at the year end was 102.28p (2017: 96.22p).

Joint ventures

The investment period within the Project Helix joint venture with CPC Group Limited came to an end in December 2017. After planning consent was received for the joint venture's land at the Church Road site in Ashford, Middlesex the Group purchased the remaining interest.

We are a 50% partner in Cheshunt Lakeside Developments Limited where we injected a further £5.3m by way of loans to fund the acquisition of further parcels of land, work in progress and finance costs.

The Group has a 50% interest in Bucknalls Developments Limited which secured detailed planning consent in March 2018 on the site at Bucknalls Lane, Garston. We have increased our loans to the joint venture by £1.2m to £5.6m to fund the initial construction costs. Shortly after the year end, we secured senior debt funding for the development of 100 homes on the site.

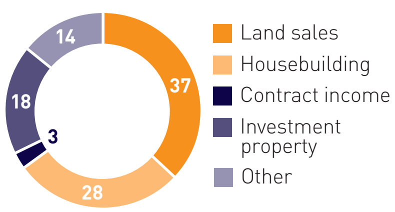
We also have a 50% interest in two joint ventures with Constable Homes Limited, one of which was the development of 43 homes at Gardiners Park, Basildon where 33 homes were sold by the year ended 30 June 2018, generating a profit of £1.6m. Our investment in this venture has been fully repaid. The other is at Europa Way, Ipswich, where construction is now under way for 94 homes funded by a senior debt facility.

Other assets

Inventories comprise largely of sites (with and without planning), professional fees incurred in the planning process and option fees for strategic sites. The carrying value of inventories have remained relatively static in comparison to the previous year due to new opportunities being focused on options over strategic sites which are light on capital.

Trade and other receivables stand at £41.4m (2017: £28.1m) with approximately £24.9m being outstanding in relation to land transactions of which £11.0m is due after more than one year.

Assets by segment (%)



Net debt and borrowings

Our cash balances at the year end stood at £40.4m (2017: £26.5m) with net debt at £79.7m (2017: £68.0m). As expected net debt has increased due to the expansion in the Group's housebuilding for open market sale and represents net gearing of 56.0% (2017: 52.1%) on net assets of £142.4m (2017: £130.6m) or 38.6% (2017: 35.0%) on EPRA net assets of £206.7m (2017: £194.4m).

We have undrawn committed bank facilities at the year end of £32.1m (2017: £11.2m). Although £44.4m of our borrowings fall due within one year, in August 2018 we extended the maturity date of £18.4m ZDP shares by five years to 10 April 2024. In addition, we issued a further 1,000,000 ZDP shares at 150.8p per share raising a gross sum of £1.5m. The gross redemption yield will reduce from 7.3% per annum to 5.25% per annum as from 10 April 2019.

Inland Homes has a revolving credit facility of £20.0m from Barclays to fund construction costs relating to the development of private homes for open market sale. As at the year end, the Group had drawn £13.8m of this facility. The Group also has a revolving credit facility of £17.2m from a Fund to finance sites with and without planning consent, that falls due for repayment in August 2020. This facility was fully drawn down at the year end.

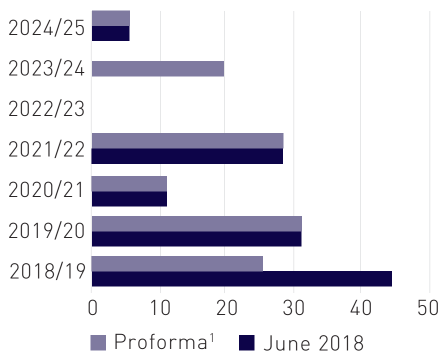
During the year we secured a facility for £11.5m from Homes England for infrastructure and development costs in respect of 450 homes at our site, Chapel Riverside in Southampton. As at 30 June 2018, a substantial part of Phase 1, comprising 72 units had been built and sold and consequently the full facility was available to fund ongoing costs.

We have a revolving cashflow facility of £24.0m to finance the construction of 239 homes at Lily's Walk in High Wycombe. The Group had drawn down £10.7m of this facility at the year end.

The Group is also in advance negotiations and has received strong indications that its borrowing facilities of £26.0m expiring in December 2018 will be extended by another 12 months.

Inland Homes is in a solid financial position with a good spread of borrowing facilities to fund both land purchases and construction costs for the delivery of its strategic growth plans. This will be complemented by the expansion of its Partnership Housing activity which obviates the need for equity or debt and assists in reducing the Group's gearing levels.

Debt maturity (£m)



Cash and headroom at 30 June 2018

£72.5m

2017: 37.7m

	Proforma June 2018[1] £m	June 2018 £m	June 2017 £m
Borrowings	**120.1**	120.1	94.5
Net debt	**79.7**	79.7	68.0
Cash and headroom	**74.0**	72.5	37.7
Gearing – IFRS	**56.0%**	56.0%	52.1%
– EPRA	**38.6%**	38.6%	35.0%
Average maturity – facilities	**2.3 yrs**	1.7 yrs	2.7 yrs
– borrowings	**2.6 yrs**	1.9 yrs	2.7 yrs
Weighted average cost of debt[2]			
– Housebuilding	**n/a**	3.1%	3.5%
– Land and investment property	**n/a**	5.9%	6.2%

[1] Proforma figures include ZDP refinancing in August 2018.
[2] Excludes ZDP.