telfordhomes

28 February 2019

Telford Homes Plc

(‘Telford Homes’ or the ‘Group’)

Strategic and Trading Update

Telford Homes Plc (AIM: TEF), the London focused residential property developer, provides the following update ahead of its financial year end of 31 March 2019 (‘FY 2019’).

Strategic update

- The Group’s business model has been evolving in response to increasing institutional investment demand and customer rental demand
- Looking ahead, the Group intends to place even greater focus on build to rent which is now expected to exceed 50 per cent of the development pipeline before the end of 2019 and increase thereafter
- Build to rent reduces market risk with no debt and limited capital investment required in exchange for a lower margin and less overall profit on a given scheme
- Recent sale of Equipment Works for £105.5 million and anticipated full build contract with Greystar in Nine Elms underpin that change
- Announcement of a new forward fund build to rent partnership expected imminently following a successful selection process

Trading update

- Profit before tax for FY 2019 expected to be circa £40 million with the Group’s net asset value per share anticipated to be approximately 330 pence as at 31 March 2019
- Programme delay of six months at City North, outside of the Group’s control, expected to defer £15 million of profit between FY 2020 and FY 2021 such that profit before tax in FY 2020 is anticipated to be significantly below FY 2019
- Profits beyond FY2020 expected to grow again and will reflect the greater focus on build to rent
- Focused on reducing debt with gearing at 31 March 2019 forecast to be less than expected at under 50 per cent and to remain below that level
- Future dividend policy anticipated to be enhanced due to reduced capital required for build to rent and in the short term the dividend is expected to be at least maintained at the 2018 level of 17 pence
- Strong long term outlook with a less cyclical, lower risk and less capital intensive business model utilising the Group’s existing skillset in the undersupplied London housing market

Increased strategic focus on build to rent

Over the last few years Telford Homes has undertaken a shift in strategy towards an increasing proportion of homes being delivered for institutionally owned build to rent housing. We continue to view build to rent as being the future of increasing housing delivery in London. The proportion of Londoners renting is rising and will continue to do so with customers increasingly turning to a rental model, not just due to affordability, but more as a lifestyle choice looking for greater flexibility. Purpose built rental housing delivers better customer amenities, improved on-site service and secure tenancies and is the ideal product for new generations wanting to live in London.

This shift in strategy is set to continue and we now expect to take this further than previously indicated, especially given current market conditions for both individual investors and owner-occupiers. This means we will be operating at lower margins as the profitability of build to rent is less than traditional individual sale developments but this is in return for removing all market risk, requiring no external debt and limited equity investment generating a much higher return on capital.

Following this review of the balance of the business we now anticipate changing at least three of our existing sites from individual sale into build to rent and, coupled with developments already underway, this will drive its increasing prominence in our development pipeline. As a result we expect that over half of our development pipeline will be made up of schemes that comprise a combination of build to rent homes and subsidised affordable housing before the end of 2019. In later years this is anticipated to increase further and whilst we will not stop building homes for individual sale, the risk profile and capital light model of forward funded build to rent transactions are increasingly attractive to the Group.

Our strategy has been underpinned recently by the sale of Equipment Works in Walthamstow to a joint venture between Greystar and Henderson Park for £105.5 million. In addition we expect to enter a full build contract with Greystar to deliver nearly 900 homes for them in Nine Elms within the next three months. Finally, following a successful selection process, we have almost completed the legal formalities for our new forward fund build to rent partnership and we expect to announce the details imminently. This new partnership will help Telford Homes to acquire the right sites for our partners and design them to their requirements whilst increasing our build to rent pipeline with less time taken over the legal documentation for each transaction.

Current trading - year to 31 March 2019

In the Interim Results announced on 28 November 2018 we identified some challenges in achieving our original target of £50 million of profit before tax for FY 2019. At the time we noted that existing sales contracts, existing build contracts and further build contracts expected by the end of the financial year would result in profit before tax of at least £40 million with any further sales adding to that number.

Despite the positive outlook on build to rent the London sales market remains subdued. Whilst sales are still being secured they are being achieved at a slower rate than under normal market conditions and customer expectations of increased incentives and discounts are putting some pressure on individual sale margins.

In addition, two build contracts that were expected to exchange in FY 2019 are now likely to happen in the first three months of FY 2020, due primarily to planning issues, and this moves approximately £5 million of profit between the two years. New individual sales secured since 28 November 2018 effectively offset these contracts such that we still expect profit before tax for FY 2019 to be circa £40 million.

The Group's net asset value per share is therefore anticipated to be around 330 pence at 31 March 2019 and every asset we own is expected to add additional value through future profit recognition over the next few years.

Year to 31 March 2020 and beyond

At this time we do not anticipate a significant improvement in the individual sale market in the short term and as a result we expect a continued impact on sales rates and margins during FY 2020.

We have also experienced some frustrating challenges in achieving planning consents on some developments including most notably LEB Building in Bethnal Green. Planning delays can increase financing costs, push back the timing of profit recognition and impact on our ability to invest equity into new opportunities, particularly those for individual sale homes where our equity is expected to be invested for a longer period of time.

Finally, we have experienced a disappointing delay to the construction programme at City North in Finsbury Park of approximately six months due to matters outside of our control in dealing with transport bodies and the need to coincide with works undertaken by third parties. Given that completions were largely due in the second half of FY 2020 this will have a significant impact in terms of moving profit of around £15 million from FY 2020 and into FY 2021.

These factors, combined with the impact of lower margin build to rent transactions, are changing our total profit expectations for the next few years. Consequently, given the £15 million profit deferral to FY 2021 from the delay at City North, we now expect profit before tax for FY 2020 to be significantly below FY 2019. After FY 2020 total profits in each year will grow again, albeit at lower overall margins, underpinned and then accelerated by our increased focus on build to rent and the improved capital returns it brings.

Debt and gearing

Our build to rent focus will decrease our need for debt over time and significantly reduces the risk profile of each site and the risk profile of our total net assets. The Group uses debt to fund the development of open market homes for individual sale and this will be a reducing proportion of our pipeline. Gearing at 31 March 2019 is forecast to be less than expected at under 50 per cent and to remain below that level.

Dividend

In the future the Board anticipates enhancing the Group's dividend policy, which is currently to pay one third of earnings, to take account of the reduced capital requirements of build to rent transactions. In the meantime there will be a period where earnings are lower than those generated for the year to March 2018 and the Board expects the annual dividend to be at least the 17 pence per share paid in that year during this time.

Conclusion

Despite the impact of current market conditions and site progress delays outside of our control, Telford Homes has a strong business model capable of making significant profits in the future. The Group has an excellent reputation in London and is a valued partner to all of its stakeholders. We are increasingly taking less market risk and reducing our debt requirements whilst focusing on a sector that is experiencing a substantial rise in both institutional investment demand and customer rental demand. The Board believes that Telford Homes continues to have a strong long term outlook with a less cyclical, lower risk and less capital intensive strategy that will utilise our existing skillset in the undersupplied London housing market.

Jon Di-Stefano, Chief Executive Officer of Telford Homes, said: "A number of factors are affecting our short term ability to deliver the scale of profits we believe Telford Homes is capable of achieving. However our business model is increasingly focused on build to rent and the reduced risk and lower capital requirements it brings. We believe that build to rent housing will be one of the keys to solving London's housing crisis and we expect to significantly increase our output of homes under this new model over the next five years."

- Ends -

For further information:

Telford Homes Plc

Jon Di-Stefano, Chief Executive Officer

Katie Rogers, Chief Financial Officer — Tel: +44 (0) 1992 809 800

Guy Lambert, Head of Corporate Communications — www.telfordhomes.london

Shore Capital (Nomad and Joint Broker)

Dru Danford / Patrick Castle — Tel: +44 (0) 20 7408 4090

Peel Hunt LLP (Joint Broker)

Charles Batten / Capel Irwin — Tel: +44 (0) 20 7418 8900

Media enquiries:

Buchanan (PR Adviser)

Henry Harrison-Topham / Victoria Hayns / Steph Watson — Tel: +44 (0) 20 7466 5000

telfordhomes@buchanan.uk.com — www.buchanan.uk.com

This announcement contains inside information.