



Development Securities preliminary results for the year ended 28th February 2015

Interviews with Michael Marx, CEO, Marcus Shepherd, FD and Matthew Weiner, Executive Director

Q: So, Michael, what would you pick out as the highlights for the year?

A: I think the highlight of the year was the remarkable increase in pre-tax, pre-exceptional performance for the year, which came out at a level of £45m, compared to last year's performance of some £19m. So a very significant increase in pre-tax, pre-exceptional profit.

Now that increase, of course, was driven by the main source of our profit flows, which comes out of development gains. And there we recorded £45m of gains in the year, compared to about £27m for the previous year. So, obviously considerable step changes in both numbers.

The knock-on effect of both of those statistics is that the NAV per share increased by 8.4% from the previous level during the course of the year. And if we add to that the dividend payments for our ordinary dividend payments for the year of just over 2%, then the total gain to shareholders and cash ordinary dividend was something just over 10%, and that is a post-tax number.

So really very significant gains, and we're very pleased with all of those performances.

Q: And in 2014 you acquired the Cathedral Group. What was the rationale here?

A: To expand the Group, to deepen our resources, to deepen our pipeline, and that's exactly what we did. Cathedral brought with it nine significant development schemes which were right in the area where we were already expanding. They brought with them an expertise in public-private partnerships, and they brought with them an ability to develop and build out in residential space, which is something we hadn't actually done previously ourselves.

So that, together with the depth of management team, as well as the depth of pipeline, was a perfect fit for us. And we took the opportunity to acquire them at a price that we think was reflected full value. We went on then, of course, after that to make a significant gain as the market improved further in that particular marketplace.

Q: And Marcus, what are the financial highlights to the year?

Well, I think in summary Michael has already covered it quite succinctly. Obviously, the key driver within our business model is the trading and development gains, and at just shy of £46m that's a record level for us, which has dropped straight through to the bottom line record profits.

I think one of the things that we really need to get across to people is that our business model is about cash generation. So when we make these gains, we exit those schemes. So as you can see during the year, we were able to generate significant cash, and as a result we were able to declare and pay in April a special dividend of £10m, 8p per share, and also, as Michael said, slightly increase our final dividend for the year.

So really for us it's a vindication of our business model and how we can actually repatriate and give that value to shareholders.

Q: And how do you view the capital structure and the strength of the balance sheet?

A: Our balance sheet is very strong. At the end of the year we always have around about £60m of cash on the balance sheet. We keep a minimum amount always as a buffer. So that's our prudent way of managing the balance sheet to ensure that the company is protected against any potential pitfalls in the economy or the property market.

But at the same time we've got a roster of a great number of different lenders. And so as we throw off cash from individual deals, we can both invest in new ones and also look to be very efficient in terms of getting cash back to shareholders. So we are very pleased with the strength of the balance sheet.

Q: So, Michael, are you going to be able to sustain this level of performance going forward?

A: Yes, we are. We are giving guidance again to the market, as we've done for the last three years or so, and if, as an aside I might add, always delivered to that guidance, or in fact slightly exceeded it. So we've raised the guidance slightly in one or two of the years going forward, and which shows that this business is now capable, together with the Cathedral Group, of sustaining its pipeline of product and development profitability for the next three years from existing transactions.

If we were to dream about future transactions – and of course we all hope there will be, I'm sure there will be more transactions – then that sustainability of profit flow should be assured.

Q: Matthew, what's the focus for this business going forward?

A: In essence, the business is two parts, there's an investment portfolio and the purpose of the investment portfolio is to deliver a recurring income stream, which makes a contribution toward the business overheads, and to deliver NAV growth alongside the second part of the business, which is the development and trading portfolio, of which the principal objective is to deliver short to medium-term profits, cash profits, to the business.

The advantage of that model and how we look at that model is dependent on where we are in the market cycle. So we'll alter between an investment and a development

portfolio as we read the cycle. And the aim is to give stability to the business and an element that gives cash-generative profits to shareholders.

Importantly, I think we're concentrating greater focus on where we do business, and we see three key areas for us. That's the London City region, which is what we define as being about a 90 km radius from Central London, an hour's track journey by public transport, the Manchester City region, and the Dublin City region. And we have about 80% of the company's equity invested in those three areas, those three territories. There's about 28 projects.

Q: So what excites you about this business? And what's the outlook?

We're very excited going forward. This year we've delivered record levels of profits and record levels of development and trading gains. And we think that's a springboard to move this business forward to deliver consistently that level of profitability.

We've got a great team, which has been strengthened by the acquisition of the Cathedral Group. In September we move into a great new home together, which will allow us to complete the integration process and exploit marriage value between the businesses that I don't think we've even touched yet.

And we've got an increasing focus on where we do business and what we do. But most importantly, we've got some fantastic projects. It would be really difficult to replicate the projects that we have, and we're really excited about delivering them both to shareholders and to the local communities in which we operate.

And so for me, and for Richard and Marcus, I think this is a really exciting time to be involved in the business.

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