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St. Modwen Properties PLC
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ST. MODWEN PROPERTIES PLC
("St. Modwen" or "the Company")
Trading update for the period ended 30 November 2019

St. Modwen delivers continued progress on focused growth strategy

Mark Allan, Chief Executive of St. Modwen, commented:
"Following the major repositioning of our business through the successful disposal of over 40% of our assets in the preceding 18 months, our focus in 2019 has been firmly on delivering the deep pipeline of opportunities in our existing portfolio. We have made strong progress on this during the year in each of our three business units and, supported by our solid capital base, we are confident that the continued delivery on this strategy will drive a meaningful improvement in return on capital and earnings over time."

Overview
Whilst the external environment remains uncertain and the prospects for parts of the UK property market continue to be challenging, the outlook for our two key sectors, industrial/logistics and regional housebuilding, remains underpinned by structural growth characteristics. This is reflected in continued strong growth in our St. Modwen Homes and Industrial & Logistics business units during 2019, whilst our Strategic Land & Regeneration business has made good progress in monetising the value in our residential land bank and residual non-core assets and in progressing the longer-term opportunities in its pipeline. As a result, the underlying performance of the business has been in line with expectations. However, we expect to recognise an exceptional provision for a potential claim related to a historical development project which is expected to reduce our NAV for 2019 by around 8 pence per share.

St. Modwen Homes: surpassed 1,000 homes in the year; on track to deliver further growth
We continue to see good demand for the high-quality homes we build. St. Modwen Homes' sales volumes increased 25% to 1,060 units (2018: 848 units), at the top end of our objective to grow volumes by up to 25% p.a., and we are currently sales active on 24 outlets, with additional sites launching early in the new year. Operating margins improved largely in line with our plans and we expect to make further progress towards our c. 16-17% medium-term target during 2020. Having more than doubled St. Modwen Homes sales volumes over the last three years, the annual rate of volume growth is bound to moderate slightly as the business grows, yet the better affordability in the regions, where the bulk of our activity is focused, leaves us well-placed to continue to grow volumes in line with our medium-term target. Reflecting this, our forward order book is up 33% compared to this time last year.

Industrial & Logistics: growing our pipeline and leasing activity
Our substantial industrial and logistics pipeline continues to drive strong growth. Our committed pipeline stands at 1.6m sq ft, up from 1.5m sq ft this time last year. We completed 0.9m sq ft of space during the year (2018: 0.9m sq ft), of which we plan to retain 99% (2018: 69%), with a further 0.5m sq ft of completions due early in the new year. We have seen momentum in leasing build, meaning 53% of the ERV we completed during the year is already let or under offer, up from 39% of our 2018 completions this time last year, whilst 14% of our committed pipeline is pre-let (2018: 0%). Looking forward, we continue to expect that the recycling of capital from our non-core asset disposals into our sizeable pipeline will drive strong development upside and growth in income.

Strategic Land & Regeneration: recycling capital; driving major regeneration schemes
We have seen continued progress against the key objectives for our Strategic Land & Regeneration business. We agreed the disposal of £30m of residential land during the period (2018: £53m) and are in advanced legal discussions on the sale of over 1,500 plots across our two large sites in South Wales for over £50m. Assuming these deals complete, the transfer of this land would be phased but including the next phase for St. Modwen Homes, this would leave c. 40% of these two sites completed, under construction or controlled by housebuilders for near term development.

We also sold £65m of non-core assets during the period, slightly ahead of the target we set at the start of the year, including the sale of just over half of our residual non-core retail assets for £34m announced last week. In addition, we sold a range of other non-core assets for £31m in total, on average slightly above book value. Combined with the disposal of £177m of retail assets at a less than 1% discount to book value during 2018, non-core retail has reduced to only 2% of our portfolio by value, down from 16% two years ago.

We continue to focus on the delivery of the substantial opportunities at our existing regeneration projects. At Swansea Bay Campus we completed the latest phase of 411 student beds which we sold for £38m, as announced earlier this week, releasing capital for future phases of development at this successful scheme. At Longbridge, momentum has continued to pick up and we anticipate a further increase in development activity during 2020, whilst we have continued to actively progress other longer-term mixed-use opportunities in our pipeline.

Financing
Following the significant reduction in borrowings due to our disposals during 2018, see-through net borrowings increased during the first

half of 2019, in line with our plans. Whilst we indicated with the half year results that we expected a further increase in borrowings in the second half of 2019, our successful capital recycling since then means see-through net borrowings have reduced slightly in the second half of the year (May 2019: £304.9m). As a result, our see-through LTV remains comfortably below our mid 20's percent target.

Exceptional item

Whilst the underlying performance of the business is in line with expectations, we expect to recognise a provision for a potential claim against the Company for a legacy project the Group developed and sold approximately 15 years ago as an exceptional item in our 2019 results, which is expected to reduce our NAV for 2019 by around 8 pence per share. To date, no detailed claim has been made by any of the parties involved and as such there is no certainty around the potential amount and timing of any future cash outflow. We anticipate we will be able to recover a meaningful part of any potential claim but as IFRS places a lower threshold on the recognition of potential future obligations than the recognition of potential future reimbursements, we cannot recognise any anticipated recoveries at this stage and will therefore only recognise the provision element in our 2019 results. We are confident this is a one-off historical issue which is not expected to have any impact on our strategy or medium-term return expectations.

Full year results

The Company intends to announce its results for the full year on 4 February 2020.

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