Watkin Jones plc
(the 'Group')

FY Results 2022

'Operationally resilient; well positioned for growth with strong development pipeline and sound balance sheet'

The Group announces its annual results for the year ended 30 September 2022 ('FY22'):

	Adjusted Results[1]			Statutory Results		
	FY22	FY21	Change (%)	**FY22**	FY21	Change (%)
Revenue	**£407.1m**	£430.2m	(5.4)%	**£407.1m**	£430.2m	(5.4)%
Gross profit	**£67.6m**	£84.8m	(20.3)%	**£67.6m**	£84.8m	(20.3)%
Operating profit	**£54.7m**	£57.3m	(4.5)%	**£24.3m**	£57.3m	(57.6)%
Profit before tax	**£48.8m**	£51.1m	(4.5)%	**£18.4m**	£51.1m	(64.0)%
Basic earnings per share	**14.8p**	16.4p	(9.8)%	**5.2p**	16.4p	(68.3)%
Dividend per share	**7.4p**	8.2p	(9.8)%	**7.4p**	8.2p	(9.8)%
Adjusted net cash[2]	**£82.6m**	£124.3m	(33.5)%			

1. For FY22 Adjusted Operating profit, Adjusted Profit before tax and Adjusted Earnings per share are calculated before the impact of the exceptional charge of £30.4 million for the potential costs of the remedial work required under the new Building Safety Act.
2. Adjusted net cash is stated after deducting interest bearing loans and borrowings, but before deducting IFRS 16 operating lease liabilities of £49.1 million at 30 September 2022 (30 September 2021: £129.3 million).

Key Highlights

- Revenue of £407 million, reflecting record forward sales of £900 million and increasing contribution from our BTR developments. 5.4% lower year on year, impacted by the market volatility in September which led to two anticipated forward sales being deferred.
- Adjusted operating profit of £54.7 million reflecting strong operational delivery and build cost management, but 4.5% below FY21 due to:
  - Lower than expected forward sales in September 2022;
  - Some pricing and margin softness on sales concluded in the second half; offset by
  - Higher than anticipated profit of £18.3 million from the sale of two operational PBSA assets as part of a portfolio sale.
- Strong balance sheet, with gross and net cash (adjusted) as at 30 September 2022 of £110.8 million and £82.6 million respectively.
- Full year dividend of 7.4p, in line with policy of 2x cover.
- Continued operational resilience of the business:
  - Eight developments delivered in the year
  - Build costs and supply chain well managed throughout the year in the face of a challenging industry backdrop
  - Good progress in all phases of our development model including land acquisitions and planning consents.
- Residential for Rent sector has continued to perform strongly with occupancy and rental growth driven by tenant demand; this is expected to lead to a recovery in investor demand for our assets in FY23.
- Record revenues from Fresh with 22,896 beds under management and bookings well advanced for the next academic year.
- An exceptional charge of £30.4 million has been recognised in the year for the potential costs of the remediation work required under the Building Safety Act, which we expect will be incurred over a period of up to 5 years.

Outlook

- The Group retains very good visibility over its development pipeline, has low levels of asset exposure and strong liquidity.
- Interest in forward sales is returning to the market although new forward sales are assumed to be weighted to H2 which will impact H1/H2 revenue and operating profit weighting.
- The secured development pipeline has been maintained at £2.0 billion (estimated future revenue – based on reasonable pricing assumptions):
  - £0.7 billion forward sold; providing a solid revenue base through FY23
  - Further £0.8 billion secured with planning; representing a very significant portfolio of developments capable of being forward sold in FY23 as markets re-open.
- Significant planning consents have been gained in Q1, including for a BTR development in Woking (366 apartments), PBSA developments in Bristol (260 beds) and Guildford (290 beds) and a joint PBSA/ BTR development in Edinburgh (c. 400 beds and c.400 apartments).
- Gross margins for PBSA and BTR will continue to be impacted by purchasers' increased borrowing costs and are currently anticipated to be c.12-14% in the short term. However, we expect to recover blended Group gross margin to over 15% in the medium term.
- We will slow down our affordable housing business to focus on the higher margin, more mature PBSA and BTR developments.
- We expect build cost inflation to moderate and for supply chain availability to improve throughout FY23. We will remain vigilant for signs of distress in the construction supply chain and are ready to take action as necessary to ensure project delivery.
- We have looked carefully at our overhead cost base and in November implemented a cost-out plan which is expected to generate annualised savings in the region of £3-4 million.

- Our balance sheet strength will allow us to acquire good quality development pipeline opportunities which will both support long term growth and provide scope to take advantage of opportunities created by the more volatile market environment.
- We are looking at a range of initiatives to mitigate market volatility and enhance the Group's long term growth potential.

Richard Simpson, Chief Executive Officer of Watkin Jones, said: 'The Group performed well throughout most of the year, however we were impacted by liquidity issues in the forward sales market following the mini budget. Underlying sector tenant demand for residential for rent remains very strong, and we have entered the new financial year with a strong secured pipeline and record levels of consented developments. Our good balance sheet liquidity puts us in an excellent position from which to take advantage of attractive land acquisition opportunities, which will support margin recovery as market conditions improve in the second half of the year."

Analyst meeting
A meeting for analysts will be held in person at 9.30am today, Wednesday 25 January 2023, at Buchanan, 107 Cheapside, London EC2V 6DN. A copy of the Full Year results presentation is available at the Group's website: http://www.watkinjonesplc.com

An audio webcast of the meeting with analysts will be available after 12pm today:
https://webcasting.buchanan.uk.com/broadcast/63bc1a63dd6e7150320157d4

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Notes to Editors
Watkin Jones is the UK's leading developer and manager of residential for rent, with a focus on the build to rent, student accommodation and affordable housing sectors. The Group has strong relationships with institutional investors, and a reputation for successful, on-time-delivery of high quality developments. Since 1999, Watkin Jones has delivered 46,000 student beds across 136 sites, making it a key player and leader in the UK purpose-built student accommodation market, and is increasingly expanding its operations into the build to rent sector. In addition, Fresh, the Group's specialist accommodation management business, manages over 22,000 student beds and build to rent apartments on behalf of its institutional clients. Watkin Jones has also been responsible for over 80 residential developments, ranging from starter homes to executive housing and apartments.

The Group's competitive advantage lies in its experienced management team and capital-light business model, which enables it to offer an end-to-end solution for investors, delivered entirely in-house with minimal reliance on third parties, across the entire life cycle of an asset.

Watkin Jones was admitted to trading on AIM in March 2016 with the ticker WJG.L. For additional information please visit www.watkinjonesplc.com

Chief Executive Officer's review

We delivered a good operational performance across the Group during FY22 and made further progress with implementing our strategy. The resilience of our business, based on our strong balance sheet, capital-light model and high visibility of development pipeline, gives us confidence that we can withstand the current uncertain economic environment and benefit from opportunities created by it. Occupier demand across the residential for rent sector remains strong, which should support investor demand for our assets once market conditions normalise.

Performance
The Group performed solidly across all four divisions. We delivered eight developments and secured new sites and planning consents, finishing the year with a record pipeline capable of delivering £2.0 billion of revenue over the coming years. We completed £0.9 billion of forward sales, across 11 schemes, as investor demand for residential for rent assets remained strong for most of the year. Fresh also further enhanced its reputation for great customer service, supporting new mandate wins.

As we announced in October 2022, our overall revenue and profit was impacted by market volatility towards the end of our financial year. This impacted two forward sale transactions which were planned to close in September 2022. The effect of these was partially offset by the profit on the sale of two leased assets, which together resulted in our adjusted operating profit being 10% below our expectations for the year. These forward sales are now expected to transact in FY23.

Despite the market volatility, our business remains cash generative. As we generally only start construction once developments are forward sold, our exposure to significant expenditure is limited. As a result, we were able to maintain our dividend payments to shareholders, declaring a dividend of 4.5 pence per share.

Results
Revenue for FY22 was £407.1 million, down 5% (FY21: £430.2 million), while gross profit was 20% lower at £67.6 million (FY21: £84.8 million). Adjusted operating profit, which excludes the impact of the £30.4 million exceptional provision for building remediation, was £54.7 million (FY21: £57.3 million).

BTR has continued to grow rapidly. Revenues were £191.2 million, representing 38% growth (FY21: £138.6 million). We made good progress with our schemes on-site and forward sold five developments during the year. Our secured pipeline stands at 4,400 apartments. Notable successes in the year included agreeing a £200 million forward fund transaction on a 715-unit development in Cardiff.

In PBSA, we delivered seven schemes with 1,813 beds ahead of the 2022/23 academic year. Revenues were £180.0 million (FY21: £259.9 million) and we forward sold five developments. Our secured pipeline now stands at around 6,457 beds. During the year, we acquired an 819-bed consented site in Bristol and a 397-bed site in Stratford, London, subsequently securing planning consent on the Stratford development. We also agreed the sale of a PBSA portfolio totalling 2,063 beds, comprising a forward funding deal for three PBSA development schemes and the sale of two operational PBSA assets.

We progressed our affordable-led developments, continuing to work through the remaining sites from our traditional business building private homes for sale. Revenue was £14.5 million (FY21: £22.7 million).

Fresh performed well, with revenue increasing to £9.1 million (FY21: £7.8 million), reflecting higher student occupancy and an increased number of units under management. It achieved outstanding ratings for customer service, both from clients and residents, and won a number of prestigious awards. At the year end, Fresh had 22,896 student beds and apartments under management. By 2024, it is currently expected to manage almost 25,000 units, including expected renewals.

The Group remains cash generative, reflecting our capital-light model. At the year end we had adjusted net cash of £82.6 million.

Strategy
We continue to follow a clear strategy based on delivering growth across the Group, operational excellence through continuous improvement and ensuring we have responsible operations.

There is good momentum underlying the sectors we operate in, with rising consumer demand for student accommodation, BTR and affordable housing.

Despite current investment market volatility, we expect these sectors will remain highly attractive to institutional investors, based on strong consumer demand, forecast rental growth and the secure income that residential for rent assets deliver.

Our self-delivery model helps to ensure we deliver on time and to budget, and we have continued to refine our operational structures and processes to further enhance our delivery. We also work with third-party contractors to provide additional capacity where needed, particularly in locations where we do not have a local presence.

In times of supply chain disruption, it is important that we partner with the best. We have long-standing relationships with much of our supply chain, including firms we have worked with for decades. We are further improving the way in which we manage and work with our supply chain, to ensure efficiency and consistency of product. We know the sustainability of our supply chain is key to achieving our own sustainability targets, and in November 2022 we held a supplier conference to set out our expectations in this regard.

One of the key demonstrations of our responsible business principles in action during the year related to remediating fire safety issues in the Group's historical developments, which is discussed in further detail in the annual report.

More broadly, this was the first full year of the ESG strategy we launched in FY21, covering people, places and planet. We are pleased with our progress so far and while there is a long way to go, we remain on track to meet our multi-year targets.

People
Achieving high health and safety standards is critical and our approach has continued to produce a significantly better performance than the national average. Our incident rate, which is the number of incidents recorded per 100,000 employees, was 175 (FY21: 102). This compares with 2,880 for the wider industry (source: HSE).

Unfortunately, in November 2022, we took the difficult decision to enter into an employee consultation to restructure some areas of the business and reduce headcount by around 40 roles. This followed a review of our ways of working and took into account the macroeconomic uncertainty. The restructure will reduce our cost base while ensuring we are operating more effectively and efficiently to support our long-term success.

Outlook
Macroeconomic conditions remain challenging and uncertain in the short term. However, the underlying market drivers supporting the residential for rent sector remain strong. We expect the housing supply/demand imbalance, rising interest rates and increasing numbers of full-time students to continue to fuel strong consumer demand for rented homes. This should translate into strong occupancy levels and further rental growth.

We therefore anticipate that, despite elevated borrowing costs, the opportunity for higher yields and long-term returns will ensure that residential for rent assets remain attractive to institutional investors. However, we also believe it is prudent to assume that higher borrowing costs for our institutional clients will result in margin pressure continuing into FY23, and that new forward sales will be weighted to the second half of FY23.

Our balance sheet strength provides a distinct competitive advantage for the Group and we have a resilient business model which is well positioned for success. Our cash-generative, forward-selling, capital-light model means we have very good visibility of our development pipeline and minimal assets on the balance sheet that are exposed to a decline in value. We have £2 billion of secured development pipeline and entered FY23 with secured revenue of around £270 million.

Delays in the UK planning system appear to be easing and we have secured a number of planning consents on prime assets which will enable us to respond quickly to investor demand as capital markets recover. In the meantime we will look for attractive land acquisition opportunities to drive future revenue and profit growth and restore margins back to target.

Richard Simpson
Chief Executive Officer

25 January 2023

Operating review

Build To Rent

BTR development delivered further strong growth, with revenues of £191.2 million (FY21: £138.6 million), up 38% due to the five forward sales that we completed during the year. The 71-bed BTR element of the Steelworks development in Sheffield achieved practical completion in March 2022 and we continued to progress the forward sold developments at Hove and Lewisham, which are due to reach practical completion in 2023 and 2024 respectively.

We forward sold five BTR schemes in FY22, totalling more than 2,000 apartments, which generated revenue from the associated land sales during the year. These schemes are in:

- Lewisham (322 apartments);
- Birmingham (551 apartments, including 47 affordable homes);
- Leatherhead (214 apartments, including 36 affordable homes);
- Bath (316 apartments, with nearly one-third to be let at a discount to market rent); and
- Cardiff (718 apartments).

BTR generated gross profit of £32.8 million (FY21: £29.8 million), an increase of 10%. The gross margin for the year was 17.2% (FY21: 21.5%). We continue to target a BTR gross margin of 15% in the medium term, comprising a margin on land sales of 10% and a development margin of 16%.

During the year, we received a resolution to grant planning consent for a 778-apartment development in the regeneration area of Titanic Quarter in Belfast. We also secured sites in Leeds (230 apartments) and Hove (82 apartments) subject to planning. The current secured development pipeline for BTR is shown opposite.

Key statistics

Forward sold		**Secured pipeline**		**Delivered FY22**	
5	2,121	11	4,380	1	71
Schemes	Apartments	Schemes	Apartments	Scheme	Apartments

	BTR apartments (estimated year of physical completion)					
	Total pipeline	FY23	FY24	FY25	FY26	FY27

Forward sold	**2,380**	397	456	809	402	316
Forward sales in legals	**—**	—	—	—	—	—
Sites secured with planning	**1,144**	—	—	151	993	—
Sites secured subject to planning	**856**	—	—	312	393	151
Total secured	**4,380**	397	456	1,272	1,788	467

The secured development pipeline has an estimated future revenue value to us of £1.0 billion (FY21: £0.95 billion), of which £517 million is currently forward sold (FY21: c.£197 million).

The market opportunity

Increasing numbers of people in the UK are renting their homes for the medium to long term, resulting in strong demand for high quality BTR accommodation.

The UK has a long-standing need for new homes, with supply failing to keep up with demand. Between 2017 and 2022, the government targeted a net increase of 300,000 homes in England each year. However, actual completions have consistently fallen short, with the most recent figures showing there were 232,820 additional homes in England in 2021/22. This was a 10% increase on 2020/21.

Urbanisation is another important factor. The UK has one of the highest rates of urbanisation, which influences issues such as infrastructure constraints, competition for land, planning, logistics and housing affordability. Many of the locations where we see the greatest potential for BTR are in urban areas with universities, where education leads to employment and the need for housing.

Lifestyles are also changing. People are getting married and having children later, delaying the point at which they buy a house. Young people often see renting as a better lifestyle choice, providing quality of living while maintaining flexibility, in the expectation of moving locations for jobs more frequently than in the past. BTR also offers good home-working facilities and a sense of community, which is increasingly attractive given the move to flexible and home working since the pandemic.

Affordability is becoming increasingly important, particularly in the current climate of rising mortgage costs and record house prices. As the cost of living crisis continues, renters are likely to look for ways of reducing costs – this might include zero deposit schemes such as those provided in many BTR developments. Further added value is gained through inclusive amenities such as co-working or meeting spaces, outdoor space, gyms, security and concierges.

With consistently strong demand for housing, the supply of BTR apartments continues to grow. At the end of September 2022, the British Property Federation estimated that the BTR sector had grown by 15% compared to one year earlier. The total number of BTR homes completed, under construction or in the pipeline was over 240,000 units. Of these, around 77,000 had been completed, with 50,000 under construction and the remainder in planning. Almost half of local authorities had BTR in their planning pipeline – a record number – and growth in the regions was significantly stronger than in London, partly due to the growth of single family BTR.

Savills has calculated that there are 4.5 million households in private rented accommodation. With consensus estimates showing that BTR could account for 30% of the market at full maturity, there is considerable scope for growth for years to come.

Ownership of UK rented housing remains highly fragmented, with only around 1.7% estimated to be owned by institutional investors, well below the levels seen in countries with more mature rental markets such as Germany and the USA. This percentage should rise over time, as BTR assets are attractive to institutional investors, given their rental growth, high levels of occupancy and rent collection rates that typically exceed 95%. Investment into BTR assets exceeded £5 billion in the 12 months to Q3 2022, with investment in Q3 alone up 75% on the previous year. There were numerous new entrants to the investor market, primarily from overseas.

Student Accommodation

PBSA revenues were £180 million (FY21: £259.9 million), a decrease of 31%. This was predominantly due to the deferral of the PBSA scheme due to complete in September 2022. We delivered seven PBSA developments totalling 1,813 beds as planned during the year, all of which had been forward sold. We also forward sold a further five schemes in:

- Edinburgh (279 beds, for delivery in FY23);
- Colchester (286 beds, for delivery in FY23);
- Swansea (370 beds, for delivery in FY23);
- Nottingham (354 beds, for delivery in FY24); and
- Bath (335 beds, for delivery in FY24).

For Colchester, the client acquired the land directly, meaning we only recorded revenues on four land sales during the year.

PBSA revenues also include rental income from our historic leased PBSA assets. The rental income on these assets was £13.6 million (FY21: £10.8 million), an increase of 26% as a result of improved student occupancy following the easing of the pandemic restrictions.

During the year, we sold two of the six assets, generating a profit of £18.3 million which was recognised centrally.

Gross profit from PBSA development was £26.4 million (FY21: £50.5 million), representing a gross margin of 14.7% (FY21: 19.4%). This reflected a higher weighting towards lower-margin land sales from forward sales completed in the year.

Our target margin in PBSA is 20%, comprising a c.10% margin on land sales and a development phase margin of c.22.5%.

We have continued to add to the PBSA pipeline and to progress sites through the planning process. Sites acquired during the year included an 819-bed development scheme in Bedminster, Bristol. We also purchased a site in Stratford (397 beds) on an unconditional basis, with the resolution to grant planning permission received in April 2022.

Our first fully co-living studio development, a 133-bed scheme in Exeter, is under construction and will be available to rent to the wider residential tenant market, including students.

The current secured development pipeline for PBSA is as shown below.

	PBSA beds (estimated year of physical completion)					
	Total pipeline	FY23	FY24	FY25	FY26	FY27
Forward sold	**1,757**	1,068	689	—	—	—
Forward sales in legals	**—**	—	—	—	—	—
Sites secured with planning	**2,329**	—	819	1,510	—	—
Sites secured subject to planning	**2,371**	—	—	406	1,450	515
Total secured	**6,457**	1,068	1,508	1,916	1,450	515

The estimated future revenue value to the Group of the secured development pipeline is c.£1.0 billion (FY21: £0.9 billion), of which £130 million is currently forward sold (FY21: £160 million).

In 2020/21, there were around 2.2 million fulltime students, up 8% on 2019/20 (source: HESA). Of these, Cushman & Wakefield (C&W) estimates that 1.6 million students require a bed during their course.

Trends in demand for UK university places remain positive. UCAS reported nearly 684,000 applications had been received for 2022 by the June 2022 deadline, of which 549,000 were from the UK. Demographic factors mean the number of 18 year olds in the UK is set to increase until 2030, while the proportion of 18 year olds applying for higher education continues to grow, reaching 44.1% in 2022.

The number of international students is also important, as they are more likely to live in PBSA than UK students. Applications from non-EU countries increased by 9% in 2022, to just under 112,000. The number of EU applications has fallen post-Brexit, reaching 23,000 in 2022, less than half the level in 2020.

Key statistics

Forward sold		**Secured pipeline**		**Delivered FY22**	
5	1,660	15	6,457	7	1,813
Schemes	Beds	Schemes	Beds	Scheme	Beds

The market opportunity

The number of full-time students in the UK continues to grow steadily and is a key determinant of demand for PBSA.

The growth in non-EU applications has made up much of the difference and with the EU now providing just over 3% of applications, the level of demand from the EU does not have a meaningful impact on overall demand for UK university places.

A notable trend in higher education is the flight to quality. With universities charging the same tuition fees and no cap on student numbers, better institutions have grown and lower-quality institutions have struggled. The latest data show that applications for higher tariff institutions were over 50% higher than applications for lower tariff universities. This has clear implications for the location of new PBSA developments.

There is a long-term demand-supply imbalance for PBSA. This imbalance is expected to increase, with the predicted annual increase in the number of students exceeding the supply of new beds. There are currently around 698,000 PBSA beds in the UK, with privately owned PBSA accounting for more than 53%. In total, around 24,600 new beds were delivered in 2021/22, only 700 more than in the previous year (source: C&W).

Much PBSA stock is outdated and needs redevelopment, presenting further opportunities. Around one quarter of total PBSA is unrefurbished, first-generation stock, built pre-1999. A number of these beds are therefore reaching the end of their operational lives and will need replacing (source: C&W).

Institutional investors remain attracted to UK PBSA as a mature, stable and income-producing asset class. Knight Frank reported £6.9 billion of transactions in 2022, the highest investment volume on record, driven by the sale of the Student Roost portfolio. A key trend has been new institutions entering the market, with the likes of EQT Exeter, Ares, Apollo and Cain all making significant acquisitions.

Affordable-led Homes
Revenue for the Affordable-led Homes division was £14.5 million (FY21: £22.7 million), a reduction of 36%. This was principally due to the continuing transition of our legacy house-building business to Affordable-led Homes. It was also impacted by construction delays at our site in Preston due to supply chain shortages.

Gross profit for the division was £1.9 million (FY21: £2.6 million), reflecting a margin of 13.2% (FY21: 11.3%). This was the result of the evolving mix of sales during the year, as the FY22 margin included the sale of a number of units at a higher margin.

We are working on site at Crewe, which was forward sold during FY21. Work is progressing well and we have commenced our trial on timber-framed homes. As well as being more environmentally friendly by using renewable construction materials, timber-framed homes have an increased element of off-site construction, which should make progress on site faster and more efficient. At our Llay site, we are continuing to work through the pre-commencement planning conditions.

We made good progress in adding to our pipeline, exchanging contracts on a site in Flint for 200 units. In addition, we obtained planning permission for our Belfast site, which includes 150 affordable units as part of the overall development. In conjunction with good asset management of our existing land bank, this has brought the current affordable homes pipeline to over 500 units for delivery over the period to FY26.

Key statistics

Affordable housing pipeline	**Traditional housing pipeline**
544	196
houses and apartments	Houses

The market opportunity
The National Planning Policy Framework defines affordable housing as housing for sale or rent, for people whose needs are not met by the market.

There are several types of affordable housing. One example is social rent, where local authorities or registered providers (such as housing associations) own the homes. Social rents are set by government guidelines and usually covered by housing benefit or local housing allowance. There are also homes with affordable rents, which are subject to rent controls that require the rent to be no more than 80% of the local market rent, including service charges. In addition, there are tenures such as shared ownership and other forms of low-cost home ownership, where people are supported to buy some or all of the equity in their home.

There is significant unmet demand for affordable housing. The National Housing Federation estimates that the UK needs 145,000 new affordable homes to be built each year. However, the average annual delivery since 2013 has been just 46,000 homes, with around 50,000 completed in the year to March 2022 (source: Homes England and the Greater London Authority (GLA)).

Property developers looking to secure planning consent from local authorities will usually be required to undertake what are known as section 106 requirements, designed to reduce the impact of their development on the local community. These requirements often include constructing affordable housing. On average, around 50% of all affordable housing is delivered in this way.

Historically, the balance has been provided by housing associations, usually with grant support from bodies such as Homes England and the GLA. The government has committed £11.4 billion to deliver 180,000 affordable homes between 2021 and 2026. Homes England will be making £7.4 billion available to deliver 130,000 homes outside London, while the GLA will make £4 billion available to deliver 50,000 homes in Greater London. At just under £64,000 per home, this scheme offers more than double the grant per home of the 2016-21 programme.

There has also been a steep rise in private capital looking to deploy into affordable housing, due to the sector's favourable long-term demand, the return characteristics, the potential for growth and insulation from volatility. This investment appetite is now broadening to encompass traditional private housing for single families, enabling investors to access additional BTR income streams. With a growing number of investors looking to diversify investments across different and multiple residential tenures, this new residential option sits comfortably alongside traditional affordable housing and further supports the investment case for a capital-light housing development model.

Affordable housing also provides the best opportunity for social impact and investors are increasingly looking for opportunities to enhance their ESG credentials.

Accommodation Management
Fresh increased revenue to £9.1 million (FY21: £7.8 million), reflecting higher levels of student occupancy as the sector recovered from the pandemic. It also reflected the increase in student beds and BTR apartments under management, from 22,155 at the start of FY22 to 22,896 at the end of FY22. We saw overall occupancy levels rise to 95.4% (FY21: 84.5%), with the majority of assets achieving between 99% and 100% occupancy.

Gross profit for the year was £5.9 million (FY21: £4.1 million), at a margin of 64.8% (FY21: 52.6%), benefiting from the increase in variable fee income related to occupancy levels in the year.

Fresh took over the management of four schemes during the year, for three student schemes and one BTR scheme. It was also appointed to manage the 133-unit co-living scheme in Exeter developed by the Group. There has been strong interest in the scheme, given the lack of affordable housing options for young people in Exeter.

For FY24, Fresh is currently forecast to manage 24,721 student beds and BTR apartments across 75 schemes.

This was a highly successful year for Fresh from a customer service perspective. The business increased its resident net promoter score to +34 in the Global Student Living Survey, against the benchmark for large providers of +8. It obtained a client net promoter score of +47, an increase of +35. Fresh also won numerous awards during the year, including Student Operator of the Year at the Resi Awards 2021. It also won Best Private Housing (UK & Ireland) for the second year in a row, along with Best Learning Environment (UK & Ireland) and Best Individual Property (UK & Ireland) at the 2022 Global Student Living Awards. These awards are particularly important as they are based on independent feedback from students.

Our Be wellbeing programme has been a key contributor to high levels of customer satisfaction, providing vital support to residents during the pandemic. This year, we expanded the programme by recruiting students to support it, with more than 180 signed up across the portfolio. They research what their fellow residents want and come up with ideas, such as events, that are tailored to those needs and the location.

During the year, we formalised our customer proposition, which we call 'The Fresh Difference'. This will ensure everyone in Fresh has a common understanding of what we stand for, what we are looking to achieve and what we need to do to further improve customer service, so we continue to differentiate ourselves from our competitors. To help us recruit the right people, we have rewritten our job descriptions to reflect our customer proposition.

We introduced and launched the Yardi property management software as a single system to create synergies and efficiencies. Since the launch, we have continued to lead the development of the software and hone the functionality of and expertise in the product. We have focused on securing direct bookings and as a result the Fresh website is performing strongly in the UK and overseas, with a significant increase in traffic compared with the previous website.

Key statistics

FY22 student beds and BTR apartments under management		**FY23 student beds and BTR apartments under management**	
71 Schemes	22,896	74 Schemes	24,028

The market opportunity

The accommodation management market continues to grow, as institutional investors seek partners to work with them to drive the performance of their residential for rent assets.

The growth in the accommodation management market is directly linked to the number of new developments coming through, as described on the preceding pages. In the student market, there are also opportunities for providers to increase market share by taking on the management of existing developments, as the previous provider's contract comes to an end. As the BTR sector is still at a relatively early stage, this secondary market is yet to emerge.

After a significant slowdown in opportunities during the pandemic, we saw a bounceback during FY22. In PBSA, these have come from a mix of new and existing schemes. There was also a meaningful increase in tenders to manage both BTR and co-living schemes. With build costs increasing during FY22, some schemes that were in the industry pipeline have been delayed. This may result in a slower market for managing new developments in FY23.

Many of the larger accommodation managers are the in-house arms of owner-operators. The pool of pure third-party operators of student accommodation remains small and Fresh is the third largest of these in the UK. Successful operation in the market requires sufficient scale to invest in the infrastructure and the specialist skills. At least 5,000 beds under management is seen as the minimum level, making it difficult for new operators to enter the market.

Even so, we are seeing increasing numbers of providers targeting the accommodation management space. Some owner-operators of residential for rent assets are looking to win third-party management contracts, while existing managers of student accommodation are targeting the BTR and co-living markets.

However, we believe there are several factors that make Fresh a strong competitor. The quality of our customer service and our customer-focused culture will continue to make Fresh stand out. Our scale, with almost 23,000 units under management across the country, means we have a detailed understanding of local markets and the buying power to secure favourable prices for our clients. We also benefit from the efficiencies of having a single brand and management platform, whereas competitors often create different brands for PBSA, BTR and co-living.

Case study
Bath is the only city in the UK to have UNESCO World Heritage Site status. With two universities, a growing population and a high percentage of young professionals, demand for residential accommodation is high.

Its historic buildings and proximity to a number of major employers makes Bath an extremely popular place to live. That heritage comes with challenges from a planning perspective – our in-house planning expertise proved a valuable asset in creating a suitable design to gain planning approval.

The site was attractive to us for several reasons:

- Our residential development would help support the provision of accommodation in a city that has a real shortage of housing.
- Our in-house planning expertise would give us an advantage in obtaining planning without undue delay.
- The site was on brownfield land in a regeneration area which supported our ESG objectives.
- There is significant investor interest in the city.

The desirability of the site was reinforced by the high level of interest from institutional investors. In May 2022, we agreed the sale of a PBSA portfolio to EQT Exeter which included the PBSA element of the site. In September 2022, we agreed a £100 million forward funding deal with DWS for the BTR element of the site.

Meeting the needs of the city's residents
Bath is seeing strong population growth – by 2028, its population is forecast to increase by more than 8%, significantly ahead of the national average. Bath's two universities attract over 24,000 full-time students and that number has also been growing – the number of full-time students at the University of Bath has increased by almost 16% since 2015. Young professionals make up around 30% of the city's demographic.

Coupled with a severe shortage of rental accommodation, this means there is strong demand for PBSA and BTR accommodation in the city.

A development for all
The development comprises 335 student beds and 316 BTR units. The BTR units range from studios to three-bedroom apartments, making them suitable for both young professionals and families. In addition, nearly one-third of the BTR units will be offered at a discount to the market rent in the area, increasing affordability for renters.

The development will include several communal amenity areas and communal landscaped areas to help build a community.

Developing in line with our sustainability objectives
We look to develop sites that align with our ESG objectives and this site was ideal as it is situated on brownfield land within the Riverside regeneration area. Such regeneration reduces pressure to develop greenfield land.

We expect the development to achieve BREEAM Excellent for the PBSA accommodation and Home Quality Mark Level 3 certification for the BTR element. It will include a broad range of sustainable features including air source heat pumps for hot water and heating and water-saving fittings.

The site is situated close to the city centre and boasts excellent sustainable transport options including a nearby cycling route, local bus routes and two rail stations, offering great connectivity to Bristol and other cities. Residents in both the PBSA and BTR developments will be encouraged to cycle, with over 800 secure bicycle parking spaces provided, along with a car club and electric charging points in the BTR development.

Construction commenced in December 2022 and completion is expected in 2025.

Financial review

Highlights

	FY22 £m	FY21 £m	Change
Revenue	**£407.1m**	£430.2m	(5.4)%
Gross profit	**£67.6m**	£84.8m	(20.3)%
Adjusted operating profit	**£54.7m**	£57.3m	(4.5)%
Adjusted basic earnings per share	**14.8p**	16.4p	(9.8)%
Operating profit	**£24.3m**	£57.3m	(57.6)%
Dividend per share	**7.4p**	8.2p	(9.8)%

Revenue
Revenue of £407.1 million was delivered in the year, down 5.4% from £430.2 million in FY21. Market volatility experienced in September 2022 affected the completion of two forward sales. These sales are now forecast to complete in FY23.

BTR development revenues grew by 38.0% to £191.2 million (FY21: £138.6 million) with the forward sale of five new developments during the year.

Revenues from our PBSA development business were £180.0 million (FY21: £259.9 million), a decrease of 30.7%, predominantly driven by the deferral of the PBSA scheme which was due to complete in September. Seven schemes completed in the year and five developments were forward sold. PBSA revenues also include the rental income from our six leased student accommodation assets. The rental income on these was £13.6 million (FY21: £10.8 million), an increase of 25.9%, driven by strong student occupancy following the easing of the pandemic restrictions.

The Affordable Homes business delivered revenues of £14.5 million, down 36.1% on the £22.7 million recorded in FY21.

Revenues in the year fell below the prior year predominantly due to the continued transition of our legacy house-building business to Affordable Homes.

Fresh, our Accommodation Management business, achieved record revenues of £9.1 million (FY21: £7.8 million), largely due to improved occupancy levels across its portfolio following the easing of pandemic restrictions.

In addition to our core businesses, we recorded revenues of £12.3 million (FY21: £1.3 million) from developing commercial property alongside PBSA and BTR developments, which is reported within our Corporate segment.

Operating profit
Gross profit for the year was £67.6 million (FY21: £84.8 million), a decrease of 20.3%. This resulted in a gross margin of 16.6% (FY21: 19.7%).

BTR development gross profit increased by 10.1% in the year to £32.8 million (FY21: £29.8 million), reflecting the strong revenue growth but some softening of the gross margin to 17.2% (FY21: 21.5%), although this remains well ahead of the BTR target margin of 15%.

Gross profit from PBSA development of £26.4 million, compared with £50.5 million in FY21, reflected the deferred completion of a forward sale from September. The gross margin was 14.7% (FY21: 19.4%), reflecting a blended margin mix weighed more towards lower-margin land sales from the forward sales completed in the year.

In Affordable Homes, gross profit was £1.9 million (FY21: £2.6 million), resulting in a gross margin of 13.2% (FY21: 11.3%). The improvement in gross margin reflects a stronger mix of sales in the year on new developments.

Fresh generated a gross profit of £5.9 million (FY21: £4.1 million) with the gross margin increasing by 43.9% as strong occupancy levels returned.

During the year we disposed of two leased PBSA investment properties (Dunaskin Mill and New Bridewell) which were sold as part of a portfolio, including three new PBSA schemes, to EQT Exeter. A profit on disposal, following the release of net liabilities and adjustments for rent and operating cost apportionment, was recorded of £18.3 million within administrative expenses.

Gross administrative expenses (excluding the above lease disposal) increased by 13.5% to £31.2 million (FY21: £27.5 million), reflecting increased levels of activity and associated staff costs.

Operating profit before exceptional items of £54.7 million was delivered (FY21: £57.3 million), at an operating margin before exceptional items of 13.4% (FY21: 13.3%). This result was despite the impact of market volatility leading to the deferral of two forward sales. Operating profit was £24.3 million (FY21: £57.3 million).

Exceptional items
In response to the new Building Safety Act and following a review of all buildings over 11 metres tall developed by the Group over the last 30 years, we have recognised an exceptional charge of £30.4 million for the potential costs of the remediation work required, which are expected to be incurred over a period of up to five years. No exceptional items were incurred in FY21.

Finance costs
The net finance cost for the year was £6.0 million (FY21: £6.1 million). These costs are primarily the finance cost of capitalised leases under IFRS 16, which totalled £4.5 million (FY21: £4.9 million). The balance of our finance costs represents the fees associated with the availability of our revolving credit facility (RCF) with HSBC and the interest cost of the loans we have with Svenska Handelsbanken AB (see 'Bank facilities' below).

Profit before tax

Profit before tax for the year was £18.4 million (FY21: £51.1 million). For FY22, adjusted profit before tax, which excludes the impact of the exceptional items for that year, was £48.8 million (FY21: £51.1 million).

Taxation

The corporation tax charge was £5.0 million (FY21: £9.2 million). The effective tax rate of 27% (FY21: 18%) was more than the standard UK corporation tax rate of 19%, primarily as a result of a £1.1 million adjustment in respect of prior year claims for land remediation relief. The effective tax rate in FY21 was reduced by a prior year tax credit relating to the taxation of distributions from the Curlew Student Fund, which had already been taxed at source, and the higher proportionate benefit relative to the lower profit of specific tax allowances, including land remediation expenditure.

Information on our tax strategy can be found in the Investor section of our website, **watkinjonesplc.com.**

Earnings per share

Basic earnings per share from continuing operations for the year was 5.2 pence (FY21: 16.4 pence). Adjusted basic earnings per share, which excludes the impact of the exceptional items, was 14.7 pence (FY21: 16.4 pence).

Dividends

The Board has proposed a final dividend of 4.5 pence per share (FY21: 5.6 pence per share). Taken together with the interim dividend of 2.9 pence per share (FY21: 2.6 pence per share), this will give a total dividend for the year of 7.4 pence per share (FY21: 8.2 pence per share). The dividend is 2.0x covered by adjusted earnings, in line with our stated policy.

At 30 September 2022, the Company had distributable reserves of £56.1 million available to pay dividends.

EBITDA

EBITDA was £32.7 million after the inclusion of exceptional provision costs of £30.4 million (FY21: £65.9 million). Adjusted EBITDA, which excludes exceptional items, was £63.1 million, with an adjusted EBITDA margin of 15.5%.

Return on capital employed

The return on capital employed (ROCE) for the year was strong at 63.1% (FY21: 72.1%). Our ROCE performance reflects the benefit of our capital-light forward sale business model, with our operating profit generated from a relatively consistent and modest level of capital employed.

Statement of financial position

At 30 September 2022, non-current assets amounted to £49.6 million (FY21: £124.7 million), with the most significant item being the carrying value of the leased student accommodation investment properties amounting to £27.3 million (FY21: £98.6 million). The reduction in these balances is mainly due to the disposal of two PBSA leased properties during the year. Right-of-use assets relating to office and car leases amounted to £4.7 million (FY21: £4.5 million). Intangible assets relating to Fresh amounted to £12.2 million (FY21: £12.7 million) and were reduced by the amortisation charge of £0.5 million in the year.

Inventory and work in progress was £147.1 million. These were £19.5 million higher than the prior year (FY21: £127.6 million) and reflect investment in new land sites for development in Stratford, Birmingham and Bristol, partially offset by the sale of the Group's Lewisham site.

Contract assets increased significantly in the year to £50.8 million (FY21: £13.8 million). These mainly relate to the final payment balances which are received on completion of developments in build. The increase in the year reflects the increased contributions from BTR developments which typically have a longer construction period and don't reach practical completion dates just prior to the Group's year end as PBSA development typically do. Contract liabilities amounted to £5.1 million and were £2.3 million higher than at 30 September 2021.

The Building Safety Act provision of £33.4 million is predominantly classified as non-current liabilities, based on our anticipated expenditure over the next five years. The increase in the provision of £30.4 million in the year is considered under the review of 'Exceptional items' above, and is in addition to a brought-forward provision of £3.1 million for cladding-related costs.

Interest-bearing loans and borrowings stood at £28.2 million at 30 September 2022, up from £12.0 million a year ago. The increase primarily relates to the drawdown of loans against new sites in Stratford and Bristol. The current portion of our loans has decreased by £4.7 million to £Nil, which reflects the renewal of our facilities with Svenska Handelsbanken AB (see 'Bank facilities' below).

Lease liabilities arising from the adoption of IFRS 16 'Leases' in the prior year were reduced by £80.2 million to £49.1 million (FY21: £129.3 million), reflecting capital repayments made in the year and a disposal of £76.7 million mainly due to the disposal of two PBSA leased properties.

Cash and net debt

	FY22 **£m**	FY21 £m
Operating profit before exceptional items	**54.7**	57.3

Profit on disposal of fixed assets	**(20.9)**	—
Depreciation and amortisation	**8.4**	8.7
(Increase)/decrease in working capital	**(61.7)**	10.3
Finance costs paid	**(5.8)**	(6.7)
Tax paid	**(1.6)**	(8.2)
Net cash inflow/(outflow) from operating activities	**(26.9)**	61.4
Sale/(purchase) of fixed assets	**11.6**	(0.2)
Cash flow from joint venture interests	**—**	0.1
Dividends paid	**(21.8)**	(25.5)
Payment of lease liabilities	**(4.7)**	(6.1)
Cash flow from borrowings	**16.3**	(27.9)
Increase/(decrease) in cash	**(25.5)**	1.8
Cash at beginning of year	**136.3**	134.5
Cash at end of year	**110.8**	136.3
Less: borrowings	**(28.2)**	(12.0)
Net cash before deducting lease liabilities	**82.6**	124.3
Less: lease liabilities	**(49.1)**	(129.3)
Net cash/(debt)	**33.5**	(5.0)

At the year end, we had a cash balance of £110.8 million and loans of £28.3 million, resulting in a net cash position of £82.5 million. At 30 September 2021, we had a cash balance of £136.3 million, loans of £12.0 million and net cash of £124.3 million.

Net cash balances are stated before deducting the lease liabilities of £49.1 million (30 September 2021: £129.3 million), arising as a result of applying IFRS 16.

The lease liabilities relate primarily to several historic student accommodation sale and leaseback properties, for which the future lease rental liabilities are expected to be substantially covered by the future net student rental incomes to be received.

In a typical year, the Group's cash balance peaks around the year end, as we receive the final payments on student accommodation developments completing ahead of the new academic year, as well as initial proceeds from the latest forward sales.

The Group is then a net user of cash until the following year end, as a result of outflows such as tax and dividend payments, overhead costs and land purchases.

The cash balance at the year end is therefore important for funding our day-to-day cash requirements and for putting the Group in a strong position when bidding for new sites.

The Group's net cash outflow from operating activities for the year was £26.9 million (FY21: inflow of £61.4 million), reflecting investment in new development sites and the stages of development of sites under construction. This net outflow was exacerbated by two forward sales that were forecast to complete being affected by the market volatility in September 2022 such that they didn't close before the year end and are now forecast to close in FY23.

Finance costs paid totalled £5.8 million (FY21: £6.7 million), including the finance charges on the capitalised lease liabilities of £4.5 million (FY21: £4.9 million), for which the capital payments amounted to £4.7 million (FY21: £6.1 million).

Dividends paid in the year totalled £21.8 million (FY21: £25.5 million). The dividend payments in FY21 included both the full-year dividend for FY20, following the suspension of the interim dividend for that year, as well as the interim dividend for FY21. Dividends paid in FY22 comprised the final dividend for FY21 and the interim dividend for FY22.

Bank facilities

The Group has a £100.0 million RCF which runs until May 2025. At the year end, £24.8 million was drawn against the facility (30 September 2021: £7.8 million), giving headroom of £75.2 million. This facility can be accessed to fund land acquisitions. We also have an undrawn overdraft facility of £10.0 million. Total cash and available facilities at 30 September 2022 therefore stood at £196.0 million (FY21: £238.5 million).

In addition, the Group has loan facilities with Svenska Handelsbanken AB, which are used to fund our operating build to rent stock in Sheffield and Droylsden, which were renewed during the year and run to September 2024. The outstanding balance at the year end was £4.0 million (30 September 2021: £4.5 million).

Going concern

We have undertaken a thorough review of the Group's ability to continue to trade as a going concern for the period to 31 January 2024. The basis of the review and an analysis of the downside risks is set out in the section on 'Risk management and principal risks' within the Watkin Jones plc Annual Report for the year ended 30 September 2022.

Alternative performance measures (APMs)

We use APMs as part of our financial reporting, alongside statutory reporting measures. These APMs are provided for the following reasons:

1) to present users of the annual report with a clear view of what we consider to be the results of our underlying operations, enabling consistent comparisons over time and making it easier for users of the report to identify trends;
2) to provide additional information to users of the annual report about our financial performance or position;
3) to show the performance measures used by the Board in determining dividend payments; and
4) to show the performance measures that are linked to remuneration for the Executive Directors.

The following APMs appear in this annual report.

		Reconciliation		
	Reason for use		**FY22 £'000**	FY21 £'000
Adjusted operating profit	1	Operating profit	**24,319**	57,255
		Add: exceptional items	**30,365**	—
		Adjusted operating profit	**54,684**	57,255
Adjusted profit before tax	1,4	Profit before tax	**18,393**	51,121
		Add: exceptional items	**30,365**	—
		Adjusted profit before tax	**48,758**	51,121
Adjusted basic earnings per share	1,3,4	Profit after tax	**13,414**	41,932
		Add: exceptional items	**30,365**	—
		Less: tax on exceptional items	**(5,769)**	—
		Adjusted profit after tax	**38,010**	41,932
		Weighted average number of shares	**256,385,882**	256,163,459
		Adjusted basic earnings per share	**14.825 pence**	16.369 pence
EBITDA	1	Operating profit	**24,319**	57,255
		Add: share of loss in joint ventures	**(16)**	(87)
		Add: depreciation	**7,852**	8,128
		Add: amortisation	**559**	560
		EBITDA	**32,714**	65,856
Adjusted EBITDA	1	EBITDA	**32,714**	65,856
		Add: exceptional items	**30,365**	—
		Adjusted EBITDA	**63,079**	65,856
Adjusted net cash	2	Net cash/(debt)	**33,454**	(4,920)
		Add: lease liabilities	**49,099**	129,252
		Adjusted net cash	**82,553**	124,332
Return on capital employed	1,2	**Adjusted operating profit**	**54,684**	57,255
		Net assets at 30 September	**176,953**	184,811
		Less: adjusted net cash	**(82,553)**	(124,332)
		Less: intangible assets	**(12,165)**	(12,724)
		Less: investment property (leased)	**(27,331)**	(98,567)
		Less: right-of-use assets	**(4,738)**	(4,468)
		Add: lease liabilities	**49,099**	129,252
		Adjusted net assets at 30 September	**99,265**	73,972
		Adjusted net assets at 1 October	**73,972**	84,775
		Average adjusted net assets	**86,619**	79,374
		Return on capital employed	**63.1%**	72.1%

Sarah Sergeant
Chief Financial Officer

25 January 2023

Consolidated statement of comprehensive income

for the year ended 30 September 2022

	Notes	**Year ended 30 September 2022 £'000**	Year ended 30 September 2021 £'000
Continuing operations			
Revenue	5	**407,076**	430,211
Cost of sales		**(339,450)**	(345,430)

Gross profit		**67,626**	84,781
Administrative expenses		**(12,942)**	(27,526)
Operating profit before exceptional items		**54,684**	57,255
Exceptional costs	6	**(30,365)**	—
Operating profit	7	**24,319**	57,255
Share of loss in joint ventures		**(16)**	(87)
Finance income		**72**	4
Finance costs		**(5,982)**	(6,051)
Profit before tax		**18,393**	51,121
Income tax expense	8	**(4,979)**	(9,189)
Profit for the year attributable to ordinary equity holders of the parent		**13,414**	41,932
Other comprehensive income			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Net gain/(loss) on equity instruments designated at fair value through other comprehensive income, net of tax		**157**	108
Total comprehensive income for the year attributable to ordinary equity holders of the parent		**13,571**	42,040

		Pence	Pence
Earnings per share for the year attributable to ordinary equity holders of the parent			
Basic earnings per share	9	**5.232**	16.369
Diluted earnings per share	9	**5.205**	16.340
Adjusted basic earnings per share (excluding exceptional costs)	9	**14.825**	16.369
Adjusted diluted earnings per share (excluding exceptional costs)	9	**14.748**	16.340

Consolidated statement of financial position

as at 30 September 2022

	Notes	**30 September 2022 £'000**	30 September 2021 £'000
Non-current assets			
Intangible assets		**12,165**	12,724
Investment property (leased)	11	**27,331**	98,567
Right-of-use assets	11	**4,738**	4,468
Property, plant and equipment		**2,009**	3,656
Investment in joint ventures		**1**	17
Deferred tax assets		**1,941**	4,057
Other financial assets		**1,366**	1,241
		49,551	124,730
Current assets			
Inventory and work in progress		**147,118**	127,593
Contract assets		**50,821**	13,810
Trade and other receivables		**28,628**	28,198
Cash and cash equivalents	14	**110,841**	136,293
		337,408	305,894
Total assets		**386,959**	430,624
Current liabilities			
Trade and other payables		**(89,717)**	(89,198)
Contract liabilities		**(5,052)**	(2,845)
Interest-bearing loans and borrowings		**—**	(4,653)
Lease liabilities	11	**(6,248)**	(6,113)
Provisions	12	**(7,713)**	(4,667)
Current tax liabilities		**(4,402)**	(2,015)
		(113,132)	(109,491)
Non-current liabilities			
Interest-bearing loans and borrowings		**(28,288)**	(7,308)
Lease liabilities	11	**(42,851)**	(123,139)
Provisions	12	**(25,735)**	(4,732)
Deferred tax liabilities		**—**	(1,143)

	(96,874)	(136,322)
Total liabilities	**(210,006)**	(245,813)
Net assets	**176,953**	184,811
Equity		
Share capital	**2,564**	2,562
Share premium	**84,612**	84,612
Merger reserve	**(75,383)**	(75,383)
Fair value reserve of financial assets at FVOCI	**662**	536
Share-based payment reserve	**526**	2,824
Retained earnings	**163,972**	169,660
Total equity	**176,953**	184,811

Consolidated statement of changes in equity

for the year ended 30 September 2022

	Share capital £'000	Share premium £'000	Merger reserve £'000	Fair value reserve of financial assets at FVOCI £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 30 September 2020	2,562	84,612	(75,383)	428	2,348	153,271	167,838
Profit for the year	—	—	—	—	—	41,932	41,932
Other comprehensive income	—	—	—	108	—	—	108
Total comprehensive income	—	—	—	108	—	41,932	42,040
Share-based payments	—	—	—	—	476	—	476
Deferred tax debited directly to equity	—	—	—	—	—	(59)	(59)
Dividend paid (note 10)	—	—	—	—	—	(25,484)	(25,484)
Balance at 30 September 2021	2,562	84,612	(75,383)	536	2,824	169,660	184,811
Profit for the year	**—**	**—**	**—**	**—**	**—**	**13,414**	**13,414**
Other comprehensive income	**—**	**—**	**—**	**126**	**—**	**31**	**157**
Total comprehensive income	**—**	**—**	**—**	**126**	**—**	**13,445**	**13,571**
Share-based payments	**2**	**—**	**—**	**—**	**209**	**—**	**211**
Recycled reserve for fully vested share-based payment schemes	**—**	**—**	**—**	**—**	**(2,507)**	**2,507**	**—**
Deferred tax debited directly to equity	**—**	**—**	**—**	**—**	**—**	**141**	**141**
Dividend paid (note 10)	**—**	**—**	**—**	**—**	**—**	**(21,781)**	**(21,781)**
Balance at 30 September 2022	**2,564**	**84,612**	**(75,383)**	**662**	**526**	**163,972**	**176,953**

Consolidated statement of cash flows

for the year ended 30 September 2022

	Notes	**Year ended 30 September 2022 £'000**	Year ended 30 September 2021 £'000
Cash flows from operating activities			
Cash (outflow)/inflow from operations	13	**(19,592)**	76,307
Interest received		**72**	4

Interest paid		**(5,782)**	(6,638)
Tax paid		**(1,557)**	(8,211)
Net cash (outflow)/inflow from operating activities		**(26,859)**	61,462
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(660)**	(208)
Proceeds on disposal of property, plant and equipment		**4,341**	4
Proceeds on disposal of right-of-use assets		**7,897**	—
Cash flow from joint venture interests		**—**	57
Net cash inflow/(outflow) from investing activities		**11,578**	(147)
Cash flows from financing activities			
Dividends paid	10	**(21,781)**	(25,484)
Proceeds from exercise of share options		**—**	—
Payment of principal portion of lease liabilities		**(4,717)**	(6,145)
Payment of capital element of other interest-bearing loans		**(389)**	(242)
Drawdown of RCF		**20,625**	25,705
Repayment of bank loans		**(3,909)**	(53,369)
Net cash outflow from financing activities		**(10,171)**	(59,535)
Net (decrease)/increase in cash		**(25,452)**	1,780
Cash and cash equivalents at 1 October 2021 and 1 October 2020		**136,293**	134,513
Cash and cash equivalents at 30 September 2022 and 30 September 2021		**110,841**	136,293

Notes to the consolidated financial statements

for the year ended 30 September 2022

1. General information

Watkin Jones plc (the 'Company') is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (registration number 9791105) and its shares are listed on the Alternative Investment Market of the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 7-9 Swallow Street, London, England, W1B 4DE.

The principal activities of the Company and its subsidiaries (collectively the 'Group') are those of property development and the management of properties for multiple residential occupation.

The consolidated financial statements for the Group for the year ended 30 September 2022 comprise the Company and its subsidiaries. The basis of preparation of the consolidated financial statements is set out in note 2 below.

2. Basis of preparation

The financial statements of the Group have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with United Kingdom adopted International Accounting Standards.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events may ultimately differ from those estimates.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 30 September 2022 or 2021, but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies, and those for 2022 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The accounting policies set out in the notes have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The financial statements are prepared on the historical cost basis except as disclosed in these accounting policies.

The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

3. Accounting policies

The results for the year have been prepared on a basis consistent with the accounting policies set out in the Watkin Jones plc Annual Report for the year ended 30 September 2022.

4. Building Safety Act provision

In response to the revised government guidance, issued in January 2020, on the suitability of certain cladding solutions used on high-rise residential buildings, the Group has been working with the owners of certain of its previously developed properties to remediate or replace cladding and to share the costs. In April 2022 the Building Safety Act 2022 (the 'BSA') was enacted, with the government announcing its intention to approach developers to fund the remediation of life-critical fire safety issues on buildings over 11 metres and up to 30 years old. While noting the requirement for secondary legislation to clarify the impact of the government's plans, the Group expects that, in due course, it will incur costs in relation to remediation works on developments over 11 metres tall and up to 30 years old.

Whilst it is unclear exactly what remedial works will be needed, the Group has performed a review of buildings above 11 metres developed by the Company over the last 30 years, which concluded that an exceptional charge of £30,365,000 should be made for these potential costs. This amount covers the following areas set out in the BSA: i) the extension of scope for developers' responsibility to 30 years; ii) the increased scope by including buildings above 11 metres; and iii) the expanded scope to incorporate critical life safety defects. We expect this money will be spent over the next five years, and the provision has been discounted accordingly.

This is a highly complex area with judgements and estimates in respect of the cost of remedial works, the quantum of any legal expenditure associated with the defence of the Group's position in this regard, and the extent of those properties within the scope of the applicable government guidance and legislation, which continue to evolve. The amount provided for these works has been estimated by reference to recent industry experience, external quotes for similar work identified, and legal advice on the defence of the Group's position on certain developments. In advance of remedial works commencing, the provision represents the Group's best estimate of its share of contributions, recognising that in certain instances current owners are contributing to remediation of the developments. Should the costs associated with these remedial works increase by 5%, the provision required would increase by £1,700,000. Should the discount rate applied to the calculation reduce by 1%, the provision required would increase by £600,000. Further details of the provision are set out in note 12.

5. Segmental reporting

The Group has identified four segments for which it reports under IFRS 8 'Operating Segments'. The following represents the segments that the Group operated in during FY22 and FY21:

a) Student Accommodation – the development of purpose built student accommodation;
b) Build To Rent – the development of build to rent accommodation;
c) Affordable Homes – the development of residential housing; and
d) Accommodation Management – the management of student accommodation and build to rent property.

Corporate – revenue from the development of commercial property forming part of mixed-use schemes and other revenue and costs not solely attributable to any one operating segment.

All revenues arise in the UK.

Performance is measured by the Board based on gross profit as reported in the management accounts.

Apart from inventory and work in progress, no other assets or liabilities are analysed into the operating segments.

Year ended 30 September 2022	Student Accommodation £'000	Build To Rent £'000	Affordable Homes £'000	Accommodation Management £'000	Corporate £'000	Total £'000
Segmental revenue	**180,037**	**191,228**	**14,478**	**9,072**	**12,261**	**407,076**
Segmental gross profit	**26,353**	**32,808**	**1,915**	**5,909**	**641**	**67,626**
Administration expenses	—	—	—	**(5,788)**	**(25,407)**	**(31,195)**
Profit on disposal of student leasehold properties (see note 11)	—	—	—	—	**18,253**	**18,253**
Exceptional costs	—	—	—	—	**(30,365)**	**(30,365)**
Share of loss in joint ventures	—	—	—	—	**(16)**	**(16)**
Finance income	—	—	—	—	**72**	**72**
Finance costs	—	—	—	—	**(5,982)**	**(5,982)**
Profit/(loss) before tax	**26,353**	**32,808**	**1,915**	**121**	**(42,804)**	**18,393**
Taxation	—	—	—	—	**(4,979)**	**(4,979)**
Continuing profit/(loss) for the year	**26,353**	**32,808**	**1,915**	**121**	**(47,783)**	**13,414**
Profit for the year attributable to ordinary equity shareholders of the parent						**13,414**

Inventory and work in progress	**75,840**	**38,763**	**29,785**	**—**	**2,730**	**147,188**

Year ended 30 September 2021	Student Accommodation £'000	Build To Rent £'000	Affordable Homes £'000	Accommodation Management £'000	Corporate £'000	Total £'000
Segmental revenue	259,882	138,569	22,663	7,762	1,335	430,211
Segmental gross profit	50,464	29,765	2,560	4,081	(2,089)	84,781
Administration expenses	—	—	—	(4,229)	(23,297)	(27,526)
Share of loss in joint ventures	(87)	—	—	—	—	(87)
Finance income	—	—	—	—	4	4
Finance costs	—	—	—	—	(6,051)	(6,051)
Profit/(loss) before tax	50,377	29,765	2,560	(148)	(31,433)	51,121
Taxation	—	—	—	—	(9,189)	(9,189)
Continuing profit/(loss) for the year	50,377	29,765	2,560	(148)	(40,622)	41,932
Profit for the year attributable to ordinary equity shareholders of the parent						41,932
Inventory and work in progress	25,754	64,086	27,420	—	10,333	127,593

6. Exceptional costs

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Building Safety Act provision	**30,365**	—
Total exceptional costs	**30,365**	—

There have been exceptional items during the year of £30,365,000 (2021: £Nil) relating to a provision made for Building Safety Act 2022 related costs. Further information on this charge is included in note 4 and note 12.

All of the exceptional costs in the year were treated as allowable deductions for corporation tax purposes.

7. Total operating profit

This is stated after charging/(crediting):

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Audit services to the parent company	**100**	136
Audit services to the subsidiaries	**275**	134
Amortisation of intangible assets	**559**	560
Depreciation:		
Property, plant and equipment	**747**	839
Investment property (leased)	**6,156**	6,292
Right-of-use assets	**949**	997
Profit on disposal of student leasehold properties (see note 11)	**(18,253)**	—
Loss on disposal of other right-of-use assets	**116**	6
(Profit)/loss on disposal of property, plant and equipment	**(2,783)**	85

8. Income taxes

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Current income tax		
UK corporation tax on profits for the year	**2,708**	9,635
Adjustments in respect of prior periods	**1,133**	254
Foreign taxes	**55**	—
Total current tax	**3,896**	9,889

Deferred tax		
Origination and reversal of temporary differences	**808**	51
Adjustments in respect of prior year	**4**	(13)
Remeasurement of deferred tax for changes in tax rates	**271**	(738)
Total deferred tax	**1,083**	(700)
Total tax expense	**4,979**	9,189

Reconciliation of total tax expense

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Profit before tax	**18,393**	51,121
Profit multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**3,495**	9,713
Fixed asset differences	**(7)**	—
Expenses not deductible	**34**	110
Income not taxable	**33**	(14)
Remeasurement of deferred tax for changes in tax rates	**271**	(738)
Other differences	**45**	(123)
Differences to foreign tax rates	**(29)**	—
Adjustments in respect of prior periods	**1,133**	241
Prior year adjustment to deferred tax	**4**	—
At the effective rate of tax of 27.1% (2021: 18.0%)	**4,979**	9,189
Income tax expense reported in the statement of profit or loss	**4,979**	9,189

As a result of the Finance Act 2021, the rate of UK corporation tax will increase to 25% from 6 April 2023. The deferred tax assets and liabilities held by the Group at the start of the current year have been revalued to reflect this increase. This resulted in an increase in deferred tax assets of £1,004,000 and an increase in deferred tax liabilities of £266,000.

9. Earnings per share

The following table reflects the income and share data used in the basic and diluted EPS computations:

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Profit for the year attributable to ordinary equity holders of the parent	**13,414**	41,932
Add back exceptional costs for the year (note 6)	**30,365**	—
Less corporation tax benefit from exceptional costs for the year	**(5,769)**	—
Adjusted profit for the year attributable to ordinary equity holders of the parent (excluding exceptional costs after tax)	**38,010**	41,932

	Year ended 30 September 2022 Number of shares	Year ended 30 September 2021 Number of shares
Weighted average number of ordinary shares for basic earnings per share	**256,385,882**	256,163,459
Adjustment for the effects of dilutive potential ordinary shares	**1,338,930**	453,761
Weighted average number for diluted earnings per share	**257,724,812**	256,617,220

	Year ended 30 September 2022 Pence	Year ended 30 September 2021 Pence
Basic earnings per share		
Basic profit for the year attributable to ordinary equity holders of the parent	**5.232**	16.369
Adjusted basic earnings per share (excluding exceptional costs after tax)		
Adjusted profit for the year attributable to ordinary equity holders of the parent	**14.825**	16.369
Diluted earnings per share		
Basic profit for the year attributable to diluted equity holders of the parent	**5.205**	16.340
Adjusted diluted earnings per share (excluding exceptional costs after tax)		
Adjusted profit for the year attributable to diluted equity holders of the parent	**14.748**	16.340

10. Dividends

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Final dividend paid in February 2022 of 5.6 pence (February 2021: 7.35 pence)	**14,345**	18,826
Interim dividend paid in June 2022 of 2.9 pence (June 2021: 2.6 pence)	**7,436**	6,658
	21,781	25,484

An interim dividend in relation to the year ended 30 September 2022 of 2.9 pence per ordinary share was paid on 30 June 2022 (2021: 2.6 pence per ordinary share).

The final dividend proposed for the year ended 30 September 2022 is 4.5 pence per ordinary share (2021: 5.6 pence per ordinary share) and will be paid on 2 March 2023 to shareholders on the register at the close of business on 3 February 2023. This dividend was declared after 30 September 2022 and as such the liability of £11,539,000 (2021: £14,345,000) has not been recognised at that date. At 30 September 2022, the Company had distributable reserves available of £56,058,000 (30 September 2021: £75,332,000).

11. Leases

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Investment property (leased) £'000	Offices £'000	Motor vehicles £'000	Total £'000
Cost				
At 30 September 2020	161,393	9,411	1,432	172,236
Additions/adjustment	243	721	13	977
Disposals	(7)	—	(471)	(478)
At 30 September 2021	161,629	10,132	974	172,735
Additions/adjustment	**—**	**119**	**1,173**	**1,292**
Disposals	**(78,038)**	**—**	**(591)**	**(78,629)**
At 30 September 2022	**83,591**	**10,251**	**1,556**	**95,398**
Depreciation				
At 30 September 2020	51,072	4,994	1,086	57,152
Charge for the year	6,292	791	206	7,289
Disposals	—	—	(439)	(439)
At 30 September 2021	57,364	5,785	853	64,002
Charge for the year	**6,156**	**691**	**258**	**7,105**
Disposals	**(12,958)**	**—**	**(518)**	**(13,476)**
At 30 September 2022	**50,562**	**6,476**	**593**	**57,631**
Impairment				
At 30 September 2020	5,698	—	—	5,698
Charge for the year	—	—	—	—
At 30 September 2021	5,698	—	—	5,698
Charge for the year	**—**	**—**	**—**	**—**
At 30 September 2022	**5,698**	**—**	**—**	**5,698**
Net book value				
At 30 September 2022	**27,331**	**3,775**	**963**	**32,069**
At 30 September 2021	98,567	4,347	121	103,035
At 30 September 2020	104,623	4,417	346	109,386

Investment property (leased) assets relate to the Group's four (2021: six) student leaseback arrangements. Each of the four leaseback arrangements are considered to be a separate CGU. The Directors have reviewed the carrying value of these leases where there is an indication of impairment and compared them to their respective recoverable amounts. No impairment charge (2021: no impairment charge) has been recognised during the year.

The recoverable amount for each CGU has been calculated as its value in use. The valuation technique used is a discounted cash flow. Due to the bespoke nature of these arrangements, these valuations are also considered to represent the fair value of each of the investment property (leased) assets. The key inputs into the valuation are gross rental income, operating costs, lease term and an estimated discount rate reflecting the market assessment of risk that would be applied to each asset. The estimated discount rates for each property, together with their value in use, are included in the next table.

	Impairment charge/(reversal) £'000				Value in use £'000	
	Year ended 30 September 2022	Year ended 30 September 2021	Discount rate	Lease termination date	**Year ended 30 September 2022**	Year ended 30 September 2021
Collegelands, Glasgow	**—**	—	5.5%	6 September 2026	**11,129**	12,328
Europa, Liverpool	**—**	—	6.5%	18 March 2030	**10,317**	10,756
Optima, Loughborough	**—**	—	6.0%	18 March 2030	**1,785**	2,166
Glassyard Building, London	**—**	—	5.0%	10 September 2034	**9,854**	9,984
Total	**—**	**—**			**33,085**	**35,234**

These impairment calculations are sensitive to changes in the assumptions around discount rate. Reasonable sensitivities have been applied to these assumptions, in each case being an increase in the discount rate applied of 1.2 percentage points. In this scenario there remained headroom against the carrying value of the assets held.

During the year ended 30 September 2022, two previously leased investment properties (Dunaskin Mill and New Bridewell) were disposed. A profit on disposal, following the release of net liabilities and adjustments for rent and operating cost apportionment, was recorded of £18,253,000.

Set out below are the carrying amounts of lease liabilities and movements during the period:

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
At the start of the period	**129,252**	134,453
Additions	**1,292**	977
Disposals	**(76,728)**	(33)
Accretion of interest	**4,479**	4,895
Payments	**(9,196)**	(11,040)
At the end of the period	**49,099**	129,252
Current	**6,248**	6,113
Non-current	**42,851**	123,139

Group as lessor – operating lease rentals receivable

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	**8,094**	13,514
Later than one year and less than five years	**703**	12,747
After five years	**63**	16,457
	8,860	42,718

The Group acts as lessor in respect of certain commercial property and for the student accommodation properties operated under the sale and leaseback arrangements detailed above. The decrease in operating lease rentals receivable at 30 September 2022 compared to the prior year has arisen as a result of the disposal of the Dunaskin Mill and New Bridewell properties.

12. Provisions

Building Safety Act provision (formerly Cladding Provision)

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Current		
At 1 October	**4,667**	6,277
Arising during the year	**7,898**	558
Utilised	**(6,316)**	(1,023)
Transferred from/(to) non-current	**1,464**	(1,145)

At 30 September	**7,713**	4,667

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Non-current		
At 1 October	**4,732**	3,587
Arising during the year	**22,467**	—
Transferred (to)/from current	**(1,464)**	1,145
At 30 September	**25,735**	4,732

In the financial year ended 30 September 2020, the Group made a provision in response to government guidance, issued in January 2020, on the suitability of certain cladding solutions used on high-rise residential buildings. Following the introduction of the Building Safety Act 2022 (the 'BSA') during the year ended 30 September 2022, the scope of requirements around cladding and firestopping measures on such buildings has been increased.

The Group has been working with the owners of certain of its previously developed properties to remediate certain items now in scope of the BSA and to share the costs. A provision of £9,399,000 was held at 30 September 2021 for the Group's anticipated contribution towards the cost of the fire safety recladding works. A further provision of £30,365,000 has been made during the year ended 30 September 2022 to reflect the increased scope of the BSA. The judgements surrounding this provision are discussed in more detail in note 4.

The provision at 30 September 2022 amounts to £33,448,000, of which £7,713,000 is expected to be incurred in the year ending 30 September 2023 and £25,735,000 is expected to be incurred between 1 October 2023 and 30 September 2027.

13. Reconciliation of profit before tax to net cash flows from operating activities

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Profit before tax	**18,393**	51,121
Depreciation of leased investment properties and right-of-use assets	**7,105**	7,289
Depreciation of plant and equipment	**747**	839
Amortisation of intangible assets	**559**	560
(Profit)/loss on disposal of right-of-use assets	**(18,137)**	6
(Profit)/loss on disposal of property, plant and equipment	**(2,783)**	85
Finance income	**(72)**	(4)
Finance costs	**5,982**	6,051
Share of loss in joint ventures	**16**	87
Increase in inventory and work in progress	**(19,525)**	(1,346)
(Increase)/decrease in contract assets	**(37,011)**	27,712
Increase in trade and other receivables	**(430)**	(4,680)
Increase/(decrease) in contract liabilities	**2,207**	(6,122)
Decrease in trade and other payables	**(901)**	(5,302)
Increase/(decrease) in provisions	**24,049**	(465)
Increase in share-based payment reserve	**209**	476
Net cash (outflow)/inflow from operating activities	**(19,592)**	76,307

Major non-cash transactions

There were no major non-cash transactions during the period.

14. Analysis of net cash/(debt)

30 September 2022	**At beginning of year £'000**	**Cash flow £'000**	**Other movements £'000**	**At end of year £'000**
Cash at bank and in hand	**136,293**	**(25,452)**	**—**	**110,841**
Other interest-bearing loans	**(389)**	**389**	**—**	**—**
Bank loans	**(11,572)**	**(16,516)**	**(200)**	**(28,288)**
Net cash before deducting lease liabilities	**124,332**	**(41,579)**	**(200)**	**82,553**
Lease liabilities (note 11)	**(129,252)**	**4,717**	**75,436**	**(49,099)**

Net cash/(debt)	**(4,920)**	**(36,862)**	**75,236**	**33,454**

30 September 2021	At beginning of year £'000	Cash flow £'000	Other movements £'000	At end of year £'000
Cash at bank and in hand	134,513	1,780	—	136,293
Other interest-bearing loans	(631)	242	—	(389)
Bank loans	(39,036)	27,664	(200)	(11,572)
Net cash before deducting lease liabilities	94,846	29,686	(200)	124,332
Lease liabilities (note 11)	(134,453)	6,145	(944)	(129,252)
Net cash/(debt)	(39,607)	35,831	(1,144)	(4,920)

Cash at bank and in hand as at 30 September 2022 includes £53,000 of cash deposited by the Group in an escrow account in connection with a development in progress, access to which is contingent upon the completion of certain development works (30 September 2021: £53,000). Non-cash movements relate to the acquisition of property, plant and equipment under other interest-bearing loans, the amortisation of bank loan arrangement fees and changes to the value of lease liabilities as a result of leases entered into or terminated in the period or due to movements in the rent inflation rates assumed.

15. Subsequent events

On 9 January 2023, the main contractor on one of the Group's live third party-developed BtR sites entered liquidation proceedings. The Group intends to take on the remaining obligations under the build contract as main contractor. This is a non-adjusting event under IAS 10 "Events after the reporting period". The replacement of this main contractor will result in certain additional costs to the Group, however due to the proximity of this event to the approval of the financial statements an estimate of the net impact of these changes cannot be made at this time.

16. Annual report

Copies of this announcement are available from the Company at 7-9 Swallow Street, London W1B 4DE. The Group's annual report for the year ended 30 September 2022 will be posted to shareholders shortly and will be available on our website at www.watkinjones.com.

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