Finance review

Translating performance into recognisable earnings

Since the IPO, the Group has made good progress in the development of the asset management business, although this is not yet reflected in the reported earnings.

Overview

The Group's operating loss before exceptional items was £1.1m, and total reported loss after tax was £1.7m. This was primarily driven by the Group's strategic objective to grow its asset management business, with a focus on building a sustainable platform with predictable and recurring income streams, profitability and therefore total shareholder return, at the expense of short-term profits. A high quality loan book, with more equity from developers and consequently slower drawdown of funds, also had an adverse impact on short-term income. The projected aggregate income generated by the existing loan book is in line with expectations and the Group expects to expand its lending capacity through its fund-raising activities. The reported earnings include exceptional one-off costs of £0.9m and share-based expenses of £0.5m.

The headline financial results for the period from 10 April 2018 to 31 December 2018 are presented in this Finance Review.

"The Group expects to expand its lending capacity through its fund-raising activities."

Bracknell, RG12

Senior debt facility to fund acquisition and development. The site is the former bus station at Market Street, Bracknell, Berkshire. The town's brutalist concrete structures have not aged well, and the area has undergone an extensive, phased regeneration project costing over £0.75bn, making it one of the largest urban regeneration schemes in the UK. The site is being redeveloped to provide 242 residential units (181 private, 61 affordable) across two blocks, plus 2,680 sq ft of offices and 184 parking spaces. Of the 242 apartments, eight are studios, 136 are 1-bedroom and 98 are 2-bedroom units.

The developer, SevenCapital is one of the largest privately owned real estate investment and development companies in the UK.

GDV: £67.5m

Income recognition

In furtherance of the Group's strategic objective to grow its asset management business, the loans originated by the Group are sold or syndicated to third parties, which delays the recognition of income.

All loans and investments in partnership vehicles are accounted for on a fair value basis under the requirements of IFRS 9.

The structure of our business model is such that loans are typically on balance sheet at origination but are thereafter transferred into an asset management structure, whilst maintaining a portion of the capital commitment. This structure allows the Group to continue its participation in the loans by virtue of its co-investment, and to free up capital to originate new loans to our borrowers.

Each loan originated by the Group includes a Minimum Income Clause ('MIC'). MICs set a floor on the income from each loan originated by the Group, regardless of the drawdown profile or an early refinancing of the debt. Projected aggregate income from each loan represents all interest and other connected income streams earned over the life of the loan and always exceeds the level of any MIC.

Income

£m	31 December 2018
Income	3.9
Operating costs	(5.0)
Operating loss before exceptional items	**(1.1)**
Exceptional items	(0.9)
Loss before taxation	**(2.0)**
Taxation	0.3
Loss after taxation	**(1.7)**
Basic EPS	(1.18p)
Diluted EPS	(1.18p)
Dividend per share	0.83p

Capital

£m	31 December 2018
Committed loan capital	**524.5**
Third-party funds raised	**371.0**
Cash and cash equivalents	**46.8**
Net asset value	**150.5**
NAV per share	**95p**
Shares in issue	**165,000**
Shares in issue (excluding treasury shares)	**158,494**

Finance review continued

Income that is generated from capital committed by the Group (before subsequently being transferred to the asset management business) or from asset management fees can only be recognised once committed loans are drawn down. If there is a delay in the drawdown of loans by a developer, due for example to the developer committing more equity to the development, there will be a delay in the recognition of income in the income statement. Income recognised in the Period is therefore lower than expected due to some loans being drawn down later than forecast.

The total projected aggregate income due to the Group is £27m. This projected income will be recognised in the income statement over the life of the loans. Our forecast earnings profile for this income is:

2018	2019	2020	2021	2022
12%	25%	25%	25%	13%

Going forward, as the Group grows its AUM and the time between closing a loan and moving it into an asset management structure is reduced, the earnings profile for new loans is more likely to adopt the following profile:

2019	2020	2021	2022	2023
5%	20%	30%	20%	25%

This can be applied to new loans originated in 2019 and onwards.

Financing

During the Period, the Group raised a total of £371m of third-party funds, mainly from its first managed account, a partnership agreement with Kohlberg Kravis Roberts (£150m excluding the Group's investment of £15m) plus an associated loan-on-loan credit line from UBS which will facilitate up to an additional £165m of lending. The commercial terms of asset management fees and performance fees agreed in connection with this are in line with the business plan. The performance fees will crystallise at the end of the agreement's life, once each of the loans is fully redeemed.

Operating costs

The Group has invested significantly in its inaugural Period, with higher than expected operating costs amounting to £5m (£5.9m including exceptional costs of £0.9m). The key area of investment during this 'ramp-up' period was additional resource, with staff numbers increasing from 16 to 25 since IPO. Salaries and benefits (including bonus provisions) totalled £3.1m, with £0.5m of share-based expenses, relating to the costs of the Long-Term Incentive Plan. Although costs are higher than previously expected, they should be seen in the context of the size of the overall committed loan book. The cost base represents just 0.81% of the total committed loan book.

Exceptional items

Exceptional items relate to costs incurred in relation to the IPO amounting to £0.6m plus one-off professional fees of £0.3m.

Earnings per share

Basic loss per share for the period is 1.18p and adjusted loss per share after exceptional costs is 0.58p, based on a weighted average number of shares of 145,793,865.

Dividends

In accordance with our dividend policy:

- the Board approved a total dividend for the Period ended 31 December 2018 of 2.5p per Ordinary Share
- one third was paid as an interim dividend which was declared on 17 December 2018 at 0.83p per Ordinary Share
- the balance of 1.67p per Ordinary Share is expected to be declared as a final dividend for the period ended 31 December 2018 at the Group's AGM
- a dividend of 5.0p per Ordinary Share is expected for 2019
- The Group will have a progressive dividend policy thereafter.

Balance sheet

£m	31 December 2018
Non-current assets	18.6
Fair value of loans	89.5
Contract assets	3.4
Cash and cash equivalents	46.8
Other assets and liabilities	(7.8)
Net assets	**150.5**

Cash flow

£m	31 December 2018
Operating cash flows before movement in working capital	(1.4)
Change in working capital	(89.5)
Net cash outflow from operating activities	**(90.9)**
Capital Expenditure	(0.4)
Net cash outflow from investing activities	**(0.4)**
Share issue	150.0
Share issue expenses	(6.7)
Share buyback	(5.2)
Net cash inflow from financing activities	**138.1**
Net increase in cash and cash equivalents	**46.8**

Hampstead, London NW3

Debt facility to fund the development of a unique scheme of 17 apartments within the Hampstead Village conservation area. Hampstead is situated in north London and benefits from the neighbouring expansive Hampstead Heath. The property is situated on the northern side of New End, which is within the centre of the village of Hampstead. The development is the first new-build scheme to be completed in the area for 18 years and will create some of the finest residential addresses in Hampstead. The development is of a striking design with wrap-around terraces on the upper floors and communal outside gardens, and will benefit from spectacular views across London. The properties will all benefit from underground parking spaces.

The borrower, The Linton Group, is an experienced developer having undertaken a variety of projects from basic refurbishments to large scale new-builds.

GDV: £74.6m

Investments

In the Period, £2m was invested in the partnership with Kohlberg Kravis Roberts (KKR), being the Group's 9.1% share of £21.4m total invested by the partners. This was primarily to fund loan drawdowns, and the Group will earn asset management fees on its share of these drawdowns. The investment is accounted for at fair value through profit and loss.

Shares

At year end, there were 165,000,000 ordinary shares issued, including 6,505,870 Ordinary Shares held in treasury, which were purchased by the Company on 14 November 2018.

Tangible assets

Group capital expenditure was £0.4m, invested predominantly in new office premises.

Loans receivable

The fair value of loans as at 31 December 2018 was £89.5m. These are held on the balance sheet with the intention of being transferred to third party management structures, thereby growing asset management revenues and freeing up capital to deploy into new committed loans.

Cash flow

Operating cash outflows before movement in working capital of £1.4m reflects the loss for the period less net adjustments for non-cash items. The large working capital movement of £89.5m reflects the increase in receivables, being predominantly the deployment of cash into loans. After investment and financing activities (described above and including £6.7m of share issue costs), the net increase in cash and cash equivalents was £46.8m.

Trevor DaCosta
Finance Director