

**A Building Business**

**Mc Inerney** 



**McInerney Holdings Plc  
Final Results 2008**

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Cost

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Summary



# Results

Introduction

Overall Performance

Housing

Operating Loss

Balance Sheet





## Introduction

Overall Performance

Housing

Operating Loss

Balance Sheet

## Introduction

- Unprecedented negative trading conditions
- Demand evaporated in the face of the banking crisis, absence of mortgage finance and consequent falling valuations
- Management responded swiftly - cost savings, land purchase and production halted, impairment, debt reduction, financing re-negotiated



Beacon Wood, Walsall (from £105k)

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**Overall Performance**

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**Overall Performance**

	2007	2008
	€000	€000
Turnover	632,789	300,934
Operating (Loss) / Profit	76,066	(28,019)
Interest	(17,973)	(18,923)
Exceptional Charges:		
Land and Inventory Writedowns	-	(110,037)
Goodwill Write Off	-	(39,708)
Restructuring Costs	-	(9,806)
(Loss) / Profit Before Tax	58,093	(206,493)



Ard Thomain, Mungret (from €300k)

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**Housing**

	2007	2008
UK - Units	1,400	750
UK - Operating (Loss) / Profit (€'000)	23,680	(9,428)
Ireland - Units	594	296
Ireland - Operating (Loss) / Profit (€'000)	33,253	(2,910)
Housing Total - Units	1,994	1,046
Housing Total - Operating (Loss) / Profit (€'000)	56,933	(12,338)



Drumaconn, Athlone (from €160k)

**Results**    **Actions**    **Cost**    **Impairment**    **Sales**    **Cash**    **Banking**    **Markets**    **Summary**



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**Operating Loss**

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## Operating Loss

	<i>2007</i>	<i>2008</i>
Housing	56,933	(12,338)
Land Sales	23,162	1,691
Commercial	2,749	(2,583)
Contracting	1,199	(2,405)
Spain	611	(5,116)
Common Costs	(8,588)	(7,268)
<b>Operating (Loss) / Profit</b>	<b>76,066</b>	<b>(28,019)</b>



Kensington Gardens, Blackburn (from £146k)



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Operating Loss

**Balance Sheet**

## Balance Sheet

- Post writedowns

	2007	Interim 2008	2008
Net Debt €'000	220,150	267,041	219,577
Total Net Assets €'000	310,326	254,363	93,765

### Stock Analysis:

Land	342,887	306,748	211,654
WIP	177,433	198,726	172,059
	<b>520,320</b>	<b>505,474</b>	<b>383,713</b>

Trade Creditors	160,266	129,508	112,566
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- No dividend payment



Hope, Knottingley (from £145k)

Results

**Actions**

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Summary

# Actions

Cost

Impairment

Sales

Cash

Banking



## Overhead Savings

Staff Numbers

Restructuring Costs

Summary

## Overhead Savings

- Swift and comprehensive action
- Cashflow focussed
- UK -        *“Regional footprint capable of 2,500 - 2,800 units pa”*  
  
Now dismantled  
  
Formerly 7 regions, now amalgamated into 2  
  
Social housing operation enhanced
- Ireland - 6 regions amalgamated into 3
- Plc -        Separate finance/admin functions in Ireland and  
UK closed and replaced with one Shared Services  
Centre



Coill Tire, Galway (from €180k)

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Overhead Savings

**Staff Numbers**

Restructuring Costs

Summary

**Staff Numbers**

	<i>Per 2007 Annual Report</i>	<i>Reduction</i>	<i>Current Headcount</i>
<b>UK</b>			
Direct Staff	285	(180) <b>-63%</b>	105
Overhead	242	(133) <b>-55%</b>	109
<b>Total</b>	<b>527</b>	<b>(313) -59%</b>	<b>214</b>
<b>Ireland</b>			
Direct Staff	306	(192) <b>-63%</b>	114
Overhead	104	(54) <b>-52%</b>	50
<b>Total</b>	<b>410</b>	<b>(246) -60%</b>	<b>164</b>



Kensington Gardens, Blackburn (from £146k)

Results    Actions    Cost    Impairment    Sales    Cash    Banking    Markets    Summary

Overhead Savings

**Staff Numbers**

Restructuring Costs

Summary

**Staff Numbers**

	<i>Per 2007 Annual Report</i>	<i>Reduction</i>	<i>Current Headcount</i>
UK	527	(313) 59%	214
Ireland	410	(246) 60%	164
Plc	36	0 0%	36
Spain	23	(6) 26%	17
	<b>996</b>	<b>(565) 57%</b>	<b>431</b>
Cost €'000	75,141	(45,215) 60%	29,926

In addition non payroll savings of over €6m



The Paddocks, Waterford (from €170k)

Results    Actions    Cost    Impairment    Sales    Cash    Banking    Markets    Summary

Overhead Savings

Staff Numbers

**Restructuring Cost**

Summary

## Restructuring Costs

	<i>UK</i> €'000	<i>Ireland</i> €'000	<i>Plc</i> €'000	<i>Hillview</i> €'000	<i>Total</i> €'000
Redundancy Costs	3,488	1,848	245	-	5,581
Office Closures	94	163	85	-	342
Fixed Assets Write Off	-	1,054	295	-	1,349
Re-Finance Fees	1,197	-	-	-	1,197
Other Exceptional Costs	730	-	-	607	1,337
	<b>5,509</b>	<b>3,065</b>	<b>625</b>	<b>607</b>	<b>9,806</b>

Projected further restructuring costs of up to €2m in 2009



Hedgerows, Redditch (from £130k)

Results    Actions    Cost    Impairment    Sales    Cash    Banking    Markets    Summary

Overhead Savings

Staff Numbers

Restructuring Costs

### Summary

## Summary

- Swift action
- Total savings of over €51m
- “Cloth cut to measure”
- Some further overhead savings in 2009
- Significant further savings in Spanish costs
- Build cost reductions now achievable



Derrymore Ennis (from €240k)

**Impairment**

Landbank  
Land Commitments  
Goodwill  
Summary

**Impairment**

	<i>Original Carrying Value</i>	<i>Impairment</i>		<i>Revised Carrying Value</i>
	€m	€m		€m
UK	180.1	41.6	<b>23%</b>	138.5
Ireland	220.6	33.8	<b>15%</b>	186.8
Hillview	29.4	11.9	<b>40%</b>	17.5
Spain	53.5	12.6	<b>24%</b>	40.9
	<b>483.6</b>	<b>99.9</b>	<b>21%</b>	<b>383.7</b>

Our Share of Joint Ventures

Ireland	49.2	8.5	<b>17%</b>	40.7
Hillview	10.2	1.6	<b>16%</b>	8.6
	<b>59.4</b>	<b>10.1</b>	<b>17%</b>	<b>49.3</b>



Kensington Gardens, Blackburn (from £146k)

**Impairment**

- Landbank
- Land Commitments
- Goodwill
- Summary

**Impairment**

- DCF on site by site basis
- Conservative methodology agreed with external auditors
- Key assumptions are run rates and selling prices - both set to reflect current market conditions
- Sites where no write down was required have a surplus value of over €33m - these sites are not at risk of write downs



Maddocks Grange, Wellington (from £119k)

<i>Average Plot Cost</i>	<i>UK</i>	<i>Ireland</i>
Pre-Impairment	£45.5k	€53.9k
Post-Impairment	£35.5k	€43.1k

Impairment

**Landbank**

Land Commitments

Goodwill

Summary

### UK Landbank

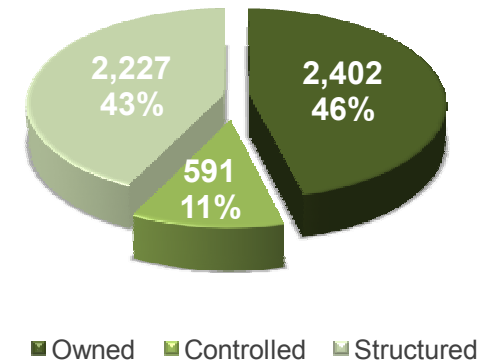
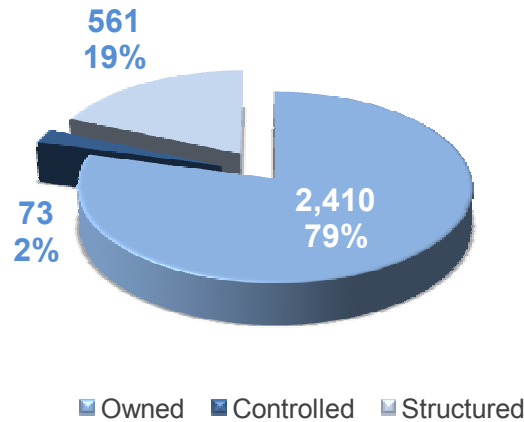
Total      3,044 Plots  
 Additional   1,115 plots options

### Irish Landbank

Total      4,028 Plots  
 Additional   1,192 plots strategic



Belgrave Heights, Darwen (from £160k)



Impairment

**Landbank**

Land Commitments

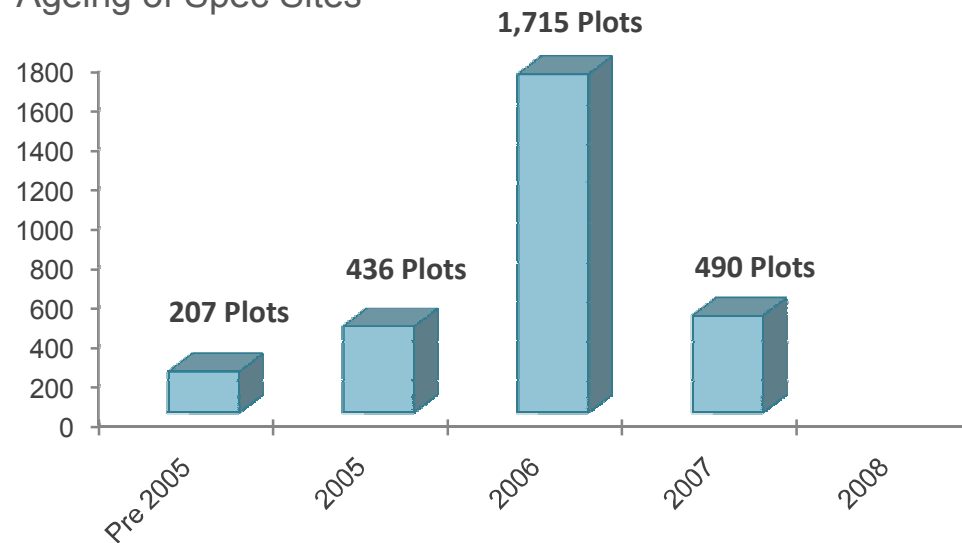
Goodwill

Summary

## Ageing of UK Landbank

Spec sites	2,848
Social sites	196
Total landbank	3,044

Ageing of Spec Sites



Hope, Knottingley (from £145k)

Impairment

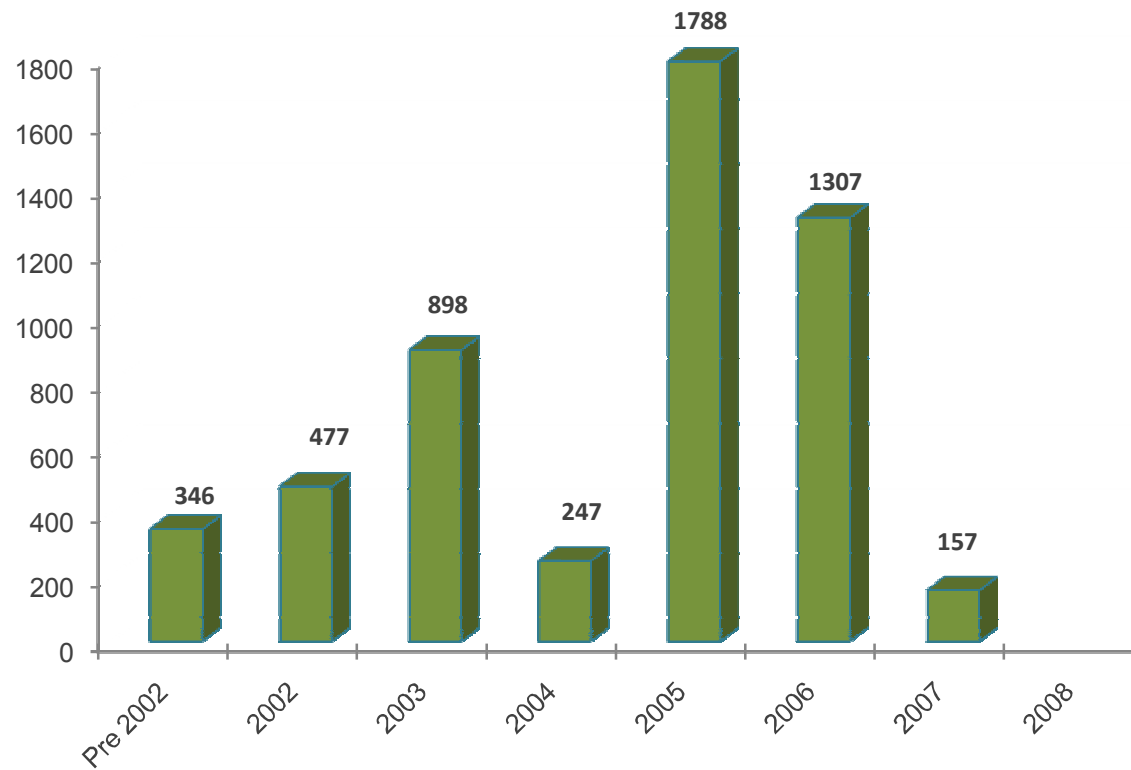
**Landbank**

Land Commitments

Goodwill

Summary

## Ageing of Irish Landbank



Waters Edge, Dungarvan (from €145k)

Impairment

**Landbank**

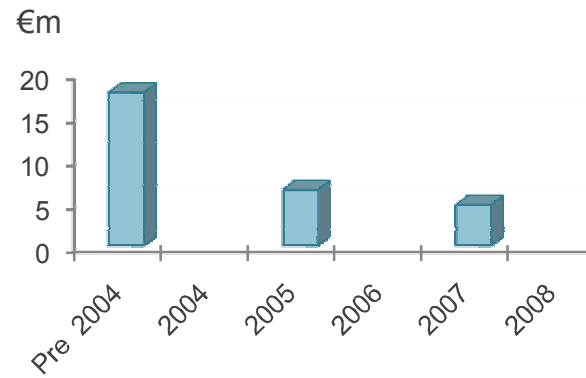
Land Commitments

Goodwill

Summary

## Spain

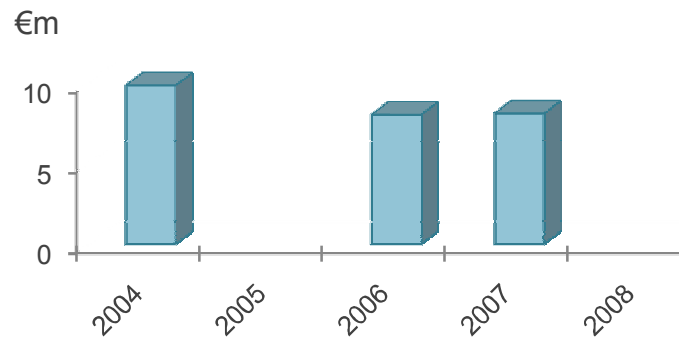
Ageing of Landbank



Flamings, Spain (from €450k)

## Hillview

Ageing of Landbank



Results    Actions    Cost    **Impairment**    Sales    Cash    Banking    Markets    Summary

Impairment

Landbank

**Land Commitments**

Goodwill

**Land Commitments**

	<i>Plots</i>	<i>Commitment €m</i>	<i>Accrued €m</i>	<i>Outstanding €m</i>
UK	673	12.3	7.2	5.1
Ireland	64	4.4	4.4	-
Hillview	n/a	-	-	-
Spain	n/a	0.6	0.6	-
		<u>17.3</u>	<u>12.2</u>	<u>5.1</u>



7 Viewmount, Rathdrum (from €220k)

- Land commitments reduced by €45m
- Licensed land could technically become committed - €65m

Impairment

Landbank

Land Commitments

**Goodwill**

Summary

## Goodwill

- UK acquisitions
- Write off to nil, €40m impairment charge
- Does not affect tangible net worth or banking headroom



Waters Edge, Dungarvan (from €145k)

Results    Actions    Cost    **Impairment**    Sales    Cash    Banking    Markets    Summary

Impairment

Landbank

Land Commitments

Goodwill

**Summary**

## Summary

- Significant impairment - 21%
- Reflects current depressed market conditions
- Low plot cost remaining
- Low land commitments



Cluain Ard, Cobh (from €170k)

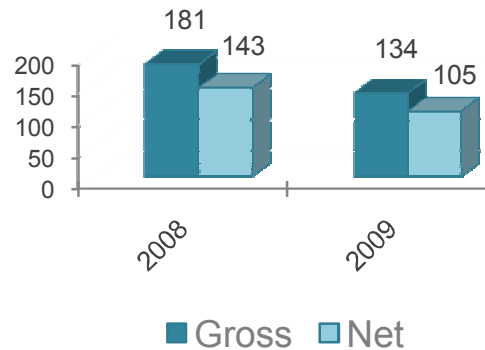
**Sales**

- UK Sites
- Ireland Sites
- Incentives
- Social Housing
- Natural Demand
- Summary

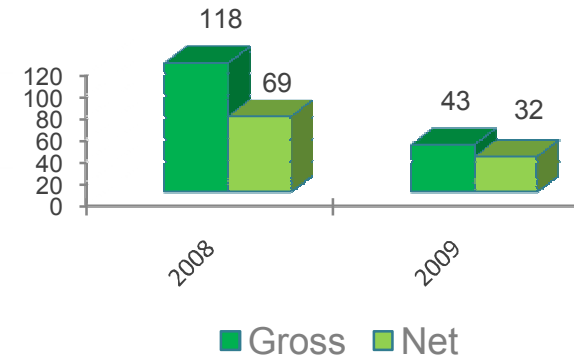
**Deposits on hand**

	2007	2008	Change
UK	452	459	2%
Ireland	282	224	(21%)

10-Week Sales UK



10-Week Sales Ireland



Opus, Morcambe (from £120k)

Sales

## UK Sites

### UK Sites

Ireland Sites

Incentives

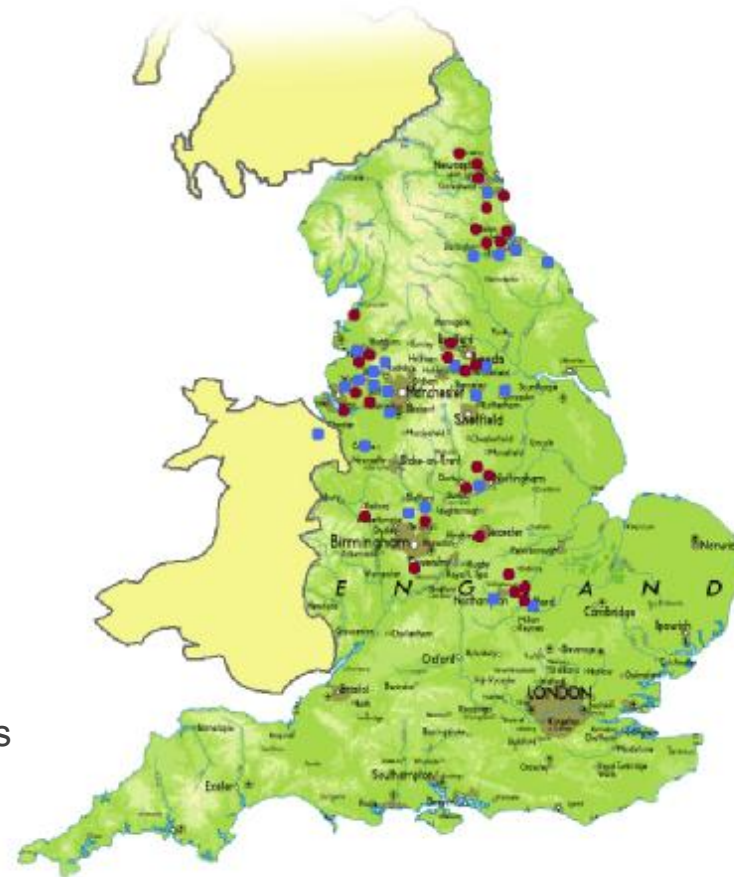
Social Housing

Natural Demand

Summary



Iris, Bradford (from £125k)



• Inactive Sites

• Active Sites

Sales

UK Sites

**Ireland Sites**

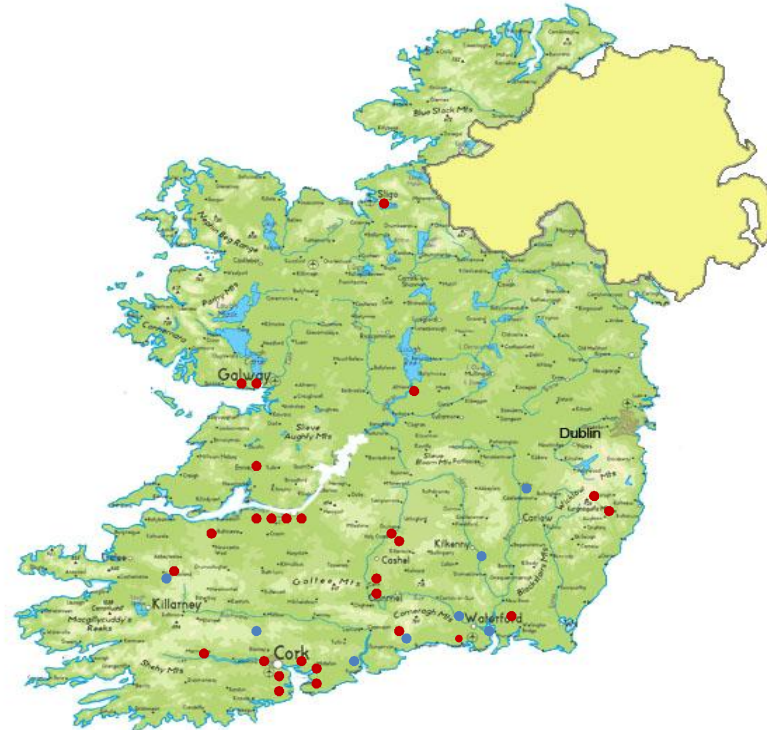
Incentives

Social Housing

Natural Demand

Summary

## Ireland Sites



- Inactive Sites
- Active Sites



Coill Tire, Galway (from €180k)

Sales

UK Sites

Ireland Sites

**Incentives**

Social Housing

Natural Demand

Summary

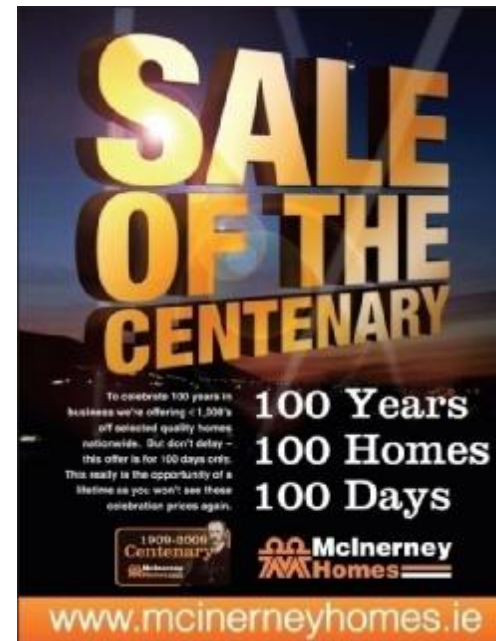
**UK**

- Shared equity, part exchange, investor discount

**Ireland**



Cluain Ard, Cobh (from €170k)



- Promising start
- Mini budget April - on hold

Sales

UK Sites

Ireland Sites

Incentives

**Social Housing**

Natural Demand

Summary

## Social Housing

- Supply / demand imbalance has made social housing a vital part of the UK market
- Housing Associations account for 12% of the total UK market and set to grow significantly
- Government Green Paper in July 2007 proposed an investment of £8bn for affordable housing
- Commitment to build at least 70,000 affordable houses pa by 2010/11 (currently 20,000 pa)
- Good progress being achieved by McInerney:



Palmerstown Street, Derby, Social Housing

	2008	2007	Change
Social Housing – sales on hand	259	143	81%

Sales

UK Sites

Ireland Sites

Incentives

**Social Housing**

Natural Demand

Summary

## Social Housing

- Strong pipeline in place
- Three approaches:
  - Development Model (Augusta)
    - Bring land to Housing Association
    - Profit on land turn
    - Build contract
    - No capital required
  - Contracting
    - Margins tightening
    - Cash positive
  - Framework Agreements
    - Limited tender contracts
    - All developments >c.£3m
    - 1<sup>st</sup> Framework Agreement signed



Eastfield Road, Wellingborough, Social Housing

Sales

UK Sites

Ireland Sites

Incentives

Social Housing

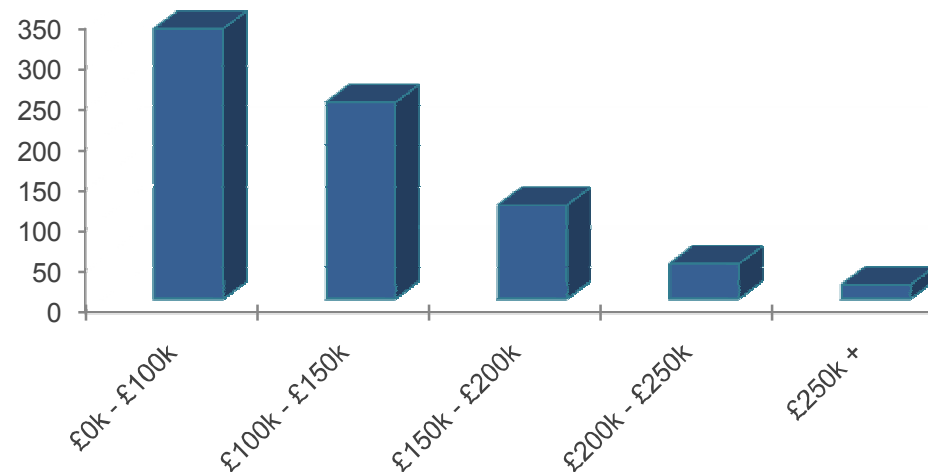
**Natural Demand**

Summary

## Natural Demand

- Focused on the affordable starter home market

Private Housing Price Ranges - UK



**Average sales price £125k vs. 2007 £139k**

- At this price point can sell to first time buyers, investors or housing associations



Maddocks Grange, Wellington (from £119k)

Sales

UK Sites

Ireland Sites

Incentives

Social Housing

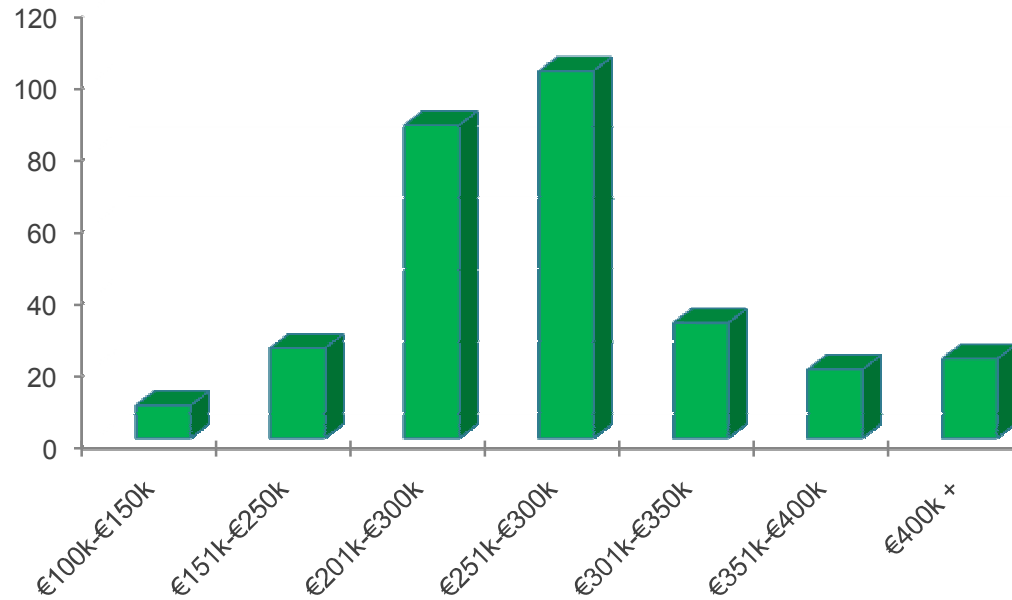
**Natural Demand**

Summary

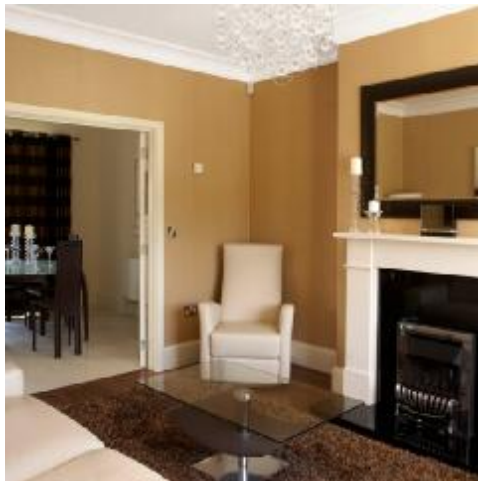
## Natural Demand

- Focussed on the affordable starter home market

Housing Price Ranges - Ireland



**Average sales price €279k vs. 2007 €310k (VAT incl)**



The Paddocks, Waterford (from €170k)

Sales

UK Sites

Ireland Sites

Incentives

Social Housing

Natural Demand

**Summary**

## Summary

- Improvement in UK sales
- Good range of “shop windows”
- Good progress in social housing
- Product well placed



Drumaconn, Athlone (from €160k)

Results    **Actions**    Cost    Impairment    Sales    **Cash**    Banking    Markets    Summary

## Cashflow

Summary

### 2008 Cashflow

	H1	H2	2008
	€'000	€'000	€'000
Cash from Operations	2,901	23,507	26,408
Working Capital Effect	(12,515)	13,844	1,329
Free Cashflow <i>(before land)</i>	(9,614)	37,351	27,737

### 2009 Cash Forecasts

	2008	2009	Increase
	€'000	€'000	€'000
Cash from Operations	26,408	30,774	4,366
Working Capital Effect	1,329	38,963	37,634
Free Cashflow <i>(before land)</i>	27,737	69,737	42,000



Pippin Nook, Bacup (from £155k)

Cashflow

**Summary**

**Summary**

- Business run for cash
- Strong cash generation - past and future
- Stock wind down / debt reduction



Bun na Coille, Moycullen (from €325k)

## Banking Update

Audit Opinion

Loan Facilities

Maturity Profile

Summary

## Banking Update

- UK bank facility extended to March 2010
- Irish bank facility matures July 2011
- Covenants based on:
  - minimum forward sales
  - quarterly cash collection
  - gross debt as % of secured assets
  - maximum debt
  - debt reduction milestones
  - tangible net worth
- Good headroom
- Servicing interest and debt pay down



Whitton View, Rothbury (from £195k)

Banking Update

**Audit Opinion**

Loan Facilities

Maturity Profile

Summary

## Audit Opinion

- Emphasis of matter in Audit Report based on banking covenants

"Without qualifying our opinion, we draw your attention to Note 1 to the financial statements. Note 1 indicates that, based on present market conditions and the Group's current forecasts, compliance with its banking covenants is expected for the foreseeable future. If market conditions deteriorate beyond those assumed in the Group's current forecasts then it may breach certain of these covenants. Discussions between the Group and its relevant lenders are ongoing and the Directors are satisfied that revisions of covenants, if any are required, will be agreed. Breach of covenants and failure to agree revised covenants may result in the Group's bank debt becoming repayable on demand. This issue indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would be necessary if the company were unable to continue as a going concern."



Cluain Ard, Cobh (from €170k)

Banking Update

Audit Opinion

**Loan Facilities**

Maturity Profile

Summary

## Loan Facilities

*Loan to Value*

*Limit      Drawn*

Ireland	<i>Revolver</i>	€160m	70%	58%
UK	<i>Revolver</i>	€112m	68%	63%
Hillview	<i>Project Loans</i>	€18m		
Spain	<i>Project Loans</i>	€16m		
Total		€306m		



Opus, Morcambe (from £120k)

Banking Update

Audit Opinion

Loan Facilities

**Maturity Profile**

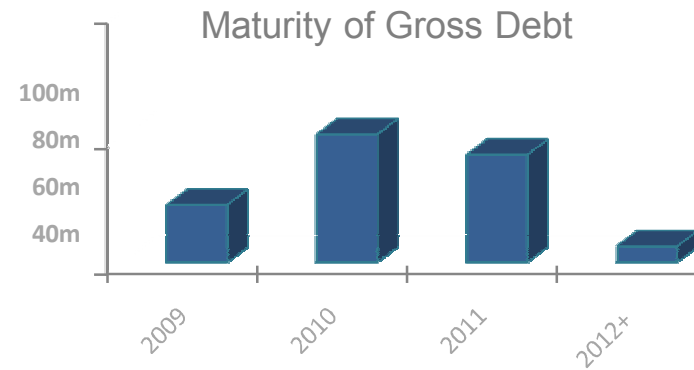
Summary

## Maturity Profile

	€m
2009	45.7
2010	101.9
2011	85.7
2012+	<u>12.5</u>
<b>Gross Debt</b>	<b>245.8</b>
Cash	<u>(26.2)</u>
<b>Net Debt</b>	<b><u>219.6</u></b>



Highgrove Place, Walsall (from £185k)



- Debt maturing in 2009 is project finance, repayable from sales proceeds of associated assets

Banking Update

Audit Opinion

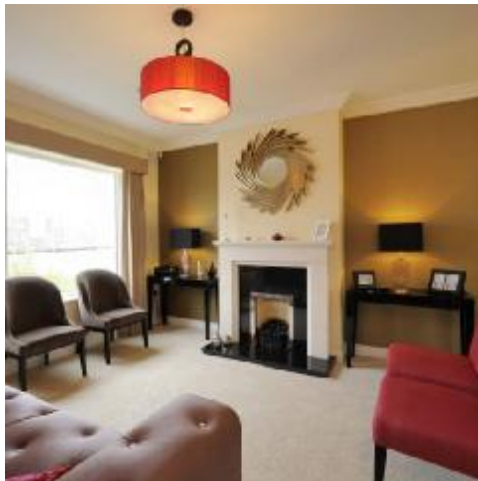
Loan Facilities

Maturity Profile

**Summary**

## Summary

- Supportive banks
- Cash and debt based covenants
- UK facility will need to be extended again
- Interest being serviced and debt being paid down



Ard Thomain, Mungret (from €300k)

Results

Actions

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**Markets**

Summary

Markets

UK

Ireland

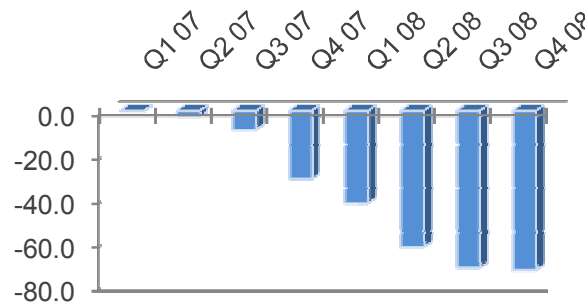


**UK**

Ireland

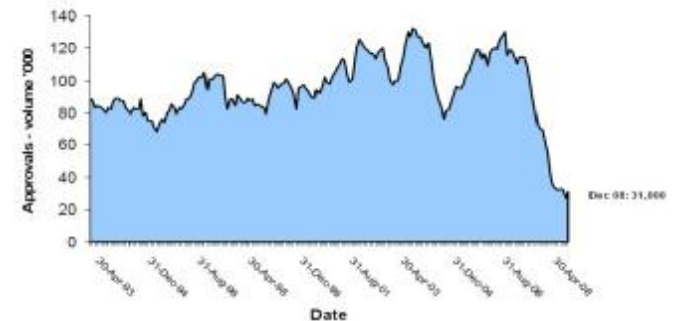
### Mortgage Supply

- Scale and speed of downturn has been extraordinary
- Mortgage supply issue
- Mortgage approvals 30,000 per month in Q4 08 - 63% down on Q4 07
- Q4 2008 annualised rate - 360,000 (Q1 2007 annualised rate - 1.4 million)



% reduction in number of mortgage approvals for home purchase from Q1 07

Source: Bank of England (seasonally adjusted)



Loan approvals for house purchase

Source: Bank of England Data



Hedgerows, Redditch (from £130k)

**UK**

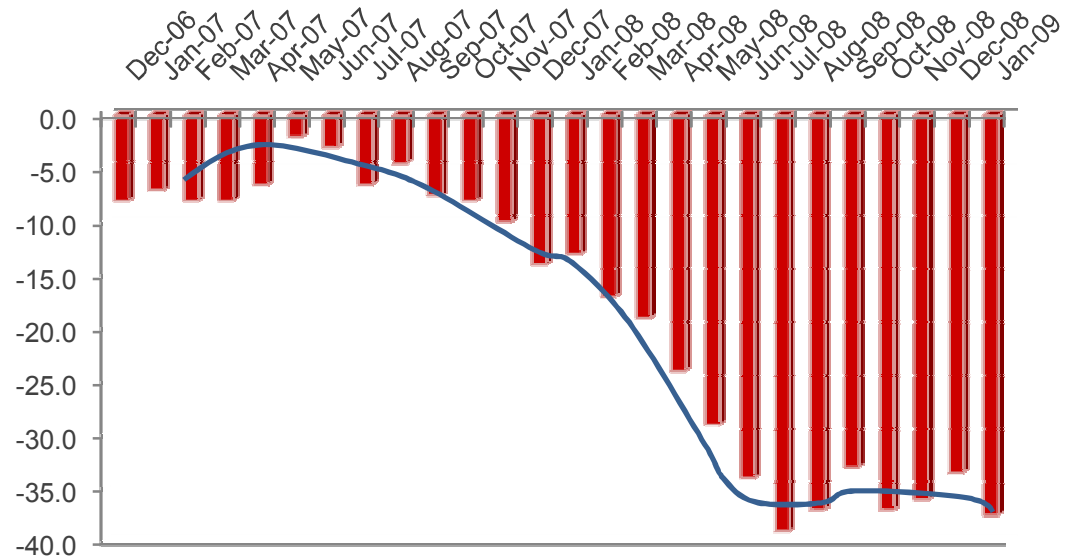
Ireland

## Consumer Confidence

- Mortgage famine keeping volumes very low
- Prices being driven down as a result
- This undermines consumer confidence
- Causing volumes to weaken further



Maddocks Grange, Wellington (from £119k)



Source: GfK NOP Consumer Confidence Barometer

**UK**

Ireland

## Affordability

- Affordability factor may break cycle
- Average selling prices have now fallen to mid 2004 levels - c. £160k (HBOS)
- Now equates to 4.4 times earnings vs. 5.7 times at peak (HBOS)
- Output has crashed - below 100k pa
- Low supply and low demand suggest prices bottom out



Iris, Bradford (from £125k)

**UK**

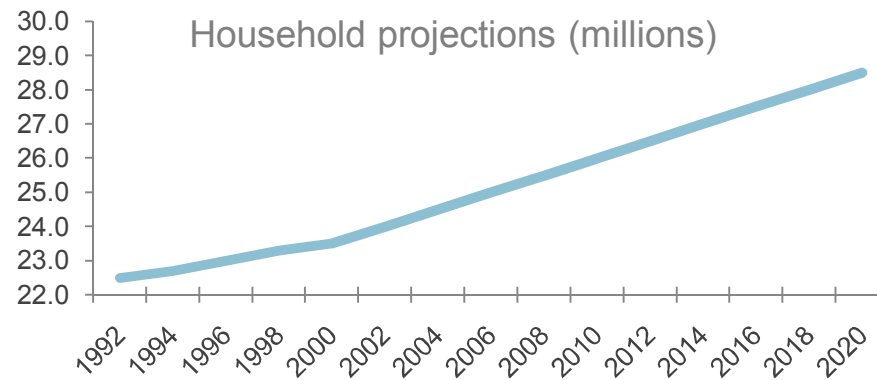
Ireland

## Housing Shortage

- Market fundamentally undersupplied
- Housing output is now just a fraction of:
  - Barker Report stated requirements (225k pa)
  - Government targets (250k pa)
  - Household formation rate (220k pa)



Whitton View, Rothbury (from £195k)



Source: CLG

**UK**

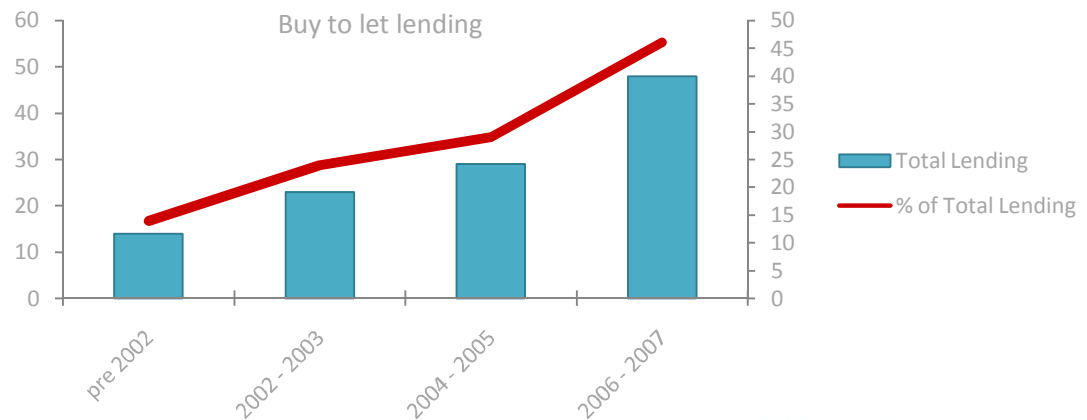
Ireland

**Outlook**

- Shelter is a fundamental household need and build rate has been / is substantially behind natural demand rate
- If first time buyers still cannot purchase due to mortgage restrictions / higher deposits, then must rent instead
- Yields have risen sharply - from 4.6% to 6% (Savills)
- Once mortgage funding no longer exceptionally constrained, investor market should return
- Fall in sterling makes UK market very attractive to international investors



Beacon Wood, Walsall (from £105k)



Source: Council of Mortgage Lenders, Savills

UK

**Ireland**

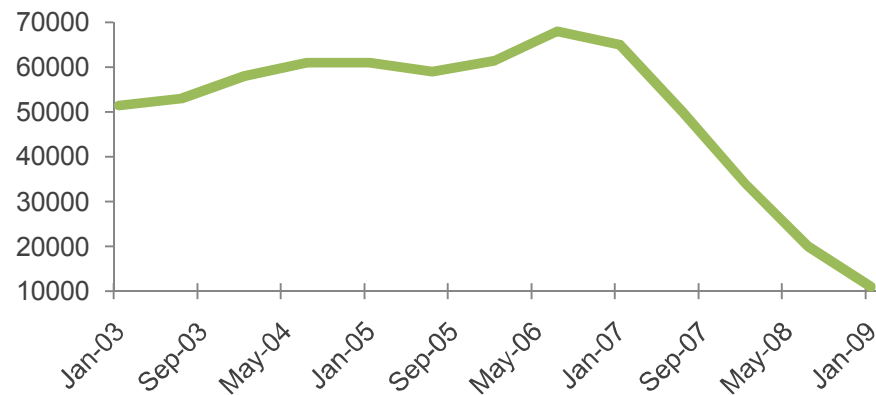
## Current Market

- Extremely depressed market
- Mortgage availability constrained
- Sentiment very negative
- Stock overhang, although very localised
- Output has crashed



Fionn Laoi, Ballincollig (from €270k)

House guarantee registrations  
12 mth cumulative total



Source: AIB International Centre

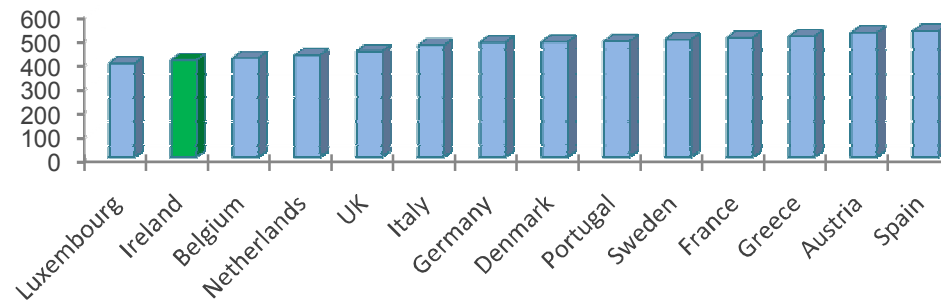
UK

**Ireland**

## Fundamentals

- Ireland still has a relatively low housing stock

Housing Stock per 1,000 population



Fionn Laoi, Ballincollig (from €270k)

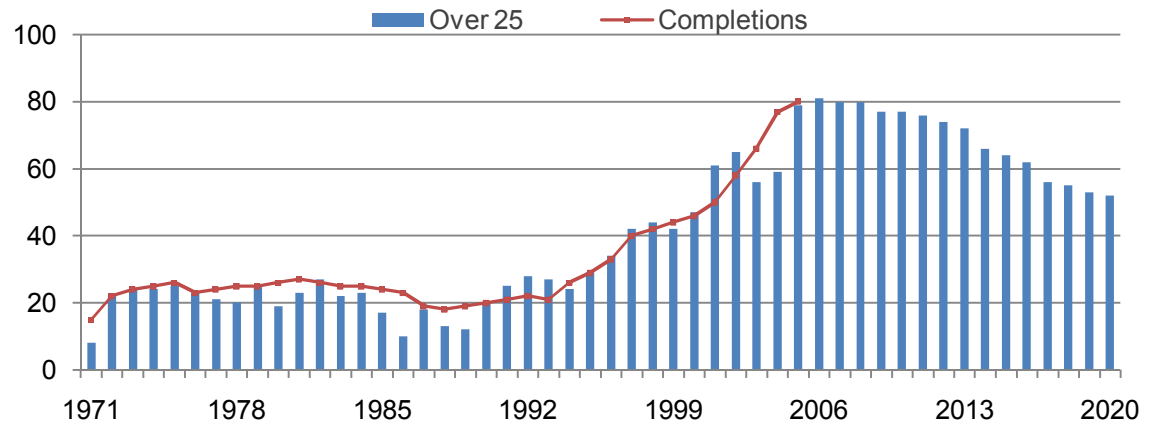
Ireland 417 (2006 census); European average 466  
 “Catch-up” almost completed  
 However, Greater Dublin area just 395 units per 1,000 persons

UK

**Ireland**

## Fundamentals

- Housing boom largely explained by strong demographics ....



Bun na Coille, Moycullen (from €325k)

Source: Central Statistics Office, NCB

UK

**Ireland**

## Fundamentals

- .... which remain positive

000 pa	Potential Demand for New Housebuilding on Different Migration Assumptions			Declining HH size
	Unchanged HH size			
Immigration	Zero	75,000	Central Forecast	Central Forecast
2006-2010	47	66	61	64
2010-2015	41	69	59	63
2015-2020	38	69	52	56



Derrymore, Ennis (from €240k)

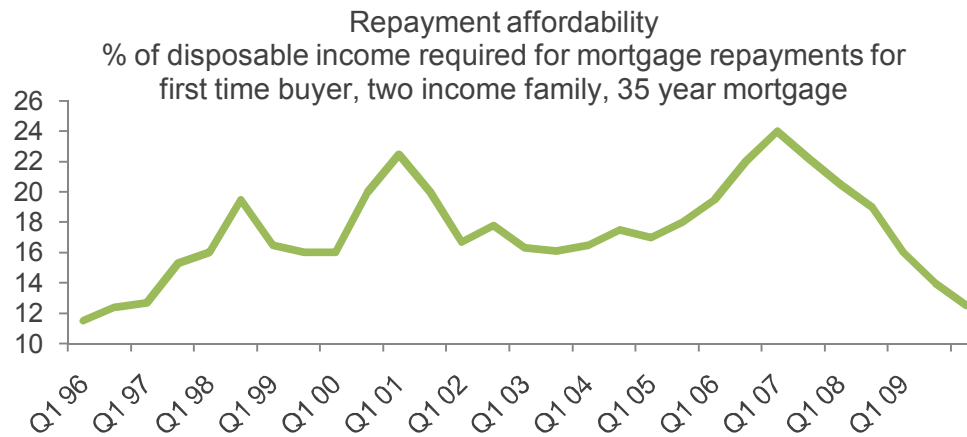
Source: NCB

UK

**Ireland**

## Affordability

- Once again affordability may be the catalyst



Source: AIB Economic Research



Viewmount, Rathdrum, (from €220k)

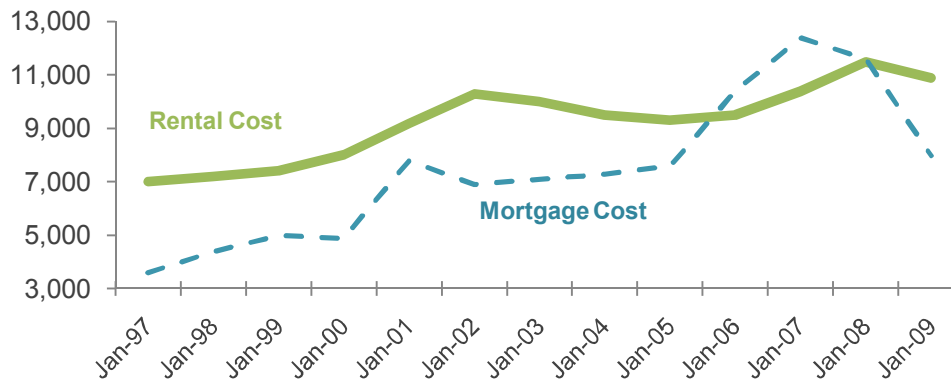
UK

**Ireland**

## Affordability

- Buying now cheaper than renting

FTB Choice:  
Buy or Rent - Annual Cost



Source: AIB Economic Research



The Paddocks, Waterford (from €170k)

Results

Actions

Cost

Impairment

Sales

Cash

Banking

Markets

Summary

# Summary

Business Model  
Positioning  
Summary



## Business Model

Positioning

Summary

## Business Model

- Starter homes – natural demand
- Houses rather than apartments
- Forward selling
- ROCE driven – turn capital quickly
- Use of 3<sup>rd</sup> party capital (JVs/licences)
- Low cost of capital



Viewmount, Rathdrum (from €220k)

Business Model

## Positioning

Summary

## Positioning

- No significant stock issues - only build when sold
- Product matched to natural demand - steady sales flow
- Multiple sites and locations - no concentration of risk
- No city centre apartment schemes, tax-based schemes, etc.
- Did not participate in over-heated markets, eg. Dublin
- No large land commitments
- Strategic land holdings provide growth opportunities on market improvement - re plans, social housing opportunities
- Under control



Hope, Knottingly (from £145k)

Business Model

Positioning

**Summary**

## Summary

- Very difficult year
- Business run for cash
- Comprehensive and decisive cost action
- Experienced management team - aligned interests
- Interest serving and debt reducing
- Well positioned for eventual recovery



Briar's Wood, Warrington (from £165k)