

14 May 2014

## Development Securities agrees to acquire Cathedral

Development Securities PLC (“Development Securities” or the “Company” or the “Group”) today announces that it has agreed to acquire Cathedral Group (Holdings) Limited together with certain other entities forming part of its related business (“Cathedral”), a privately owned Greater London and South East of England specialist mixed-use regeneration developer, for an initial consideration of £20.9 million to be settled in cash and shares, with additional deferred and contingent consideration to be paid at a later date under certain circumstances (the “Acquisition”). The total consideration is expected to be up to £27.4 million based on the current business plan.

The Acquisition will add nine high quality, mixed-use development opportunities to Development Securities’ existing portfolio, supporting the Company’s focus on creating value through regeneration. The Cathedral team also brings with it significant additional development expertise with two members of Cathedral’s highly respected management team set to join the Company’s board (the “Board”) upon completion.

With a diversified portfolio of projects already established and good visibility on further opportunities, the acquisition enhances Development Securities’ capacity, providing a strong platform for future growth.

### Key Highlights:

#### ***Portfolio expanded through the addition of nine high quality, mixed-use development opportunities in Greater London and the South East of England***

- Nine significant projects in excess of 5 million sq. ft. further diversify Development Securities’ existing portfolio and present opportunities to create value through regeneration
- Projects expected to be delivered in the medium-term at a target internal rate of return (IRR) in excess of 20% - enhances the pipeline of potential development and trading gains by an estimated £16.0 million by FY 2017 and a further £29.4 million in the three years thereafter
- Two of the nine projects – The Old Vinyl Factory and Morden Wharf – are existing joint venture projects between Development Securities and Cathedral

#### ***Senior management team strengthened***

- Richard Upton, Cathedral’s Chief Executive, to join the Board of Development Securities as Executive Director; Barry Bennett, Cathedral’s Chairman, to join the Board as a Non Executive Director
- Cathedral’s highly respected management team will increase the Company’s capacity to capitalise on existing and future real estate opportunities
- In addition to Richard Upton and Barry Bennett, it is anticipated that approximately 25 other Cathedral employees will join Development Securities, creating greater capacity for more projects at any one time

### Cathedral overview

Cathedral is a leading specialist mixed-use regeneration developer founded in 1998 by Richard Upton and Barry Bennett. Richard Upton is the principal shareholder in Cathedral, owning 95% of the issued share capital, alongside Martin Wood who owns the remaining 5%. Over the last five

years it has grown considerably, and is regarded as one of the most creative and innovative developers of mixed-use regeneration schemes around Greater London and the South East of England. In the year to 31 December 2012, the group reported a pre-tax profit of £3.9 million. Unaudited pre-tax profits in the year to 31 December 2013 were approximately £6.8 million.

### **Acquisition overview**

Under the terms of the Acquisition, Cathedral's portfolio of nine mixed-use development opportunities will be added to Development Securities' portfolio. These include seven projects totalling over 4.5 million sq. ft. namely:

- Telegraph Works in Greenwich
- Morden Wharf in Greenwich
- The Deptford Project in Deptford
- St. Mark's Square in Bromley
- The Old Vinyl Factory in Hayes
- Circus Street in Brighton
- Spirit of Sittingbourne in Kent

In addition, the portfolio includes two development opportunities totalling 582,700 sq. ft., where the acquisition of the sites is at an advanced stage of negotiation:

- The Albany in Deptford
- Preston Barracks in Brighton

Six of the above developments have funding in place to execute the relevant business plans, three have achieved detailed or outline planning consents, and planning applications have been submitted in respect of a further two of these sites. The gross asset value of Cathedral was £18.7 million as at 31 December 2012 and the gross asset value of the acquired assets was £46.6 million as at 31 December 2013. Development Securities will additionally assume net debt and liabilities associated with the acquired projects. It is expected that the acquired developments will enhance the gains anticipated from Development Securities' portfolio in the near to medium-term.

As part of the integration of both businesses and in acknowledgement of the quality and experience of the individuals involved, Richard Upton, Chief Executive of Cathedral, will join the Board of Development Securities as Executive Director and Barry Bennett, Chairman of Cathedral, will join the Board as a Non Executive Director effective as at completion of the Acquisition. In addition, it is anticipated that approximately 25 other Cathedral employees will also join the Company.

### **Consideration structure and financing effects**

The consideration payable by Development Securities is structured into a number of elements. The initial consideration of £20.9 million comprises:

- £17.5 million payable upon completion of the Acquisition comprising £11.5 million in cash from existing resources and £6.0 million in new Ordinary shares (the "Consideration Shares") at 233.5 pence per share, representing the average of the middle market quotations for the Company's shares for the ten business days preceding this announcement. This equates to 2.6 million shares. The Consideration Shares will be locked up for a 42-month period (subject to limited customary exceptions) following completion.
- Deferred consideration of £3.4 million which will be paid in cash in instalments of £1.2 million in May 2015 and £2.2 million in May 2016.

A further £2.5 million of deferred consideration will be paid when the acquisition of one of the development assets is completed. In addition, contingent consideration in the order of £4.0 million

may be payable in respect of two of the projects, Preston Barracks and Morden Wharf, dependent both on the performance of these projects and the overall returns generated from across the portfolio of Cathedral projects now acquired. The Company considered various funding options for the acquisition and decided that funding the purchase from a mixture of shares and existing cash resources would be in the best interest of shareholders.

The transaction is expected to have a minimal impact on earnings per share in the year ending 28 February 2015. It is expected to be earnings enhancing as the acquired development projects are anticipated to be delivered over the coming years. After taking this acquisition into account, the Group remains within its guided conservative level of gearing of c.50% - 60%. Completion of the Acquisition is subject only to the listing of the Consideration Shares.

**Michael Marx, Chief Executive Officer of Development Securities**, said: *“The acquisition of Cathedral is highly complementary to our existing activities. We are adding a portfolio of attractive development projects to our own portfolio, with the potential to deliver further gains in the years ahead. Furthermore, we are strengthening our senior management and delivery teams with highly respected and experienced individuals with whom we have worked for many years. Cathedral share our entrepreneurial and creative spirit and I am confident that the additional capabilities they bring will enable the enlarged Group to accelerate its growth and deliver enhanced value to shareholders in the years ahead.*

*The consolidation of the resources of both businesses comes at a timely moment, as the UK economy, especially in Greater London and the South East of England, recommences positive GDP growth.”*

**Richard Upton, Chief Executive of Cathedral**, said: *“We are excited to expand our partnership with Development Securities. We already have a successful history together through our existing joint venture partnerships at The Old Vinyl Factory and Morden Wharf and our completed development at The Movement, Greenwich. We are confident that the integration with Development Securities will provide a stronger platform as we progress our existing portfolio of developments towards completion, and secure additional projects to further contribute to the growth of the Company.”*

## **Enquiries**

### **Development Securities**

Michael Marx, Chief Executive Officer  
Marcus Shepherd, Chief Financial Officer  
Lucy Grimble, Communications Manager

**Tel: 020 7828 4777**

### **Rothschild**

Alex Midgen  
Robert Waddingham

**Tel: 020 7280 5000**

### **Tulchan Communications**

Peter Hewer  
Martha Walsh

**Tel: 020 7353 4200**

Ends

## **Additional Information**

## *Management changes*

**Richard Upton** (46) founded Cathedral in 1998 and has grown the business into a market-leading pioneer in mixed-use regeneration development, specialising in public private partnerships. Richard is an Honours Graduate of Reading University's Land Management (Development and Planning Specialism) and has established, built and sold four property investment and professional services companies in the past two decades.

**Barry Bennett** was one of the founders of Cathedral with Richard Upton to which he brought the length and depth of his more than 25 years' experience of working in the global property development industry. In November 2011, Barry Bennett was appointed Non Executive Chairman of Cathedral after relinquishing his responsibilities as an Executive Director.

Having qualified as a chartered accountant with KPMG in Dublin in 1978, he remained with that firm for a number of years working in both Ireland and USA before leaving practice to begin his commercial career with a property and construction firm in the Middle East. After returning to the UK in 1986, he later founded Mount Anvil, a construction business specialising in student accommodation and social housing which went on later to incorporate Cathedral as a subsidiary company.

Barry is a Fellow of the Institute of Chartered Accountants in Ireland.

Under the terms of his new contract of employment with the Company, Richard Upton will be subject to 12 months' notice of termination. His remuneration and benefits will be consistent with the Remuneration Policy Report contained in the Company's Annual Report which will be put to shareholders at the Company's 2014 AGM. Barry Bennett will join the Board on terms consistent with the other Development Securities Non-Executive Directors.

There is no further information to be issued pursuant to LR 10.4 (Class 2 requirements).

Full disclosures relating to LR9.6.13 will be made later today.

Rothschild, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom is acting solely for the Company in relation to the Acquisition and nobody else and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Rothschild nor for providing advice in relation to the Acquisition or any other matter referred to in this announcement. Apart from the responsibilities and liabilities, if any, which may be imposed upon Rothschild, by the Financial Services and Markets Act 2000 or the regulatory regime established thereunder, Rothschild does not accept any responsibility whatsoever or makes any representation or warranty, express or implied, concerning the contents of this announcement, including its accuracy, completeness or verification, or concerning any other statement made or purported to be made by it, or on its behalf, in connection with the Company or the acquisition, and nothing in this announcement is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Rothschild accordingly disclaims, to the fullest extent permitted by law, all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to herein) which each of them might otherwise have in respect of this announcement or any such statement.

## FORWARD LOOKING STATEMENTS

This Announcement contains (or may contain) certain forward-looking statements with respect to certain of the Company's current expectations and projections about future events. These statements, which sometimes use words such as "aim", "anticipate", "believe", "intend", "plan" "estimate", "expect" and words of similar meaning, reflect the directors' beliefs and expectations and involve a number of risks, uncertainties and assumptions that could cause actual results and

performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statement. Statements contained in this Announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. The information contained in this Announcement is subject to change without notice and, except as required by applicable law, the Company does not assume any responsibility or obligation to update publicly or review any of the forward-looking statements contained herein. You should not place undue reliance on forward-looking statements, which speak only as of the date of this Announcement. No statement in this Announcement is or is intended to be a profit forecast or profit estimate or to imply that the earnings of the Company for the current or future financial years will necessarily match or exceed the historical or published earnings of the Company. The price of shares and the income from them may go down as well as up and investors may not get back the full amount invested on disposal of the shares.