

9 July 2015

## Barratt Developments PLC

### A further year of excellent progress

Barratt Developments PLC is today issuing a trading update for the year ended 30 June 2015 ahead of its annual results announcement on Wednesday 9 September 2015.

#### Highlights

- Total completions, including joint ventures ('JVs'), increased by 10.8% to 16,447 (2014: 14,838) reflecting strong consumer demand and increased site numbers
- Private average selling price up by c. 8% to c. £262k (2014: £241.6k), driven by further changes in mix and underlying house price inflation
- Profit before tax expected to increase by c. 45% to c. £565m (2014: £390.6m)
- Return on capital employed ('ROCE')<sup>(1)</sup> increased by c. 430 basis points to c. 23.8% (2014: 19.5%)

	<b>FY15</b>	<b>FY14</b>	<b>Change</b>
<b>Total completions (including JVs)</b>	16,447	14,838	10.8%
<b>Average selling price ('ASP')</b>			
- Total	c. £235k	£219.9k	c. 7%
- Private	c. £262k	£241.6k	c. 8%
<b>Net private reservations per active site per week</b>	0.64	0.69	(7.2)%
<b>Total forward sales (including JVs)</b>			
- Plots	8,777	6,813	28.8%
- £m	£1,771.3m	£1,367.0m	29.6%

(1) ROCE is calculated as earnings before interest, tax, operating charges relating to the defined benefit pension scheme and operating exceptionals, divided by average net assets adjusted for goodwill and intangibles, tax, cash, loans and borrowings, retirement benefit obligations and derivative financial instruments

Note: All figures exclude joint venture completions in which the Group has an interest unless otherwise stated

#### Commenting on the results David Thomas, Chief Executive said:

"The housing market has remained strong and our operating performance has been very good. Over the last 12 months we have opened 176 new developments, increased our housing completions by 11% and committed £1 billion of land investment for future housing. We start the new financial year with very strong forward sales and are well on the way to meeting our FY17 targets of a 20% gross margin and at least 25% return on capital."

## Overview

The Group has traded well throughout the financial year, delivering a strong improvement in performance across all financial metrics.

With good demand for new homes across all six of our operating regions, the Group has focused on maximising sales whilst driving financial performance. We continue to see a positive mortgage lending environment, with increased competition amongst lenders and new market entrants resulting in very low rates for our customers.

The land market remains attractive and we continue to secure excellent development opportunities that at least meet our minimum hurdle rates. We are also focused on securing our longer term land pipeline, in particular through the acquisition of options over strategic land.

Delivering the highest quality homes to our customers across all market segments remains at the core of our business and continues to drive sales and operating efficiencies. We are pleased that our site managers have once again received the highest number of awards for quality workmanship in the NHBC Pride in the Job Quality Awards, the eleventh consecutive year the Group has won more than any other housebuilder. The Group has also maintained the Home Builders Federation maximum five star rating for customer satisfaction for the sixth consecutive year.

## Trading update

Total completions (including JVs) for FY15 were up 10.8% at 16,447 (2014: 14,838) units. Affordable housing represented 18% (2014: 16%) of total completions (excluding JVs).

<b>Completions (units)</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
Private	12,746	11,936	6.8%
Affordable	2,853	2,255	26.5%
JV	848	647	31.1%
<b>Total</b>	<b>16,447</b>	<b>14,838</b>	<b>10.8%</b>

We are pleased with the resilience of the Group's build processes and the overall robustness of the build programme during the year, in particular given the uplift in completion volumes.

Total ASP on completions in the year increased by c. 7% to c. £235k (2014: £219.9k). Private ASP for FY15 increased by c. 8% to c. £262k (2014: £241.6k) and by c. 6% in the second half to c. £270k (2014: £254.2k). This year on year increase reflects both further mix changes and underlying house price inflation.

The sales rate for FY15 was 0.64 (2014: 0.69) net private reservations per active site per week, with a sales rate in the second half of 0.70 (2014: 0.71) net private reservations per active site per week.

The Group launched a total of 176 new developments in the year (2014: 136) and at 30 June was operating from 399 (2014: 366) active sites (including JVs). Given the strength of the sales rate, especially in the second half, we sold through developments faster than

anticipated. We expect to see further controlled growth in site numbers in FY16 of around 3%.

Our JVs have performed well and our share of profits from JVs in FY15 is expected to increase to c. £46m (2014: £40.5m). As at 30 June we were selling from 16 (2014: 8) JV sites and expect both JV completions and share of profits from JVs to increase in FY16. For our London region, the proportion of completions from JV sites versus non-JV sites is expected to increase significantly in FY16.

Profit before tax for FY15 is expected to be up by c. 45% to c. £565m (2014: £390.6m), driven by increased completion volumes, a greater proportion of completions from higher margin land and underlying house price inflation net of build cost inflation.

### Forward sales

Our forward sales position remains very strong with total forward sales (including JVs) as at 30 June 2015 up 29.6% on the prior year figure at a value of £1,771.3m (2014: £1,367.0m), equating to 8,777 plots (2014: 6,813 plots). We are around 26% (2014: 26%) forward sold for FY16 private completions (including JVs).

	2015		2014		Change (£m)	
	£m	Plots	£m	Plots		%
Private	882.4	3,268	870.1	3,315		1.4%
Affordable	471.2	4,145	330.4	2,965		42.6%
<b>Sub total</b>	<b>1,353.6</b>	<b>7,413</b>	<b>1,200.5</b>	<b>6,280</b>		<b>12.8%</b>
JV	417.7	1,364	166.5	533		150.9%
<b>Total</b>	<b>1,771.3</b>	<b>8,777</b>	<b>1,367.0</b>	<b>6,813</b>		<b>29.6%</b>

### Land

Conditions in the land market remain attractive and we continue to secure excellent land opportunities across all regions that meet or exceed our minimum hurdle rates of 20% gross margin and 25% site ROCE<sup>(2)</sup>.

In FY15 we approved a total of £957.0m (2014: £1,198.1m) of operational land equating to 16,956 plots (2014: 21,478 plots). At 30 June 2015 the Group had a c. 3.3 year owned landbank and c. 1.2 year supply of conditionally contracted land. Going forward, the Group continues to target a c. 3.5 year supply of owned land and c. 1.0 year supply of conditionally contracted land. Whilst maintaining a first class operational landbank, the Group is also focused on securing the longer term land pipeline, in particular through the acquisition of options over strategic land. We continue to target c. 20% of our completions to be delivered from strategic land in FY17.

We continue to make good progress with the transformation of our landbank from older low margin land to more recently acquired higher margin land, and as at 30 June 2015, 90% (2014: 84%) of our owned and controlled land is higher margin newer land.

(2) Site ROCE on land acquisition is calculated as site operating profit (site trading profit less overheads less allocated administrative overheads) divided by average investment in site land, work in progress and equity share

### **Net cash and land creditors**

As at 30 June 2015 the Group had a net cash balance of c. £185m (2014: net cash £73.1m). This is greater than previous guidance reflecting both the increased level of completions for the full year and the timing of land payments.

The Group continues to seek to defer payment for new land where possible to drive a higher ROCE and land creditors as at 30 June 2015 are expected to be c. 35% of the owned landbank (30 June 2014: 33%). For FY16 we are targeting land creditors to be around one third of the owned landbank.

We expect the Group's finance charge for FY15 to be c. £57m (2014: £59.7m), consisting of a cash finance charge of c. £28m (2014: £26.7m) and c. £29m (2014: £33.0m) of non-cash charges.

### **Return on capital employed**

The Group's fast asset turn model of a shorter consented landbank, deferred payment terms, standardised product, and the ability to sell through both our brands on larger sites is focused on driving ROCE.

For FY15 we expect ROCE<sup>(1)</sup> to increase by c. 430 basis points to c. 23.8% (2014: 19.5%), and we are confident of delivering further good progress on ROCE as we complete the transformation of the landbank, running down the Group's low or zero margin legacy assets.

### **Capital Return Plan**

The strong financial performance supports the Group's Capital Return Plan which combines an ordinary dividend, based on the dividend being three times covered by earnings, with a special cash payment programme. The special cash payments are expected to return £400m by November 2017, with the first proposed payment of £100m<sup>(3)</sup> payable in November 2015.

### **Outlook**

The fundamentals for the market remain very positive. The Group starts the new financial year with a very strong forward order position and we expect to deliver a further significant improvement in performance in FY16.

(3) The first special cash payment will be subject to approval at the Annual General Meeting in November 2015 and subsequent special cash payments will be subject to shareholder approval

**This trading update contains certain forward-looking statements about the future outlook for the Group. Although the Directors believe that these statements are based upon reasonable assumptions, any such statements should be treated with caution as future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.**

**Conference call for analysts and investors**

David Thomas, Chief Executive will be hosting a conference call at 08.30am today, Thursday 9 July 2015, to discuss this trading update.

To access the conference call

Dial-in: +44 (0)20 3427 1914

Access code: 9715351

A replay facility will be available shortly after

Dial-in: +44 (0)20 3427 0598

Access code: 9715351

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