



10 July 2019

Barratt Developments PLC

Record full year performance, continued good progress towards medium term targets

Barratt Developments PLC (the 'Group') is today issuing a trading update for the year ended 30 June 2019 (the 'year') ahead of publication of its annual results on 4 September 2019. All comparatives are to the year ended 30 June 2018 ('2018') unless otherwise stated.

Highlights

- 17,856 total homes completed including joint ventures (2018: 17,579 homes), with wholly owned completions up by 2.6% to 17,111 homes (2018: 16,680 homes)
- Operating margin⁽¹⁾ at c. 18.9% (2018: 17.7%), with underlying margin improvement of around 70 bps, driven mainly by our margin initiatives
- Profit before tax expected to be ahead of market expectations⁽²⁾ at around £910m (2018: £835.5m), driven by continued strong progress from margin initiatives, a strong close to the year and additional contribution from joint ventures
- Awarded the HBF's maximum 5 Star customer satisfaction rating for the tenth year in a row, reflecting our commitment to quality and customer service
- Strong forward sales position with total forward sales (including JVs) as at 30 June 2019 of £2,604.1m (30 June 2018: £2,175.7m)

David Thomas, Chief Executive commented:

"It has been another very good year for the Group both operationally and financially. We have delivered our highest number of completions for eleven years, made further improvements to our margin and as the only major housebuilder to be awarded a 5 Star rating for customer satisfaction for ten years in a row, we continue to lead the industry in quality and customer service.

'We begin the new financial year with a strong forward order book and cash position, continued focus on the delivery of operational improvements across our business, and an ongoing commitment to deliver the highest quality homes across the country.'

Update for the year

Good progress against our medium term targets

The Group has traded well across the country throughout the year and is making good progress against its medium term targets. Our operational improvements, including new product ranges, underpin our land acquisition at a minimum of 23% gross margin. We have delivered incremental underlying operating margin⁽³⁾ improvements of around 70 bps this year driven mainly by our margin initiatives. In addition, we have delivered a strong performance from our joint ventures at around £35m (2018: £18.6m). Reflecting our strong performance, profit before tax for the year is expected to be around £910m (2018: £835.5m), ahead of market expectations and a record for the Group.

Quality and service

We have an absolute commitment to leading the industry in quality and customer service. In June we achieved 84 NHBC Pride in the Job Awards, more than any other housebuilder for the 15th consecutive year. In March we became the only major housebuilder to be awarded HBF's maximum 5 Star customer satisfaction rating for ten years in a row. In light of this achievement and to recognise our employees' dedication and hard work we are, for the second year in a row, providing a share award for all employees.

Trading⁽⁴⁾

The sales rate for the year was 0.70 (2018: 0.72) net private reservations per active outlet per week and 0.76 (2018: 0.77) in the second half of the year. During the year, we opened 163 (2018: 142) new outlets (including JVs) and operated from an average of 379 (2018: 380) active outlets (including JVs). Our total average selling price ('ASP') for the year was c. £274k (2018: £288.9k), with private ASP at c. £312k (2018: £328.8k), reflecting changes in our mix, partly offset by some underlying house price inflation.

As Britain's largest housebuilder we remain committed to playing our part in addressing the housing shortage. We continue to increase volumes whilst maintaining our industry-leading quality. In line with expectations, we saw 2.6% growth in our wholly owned completions to 17,111 homes (2018: 16,680 homes) and delivered 745 home completions through our joint ventures (2018: 899 homes) making our total completions including JVs 17,856 homes (2018: 17,579 homes) for the year. To continue to improve our operating efficiency, we have made further refinements to our new housing ranges without affecting our quality or design standards. Our new housetype ranges are suitable for modern methods of construction ('MMC') which we aim to use in 20% of our homes by 2020. In addition, we recently acquired Oregon Timber Frame Limited, one of our key suppliers of timber frames, to complement our existing business operations.

We have grown margin significantly over the last five years and the Group expects to deliver an operating margin of c. 18.9% (2018: 17.7%) in the year. Underlying operating margin improvements of around 70 bps were driven mainly by sites purchased at higher gross margins and the benefits of the new product range delivery, partly offset by an increase in net administrative expenses. The Group also benefited from non-recurring items including the disposal of a legacy commercial asset and reversal of inventory impairment provisions resulting in a further c. 50 bps of operating margin.

Joint ventures delivered a profit that was better than expected for the year of around £35m (2018: £18.6m) mainly as a result of profit generated from land sales and additional completions.

Central London

We have made good progress in our strategy to exit central London and focus on the strong growth opportunities that exist in outer London.

Our wholly owned central London portfolio comprises 18 private homes (June 2018: 145 private homes) remaining to legally complete.

We have sold our 50% interest in the Aldgate Place joint venture to our joint venture partner. Following this sale, we now have two active central London joint ventures, one at Fulham Riverside which is fully forward sold under a design and build contract, and the other at Nine Elms with 93 homes (June 2018: 234 homes) remaining to legally complete.

Net cash and land creditors

As at 30 June 2019 the Group had a net cash⁽⁵⁾ balance of c. £765m (30 June 2018: £791.3m) ahead of guidance, driven by overall strong trading, receipts related to joint ventures, and the timing of land acquisition. Cash land spend for the financial year was c. £940m, and we have reduced land creditors to c. 31% (30 June 2018: 33.6%) of our land bank.

Land and Planning

The land market remains attractive and we continue to secure operational land opportunities that exceed our minimum hurdle rates. The Group approved £859.8m (2018: £933.9m) of operational land for purchase in the year, which we expect to equate to 18,448 plots (2018: 20,951 plots), in line with our volume growth aspirations. As at 30 June 2019 the Group had around a 3.9 year supply of owned and consented land and a further 0.8 years of controlled land, resulting in 4.7 years in total.

Forward Sales

Our forward sales position is strong, with total forward sales (including JVs) as at 30 June 2019 at a value of £2,604.1m (30 June 2018: £2,175.7m), equating to 11,419 homes (30 June 2018: 10,155 homes). Our wholly owned forward sales were up 13.3% on the prior year at £2,283.5m (30 June 2018: £2,016.1m), equating to 10,547 homes (30 June 2018: 9,609 homes).

Build costs

We have a robust and carefully managed supply chain with around 90% of housebuild materials sourced by our centralised procurement function being manufactured or assembled in the UK. We have fixed price agreements in place for over 90% of these materials to December 2019 and 60% for FY20. As previously guided, build cost inflation was 3-4% during FY19 and we anticipate a similar level of inflation for FY20.

Capital returns

In February, we extended our capital return plan to pay special returns, subject to shareholder approval, of £175m in November 2019 and November 2020. This commitment to return excess cash to shareholders is in addition to our existing dividend policy to pay ordinary dividends covered 2.5 times by earnings.

Outlook

Our FY19 performance is expected to be ahead of current market expectations driven by continued improvements from margin initiatives and strong performance across the Group.

We remain focused on driving further margin improvement and delivering our medium term targets of volume growth of 3-5% over the medium term, land acquisition at a minimum 23% gross margin and a minimum 25% ROCE.

Whilst there remains some economic and political uncertainty, the Group is in a strong position. We have a substantial net cash balance, a well-capitalised balance sheet, a healthy forward sales position, a continued focus on delivery of operational improvements across our business and an ongoing commitment to deliver the highest quality homes across the country. We believe that this gives us the resilience and flexibility to react to potential changes in the operating environment in FY20 and beyond.

We will update on current trading, guidance for FY20 and progress against our medium term targets alongside our full year results announcement on 4 September 2019.

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.

Notes:

- (1) Operating margin is defined as profit from operations divided by revenue
- (2) Based on the Reuters consensus of £884m for FY19 as at 28 June 2019
- (3) Underlying operating margin in this statement is defined as profit from operations excluding the reversal of inventory provisions and the disposal of legacy commercial assets divided by revenue
- (4) All figures within this statement exclude joint venture (JVs) completions in which the Group has an interest unless otherwise stated
- (5) Net cash is defined as cash and cash equivalents, bank overdrafts, interest bearing borrowings, prepaid fees and foreign exchange swaps

Appendices

1. Completions (homes)	2019	2018	Variance
Private	13,533	13,439	0.7%
Affordable	3,578	3,241	10.4%
Wholly owned	17,111	16,680	2.6%
JV	745	899	(17.1%)
Total	17,856	17,579	1.6%

2. ASP £k	2019			2018		
	H1	H2	FY	H1	H2	FY
Private	317.3	c. 308	c. 312	314.6	339.3	328.8
Affordable	120.9	c. 137	c. 131	124.7	123.1	123.7
Total	282.2	c. 268	c. 274	281.0	294.6	288.9

3. Forward sales	30 June 2019		30 June 2018		Variance %	
	£m	Homes	£m	Homes	£m	Homes
Private	1,195.2	3,827	1,222.1	3,863	(2.2)	(0.9)
Affordable	1,088.3	6,720	794.0	5,746	37.1	17.0
Wholly owned	2,283.5	10,547	2,016.1	9,609	13.3	9.8
JV	320.6	872	159.6	546	100.9	59.7
Total	2,604.1	11,419	2,175.7	10,155	19.7	12.4

Conference call for analysts and investors

David Thomas, Chief Executive and Jessica White, Chief Financial Officer will be hosting a conference call at 08:30am today, Wednesday 10th July, to discuss this Trading Update.

To access the conference call:

Dial-in: +44 (0)330 336 9125

Passcode: 8209296

A replay facility will be available shortly after:

Dial in: +44 (0)207 660 0134

Passcode: 8209296

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