



6 July 2020

Barratt Developments PLC
Resilient performance, strong financial position

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

Barratt Developments PLC (the 'Group') is today issuing a trading update for the year ended 30 June 2020 (the 'year') ahead of publication of its annual results on 2 September 2020. The Group also provides an update following the conclusion of investigations into structural issues at a legacy development - Citiscape in Croydon. All comparatives are to the year ended 30 June 2019 ('2019') unless otherwise stated.

- All operational sites were reopened by 30 June 2020 and all employees, other than those shielding, have now recommenced working in the business
- Health and safety continues to be our first priority and all of our operations comply with our enhanced COVID-19 working practices and protocols
- Completion volumes were significantly reduced by the lockdown period with 12,604¹ total homes including joint ventures completed during the year (2019: 17,856 homes)
- High customer interest levels since sales centres reopened, with net private reservations per active outlet² per average week of 0.63 (2019: 0.69) for the last six weeks
- Our forward order book is strong with total forward sales (including JVs) as at 30 June 2020 of 14,326 homes (30 June 2019: 11,419 homes) at a value of £3,249.7m (30 June 2019: £2,604.1m)
- Resilient balance sheet, with year-end net cash³ of around £305m (30 June 2019: £765.7m) and land creditors at around £800m (30 June 2019: £960.7m) equivalent to c.25% (30 June 2019: 31.3%) of the owned land bank

David Thomas, Chief Executive commented:

"Prior to the COVID-19 pandemic, the Group was delivering a strong year of progress on both volume and margin. The pandemic has caused significant disruption, but our highly skilled and experienced team have shown incredible resilience, flexibility and commitment both through the peak of the crisis and in the careful reopening of our sites.

Now, with our construction sites operational across the UK, we begin the new financial year with cautious optimism supported by our strong forward order book and our well capitalised balance sheet."

Update for the year

COVID-19

The Group traded well across the country up to 22 March 2020 and was on track to meet its medium term targets.

We acted quickly at the outset of the pandemic and, in line with our commitment to health and safety, took the decision to temporarily close all of our sales centres, construction sites and offices by 27 March 2020.

In response to COVID-19, the Board implemented immediate measures to manage the Group's cost base and cash flows to ensure resilience, including:

- Suspending all land buying activity;
- Ceasing all recruitment activity;
- Postponing non-essential capital expenditure;
- Actively managing cash flows whilst ensuring that we are paying our suppliers and subcontractors on time;
- Cancelling the interim dividend, which was due to be paid on 11 May 2020;
- Furloughing a proportion of our employees at their normal pay; and
- A voluntary 20% reduction in base salary and fees for all Executive Directors, the wider Executive and Regional Managing Director team, the Chairman and the Non-Executive Directors for the period our sites were closed.

In addition, in May 2020, the Remuneration Committee agreed with the recommendation of the Executive Directors that there would be no payments to any Director or employee under the FY20 annual bonus scheme.

Following our establishment of extensive COVID-19 working practices and protocols, we gradually restarted our site operations from 11 May 2020 in England and Wales and from 1 June 2020 in Scotland. As a result, all of our construction sites were operational at 30 June 2020 and all our employees, other than those shielding, have now returned to the business.

Through the temporary closure of the business, where around 85% of our employees were placed on furlough, we used the Government's Coronavirus Job Retention Scheme. All of our employees, other than those shielding, have now returned from furlough. We are grateful for the support that the Government has provided to UK businesses through the Coronavirus Job Retention Scheme, which allowed us to safeguard the jobs of our c. 6,700 employees during the height of the pandemic. However, our financial position has remained resilient; therefore, we will now repay all furlough funds received.

This period has had a significant impact on our financial performance this year and the strong progress we had been making against our medium term targets. However, we have a resilient business model with both operational and financial strength, and remain dedicated to the delivery of the high quality homes the country needs.

The market recovery

Since the removal of Government restrictions on housing market activity on 13 May 2020 there has been a welcome recovery in internet activity, site visitors and net reservations across both the industry and our business. However, the prospects for the wider UK economy and the medium term impact on the new homes market remains uncertain and will only become clearer over the coming months.

Key to the health of the new homes market is mortgage availability. Whilst there is a reduced level of availability of higher loan to value mortgages, demand from first time buyers looking to use Help to Buy has been significant since the market reopened.

To help ensure the UK's housing recovery is sustained, capacity in the industry is maintained and to ensure that customers who planned to use the current Help to Buy scheme still can, given the unprecedented backdrop, we believe it would be sensible for Government to extend the existing scheme beyond March 2021.

Sales performance

The sales rate for the full year was 0.60 (2019: 0.70) net private reservations per active outlet² per week, with a rate for the period to 22 March 2020 of 0.73 (period to 24 March 2019: 0.68) net private reservations per active outlet² per average week. Following the reopening of our sales centres, we have seen an increase in lead volumes, which are running at levels in excess of those achieved in the same period in FY19. In the six weeks since reopening we have achieved a sales rate of 0.63 (2019: 0.69) net private reservations per active outlet² per average week with no discernible change in pricing levels.

During the year, we operated from an average of 366 (2019: 379) active outlets² (including JVs) and as at 30 June 2020 we were operating from 348 (2019: 371) active outlets² (including JVs).

The unprecedented impact of COVID-19 has significantly reduced our completion volumes this year to 12,604 homes (2019: 17,856 homes) including JVs, of which 10,364 homes (2019: 9,437 homes) were completed in the period to 22 March 2020. We delivered 9,568 private home completions (2019: 13,533 homes), 2,466 affordable home completions (2019: 3,578 homes) and 570 JV home completions (2019: 745 homes).

Selling prices have remained resilient throughout the year. Our total average selling price ('ASP') for the year was c. £280k (2019: £274.4k), with private ASP at c. £311k (2019: £312.0k), both at similar levels to last year.

Forward sales

Our forward sales position is strong, with total forward sales (including JVs) as at 30 June 2020 at a value of £3,249.7m (30 June 2019: £2,604.1m), equating to 14,326 homes (30 June 2019: 11,419 homes).

Since the onset of COVID-19 our forward sales have remained resilient, and now that we have restarted construction, we are initially focusing on delivery for those customers who have reserved or exchanged contracts with us. Given the timing of the COVID-19 lockdown and the progression of reservations to exchanged contracts, 73% of homes (2019: 76%) within our total forward sales (including JVs) were contractually exchanged at 30 June 2020 providing clear visibility for the start of FY21.

Build performance

Our sites are operating safely with a detailed set of working practices and protocols that have been established in line with the latest guidance from Government, Public Health Authorities and the Construction Leadership Council. This includes changes to signage, site welfare facilities and compounds, site access and walkways. A nominated social distancing marshal is present on all sites to ensure policy compliance and we provide induction, training and support for our employees and sub-contractors.

The health and safety of our employees, sub-contractors and customers remains our first priority. On our sites that have been reopened for four weeks or more we are operating at around 75% of construction activity levels prior to lockdown, a reflection of social distancing requirements, the timing of subcontractors returning to sites and our prioritisation of build required to meet forward sales commitments. We now expect site productivity levels to continue to improve towards those achieved prior to lockdown, particularly following the most recent changes to social distancing requirements in England, the return of additional subcontractors and extended operating hours on many of our sites.

We have a robust and carefully managed supply chain with around 90% of housebuilding materials sourced by our centralised procurement function being manufactured or assembled in the UK, which has proved particularly valuable as we reopened our sites in the COVID-19 environment.

The Group has incurred significant additional costs arising from COVID-19 including the controlled closure, hibernation and recommencement of our activities. In addition, site durations are now expected to be extended, resulting in increased site costs. Further details will be included in our full year results announcement.

Resilient balance sheet

Funding and liquidity

As at 30 June 2020 the Group had net cash³ of around £305m (30 June 2019: net cash £765.7m). Throughout the second half we have actively managed our cash flows to ensure resilience and as a result we operated with average net cash of c. £237m (H2 FY19: £167.9m). Since our return to site our cash flows have benefitted from completion delivery, reduced working capital requirements and the timing of land payments.

The Group has £200m of drawn US private placement notes and a £700m undrawn revolving credit facility. The Group has also received confirmation that it is eligible to access funding under the Covid Corporate Financing Facility ('CCFF') should that be required.

Land creditors at around £800m (2019: £960.7m) have reduced to c. 25% (30 June 2019: 31.3%) of the owned land bank in line with our operating framework of 25% to 30%. This follows the targeted reduction achieved at the half year and a lower level of land additions in the second half due to our suspension of land buying activity, partly offset by changes in the timing of land creditor payments. As at 30 June 2020 c. £350m of our land creditors fall due for payment in the first half of FY21.

Land and planning

We continue to closely monitor the land market. Due to the strength of our land bank and current economic uncertainty, our land buying activities remain suspended, with the exception of where we can obtain attractive conditional options that we can choose whether or not to progress as market conditions become clearer.

Investing in our people

We are committed to our people, not just because it is the right thing to do, but because they are fundamental to our long-term success. It is testament to the quality of our people that we are the only major housebuilder to be awarded the HBF's maximum 5 Star customer satisfaction rating for the 11th year in a row, reflecting our commitment to quality and customer service. We are incredibly proud of our site managers, who once again excelled this year with 92 (2019: 84) NHBC Pride in the Job Awards, more than any other housebuilder for the 16th consecutive year.

Our employees have reacted in a resilient and adaptable way during the challenges posed by COVID-19, both those who worked hard to get us ready to restart on site, and those who were not able to work during the period of temporary closure, many of whom were inspirational as volunteers in their local communities. We were pleased to be able to support all of our employees throughout our period of hibernation on their normal pay.

Citiscap

In 2017, following the tragedy at Grenfell, we carried out a review of all buildings where cladding had been used. As part of this review, we voluntarily undertook to pay for work to remove and replace Aluminium Composite Material ('ACM') cladding on the Citiscap development in Croydon. This is a non-standard development which was designed for us in 2001 by a third-party structural engineering firm and was sold to the current freeholders in 2003.

When the ACM cladding was removed from Citiscap in 2019, structural concerns were identified and we appointed independent structural engineers to undertake a full investigation of the building. These investigations have identified significant issues relating to the design of the building's reinforced concrete frame ('RCF') requiring extensive remedial work. While we have no legal liability to cover the costs of this work, in line with our commitment to customers and recognising the responsibility we have for the work of our partners, we have taken the decision to pay for the required remedial action which would otherwise fall on leaseholders.

As a responsible developer, we appointed independent structural engineers to review all of the other developments where RCFs were designed for us by either the same original engineering firm or by other companies within the group of companies which has since acquired it.

The preliminary reviews of all 26 of these developments, the majority of which were designed over ten years ago, are complete and have not identified any issues as severe as those present at Citiscap. Engineers are now undertaking more detailed reviews to see if any remediation of the concrete frames is required. Those detailed reviews have so far shown that eight developments have no defects while seven developments required some remedial action to address smaller-scale problems. At these developments, remedial action has either been successfully completed or is underway.

We apologise unreservedly to affected customers that the standards that we set for ourselves and our partners were not met at these developments. While in most cases we have no legal liability, in line with our commitment to put our customers first we will ensure that no costs associated with remedial works are borne by leaseholders.

As previously disclosed, up to 31 December 2019, we had incurred £15.8m on Citiscap for both the costs of removing the ACM cladding and other voluntary assistance including the costs of providing alternative accommodation for residents. Based on our current assessments, it is estimated that the total future costs for the required remedial programme at Citiscap, the review itself, and any remediation required at other buildings, will be around £70m, with this charge, and the related cash outflow arising in FY20 and FY21. We are actively seeking to recover costs from third parties, however there is no certainty regarding the extent of any financial recovery.

Capital returns

In March 2020, given the uncertainties caused by the impact of COVID-19, the Board cancelled the interim dividend of 9.8 pence per share, equating to c. £100.0m⁴, which was due to be paid on 11 May 2020. The Board has decided that, given the unprecedented impact of COVID-19, it will not propose to shareholders at the AGM in October 2020 an ordinary dividend in respect of FY20 or the previously announced special dividend of £175m in respect of FY20. However, the Board continues to recognise the importance of dividends as a part of overall shareholder returns and will give further consideration to future dividend policy.

Outlook

Whilst the economic outlook remains unclear, the Group is in a strong position. We have a well-capitalised balance sheet, robust liquidity, a healthy forward sales position, a continued focus on the delivery of operational performance improvements across our business and an ongoing commitment to deliver high quality homes across the country.

Our experienced Board remains focused on taking the actions necessary to safeguard the operational and financial strength of the business whilst our first priority remains the health and safety of our employees, sub-contractors and customers.

The Board will continue to monitor the market and economy and believes that our strong financial position provides us with the resilience and flexibility to react to changes in the operating environment in FY21 and beyond.

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) All figures within this statement exclude joint venture (JVs) completions in which the Group has an interest unless otherwise stated
- (2) An active outlet is defined as an outlet with at least one plot for sale. Our definition remains consistent with previous reporting periods, unaffected by the closure of our sales centres across the Group during the lockdown period
- (3) Net cash is defined as cash and cash equivalents, bank overdrafts, interest bearing borrowings, prepaid fees and foreign exchange swaps
- (4) Based on 31 December 2019 share capital of 1,014,746,539 shares for proposed payments

Appendices

1. Sales Rate

	Pre lockdown 38 Weeks <i>(1 July to 22 March)</i>	Lockdown 8 Weeks <i>(23 March to 17 May)</i>	Post lockdown 6 Weeks <i>(18 May – 30 June)</i>	Full Year <i>(1 July – 30 June)</i>
2020	0.73	(0.10)	0.63	0.60
2019*	0.68	0.82	0.69	0.70
Variance %	7.4%	n/m	(8.7%)	(14.3%)

**2019 is equivalent period*

2. Completions (homes)	2020	2019	Variance
Private	9,568	13,533	(29.3%)
Affordable	2,466	3,578	(31.1%)
Wholly owned	12,034	17,111	(29.7%)
JV	570	745	(23.5%)
Total	12,604	17,856	(29.4%)

3. ASP £k	2020			2019		
	H1	H2	FY	H1	H2	FY
Private	312.0	c. 308	c. 311	317.3	307.7	312.0
Affordable	160.0	c. 170	c. 163	120.9	138.9	132.2
Total ASP	279.8	c. 281	c. 280	282.2	268.5	274.4

4. Forward sales	30 June 2020		30 June 2019		Variance %	
	£m	Homes	£m	Homes	£m	Homes
Private	1,703.3	5,320	1,195.2	3,827	42.5%	39.0%
Affordable	1,274.1	8,201	1,088.3	6,720	17.1%	22.0%
Wholly owned	2,977.4	13,521	2,283.5	10,547	30.4%	28.2%
JV	272.3	805	320.6	872	(15.1%)	(7.7%)
Total	3,249.7	14,326	2,604.1	11,419	24.8%	25.5%

Conference call for analysts and investors

David Thomas, Chief Executive, Steven Boyes, Chief Operating Officer and Jessica White, Chief Financial Officer will be hosting a conference call at 08:45am today, Monday 6th July, to discuss this Trading Update.

To access the conference call:

Dial-in: +44 (0)330 336 9104

Passcode: 506921

A replay facility will be available shortly after:

Dial-in: +44 (0)207 660 0134

Passcode: 5099523

For further information please contact:

Barratt Developments PLC

Jessica White, Chief Financial Officer

01530 278 259

John Messenger, Group Investor Relations Director

07867 201 763

For media enquiries:

Tim Collins, Head of Corporate Communications

020 7299 4874

Derek Harris, Head of Public Relations

020 7299 4873

Brunswick

Jonathan Glass

020 7404 5959

The person responsible for arranging the release of this announcement on behalf of Barratt Developments PLC is John Messenger (Group Investor Relations Director).

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