13 July 2016

Barratt Developments PLC

Another year of strong performance

Barratt Developments PLC is today issuing a trading update for the year ended 30 June 2016 ahead of its annual results announcement on Wednesday 7 September 2016.

Highlights

- Total completions, including joint ventures ('JVs'), increased by 5.3% to 17,319 (2015: 16,447), as a result of strong consumer demand during the financial year
- Profit before tax expected to increase by c. 20% to c. £680m, in line with market expectations (2015: £565.5m)
- Year end net cash[(1)] balance of c. £590m (2015: £186.5m), ahead of expectations, driven by completion volumes and the timing of land payments
- Return on capital employed ('ROCE')[(2)] increased by c. 3 percentage points to c. 27% (2015: 23.9%) reflecting our fast asset turn model

	FY16	FY15	Change
Total completions (including JVs)	17,319	16,447	5.3%
Average selling price ('ASP')			
- **Total**	c. £260k	£235.0k	10.6%
- **Private**	c. £290k	£262.5k	10.5%
Net private reservations per active outlet per week	0.69	0.64	7.8%
Forward sales			
- **Wholly owned (£m)**	£1,607.2m	£1,353.6m	18.7%
- **Total (including JVs) (£m)**	£1,762.0m	£1,771.3m	(0.5%)

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:

"We have delivered another strong performance for the year. The disciplined growth in completion volumes reflects the strength of our sector leading build and sales teams.

Following the EU referendum, it is too early to say what the impact of the uncertainty facing the UK economy will be. The sector continues to receive focused government support, mortgage availability is good and there remains an undersupply of new homes. With a strong balance sheet and forward order book, and industry leading quality and customer service, we remain confident in the positive fundamentals of both the housing sector and our business."

Trading update

The Group has traded well throughout the financial year, delivering a strong performance. We saw good consumer demand across our regions, with some increased uncertainty in the higher value London market. During the year, the mortgage market remained positive, with increased competition amongst lenders and new market entrants resulting in good availability of attractive mortgage finance for our customers.

Total completions (including JVs) for FY16 were up 5.3% at 17,319 (2015: 16,447) units. Affordable housing represented 17% (2015: 18%) of total completions.

Total ASP on completions in the year increased by c. 10.6% to c. £260k (2015: £235.0k), with private ASP increasing by c. 10.5% to c. £290k (2015: £262.5k). The year on year increase predominantly reflects mix changes.

The sales rate for FY16 was 0.69 (2015: 0.64) net private reservations per active outlet per week, with a sales rate in the second half of 0.72 (2015: 0.70) net private reservations per active outlet per week. During the year, we operated from an average of 365 active outlets (2015: 380).

Our JVs have performed well and our share of profits from JVs in FY16 is expected to increase to c. £72m (2015: £45.4m). As at 30 June 2016 we were selling from 11 (2015: 16) JV outlets.

Profit before tax for FY16 is expected to be up by c. 20% to c. £680m (2015: £565.5m), driven in part by increased completion volumes, growth in ASP and an increase in our share of profits from JVs.

Delivering the highest quality homes to our customers 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 twelfth 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 seventh consecutive year.

Housing policy

The UK Government recognises the need to build more homes as evidenced by its policies to improve land availability, planning and support for buyers. We were pleased to see the extension of the Help to Buy (Equity Loan) programme through to 2021, as well as the increase in February 2016 of the Government's equity loan to 40% in London. We remain supportive of the Government's Starter Homes Scheme, which is aimed at providing 200,000 homes for first time buyers by 2020.

Help to Buy (Equity Loan) provides support on house purchases up to £600,000 in England with equivalent support at lower house values in Scotland and Wales. In FY16, 95% of the private homes (including JVs) that we completed had a selling price of £600,000 or below. In FY17 we expect this to be around 93%, reflecting our forecast London mix.

Land

The land market remained attractive throughout FY16 and we have secured excellent development opportunities that meet or exceed our minimum hurdle rates of 20% gross margin and 25% site ROCE[3].

In FY16 we approved £1,095.6m (2015: £957.0m) of operational land for purchase, which we expect to equate to 24,387 plots (2015: 16,956 plots). At 30 June 2016 the Group had a c. 3.4 year owned land bank and c. 1.1 year supply of conditionally contracted land. Going forward under normal market conditions, the Group continues to target a c. 3.5 year supply of owned land and c. 1.0 year supply of conditionally contracted land.

Net cash and land creditors

As at 30 June 2016 the Group had a net cash balance of c. £590m (2015: £186.5m), reflecting a strong financial year. This is ahead of expectations, partly driven by our completion volumes and the timing of land payments.

Our strategy is to seek to defer payment for new land where possible to drive a higher ROCE, and land creditors as at 30 June 2016 are expected to be c. 38% of the owned land bank (30 June 2015: 35%).

We expect the Group's finance charge for FY16 to be c. £59m (2015: £57.0m), consisting of a cash finance charge of c. £24m (2015: £27.4m) and c. £35m (2015: £29.6m) of non-cash charges.

Return on capital employed

The Group's fast asset turn model, supported by a shorter consented land bank, deferred payment terms, standardised product and the ability to sell through both our brands on larger sites, ensures a focus on driving ROCE.

For FY16 we expect ROCE to increase by c. 3 percentage points to c. 27% (2015: 23.9%), with further progress made in the transformation of the land bank, running down the Group's low or zero margin legacy assets. The disposal of £85.4m of legacy assets arising from equity share programmes early in our second half for £82.9m of cash, has also contributed to progress in FY16.

Forward sales

Our forward sales position is strong, with total forward sales (including JVs) as at 30 June 2016 at a value of £1,762.0m (2015: £1,771.3m), equating to 8,724 plots (2015: 8,777 plots). Our wholly owned forward sales were up by 18.7% on the prior year to £1,607.2m (2015: £1,353.6m), equating to 8,054 plots (2015: 7,413 plots).

Outlook

Following the EU referendum, we are mindful of the greater uncertainty now facing the UK economy. Consequently, the immediate outlook for our industry is less clear and it is too early to draw any conclusions regarding market conditions from the short trading period since the referendum. We had contingency plans in place and we have taken appropriate measures to reduce our risk, such as reassessing land approvals, as we continue to monitor the market.

The Group is in a good position, with c. £590m year end net cash, a healthy forward order position and an experienced management team. We have industry leading quality and customer service, and talented employees. There remains an undersupply of new homes, strong government support including Help to Buy (Equity Loan), and a mortgage market willing to lend. As a result, we remain confident in the strong fundamentals of both the housing sector and our business.

Our dividend plan was announced in September 2014 and remains to deliver attractive future cash returns through an ordinary dividend of one third of earnings and a special dividend of £400m in aggregate with made or planned payments of £100m, £125m and £175m over the three years to November 2017.

We will update on current trading and our targets for FY17, alongside our full year results announcement on 7 September 2016.

Notes:

(1) Net cash is defined as cash and cash equivalents, bank overdrafts, interest bearing borrowings and foreign exchange swaps
(2) ROCE is calculated as earnings before interest, tax, operating charges relating to the defined benefit pension scheme and operating exceptional items, divided by average net assets adjusted for goodwill and intangibles, tax, cash, loans and borrowings, retirement benefit assets/obligations and derivative financial instruments
(3) Site ROCE on land acquisition is calculated as site operating profit (site trading profit less site overheads less allocated relevant administrative overhead) divided by average investment in site land, work in progress and equity share

Appendices

1. Completions (units)	**2016**	**2015**	**Change**
Private	13,198	12,746	3.5%
Affordable	2,707	2,853	(5.1%)
Wholly owned	**15,905**	**15,599**	**2.0%**
JV	1,414	848	66.7%
Total	**17,319**	**16,447**	**5.3%**

	2016		**2015**		**Change (£m)**
2. Forward sales	£m	Plots	£m	Plots	%
Private	1,016.6	3,165	882.4	3,268	15.2%
Affordable	590.6	4,889	471.2	4,145	25.3%
Wholly owned	**1,607.2**	**8,054**	**1,353.6**	**7,413**	**18.7%**
JV	154.8	670	417.7	1,364	(62.9%)
Total	**1,762.0**	**8,724**	**1,771.3**	**8,777**	**(0.5%)**

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.

This announcement contains inside information.

Conference call for analysts and investors

David Thomas, Chief Executive and Neil Cooper, Chief Financial Officer will be hosting a conference call at 08:30am today, Wednesday 13 July 2016, to discuss this Trading Update.

To access the conference call:
Dial-in: +44 (0) 20 3427 1918
Passcode: 4944209

A replay facility will be available shortly after:
Dial-in: +44 (0) 20 3427 0598
Passcode: 4944209

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