



# RESULTS PRESENTATION

Half year ended 31 December 2018

Sandridge Place, Melksham





**David Thomas**  
Chief Executive



Lloyd Mews, Stoke-on-Trent

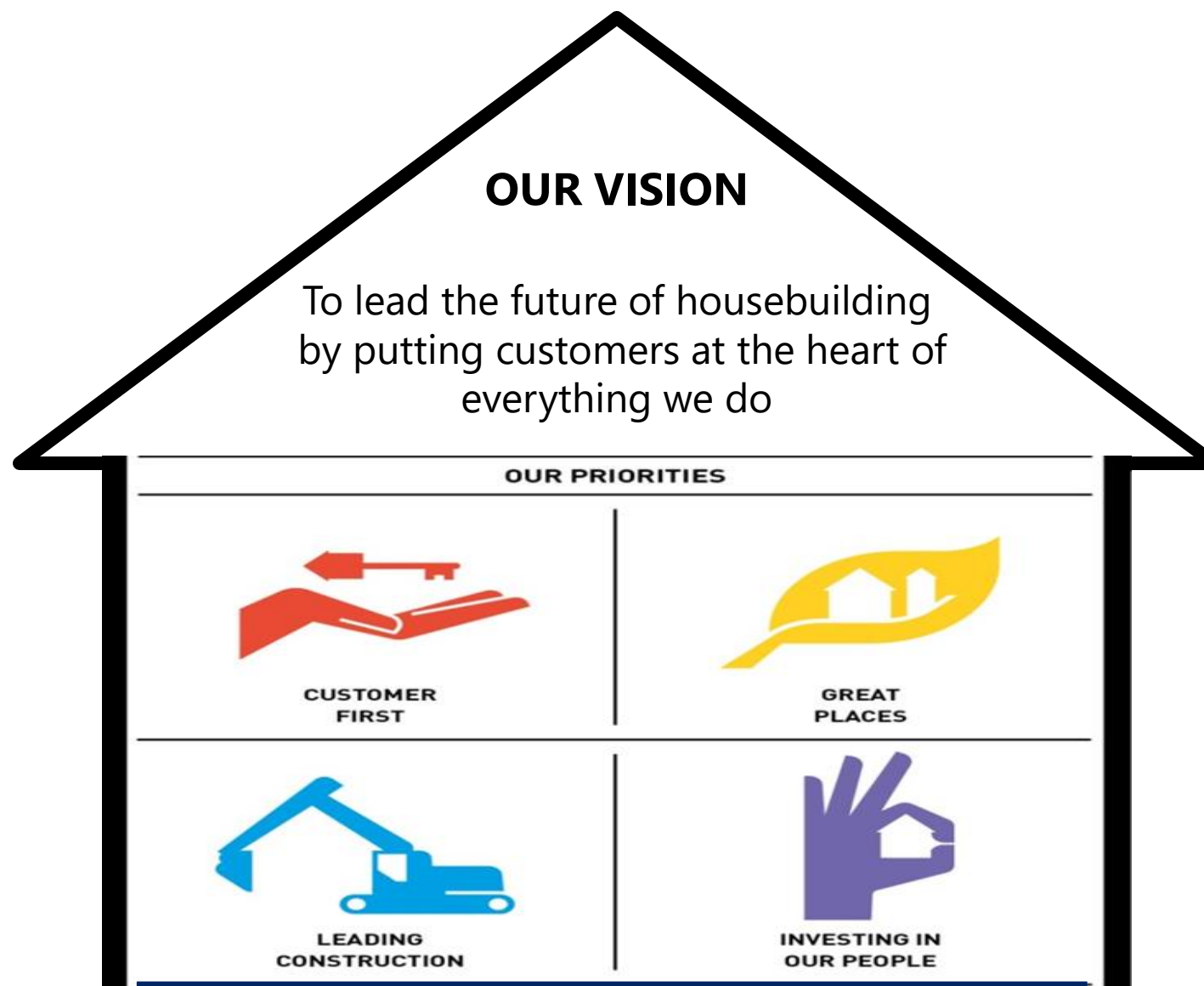


## KEY HIGHLIGHTS

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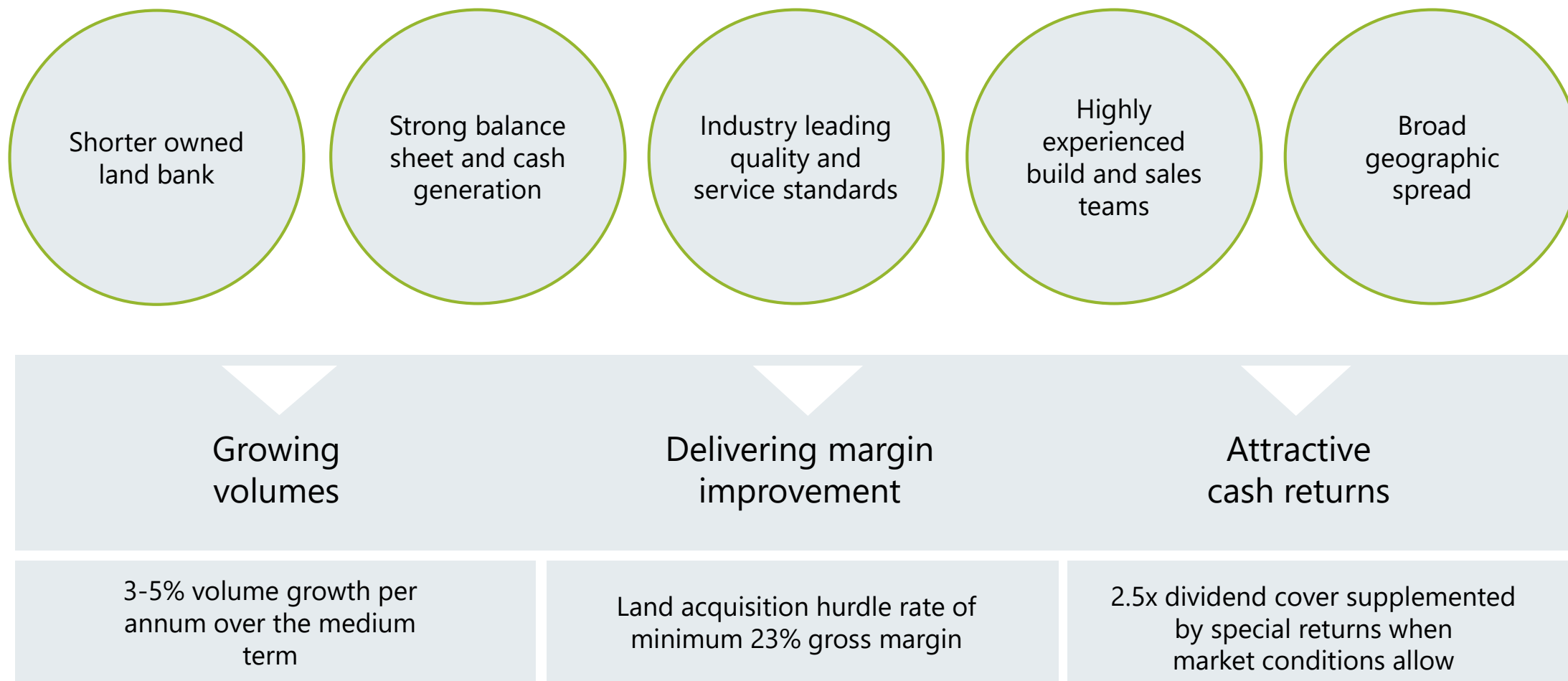
- Strong first half of the year
- Resilient business model with strong financial and operational performance
- Strong housing market fundamentals
- Good progress on medium term targets
- Strong cash generation - attractive cash returns
- Encouraging current trading

## OUR VISION





## INVESTMENT PROPOSITION



## OPERATIONAL TARGETS – PROGRESS UPDATE

	Medium term targets	Progress in the half year
<b>Completions</b>	3-5% growth per annum Present business capacity of 20,000 per annum	4.1% increase in half year total completions <sup>(1)</sup> to 7,622
<b>Gross margin</b>	New land acquisitions at minimum 23% gross margin	200 bps increase in gross margin to 22.6%, resulting in 130 bps improvement in operating margin to 19.2%
<b>ROCE</b>	Minimum 25%	Strong ROCE of 29.5% at December 2018





**Steven Boyes**  
Chief Operating Officer

Riverside View, Lancaster

## COMPLETION GROWTH

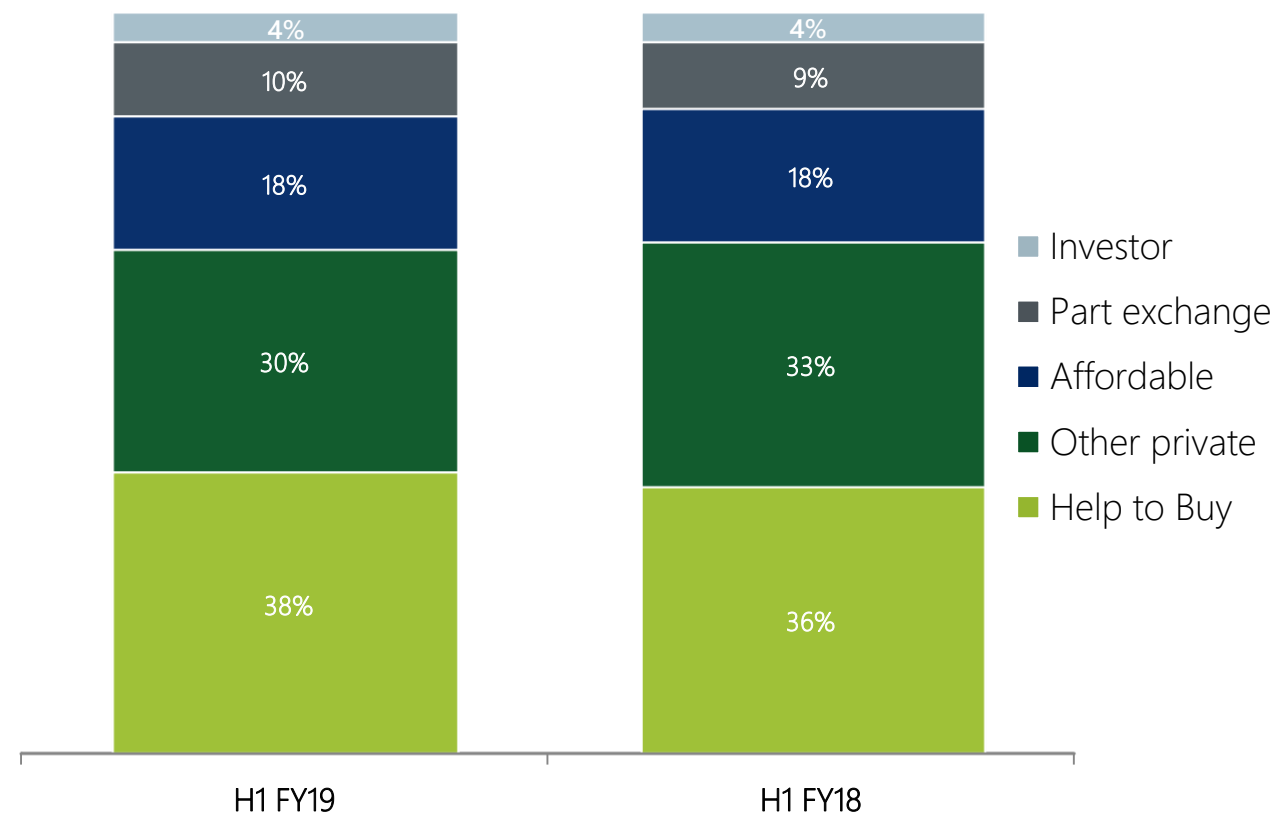
- Strong completion growth in H1 FY19
- Regional completions at highest level for 11 years
- London and JV completions in line with build programmes

	Completions		
	H1 FY19	H1 FY18	Change
Regional	7,138	6,782	5.2%
London	264	162	63.0%
Group	7,402	6,944	6.6%
JV	220	380	(42.1%)
Total	7,622	7,324	4.1%



## COMPLETIONS ANALYSIS - BUYER TYPE

- Similar profile to prior year
- Help to Buy remains an important customer proposition
- Affordable in line; now expect to be c. 20% for FY19



## SOLID SALES PERFORMANCE

- Solid performance
- London reservations include bespoke design and build arrangements
- Second quarter more subdued but January trading encouraging

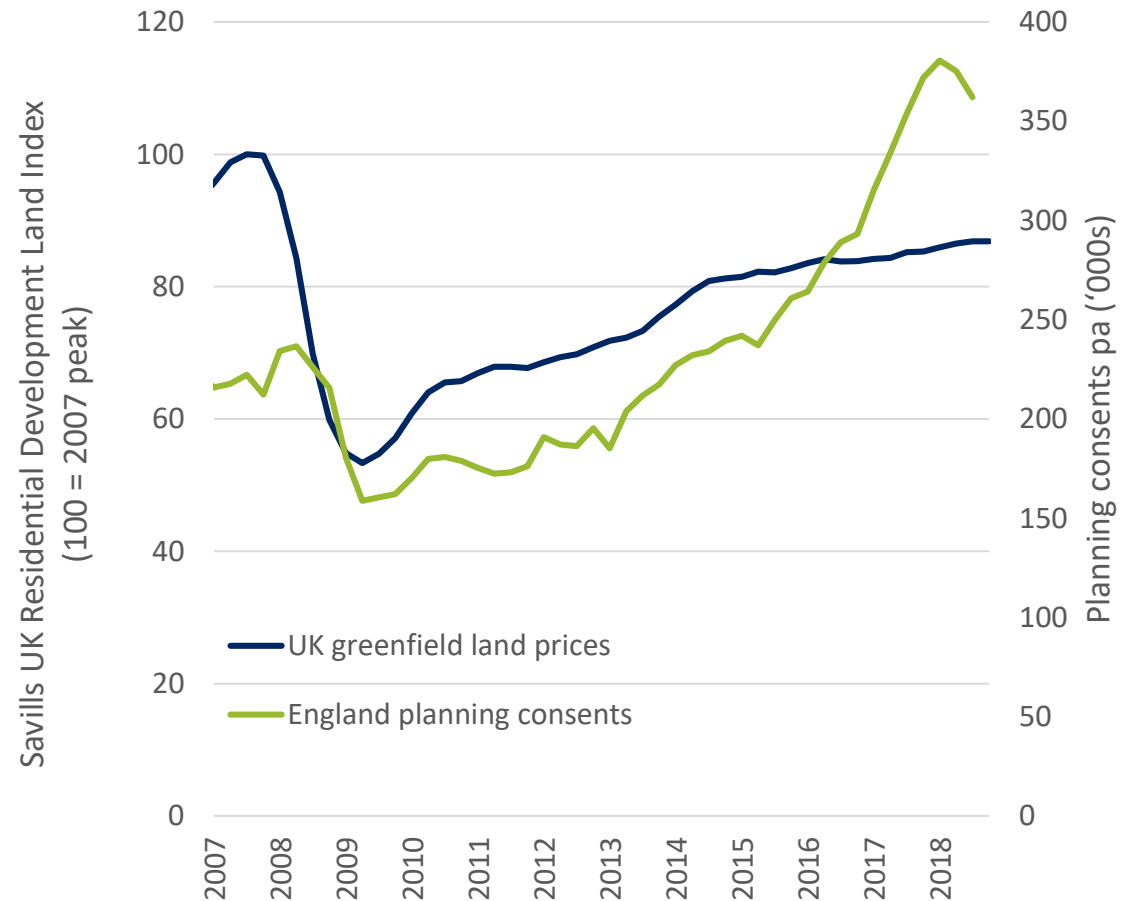
	Average net private reservations per active outlet per week		
	H1 FY19	H1 FY18	Change
Regional	0.62	0.67	(7.5%)
London	1.56	0.86	81.4%
Group	0.64	0.68	(5.9%)
JV	1.70	1.08	57.4%



## LAND MARKET

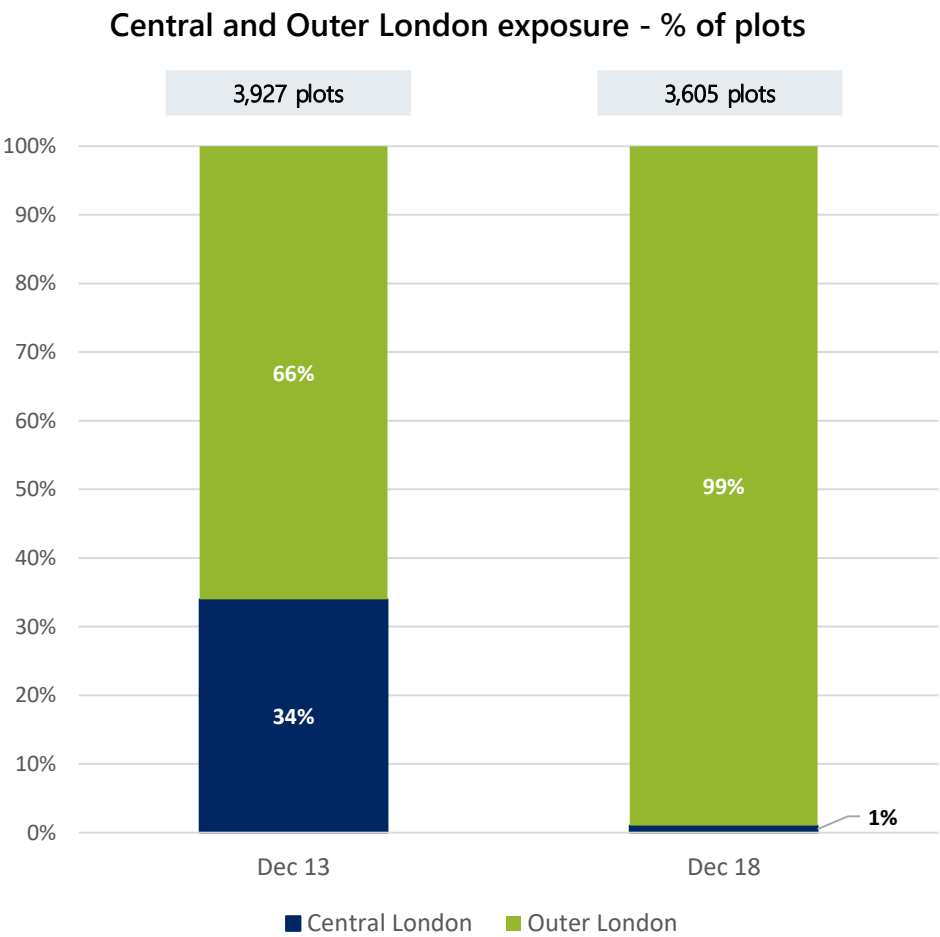
- Favourable land market with good supply of consents
- Excellent opportunities available nationally
- Land approvals
  - H1 FY19: 9,576
  - No change on medium term target: 18,000-22,000 plots per annum

Savills UK Residential Land Index versus HBF planning consents



# LAND BANK<sup>(1)</sup> – LONDON SITES EVOLUTION

- Repositioned London land bank
- Outer London has strong land bank
- 92% of London plots priced below £600k



(1) Private owned and controlled land bank plots excluding JVs

## DRIVING OPERATING MARGIN – STRATEGIC LAND

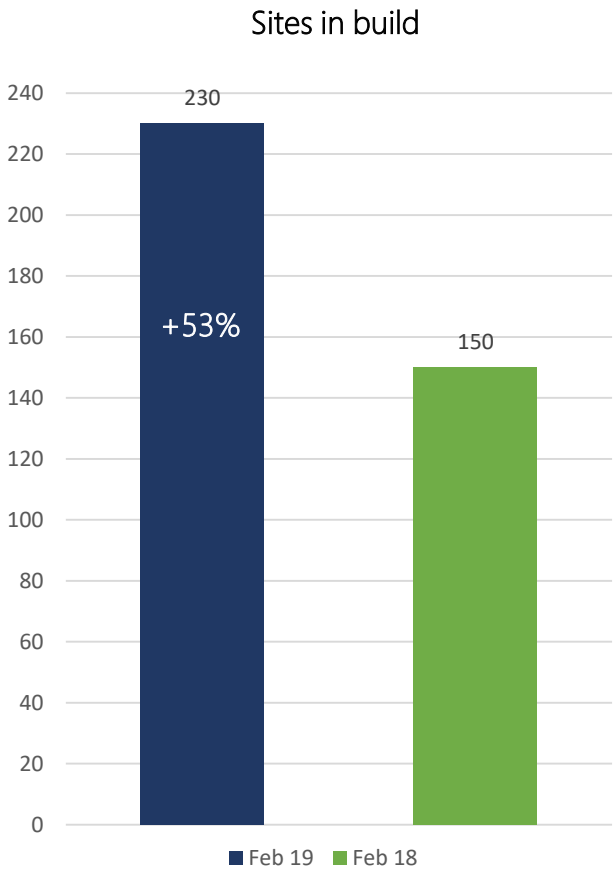
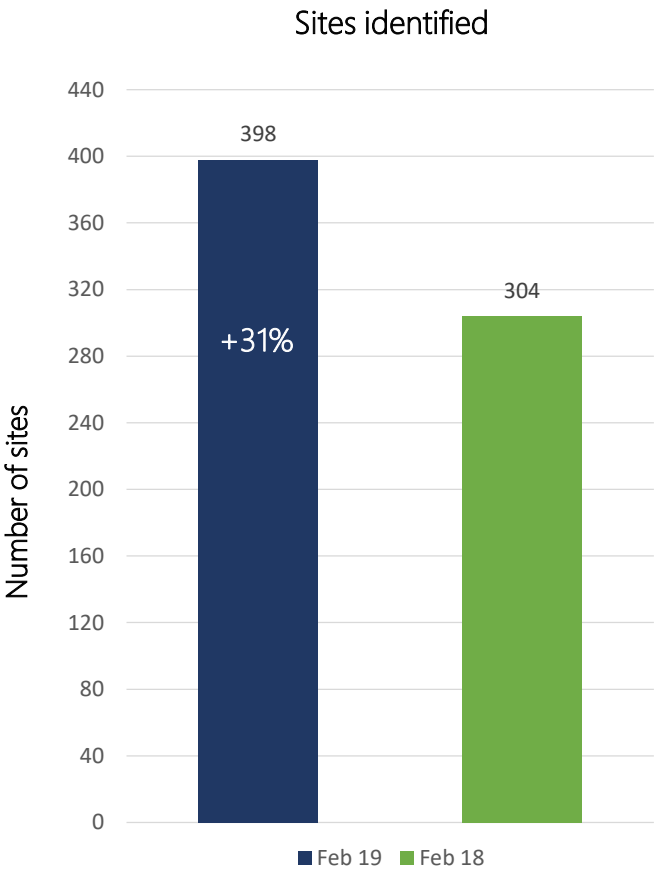
- Enhanced margin of c. 300 basis points<sup>(1)</sup>
- Strong strategic land bank with good geographic spread
- Targeting 30% of completions from strategic land in the medium term

	H1 FY19	H1 FY18
Completions from strategic land	26%	28%
Acres held	12,192	11,806
Number of locations	271	266



## DRIVING OPERATING MARGIN – NEW PRODUCT ROLL OUT

- Increased delivery momentum from new ranges
- Completions in H1 FY19: 2,159 (H1 FY18: 269)
- Roll out supports margin growth
- Simpler and quicker to build
- More suitable for modern methods of construction



## MANAGING THE SUPPLY CHAIN

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- Active supplier management to support delivery and ensure quality
- Centralised procurement team
- 90% of spend with Group suppliers manufactured or assembled in the UK



## MANAGING THE COST ENVIRONMENT

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### Materials

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- Modest material pressures
- 98% of pricing fixed to June 2019
- 40% of pricing fixed to December 2019

### Labour

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- Pockets of cost pressure
- Simplified, faster build
- Increased use of offsite manufacturing
- Apprenticeship schemes

**Build costs expected to increase by c. 3-4% in FY19**



## CONTINUE TO DRIVE OPERATIONAL IMPROVEMENTS

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- Strong completion growth and solid sales rates
- Good progress in improving operating margin from strategic land, new products and cost discipline
- Delivering industry-leading quality and customer service



Ashmeade Park, Pontefract





**Jessica White**  
Chief Financial Officer

Salter's Brook, Cudworth



## KEY HIGHLIGHTS

£m (unless otherwise stated)	H1 FY19	H1 FY18	Change
Revenue	2,132.0	1,988.0	7.2%
Gross profit	482.2	410.2	17.6%
<i>Gross margin</i>	22.6%	20.6%	200 bps
Operating profit	409.7	355.2	15.3%
<i>Operating margin</i>	19.2%	17.9%	130 bps
PBT	408.0	342.7	19.1%
Earnings per share	32.7p	27.1p	20.7%
Net cash	387.7	165.9	133.7%
ROCE	29.5%	28.3%	120 bps



## REVENUE SUMMARY

	H1 FY19	H1 FY18	Change
Completions (units)			
Private	6,078	5,715	6.4%
Affordable	1,324	1,229	7.7%
Total completions	7,402	6,944	6.6%
% Affordable	18%	18%	-
JV	220	380	(42.1%)
Total completions (inc JVs)	7,622	7,324	4.1%
ASP (£'000)			
Private	317.3	314.6	0.9%
Affordable	120.9	124.7	(3.0%)
Total	282.2	281.0	0.4%
JV	404.6	494.4	(18.2%)

## PRIVATE AVERAGE SELLING PRICE

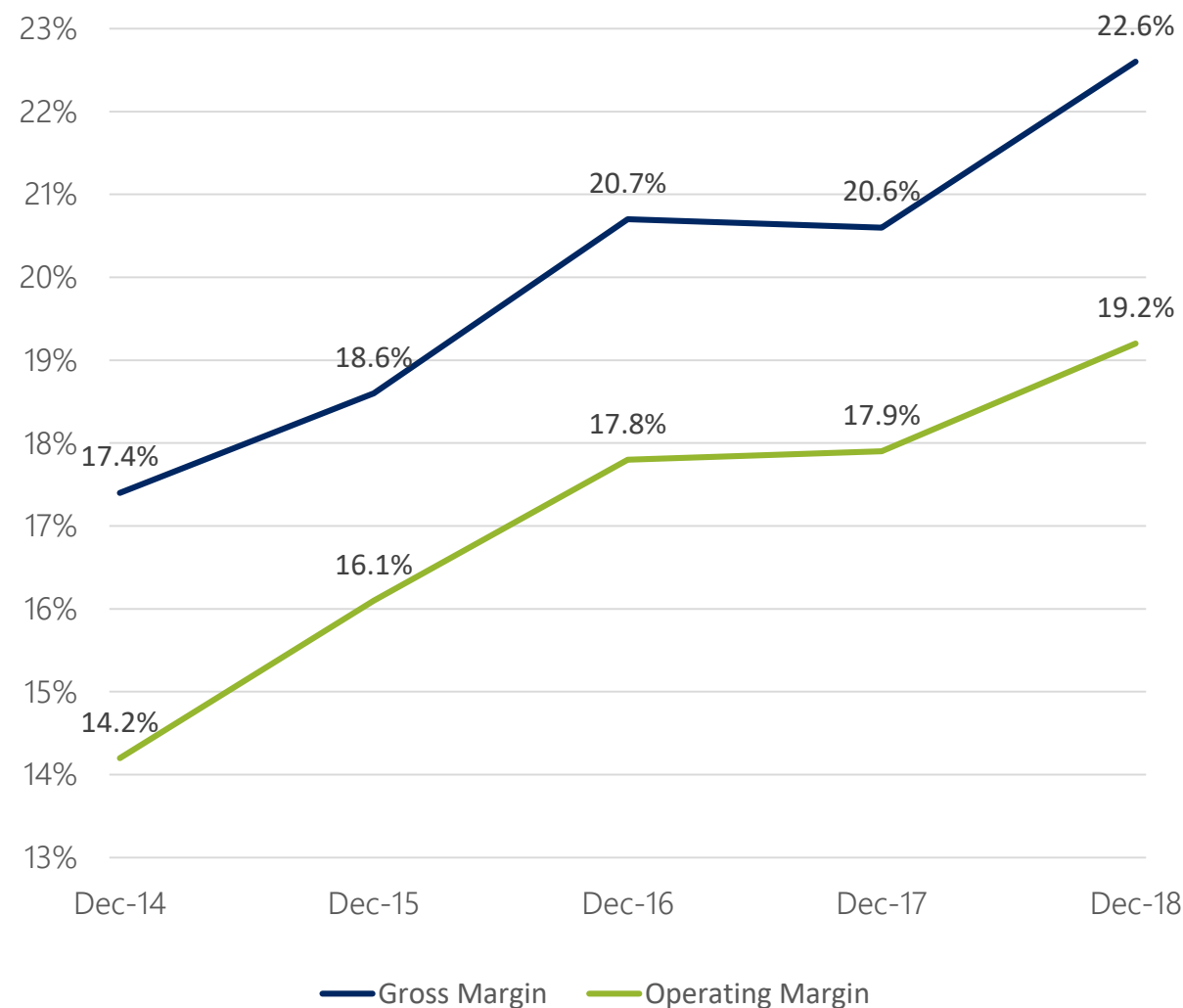
	H1 FY19		H1 FY18	
	Units	ASP (£000)	Units	ASP (£000)
Central London	106	1,306.7	107	820.2
Outer London	122	473.0	43	727.1
London total	228	860.6	150	793.6
Regional total	5,850	296.2	5,565	301.7
Total private	6,078	317.3	5,715	314.6

31 December 2018: 39 Central London private, wholly owned units remaining

FY19 guidance: ASP to reduce due to less Central London product

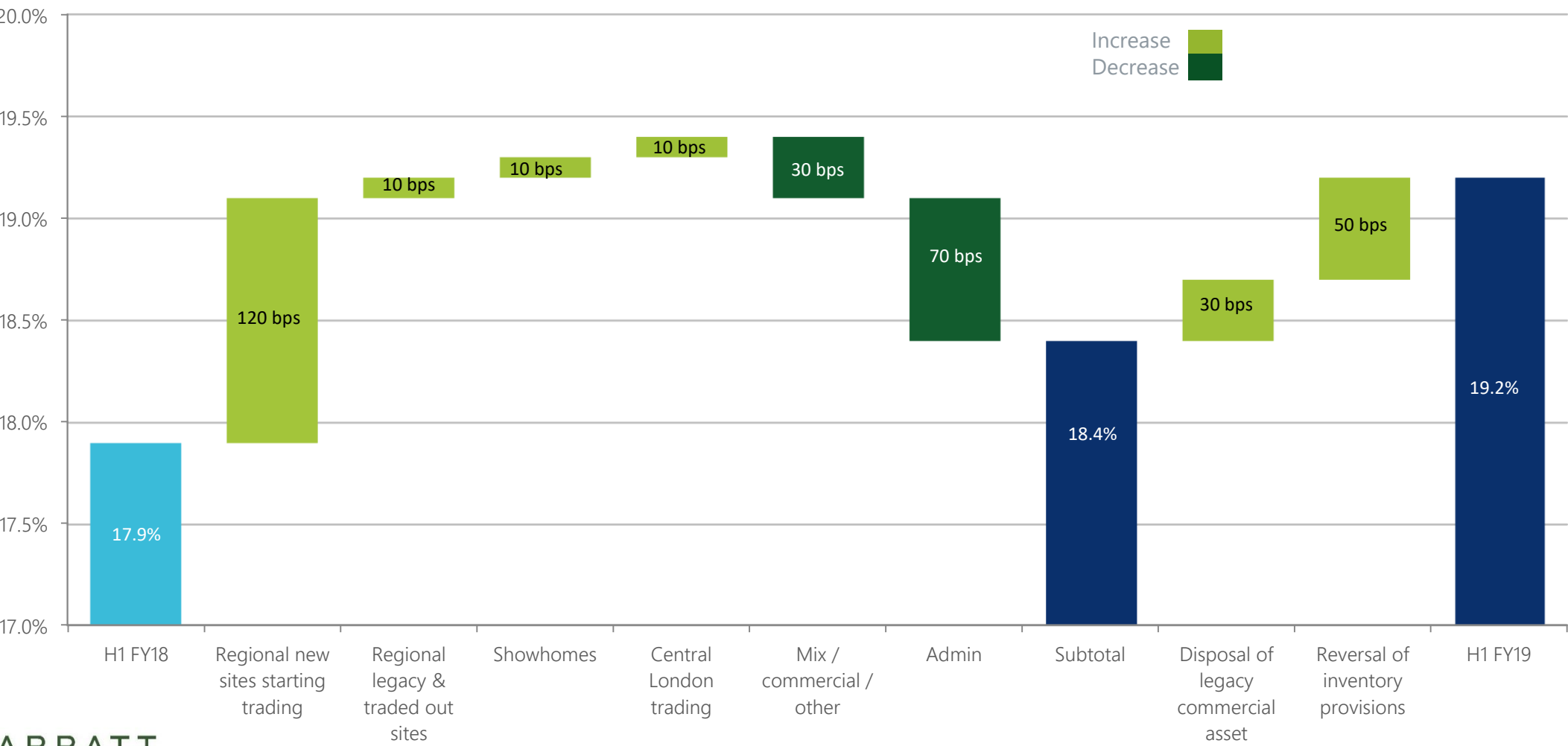
## DELIVERING MARGIN IMPROVEMENT

- Gross margin improvement from
  - Land
    - increased hurdle rates last year
    - benefits from new product range
    - strategic land enhances margin
  - Reduced costs
    - benefits from new product range
    - five year warranty ceased
    - show home leaseback ceased
    - other operating margin improvements
- Minimal net impact of inflation in the half year





# OPERATING MARGIN BRIDGE



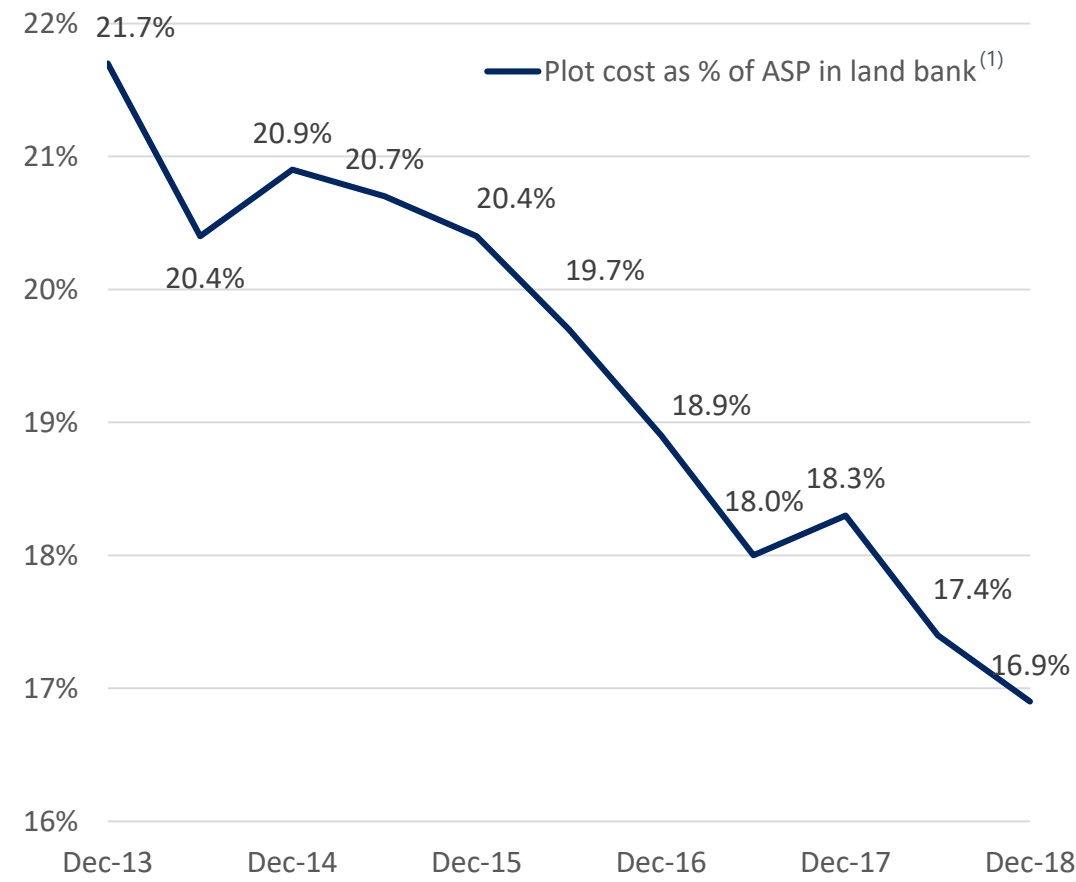
## OPERATING FRAMEWORK – PROGRESS UPDATE

	Operating framework	Progress in the half year
<b>Land bank</b>	c. 3.5 years owned / c. 1.0 year controlled	31 Dec 2018: 3.7 years owned / 1.0 year controlled (31 Dec 2017: 3.8 years / 1.2 years)
<b>Land creditors</b>	Reduce to 25-30% of the land bank over medium term	Reduced to 32.1% (31 Dec 2017: 36.7%)
<b>Net cash</b>	Modest average net cash over the financial year	Expect FY19 average net cash of c. £200m
	Year-end net cash	31 Dec 2018: £387.7m (31 Dec 2017: £165.9m)
<b>Treasury</b>	Appropriate financing facilities	£700m Revolving Credit Facility extended to 2023
<b>Capital Return Plan</b>	2.5 x dividend cover Ordinary dividend supplemented by special returns when market conditions allow	FY19 interim dividend of 9.6p per share (2017: 8.6p) Capital Return Plan extended to November 2020

## BALANCE SHEET

£m	31 December 2018	31 December 2017
Goodwill and intangible assets	892.2	892.2
Investment in joint ventures and associates	246.4	228.3
Gross land bank	2,994.4	3,229.0
Land creditors	(961.8)	(1,185.4)
Net land bank	2,032.6	2,043.6
<i>Land creditor %</i>	<i>32.1%</i>	<i>36.7%</i>
WIP	1,672.3	1,704.4
Net cash	387.7	165.9
Trade payables	(296.6)	(328.2)
Other working capital	(330.2)	(391.4)
Other net assets / liabilities	(52.7)	(47.1)
Net assets	4,551.7	4,267.7

# LAND BANK



Land bank plots	31 Dec 2018	31 Dec 2017
Owned	63,125	64,542
Controlled	17,505	19,075
Total	80,630	83,617
Land bank years	4.7	5.0
JV – Owned and controlled	5,426	5,329
Total including JV	86,056	88,946

(1) Calculated as average land bank value per plot in the balance sheet at half or year end divided by ASP at current prices on owned plots in the land bank

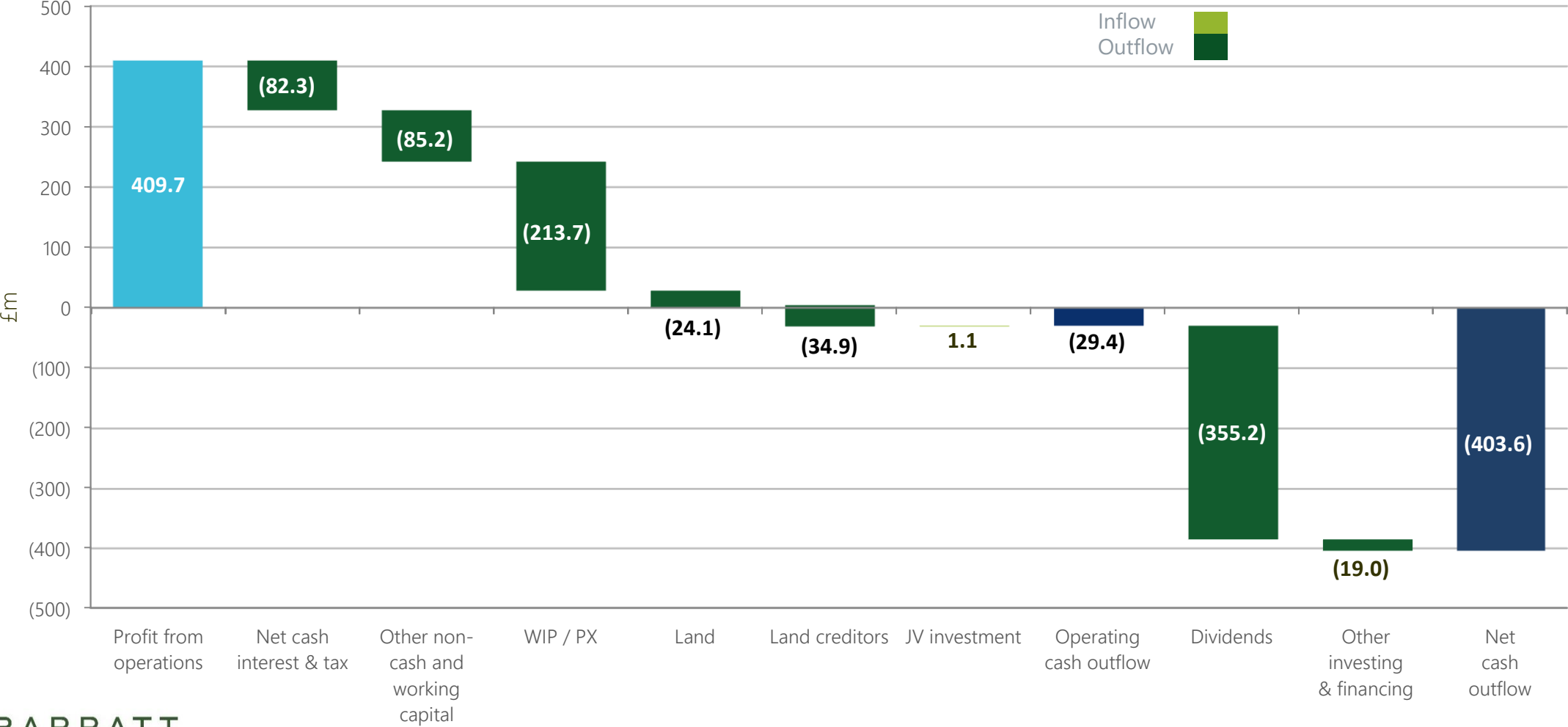


## WORK IN PROGRESS

- WIP is tightly controlled and reflects
  - increase in build active sites
  - reduction in Central London sites
  - increase in owned showhomes

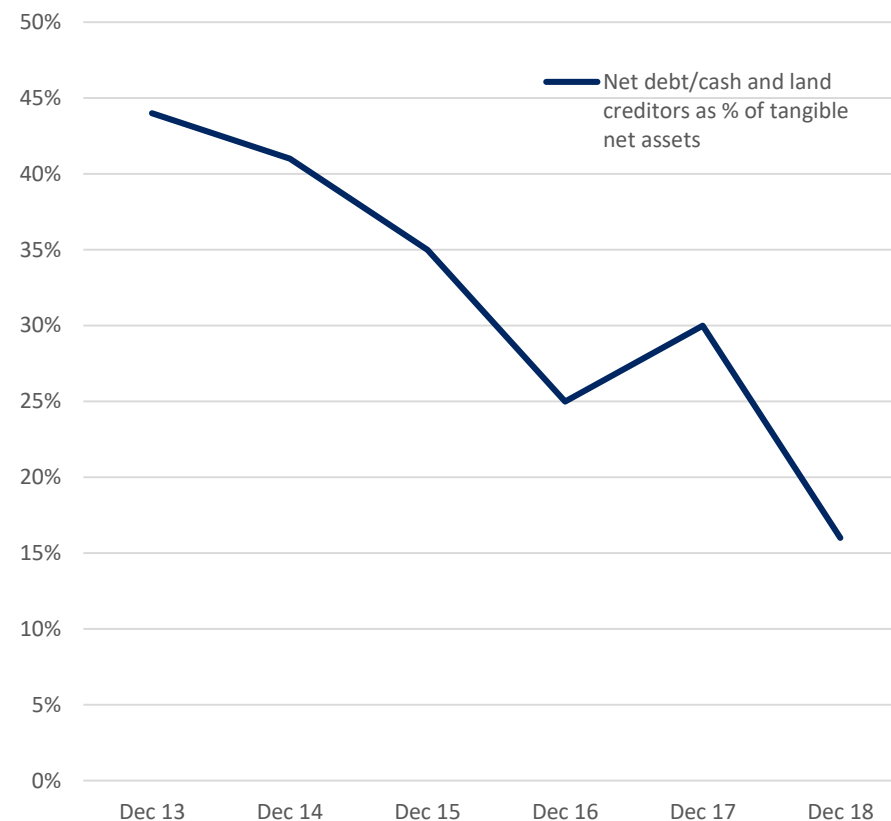


# CASH FLOW



## GEARING

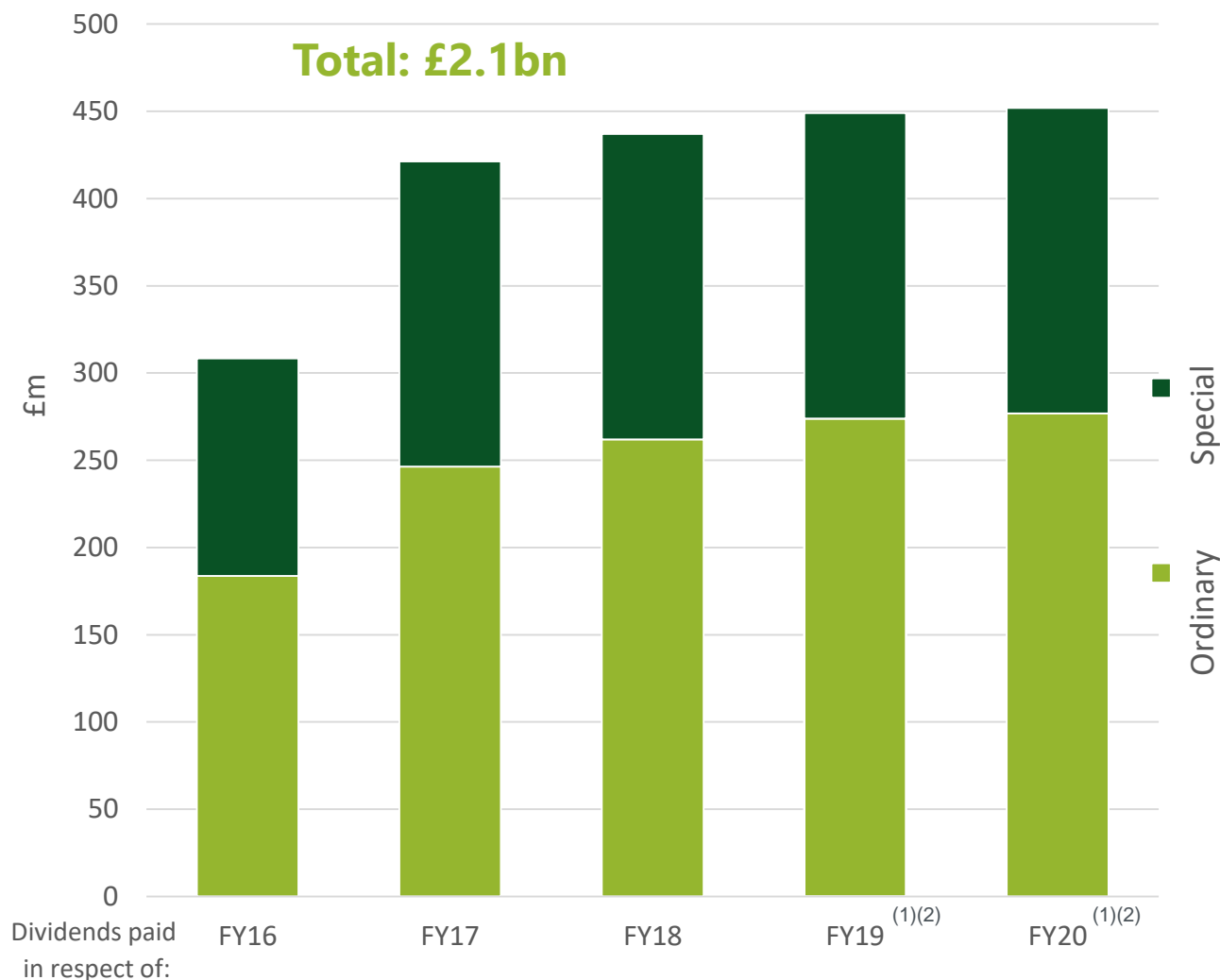
- Focus on managing total gearing across the cycle
- Expect FY19 average net cash of c. £200m
- Total gearing reduced to 15.7% at December 2018



## ATTRACTIVE CASH RETURNS

### Capital Return Plan

- Ordinary dividend payable through the cycle:
  - 2.5x dividend cover
- FY19 interim dividend: 9.6p
- When market conditions allow, excess cash will be returned to shareholders in the form of special dividends or share buybacks:
  - November 2019: £175m<sup>(1)</sup>
  - November 2020: £175m<sup>(1)</sup>



(1) Proposed FY19 and FY20 dividends subject to shareholder approval

(2) Based on Reuters consensus estimates of earnings per share of 67.3p for FY19 and 68.6p for FY20 as at 1 February 2019 and applying a 2.5 times dividend cover in line with the announced policy, 31 December 2018 share capital of 1,010,761,958 for proposed payments



## GUIDANCE FOR FY19

Completions	3-5% growth in wholly owned completions c. 20% affordable c. 700 JV
ASP	ASP reducing due to less Central London product
Total admin expenses	c. £170m
JV share of profits	c. £25m
Interest cost	c. £40m (£8m cash, £32m non-cash)
Land cash spend	c. £1.0bn
Land creditors	30 – 35% owned land bank
Average net cash	c. £200m
Year-end net cash	c. £600m - £650m
Ordinary dividend	2.5x cover
Special return	£175m

## FINANCIAL SUMMARY

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- Strong margin improvement
- Strong ROCE
- Half year gearing substantially reduced
- Strong balance sheet
- Delivered well against operating framework
- Capital return plan extended



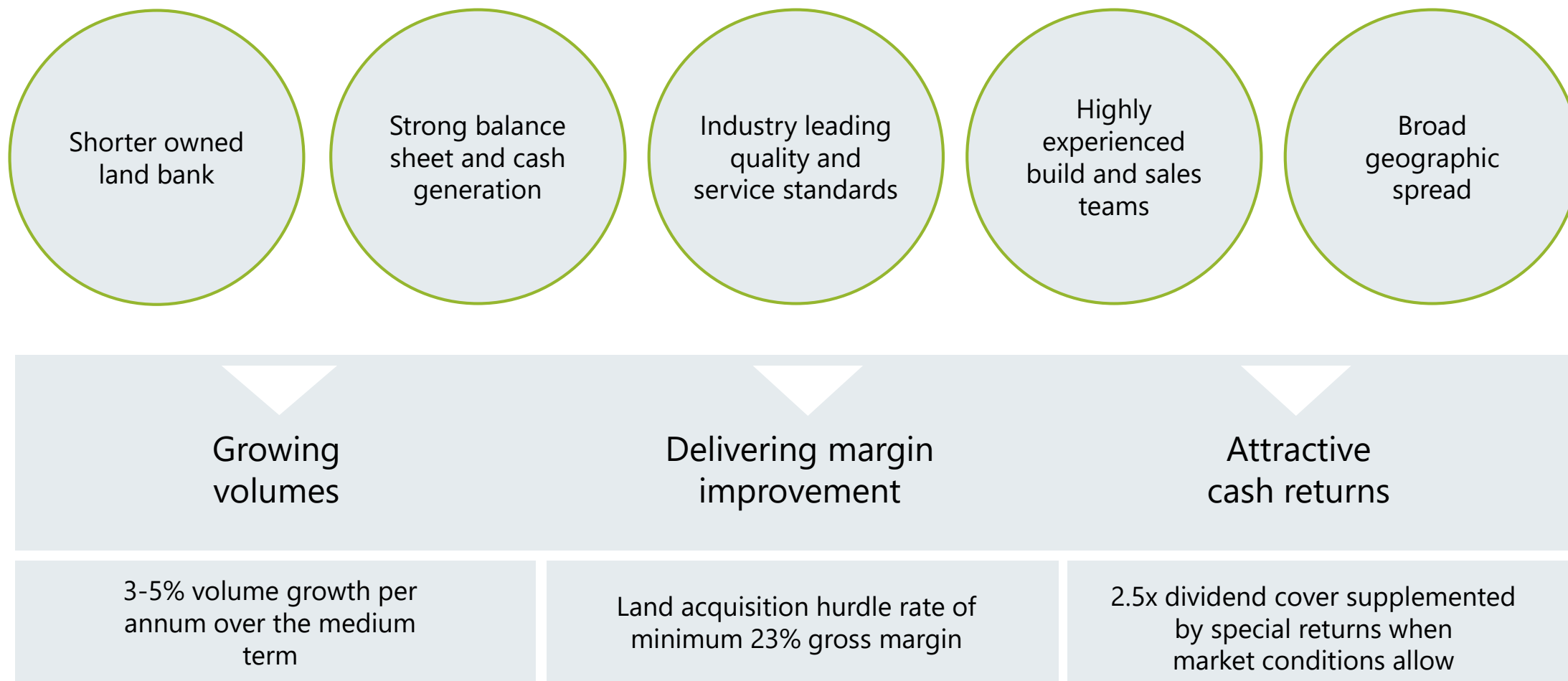




**David Thomas**  
Chief Executive



## INVESTMENT PROPOSITION



## MARKET FUNDAMENTALS REMAIN ATTRACTIVE

**1.76%**  
average 2 year  
fixed rate at 85%  
LTV<sup>(1)</sup>

Positive lending  
environment



Clarity on Help to  
Buy

Government  
target:  
**300k** homes per  
annum

Demand continues  
to exceed supply

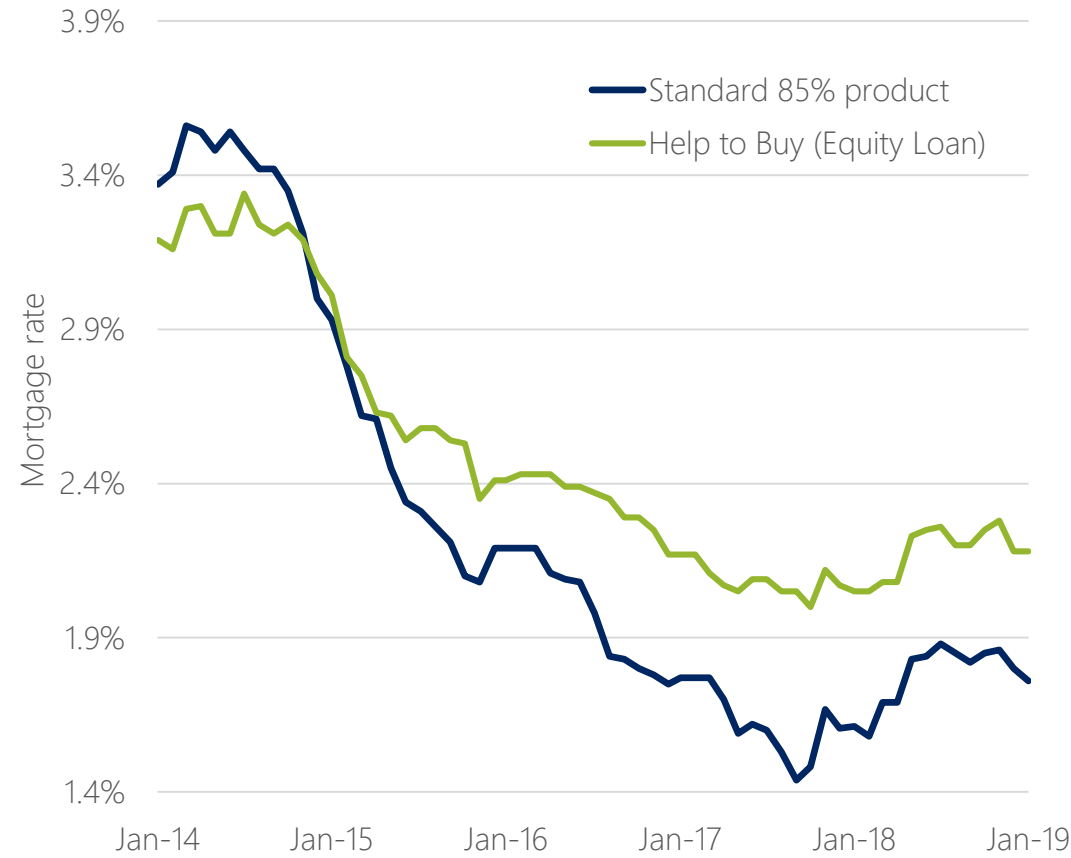


Attractive land market

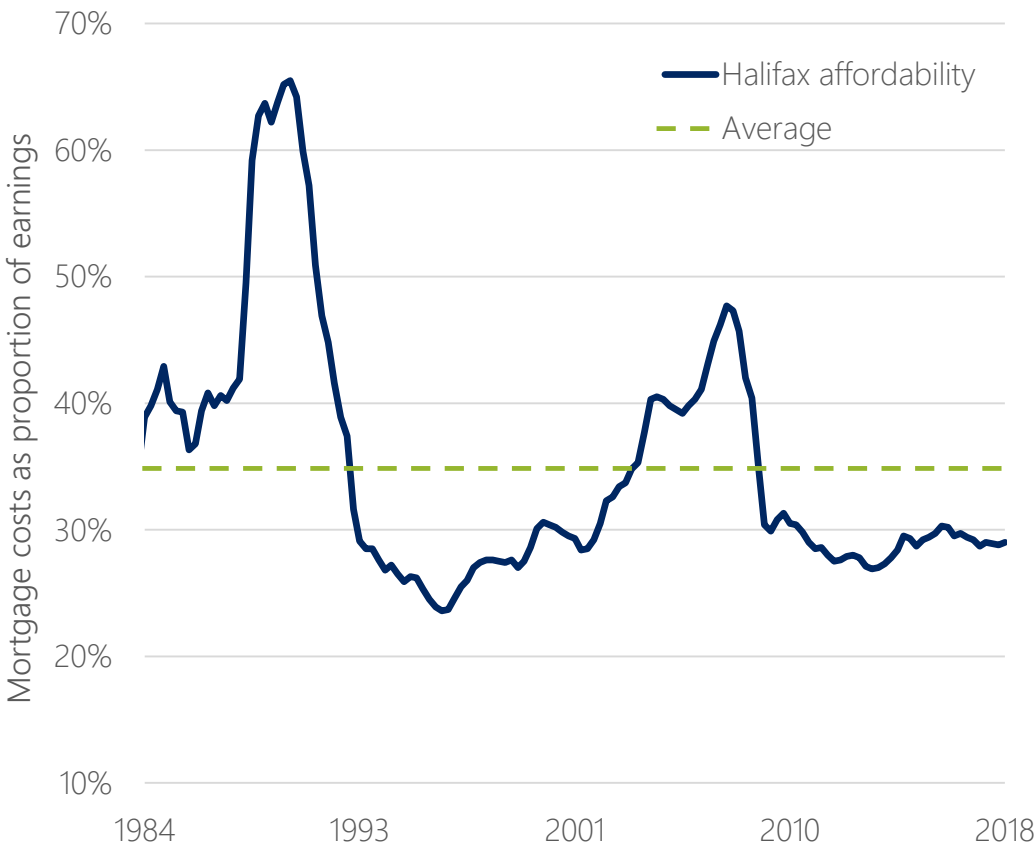


# POSITIVE LENDING ENVIRONMENT

Average mortgage rates<sup>(1)</sup>



Halifax Mortgage Affordability Index<sup>(2)</sup>



(1) Rates are from an average of five lenders. Standard 85% product based on available rate with a fee not exceeding £1,000. HtB product based on the best available HtB equity share rate with no fee. Rates as at January 2019

(2) The mortgage to earnings ratio is calculated using the Halifax standardised average house price (seasonally adjusted), average disposable earnings for all full time employees and the BoE monthly average rate for new advances to households

## GETTING AHEAD WITH SKILLS

- Future talent **7%** of employees
- c.250 new apprentices, trainees, graduates and ex-Armed Forces
- Award winning employment schemes
- Recruitment to our programmes for the past 5 years = **1,162**



GET ONE STEP AHEAD

Armed Forces Transition Programme



**Sheffield  
Hallam  
University**



# ADDRESSING THE SKILLS SHORTAGE- MODERN METHODS OF CONSTRUCTION

- Further methods to be rolled out via our new product introduction process
- Aim to use MMC on 20% of homes by 2020
- Use offsite manufactured roof cassettes, ground floor solutions, timber frame, large format block and light gauge steel frame
- Good progress in the half year:

	H1 FY19	H1 FY18
Timber frame	964	825
Light gauge steel frame	38	28
Large format concrete block	112	50



Roof cassette installation



Timber frame installation



Light gauge steel frame



## QUALITY AND SERVICE



83 NHBC Pride in the Job Awards – more than any housebuilder for 14<sup>th</sup> year



Henry Pateki, Pride in the Job winner, Supreme Award in Large Builder category, awarded in 2018



Kirk Raine, runner up in the Pride in the Job Supreme Award in Large Builder Category, awarded in 2019



HBF 5 star customer recommendation award - 9<sup>th</sup> consecutive year



## OUR CHARITABLE GIVING

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- Aim to be industry leading in charitable giving and social responsibility
- Our largest ever charitable donation, £750,000 to RBLI to support the construction of Centenary Village to provide crucial housing support to ex-servicemen and women
- Support local charities
- New Barratt and David Wilson community fund



David Thomas with Steve Sherry, Chief Executive, RBLI



## CURRENT TRADING

	H2 FY19 to date	H2 FY18 to date	Change
Net private reservations per active outlet per average week	0.74	0.78	(5.1%)
Average active outlets	385	378	1.9%
Net private reservations per average week	284	294	(3.4%)
Total forward sales (including JVs) <sup>(1)</sup>	£3,021.0m	£2,816.2m	7.3%

## CONCLUSION

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- Positive on outlook
- Strong housing market fundamentals
- Good progress on medium term targets
- Confidence in the business going forward







**Q&A**



City Edge, Blakelaw



## APPENDICES – INDEX

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## DEFINITIONS

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- Active outlet is a site with at least one home for sale
- ASP is average selling price
- Average cash (debt) is calculated on average daily closing position in period
- Earnings per share (EPS) is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust
- FY refers to financial year ending 30 June
- Gross margin is calculated as gross profit divided by total revenue
- H1 refers to six months period to December
- HBF is Home Builders Federation
- Land bank years is calculated as total owned and controlled land bank plots divided by wholly owned completions in the 12 months to December
- Net cash is defined as cash and cash equivalents, bank overdrafts, interest bearing borrowings, prepaid fees and foreign exchange swaps
- Operating margin is calculated as operating profit divided by total revenue
- PBT is profit before tax
- Regional includes all regions excluding London
- Return on Capital Employed (ROCE) is calculated as earnings before interest, tax, operating charges relating to the defined benefit pension scheme and operating adjusting or exceptional items for the 12 months to December, divided by average net assets adjusted for goodwill and intangibles, tax, net cash, retirement benefit assets/obligations and derivative financial instruments
- Unless stated Joint Ventures (JV) in which the Group has an interest are not included throughout the presentation



## P&L

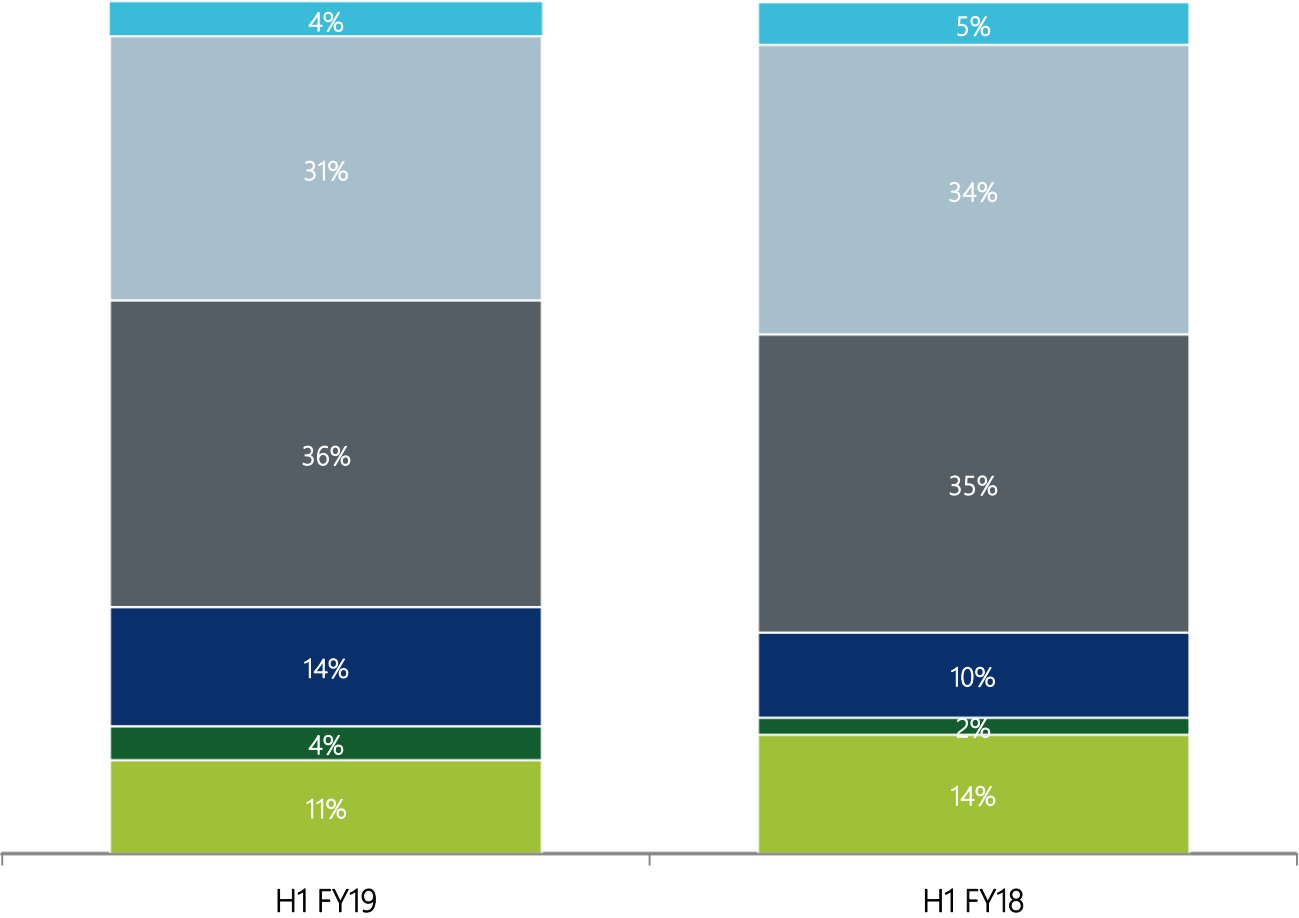
£m (unless otherwise stated)	H1 FY19	H1 FY18 <sup>(1)</sup>	Change
Revenue	2,132.0	1,988.0	7.2%
Cost of sales	(1,649.8)	(1,577.8)	(4.6%)
Gross profit	482.2	410.2	17.6%
<i>Gross margin</i>	22.6%	20.6%	200 bps
Administrative expenses	(74.0)	(55.0)	(34.5%)
Part exchange <sup>(1)</sup>	1.5	n/a <sup>(1)</sup>	n/a <sup>(1)</sup>
Operating profit	409.7	355.2	15.3%
<i>Operating margin</i>	19.2%	17.9%	130 bps
Net finance costs	(15.1)	(23.2)	34.9%
Share of JV/assoc profit	13.4	10.7	25.2%
PBT	408.0	342.7	19.1%

## BALANCE SHEET – LAND BANK

Land bank plots	31 December 2018	31 December 2017
Owned / unconditional contracts	63,125	64,542
Conditional contracts	17,505	19,075
Total land bank plots	80,630	83,617
JV plots – owned / conditional	5,426	5,329
Total land bank plots (including JVs)	86,056	88,946
Land bank pricing (£'000)		
Cost of plots acquired	48.6	53.0
Cost of plots in P&L	51.2	52.6
Cost of plots in balance sheet	46.6	48.7
Owned land bank ASP <sup>(1)</sup>	275	266

# COMPLETIONS ANALYSIS – PRODUCT TYPE

- Flats (non-London)
- Flats (London)
- 1 & 2 Bed
- 3 Bed
- 4 Bed
- 5 & 6 Bed



## INVESTMENT IN JOINT VENTURES AND ASSOCIATES

	31 December 2018	31 December 2017
	£m	£m
<u>Housebuilding</u>		
London	223.1	198.0
Non-London	22.0	28.4
Total housebuilding	245.1	226.4
<u>Other</u>		
Commercial	1.3	1.9
Total	246.4	228.3

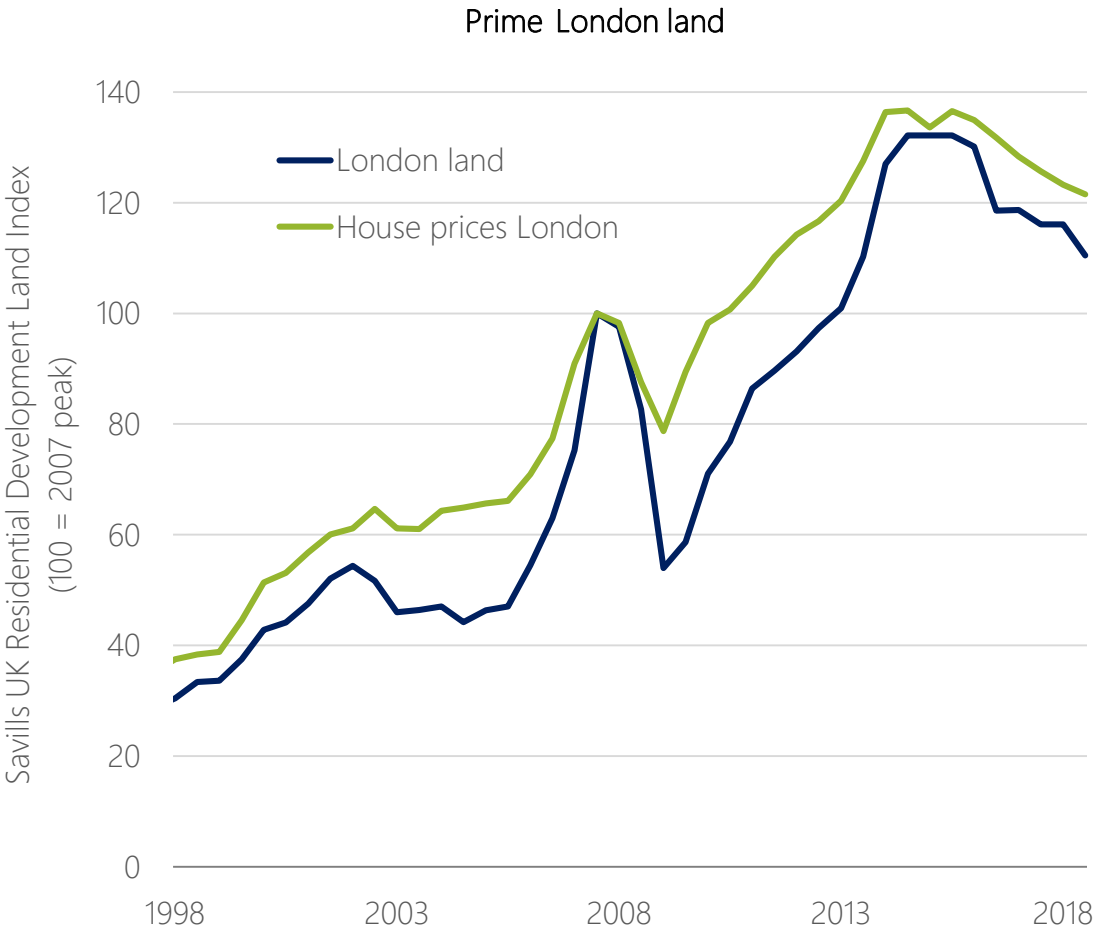
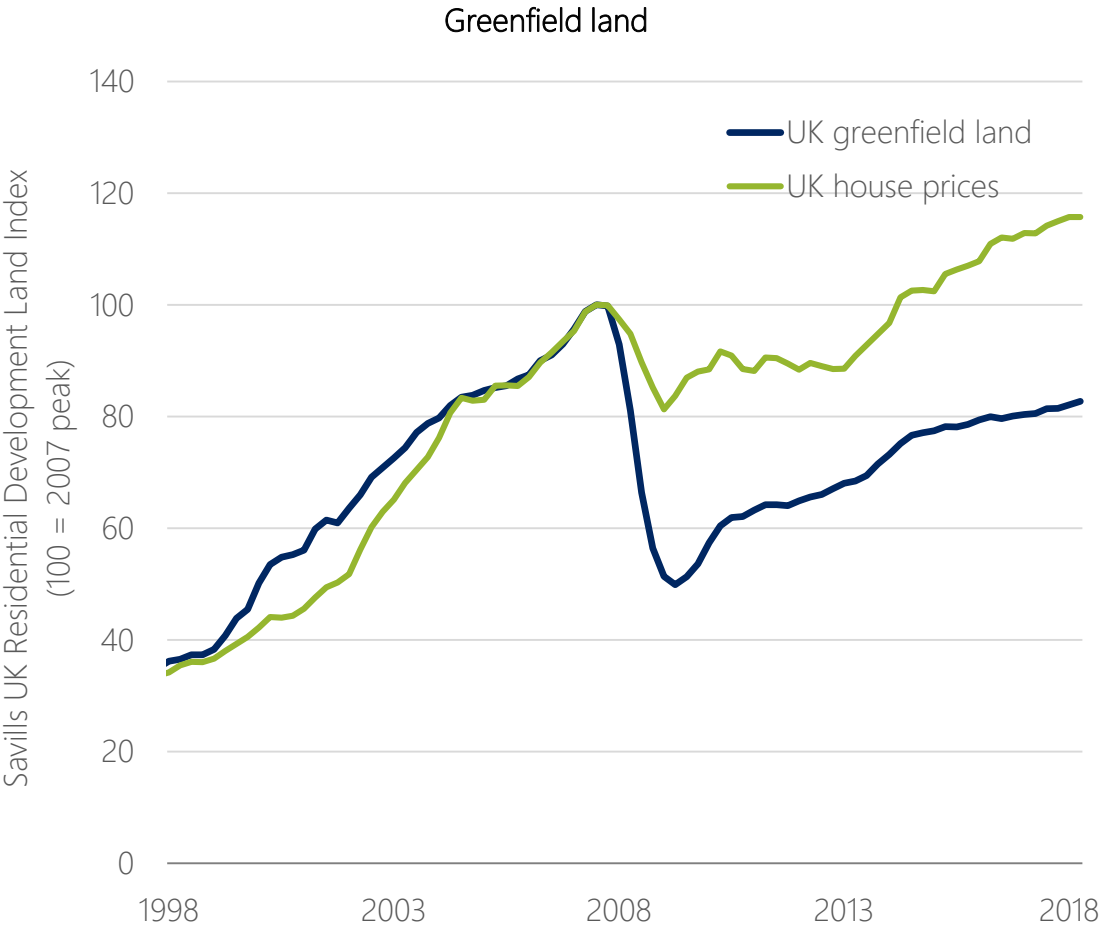
## JOINT VENTURES - HOUSEBUILDING

	Number of JVs <sup>(1)</sup>	Units <sup>(1)</sup>	Reserved (%)	ASP (£'000)	Balance sheet investment (£m)
Central London	3	562	56	830	98.9
Outer London	4	2,621	8	355	124.2
Regional	2	1,105	13	352	22.0
Total	9	4,288	16	427	245.1

**FY19 guidance:** 700 completions  
Share of profit c. £25m



# LAND PRICES VERSUS HOUSE PRICE INFLATION



## NET INTEREST CHARGE ANALYSIS

£m	H1 FY19	H1 FY18
Interest on term debt and overdrafts	(1.5)	(0.5)
Interest on private placement notes	2.8	2.6
Utilisation / non-utilisation fees on RCF	2.1	1.9
Other interest	(0.2)	0.7
<b>Total cash interest</b>	<b>3.2</b>	<b>4.7</b>
Land creditors / deferred payables	11.3	17.7
Financing fees	1.5	1.1
Pension	(0.9)	(0.3)
<b>Total non-cash interest</b>	<b>11.9</b>	<b>18.5</b>
<b>Total interest</b>	<b>15.1</b>	<b>23.2</b>

# FUTURE FINANCING ARRANGEMENTS

Loan Facility	Amount	Maturity	Interest basis
RCF facility	£700m	November 2023	LIBOR +1.25-2.75% <sup>(1)</sup>
Private placement notes	£200m	August 2027	2.77%

(1) Does not include utilisation and non-utilisation fees

## CURRENT TRADING – FORWARD ORDER BOOK

	H2 FY19 as at 3 Feb 2019		H2 FY18 as at 4 Feb 2018		% change	
	£m	Units	£m	Units	£m	Units
Private	1,473.8	4,874	1,790.3	5,302	(17.7%)	(8.1%)
Affordable	1,164.2	7,496	778.7	6,224	49.5%	20.4%
Wholly owned	2,638.0	12,370	2,569.0	11,526	2.7%	7.3%
JV	383.0	824	247.2	828	54.9%	(0.5%)
Total	3,021.0	13,194	2,816.2	12,354	7.3%	6.8%

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