



14 July 2022

Barratt Developments PLC

A year of excellent operational and financial performance

Barratt Developments PLC (the 'Group') is today issuing a trading update for the year ended 30 June 2022 (the 'year' and 'FY22') ahead of publication of its annual results on 7 September 2022⁽¹⁾. Comparatives are to the year ended 30 June 2021 ('FY21') unless otherwise stated.

David Thomas, Chief Executive, commented:

"We have delivered an excellent performance this year, reflecting the strong customer demand for our homes and the productivity of our sites. We are delighted that completions have now returned to pre-pandemic levels and I am grateful for the hard work and dedication of our teams and partners over the past two years to achieve this important milestone.

While there are clearly macro-economic uncertainties ahead, the housing market remains robust, our forward order book is strong and we have the resilience and flexibility to react to changes in the operating environment. Our focus remains on addressing the UK's housing shortage with the high-quality, energy-efficient, sustainable homes and developments which we pride ourselves on building."

Highlights

- Strong nationwide demand sustained throughout the year, resulting in net private reservations per active outlet⁽²⁾ per week of 0.81 (FY21: 0.78)⁽³⁾.
- Total home completions returned to pre-pandemic levels, with 17,908 homes completed in the year (FY21: 17,243 homes) including 746 from JVs (FY21: 726).
- Adjusted profit before tax is anticipated to be in the range of £1,050m and £1,060m, slightly ahead of current market consensus expectations⁽⁴⁾ at £1,048m (FY21: £919.7m). This is stated before adjusted item costs of c. £412m (FY21: costs of £107.5m).
- Awarded 98 Pride in the Job Awards for outstanding site management in the June 2022 NHBC awards, more than any other housebuilder for the 18th consecutive year.
- Continued to demonstrate our leading design and innovation capabilities, with the launch of the zero carbon concept home, the "Zed House", as well as completions from Delamare Park, our first air source heat pump development of 82 homes.
- Introduced an accelerated 5% pay increase from 1 April 2022 and a further temporary salary supplement of £1,000 to all employees below senior management, phased over the coming six months to 31 December 2022.
- Balance sheet strength maintained with year-end net cash⁽⁵⁾ of c. £1,125m (30 June 2021: £1,317.4m) after the £250m acquisition of Gladman Developments and land spend of c. £1,050m during the year.
- Well positioned for FY23 with total forward sales (including JVs) at 30 June 2022 of 13,579 homes (30 June 2021: 14,334 homes) at a value of £3,622.3m (30 June 2021: £3,473.5m).

Trading

The Group has delivered an excellent performance throughout the year, reflecting underlying market strength and demand for our high quality and sustainable new homes. Overall, our net private reservation rate was strong at 0.81 (FY21: 0.78) per active outlet per week, an increase of 3.8% on FY21.

During the year, we operated from an average of 332 (FY21: 343) active sales outlets (including 7 JVs (FY21: 8)) and launched 118 new sales outlets in the year (FY21: 144). The reduction in average sales outlets mainly reflected the strength of the private sales rate, resulting in sites selling out faster than expected, however we also saw some planning delays on new sites. Site numbers have recovered towards the end of the year and as at 30 June 2022 we were operating from 352 (30 June 2021: 358) active outlets (including 9 JVs (30 June 2021: 8)).

We have again delivered strong growth in home completions in the year. Total home completions (including JVs) increased to 17,908, ahead of both last year's 17,243 and the 17,856 delivered in FY19. Total home completions were impacted by the deferral into FY23 of a London apartment block comprising 221 homes, reflecting resource related delays in the building control process.

Our two-year completion volume recovery since the onset of the pandemic and initial national lockdown, reflects the discipline, commitment and adaptability of our workforce and our subcontractors, as well as the ongoing support of our long-standing and valued supply chain partners.

We have delivered a total average selling price ('ASP') for the year of c. £300k (FY21: £288.8k), with the private ASP at c. £341k (FY21: £325.5k) and the affordable ASP at c. £159k (FY21: £146.5k), with the change in affordable ASP reflecting an increased proportion of completions from our outer London operations. We experienced average house price inflation of c. 8% across the country on private reservations secured during FY22.

Our forward sales position is strong, with total forward sales (including JVs) at 30 June 2022 of £3,622.3m (30 June 2021: £3,473.5m), equating to 13,579 homes (30 June 2021: 14,334 homes). As at 30 June 2022, 72% of these homes (30 June 2021: 75%) were contractually exchanged. The private ASP in our forward order book at 30 June 2022 was £375.4k (30 June 2021: £339.8k). The movement in the private ASP in the order book reflects house price inflation experienced throughout the country, as well as a slight increase in the mix of London units when compared with last year.

Our site teams and subcontractors have delivered a further improvement in our construction activity, with an average of 352 (FY21: 311) equivalent homes (including JVs) built per week in the year. During the first half, an average 341 (FY21: 298) equivalent homes were constructed each week. In the second half, this improved further to 364 equivalent homes (2H21: 324). Our construction output recovery has been driven by management focus and commitment on three key areas:

- Ensuring our sites offer safe, well-organised and attractive workplaces for our employees and subcontractors;
- Using our centralised procurement team and strong supplier relationships to ensure continuity of building material supplies for our subcontractors;
- Increasing the use of our standard house types and modern methods of construction, most notably timber frame construction.

We experienced total build cost inflation of c. 6% in FY22, in line with our previous guidance. Reflecting the continued strength of the market, the impacts of escalating energy costs and fuel cost inflation in relation to transportation, we are currently experiencing total build cost inflation of between 9% and 10%. We will update on our expectations for total build cost inflation in FY23 with our full year results in September.

Leadership in quality and customer service

Our long-term commitment to quality and customer service remains absolute. It is fundamental to both the resilience of our business and to maintaining our position as the leading national sustainable housebuilder.

Our quality has, again, been recognised through the NHBC Pride in the Job Awards for build quality and site management with our site managers achieving 98 awards in June 2022, more than any other housebuilder for the 18th consecutive year.

These awards also complement the recognition of our focus on quality and customer service by our customers who awarded us the maximum 5 Star rating in the HBF customer satisfaction survey for the 13th successive year, more than any other major housebuilder.

Committed to growth

As Britain's largest housebuilder we are committed to playing a key role in addressing the UK's housing shortage and during the year we have put in place additional building blocks for future growth beyond our target of 20,000 home completions.

We have opened two new divisions to give us increased capacity over the coming years. In our Northern region, we have opened a new Sheffield division and in our East region, a new Anglia division based in Norwich, with both divisions offering Barratt and David Wilson branded homes.

As a continuation of our strategy to migrate more of our production to timber frame, we will open a new factory in England to complement our existing factory in Scotland. The new timber frame manufacturing facility, near Derby, will add significant capacity to our timber frame output from FY24.

Building sustainably

To demonstrate our leadership in sustainability we launched our first air source heat pump development, at Delamare Park in Somerset during the year. Among other features, homes on this development benefit from enhanced insulation and air source heat pumps. Delamare Park is an important step both for us to understand how future changes will impact our business and to analyse customer awareness of, and satisfaction with, the homes the industry will be delivering in the second half of this decade.

During the year, we also completed our zero carbon concept home, the "Zed House". This is the first zero carbon house developed by a major housebuilder, which goes beyond the Future Homes Standard by delivering a carbon reduction of 125%⁽⁶⁾. The Zed House is an important milestone on our journey to meet our target that all of our new homes will be zero carbon in use from 2030.

Supporting our employees

Recognising the impact of the ongoing cost of living squeeze, and as part of our commitment to be the employer of choice in the housebuilding industry, we brought forward our annual salary review from 1 July to 1 April 2022, awarding a 5% increase to all eligible employees. In addition, we have recently also introduced a temporary salary supplement of £1,000 for all employees, below senior management level, phased over the 6-month period from 1 July 2022.

During the first half of FY22, we introduced several other initiatives for our employees, which included:

- Increasing the scope of our private medical insurance to cover all employees;
- Introducing an additional holiday allowance for employees to use on a "special day";
- Doubling the number of volunteering days to two per year, enhancing the opportunities for employees to support their local charities and good causes.

Building safety

Adjusted items in the year comprise legacy property costs associated with building safety related remediation activities of c. £412m. The charge in the year includes the first half charge of £17.4m and a subsequent net charge of c. £395m in the second half. The second half charge includes reinforced concrete frame remediation works but mainly reflects costs in relation to the Department for Levelling Up, Housing and Communities' Developer Pledge. This Pledge encompasses the Group's commitment to take responsibility for undertaking or funding remediation and / or mitigation works, to address critical fire-safety issues on all buildings of 11 metres and above, that we have developed or refurbished over the last thirty years, as well as reimbursing the Building Safety Fund and ACM Funds.

We anticipate that the required remediation programme in relation to the Pledge will be delivered over the next three to five years, with building safety considerations paramount in the prioritisation and scheduling of works. Initial re-imbursement of costs incurred by the Building Safety Fund and the private Sector ACM Cladding Remediation Fund, are likely to be agreed and settled in the new financial year.

As previously guided, we are deploying additional resources in our dedicated Building Safety Unit (BSU), which have not been included within the adjusted item costs charged in the second half. The annualised BSU operating costs, which will be expensed as incurred through administrative expenses, will increase by approximately £10m per annum from 1 July 2022.

Land

We have secured land approvals in line with our expectations, whilst maintaining discipline and selectivity in our land purchasing. In the year we approved 19,089 net plots (FY21: 18,067 net plots) of operational land for purchase, equating to £1,396.1m (FY21: £876.8m) on 102 new sites (FY21: 97), in attractive locations that meet our required hurdle rates.

In line with our operating framework, we continue to target an owned and controlled land bank of around 4.5 years in the medium term and we expect land approvals in FY23 to be between 18,000 and 20,000 plots.

We have also been pleased with the integration and progress made by Gladman Developments since the acquisition at the end of January 2022. The business has performed in line with our expectations and the acquisition has brought together Barratt's best in class housebuilding operations with Gladman's excellent land sourcing and promotion capabilities, creating greater flexibility for landowners and significantly enhancing Barratt's strategic land credentials.

Balance sheet and liquidity

The Group remains financially strong, with a well-capitalised balance sheet and substantial cash and additional liquidity. As at 30 June 2022 the Group had net cash⁽⁵⁾ of c. £1,125m (30 June 2021: net cash £1,317.4m) and an undrawn committed revolving credit facility of £700m. The year-end net cash position reflected strong working capital discipline, the £250m acquisition of Gladman Developments, land spend of c. £1,050m (FY21: £745m) and a benefit from the initial tax relief recognised in respect of the building safety remediation charge taken in the second half, which resulted in a £65m reduction in the fourth quarter corporation tax payment.

Land creditors, at the end of the financial year of around £730m (30 June 2021: £658.3m), equated to c. 22% (30 June 2021: 22.3%) of the owned land bank.

We continue to operate in line with our well-embedded operating framework, creating discipline in our operations and resilience in our balance sheet.

Dividend

The Board continues to recognise the importance of dividends to all shareholders and in line with the revised ordinary dividend policy, announced at the time of the Group's interim results, the Board intends to declare an ordinary dividend based on FY22 dividend cover of 2.25 times adjusted net income.

The Board continues to review its capital allocation policy and will provide an update with our FY22 financial results on 7 September 2022.

Outlook

We have delivered an excellent operational and financial performance this year and, as a result, we expect to deliver FY22 adjusted profit before tax in the range of £1,050m and £1,060m, slightly ahead of current market consensus expectations⁽⁴⁾ at £1,048m (FY21 adjusted profit before tax: £919.7m).

Looking forward, we recognise that significant macro-economic uncertainties remain, most notably around rising inflation and interest rates and their consequent impacts on UK economic growth, employment, as well as consumer confidence and spending.

Based on current market conditions, and assuming no material disruption to our supply chain partners, we expect to grow total home completions in line with our medium term growth target of 3% - 5% whilst ensuring we maintain our industry leading standards of build quality and customer service. We also continue to buy land at a minimum 23% gross margin hurdle rate and target a minimum 25% ROCE.

We have significant net cash⁽⁵⁾ balances, a well-capitalised balance sheet, a strong forward sales position and clear plans to secure both incremental home completion growth and further operating efficiencies in the year ahead.

The Board will remain vigilant and respond to changes in the market and the wider economy as they develop but believes that our operating performance, our forward order book and very strong financial position, provide us with both the resilience and flexibility to react to changes in the operating environment in FY23.

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 of the information in this statement is unaudited with respect to the year ended 30 June 2022.
- (2) An active outlet is defined as an outlet with at least one plot for sale. Our definition remains consistent across all reporting periods.
- (3) All figures within this statement exclude joint venture (JV) completions in which the Group has an interest unless otherwise stated.
- (4) Market expectations, as at market close on 12 July 2022, reflecting Bloomberg consensus adjusted profit before tax at £1,048m based on 15 analyst estimates.
- (5) Net cash is comprised of cash and cash equivalents, bank overdrafts, interest bearing borrowings and prepaid fees.
- (6) Measured against 2013 ADL1a but using the Future Homes Standard metrics and targets.

Appendices

1. Completions (homes)	FY22	FY21	Variance
Private	13,327	13,134	1.5%
Affordable	3,835	3,383	13.4%
Wholly owned	17,162	16,517	3.9%
JV	746	726	2.8%
Total	17,908	17,243	3.9%

2. ASP (£'000)	2022			2021		
	H1	H2	FY	H1	H2	FY
Private	327.4	c. 352	c. 341	319.5	332.1	325.5
Affordable	157.1	c. 162	c. 159	145.3	147.8	146.5
Total ASP	288.0	c. 310	c. 300	283.5	294.7	288.8

3. Forward sales	30 June 2022		30 June 2021		Variance	
	£m	Homes	£m	Homes	£m	Homes
Private	2,292.9	6,108	1,945.2	5,724	17.9%	6.7%
Affordable	1,083.4	6,730	1,259.1	7,861	(14.0%)	(14.4%)
Wholly owned	3,376.3	12,838	3,204.3	13,585	5.4%	(5.5%)
JV	246.0	741	269.2	749	(8.6%)	(1.1%)
Total	3,622.3	13,579	3,473.5	14,334	4.3%	(5.3%)

Conference call for analysts and investors

David Thomas, Chief Executive, Steven Boyes, Deputy Chief Executive and Chief Operating Officer and Mike Scott, Chief Financial Officer will be hosting a conference call at 08:30am today, Thursday 14 July, to discuss this Trading Update.

To access the conference call we would advise calling in 15 minutes ahead of the 8.30am start time on:

Dial-in (Local): +44 (0)330 165 4012

Dial-in (Toll free): 0800 279 6877

Passcode: 2527238

A recording of the conference call will be available on our website during the afternoon of 14th July.

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Financial reporting calendar

The Group's next scheduled announcement of financial information is the FY22 full year results announcement on 7 September 2022.