Bellway

Results Presentation

Year ended 31 July 2015




Agenda

1. Strategic update
2. Finance review
3. Operating review
4. Current trading and outlook
5. Questions and answers
6. Appendices

Strategic update

Ted Ayres

Chief Executive

Clear strategy for growth

Demand	Supply	Capacity
Customer demand is robust	Good quality land opportunities at attractive rates of return	New 17th division opened in Kings Hill, Kent
Help to Buy extended until 2020 in England	Positive planning environment supported by productivity plan	Four new divisions opened since August 2013
Competition in mortgage market and low interest rates ensures new homes remain affordable	Labour availability is manageable	Balance sheet capacity provides ability to invest

Disciplined volume growth

Notes

Operational highlights

Bellway

New divisions	Investing in land	Accelerating build	Standard floor plans	Ashberry Homes
17 divisions	£620m spent in period	c.8,000 plots in construction	Available in all housing divisions	Second brand

Facilitating further growth

Notes

Delivering substantial value

Bellway

Volume growth

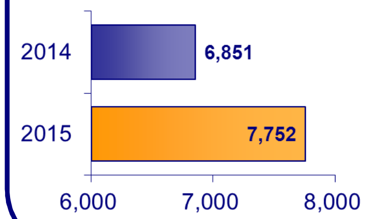
A strong focus on return on capital

Progressive dividend policy

Reinvestment in the business is growing the net asset value

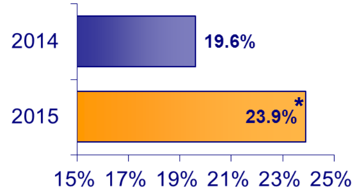
+ 13.2%

No. of homes sold



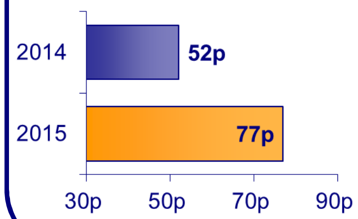
+ 430 bps

Return on capital



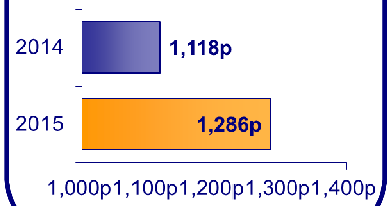
+ 48.1%

Total dividend



+ 15.0%

Net asset value



47.5% increase in earnings per share to 231.5p

* Pre-exceptional

Notes

Finance review

Keith Adey
Finance Director

Notes

Group results

For the year ended 31 July

	2015				2014**		Mvt
	Pre-exceptional		Exceptional item	Total			
Revenue	£1,765.4m		-	£1,765.4m	£1,484.8m		18.9%
Gross profit	£427.9m	*24.2%*	£6.9m	£434.8m	£315.6m	*21.3%*	35.6%*
Administrative expenses	(£67.5m)	*(3.8%)*	-	(£67.5m)	(£60.0m)	*(4.1%)*	12.5%
Operating profit	**£360.4m**	***20.4%***	**£6.9m**	**£367.3m**	**£255.6m**	***17.2%***	**41.0%***
Share of result of JVs	-		-	-	£0.3m		-
Net finance expense	(£13.1m)		-	(£13.1m)	(£9.9m)		32.3%
Profit before taxation	**£347.3m**		**£6.9m**	**£354.2m**	**£246.0m**		**44.0%**
Taxation expense	(£69.7m)		(£1.4m)	(£71.1m)	(£54.6m)		30.2%
Profit after taxation	**£277.6m**		**£5.5m**	**£283.1m**	**£191.4m**		**47.9%**

* Pre-exceptional ** Restated – see appendix 9

Notes

Revenue

Bellway

For the year ended 31 July

	2015	**2014****	**Mvt**
Homes sold	7,752	6,851	13.2%
Average selling price	£223,821	£213,182	5.0%
Housing revenue	£1,735.1m	£1,460.5m	18.8%
Non housing revenue	£30.3m	£24.3m	24.7%
Total revenue	**£1,765.4m**	**£1,484.8m**	**18.9%**

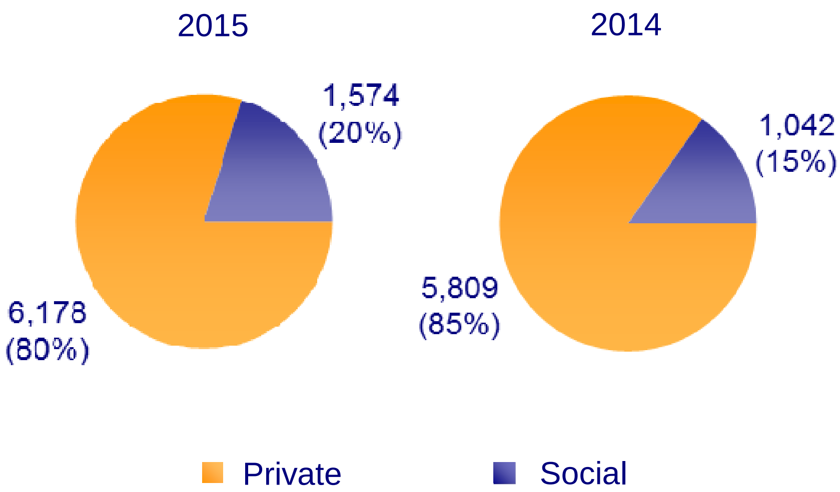
** Restated – see appendix 9

Notes

Housing revenue: social mix

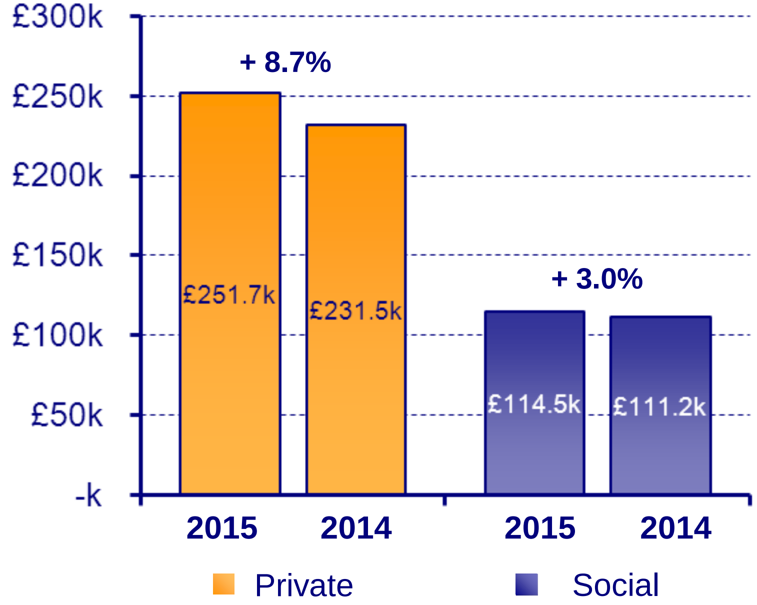
For the year ended 31 July

Homes sold



- Social housing expected to be 15% to 20% of completions in full year 2015/16

Average selling price ('ASP')



- Overall ASP in 2015/16 expected to increase in excess of 5%

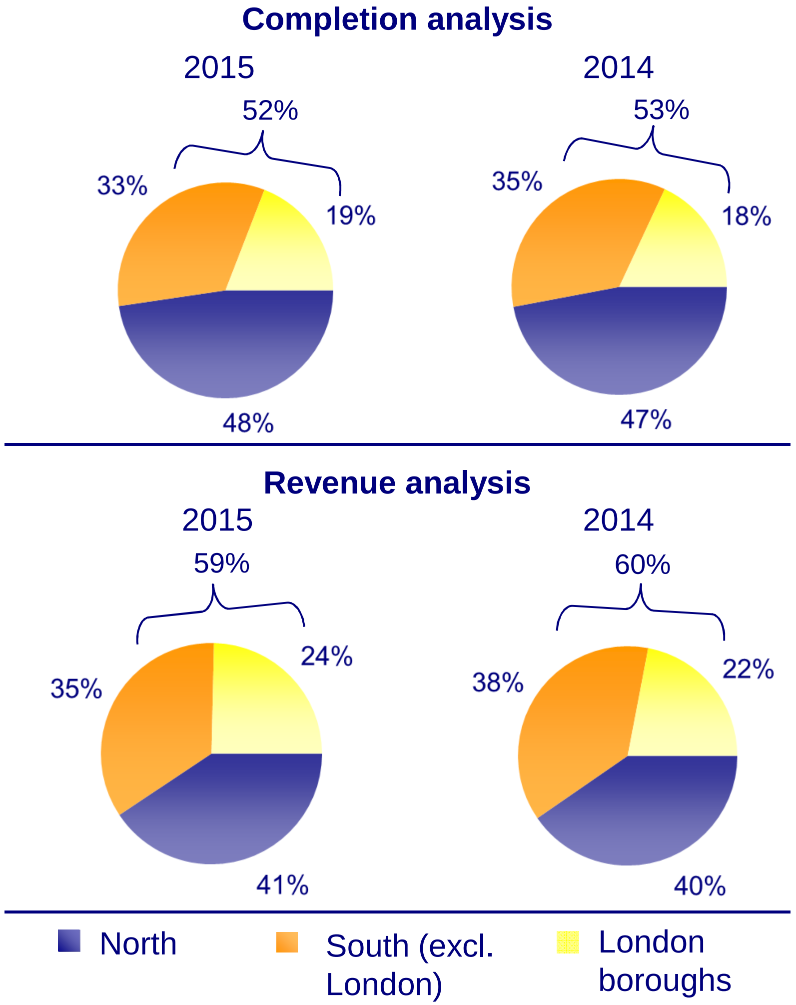
Further analysis showing homes sold and ASP is included in appendix 1

Notes

Housing revenue: geographic mix

For the year ended 31 July

	2015	2014	Mvt
North			
Homes sold	3,696	3,223	14.7%
Average selling price	£190,871	£183,047	4.3%
South (inc. London)			
Homes sold	4,056	3,628	11.8%
Average selling price	£253,846	£239,953	5.8%
London boroughs			
Homes sold	1,481	1,236	19.8%
Average selling price	£288,514	£259,810	11.0%



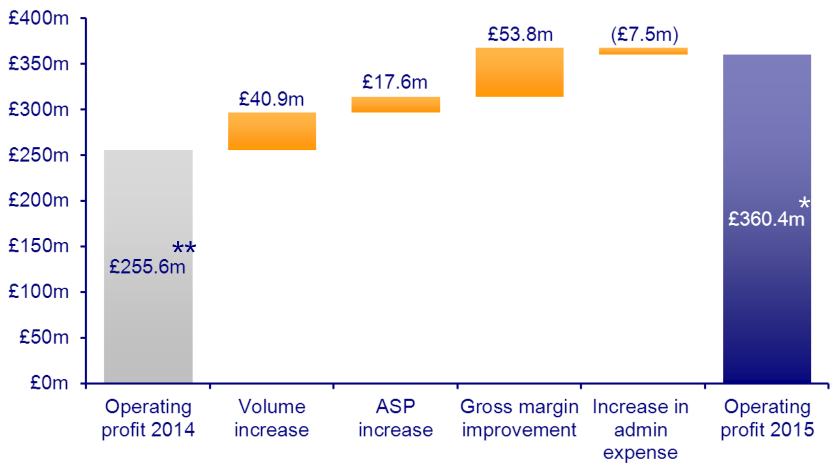
Notes

Operating performance

Bellway

	2015 FY*	2015 H2*	2015 H1	2014 FY**
Gross profit	**£427.9m**	£232.6m	£195.3m	£315.6m
	24.2%	*24.9%*	*23.5%*	*21.3%*
Administrative expenses	**(£67.5m)**	(£37.9m)	(£29.6m)	(£60.0m)
	(3.8%)	*(4.1%)*	*(3.6%)*	*(4.1%)*
Operating profit	**£360.4m**	£194.7m	£165.7m	£255.6m
	20.4%	*20.8%*	*19.9%*	*17.2%*

Operating profit bridge



- Higher margin land and positive pricing environment have improved gross margin
- Administrative expenses are shown net of £2.8m profit arising on sale of business
- Future volume and ASP growth should lead to further improvements in profitability
- 2014/15 H2 operating margin should be achievable for FY 2015/16

* Pre-exceptional ** Restated – see appendix 9

Notes

Shared equity disposal

For the year ended 31 July

	2015
Loans sold	2,376
Cash consideration	£32.5m
Profit on disposal	£6.9m

Treated as an exceptional item

Proceeds invested in attractive land opportunities that are forecast to generate high rates of return

Notes

Net finance expense

For the year ended 31 July

	2015	2014**	Mvt
Net bank interest payable inc. fees	£6.5m	£2.9m	124.1%
Non bank interest:	£6.6m	£7.0m	(5.7%)
Made up of:-			
Land creditors / debtors – IAS 39	£6.6m	£5.7m	15.8%
Preference dividend	£-m	£1.3m	(100.0%)
Pension cost	£0.3m	£0.4m	(25.0%)
Other interest	(£0.3m)	(£0.4m)	(25.0%)
Total	**£13.1m**	**£9.9m**	**32.3%**

- Net finance expense covered almost 28 times by pre-exceptional op. profit
- Committed bank facilities increased to £400m

** Restated – see appendix 9

Notes

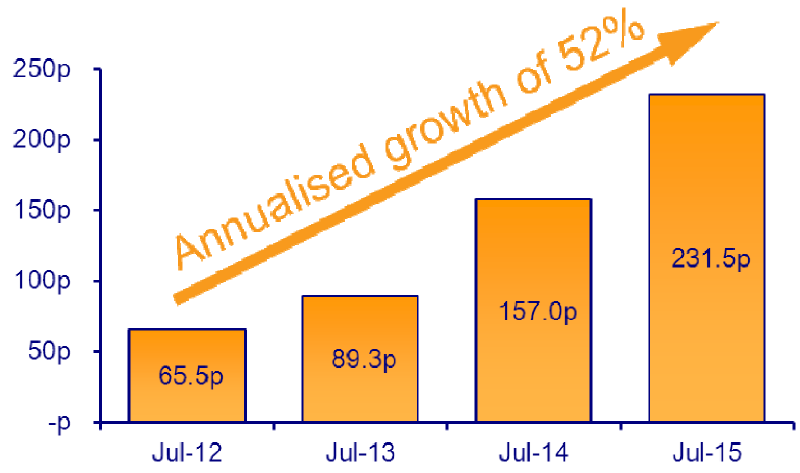
Earnings growth

For the year ended 31 July

	2015	2014**	Mvt
Profit before tax	£354.2m	£246.0m	44.0%
Taxation	(£71.1m)	(£54.6m)	30.2%
Effective tax rate	*20.1%*	*22.2%*	
Profit after tax	**£283.1m**	**£191.4m**	**47.9%**
Earnings per share	231.5p	157.0p	47.5%

** Restated – see appendix 9

EPS growth



Annualised rate of growth in EPS has been over 52% since July 2012

Notes

Balance sheet

As at 31 July

	2015	2014**
Assets		
Fixed assets	£16.4m	£18.7m
Inventory	£2,135.3m	£1,796.6m
Shared equity	£-m	£32.2m
Investment in joint ventures	£29.0m	£26.8m
Net cash	£-m	£3.6m
Debtors	£67.2m	£54.5m
	£2,247.9m	**£1,932.4m**
Liabilities		
Pension deficit	(£7.5m)	(£7.9m)
Creditors	(£433.4m)	(£310.4m)
Land creditors	(£192.6m)	(£248.0m)
	(£633.5m)	**(£566.3m)**
Capital employed	**£1,614.4m**	**£1,366.1m**

** Restated – see appendix 9

Notes

Inventory

As at 31 July

	2015	2014**	Mvt
Total land	£1,296.9m	£1,116.4m	£180.5m
Made up of:-			
DPP: land with **detailed** planning permission	£1,040.9m	£875.3m	£165.6m
Pipeline and strategic land	£256.0m	£241.1m	£14.9m
Work in progress	£763.7m	£615.8m	£147.9m
Showhomes	£57.5m	£52.9m	£4.6m
Part exchange stock	£17.2m	£11.5m	£5.7m
Total	**£2,135.3m**	**£1,796.6m**	**£338.7m**

** Restated – see appendix 9

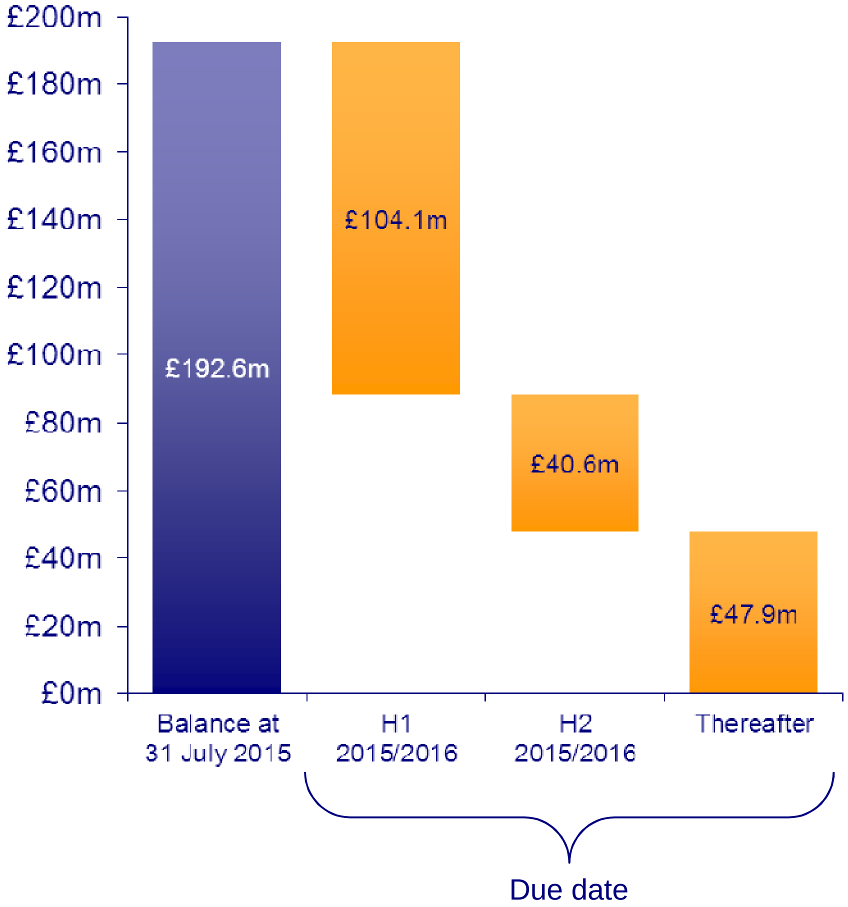
Notes

Land with detailed planning permission

	Plots	Cost	Average plot cost
Brought forward 1 August 2014	19,434	£875.3m	£45.0k
Sold	(7,752)	(£367.8m)	£47.4k
Net purchases	9,729	£533.4m	£54.8k
Carried forward 31 July 2015	**21,411**	**£1,040.9m**	**£48.6k**

Notes

Land creditors

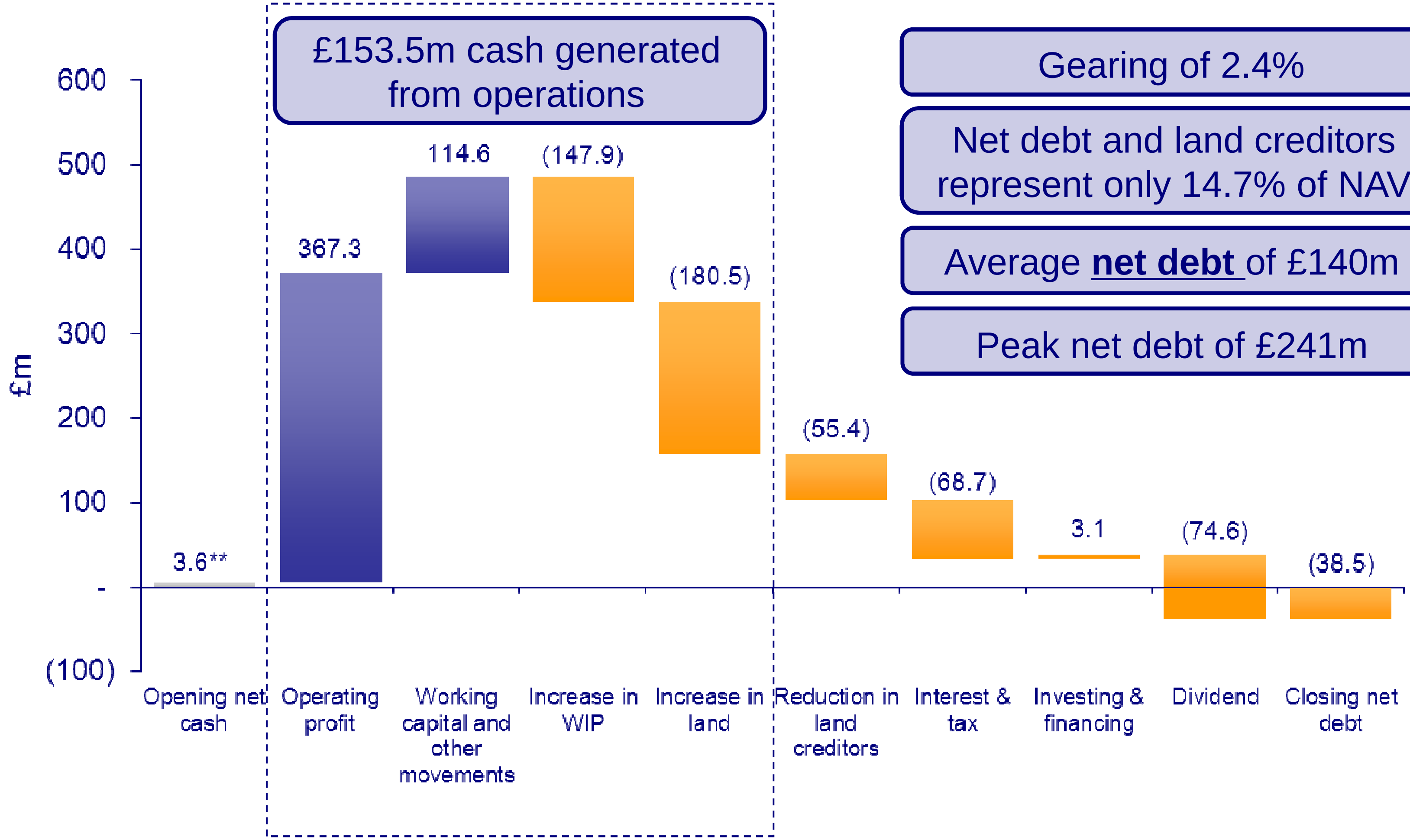


- Often able to secure a discount on land deals in return for making up front payments
- Seek to defer payments where it is cost effective to do s
- £145m due for payment in 2015/16

Notes

Cash flow

For the year ended 31 July



Gearing of 2.4%

Net debt and land creditors represent only 14.7% of NAV

Average **net debt** of £140m

Peak net debt of £241m

** Restated – see appendix 9

Notes

Return on capital employed

Bellway

- Important metric when assessing sites
- Focus on sales rate
- No exposure to shared equity
- Avoid too many long term land assets

	2015	2014
Capital turn	1.2	1.1

	2015	2014
RoCE	23.9%*	19.6%

	2015	2014
RoCE (inc. land creditors)	21.0%*	17.0%

Strong RoCE whilst adopting strategy for growth

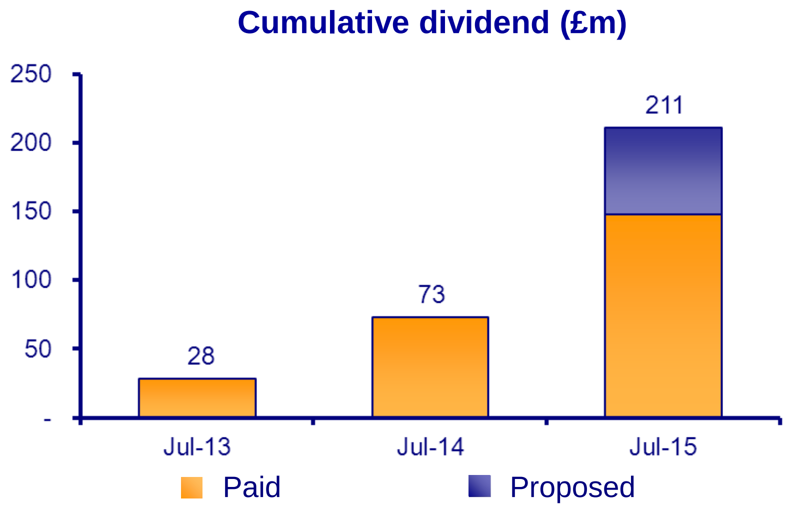
* Pre-exceptional

Notes

Dividend

- Compelling investment opportunities should generate high rates of return
- Plan to reinvest 2/3 earnings to facilitate future growth
- Including final dividend, payments will total £211m since July 2012
- Flexible to respond to changes in conditions

	2015	2014	Mvt
Interim dividend	25.0p	16.0p	56.3%
Proposed final dividend	52.0p	36.0p	44.4%
Total dividend	**77.0p**	**52.0p**	**48.1%**

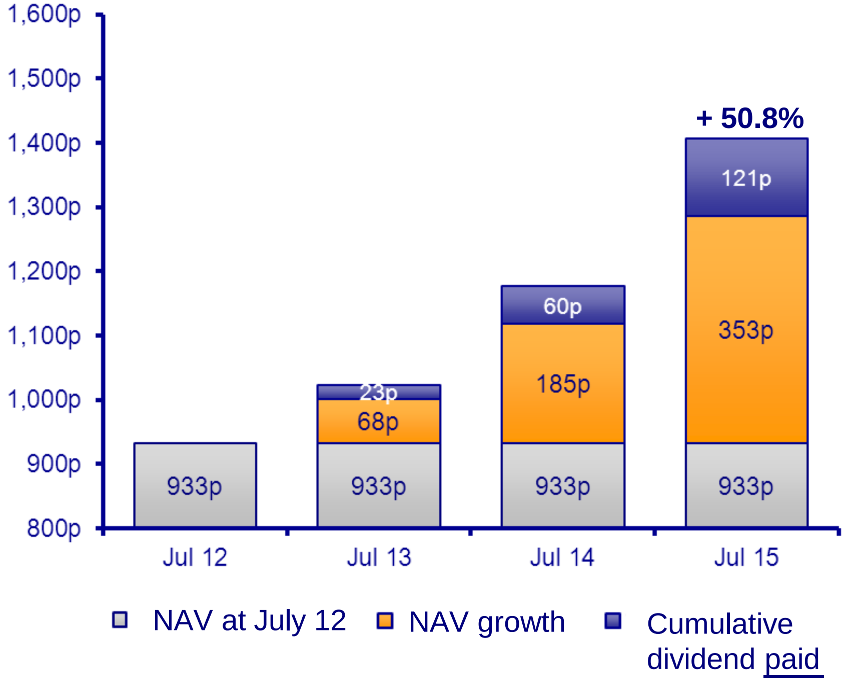


Dividend and capital growth ensures long term sustainable return for shareholders

Notes

Value creation

As at 31 July



	2015	2014
NAV	1,286p	1,118p

	2015	2014
RoE	19.4%	14.9%

Further value creation for shareholders

Notes

Operating review

Ted Ayres

Chief Executive

Notes

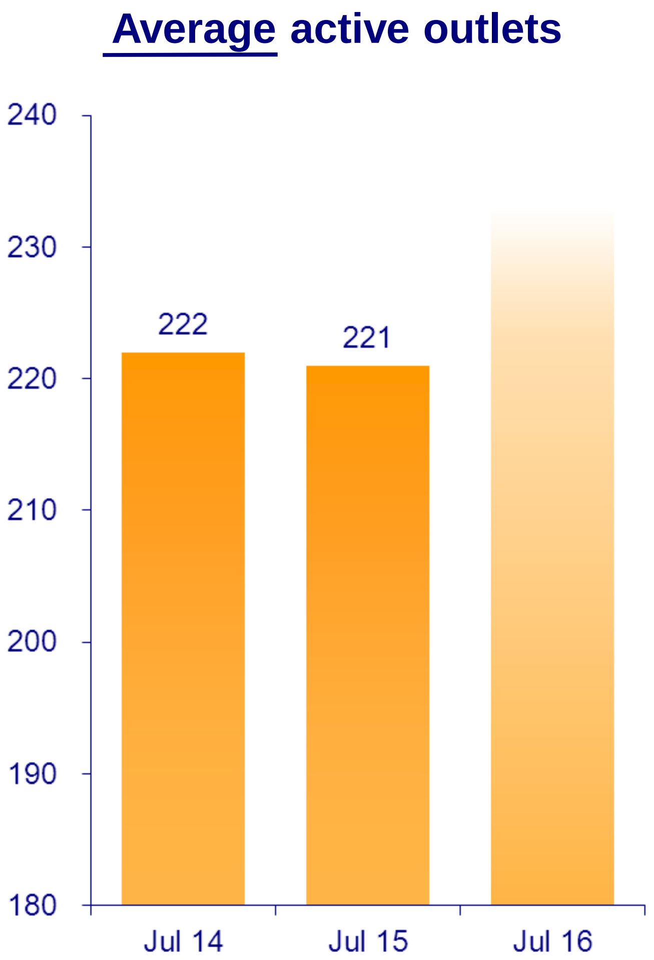
Trading review

	2015	2014	Mvt
Weekly sales rate			
H1	139	137	1.3%
H2	167	159	5.3%
Full year	**153**	**148**	**3.5%**
Weekly sales rate			
North	75	66	13.9%
South	78	82	(4.8%)
Total	**153**	**148**	**3.5%**

- Availability of product was limited in H1
- Concerns regarding general election were short lived
- Progressive increase in reservations throughout H2
- Strong demand in north

Notes

Sales outlets

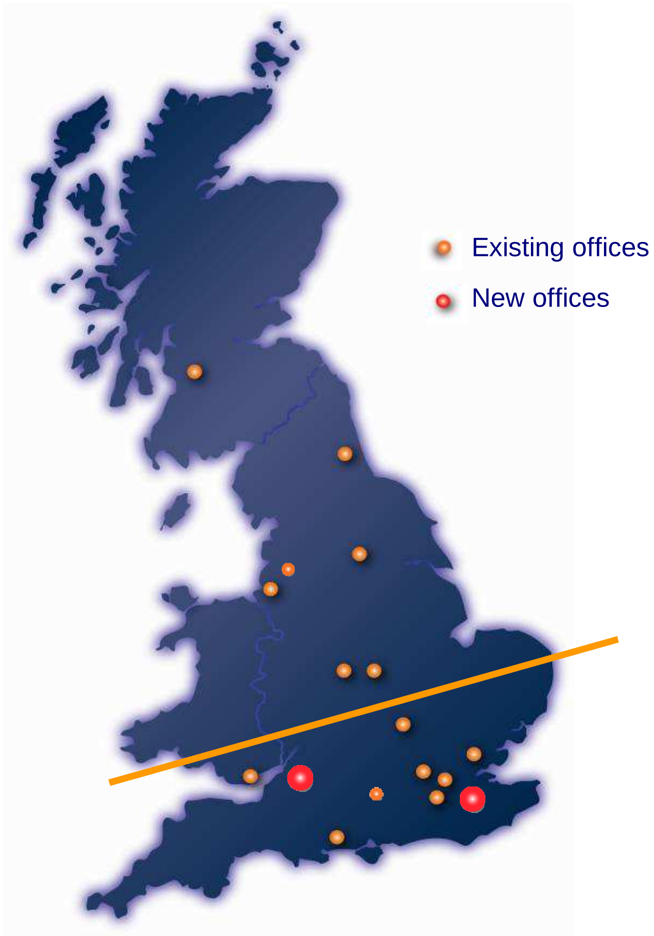


- 80 outlets opened in the year
- Average outlets similar to last year
- Expect to open 90 outlets and close 85 outlets in 2015/16
- Outlets have varying sales rates depending on product and location

Notes

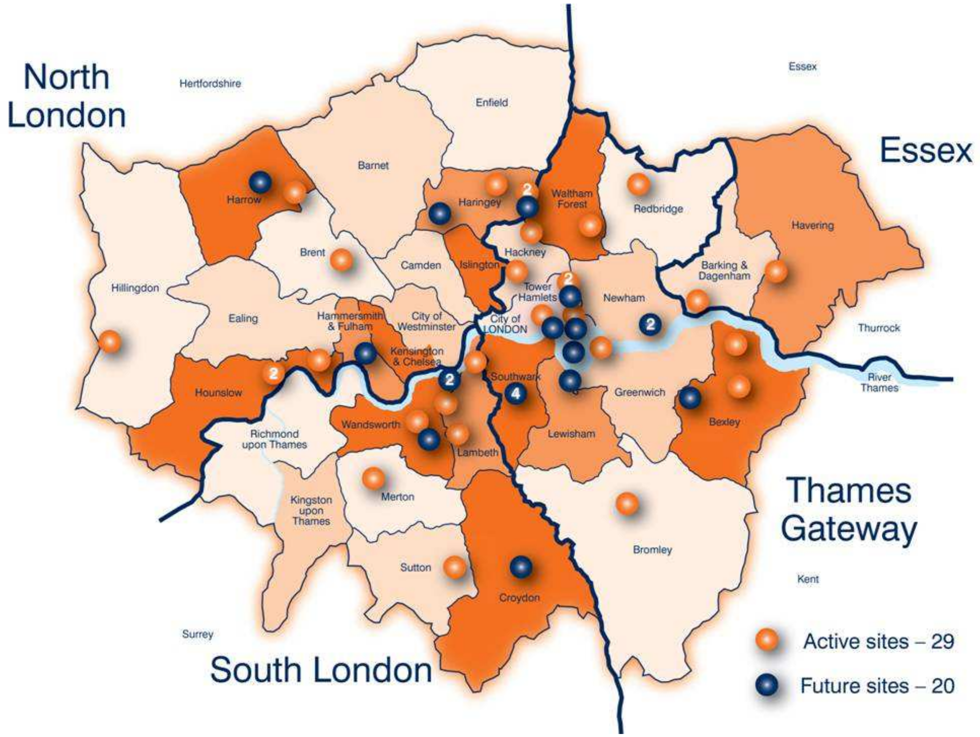
Divisional expansion

- New offices opened in Bristol during February 2015 and in Kings Hill, Kent on 1 August 2015
- New divisions will contribute legal completions in current financial year
- Potential for further expansion in the Midlands and the north
- Capacity of 10,000 units in medium term, almost 30% higher than current output



Notes

London coverage



- Strong presence in London operating from 29 outlets
- 20 new outlets due to commence in next 12-24 months

	Number
Zone 1	2
Zone 2	17
Zones 3 – 6	30

- Help to Buy used in less than 4% of London completions compared to 27% across the Group
- Revenues up to 5% higher than expectation on some London developments

Notes

Production

- Production accelerated on all sites
- Around 8,000 homes under production
- Production at more advanced stages, however, there are a number of apartment schemes due for completion beyond this financial year
- Availability of consistent labour force is biggest challenge to sector
- Extending apprenticeship and graduate training programme

Notes

Construction costs

Bellway

Materials

- Gradual easing in the availability of materials
- Re-negotiation of national agreements has resulted in some relatively small cost increases

Sub-contract

- Volatility of sub-contract labour rates is beginning to abate
- Build costs updated for all current sites and future acquisitions

Overall increase in construction costs of 3% to 5%

Anticipate build costs to be manageable in the year ahead

Notes

Standard floor plans

Bellway

- Now available to all housing only divisions
- Divisions will elevate to meet local planning and vernacular requirements
- Initial customer feedback is positive
- Further procurement benefits should result from standardisation

Notes

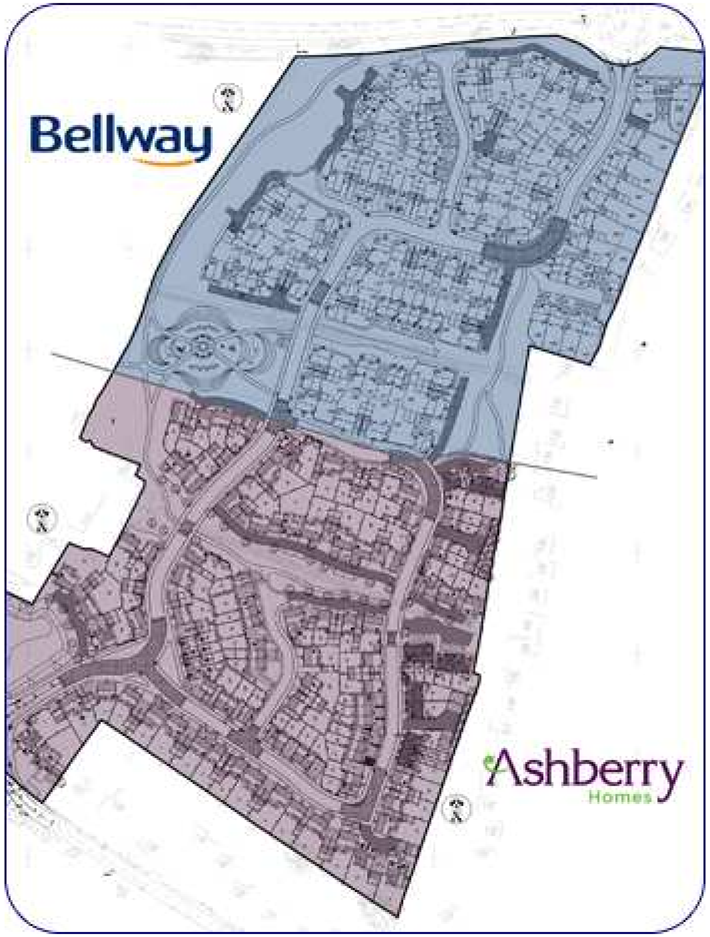
Ashberry Homes

- New second brand to facilitate higher sales rate on larger sites
- Should improve RoCE
- Trialled at Ibstock and shared between East Midlands and West Midlands divisions
- Avoids customer and supplier confusion
- Not to be used to justify larger purchases
- Absorbed into existing divisional structure, offering similar product

Notes

Case study – Ibstock

- Strategic greenfield site
- 5 year option agreement entered into in February 2012 at 87% of OMV
- Planning permission issued in August 2013 for 197 dwellings
- Site acquired in September 2014 for £4.3m
- Forecast gross margin of 25% and RoCE of 25%
- Dual branding could increase RoCE further to > 35%
- NHBC Seal of Excellence



Notes

Land procurement

- £620m spent on land and land creditors – up 35%
- Contracted to acquire 88 sites in the period
- Competition mainly from major housebuilders outside of London
- Housing Association and private equity funds are active in London
- Larger tranches of land more readily available – we remain disciplined and mindful of exposure

Notes

Land bank

As at 31 July

	2015	2014
Owned and controlled plots	**36,211**	35,434
Made up of:-		
DPP: plots with **detailed** planning permission	21,411	19,434
Pipeline: plots pending an implementable DPP	14,800	16,000

Strategic plots	**> 6,000**	> 4,500

Strategic plots are **only** those long term plots which currently have a positive planning status

Heads of terms agreed on further **6,400** plots as at 31 July 2015.

Notes

Planning environment

As at 31 July

	2015
Brought forward at 1 August	19,434
Already controlled: DPP obtained in the period	6,909
Bought with benefit of DPP	2,820
Total additions	**9,729**
Sold	(7,752)
Plots with implementable DPP	**21,411**

- Previously controlled plots promoted from 'pipeline'
  - Represents 71% of additions to land with DPP

- Stability provided by election and commitment to NPPF
- Productivity plan places greater emphasis on brownfield sites
- Brownfield plots represent 66% of owned and controlled land bank

Notes

Current trading and outlook

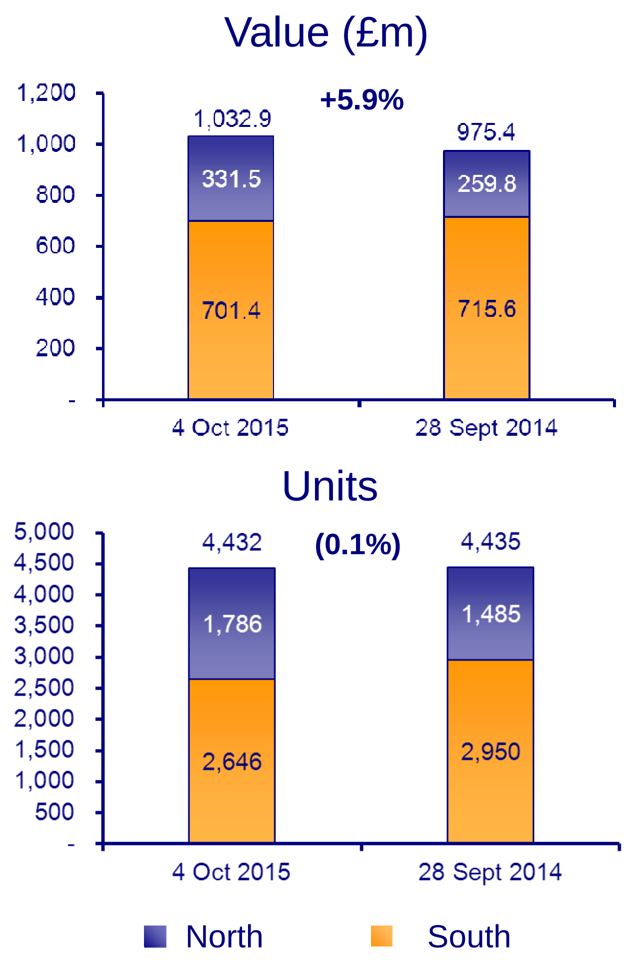
Ted Ayres
Chief Executive

Notes

Current trading and order book

- 149 reservations per week in first 9 weeks – up 16%
- Greater availability of product
- Expect sales to remain stable for remainder of H1
- 1,212 plots relate to social housing – all contracted
- Visibility over social housing outlook

Current order book



Notes

Outlook

- Strong forward sales position
- Managing delays in supply and subcontract chain
- Volume growth up to 10% in 2015/16

Sustainable, long term returns for shareholders

Notes

Questions and answers

Orchid Meadow, Formby, Cheshire

Notes

Appendices

1. Geographic analysis
2. Product analysis
3. Buyer analysis
4. ASP analysis
5. Order book
6. Land supply
7. Strategic land
8. Land bank glossary
9. Accounting standards

Notes

Appendix 1 – Geographic analysis

For the year ended 31 July

Unit completions

	Private		Social		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
	No.	*No.*	***No.***	*No.*	***No.***	*No.*
North	**3,070**	2,958	**626**	265	**3,696**	3,223
South	**3,108**	2,851	**948**	777	**4,056**	3,628
Total	**6,178**	5,809	**1,574**	1,042	**7,752**	6,851

Average selling price

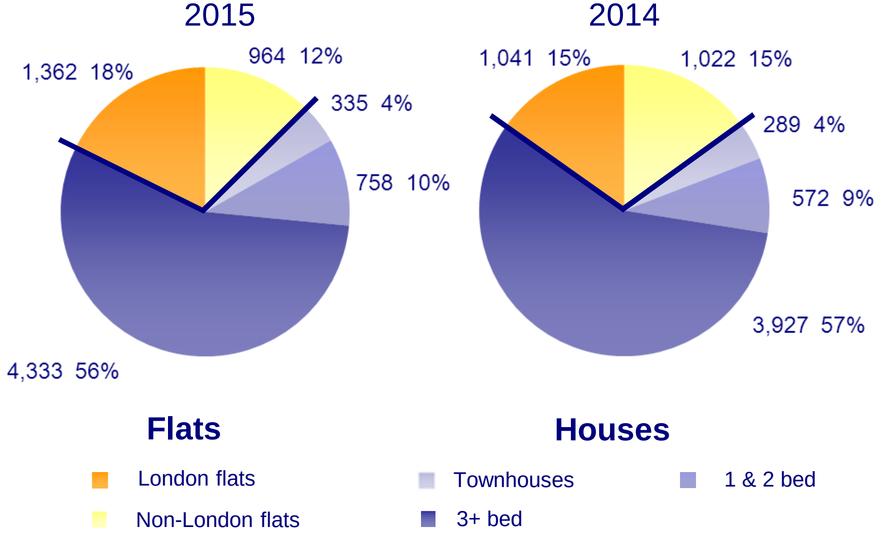
	Private		Social		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
	£000	*£000*	***£000***	*£000*	***£000***	*£000*
North	**212.0**	192.2	**87.2**	81.4	**190.9**	183.0
South	**290.9**	272.3	**132.5**	121.3	**253.8**	240.0
Group	**251.7**	231.5	**114.5**	111.2	**223.8**	213.2

Notes

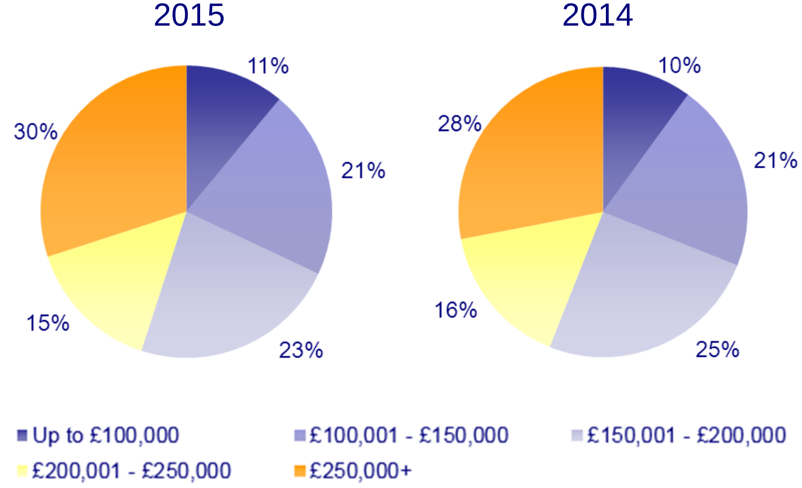
Appendix 2 – Product analysis

For the year ended 31 July

Product mix analysis



Selling price analysis



- Over half of flats are in London
- Townhouses are only 4% of output
- High average selling price for a national housebuilder

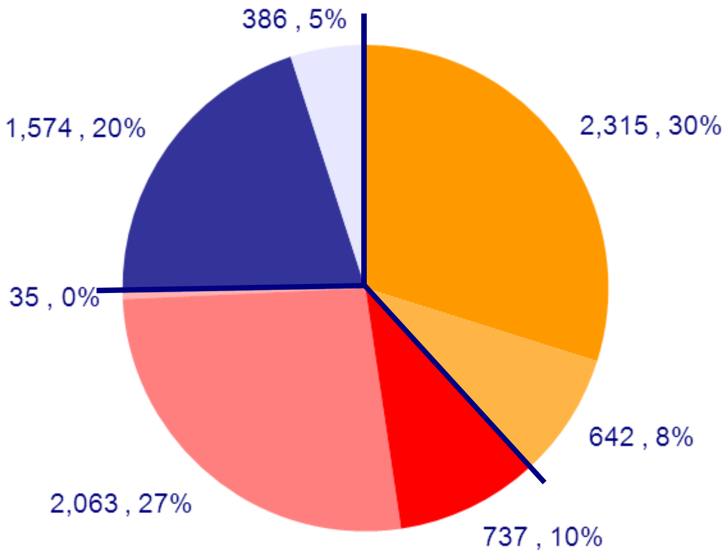
Flexible land buying

Notes

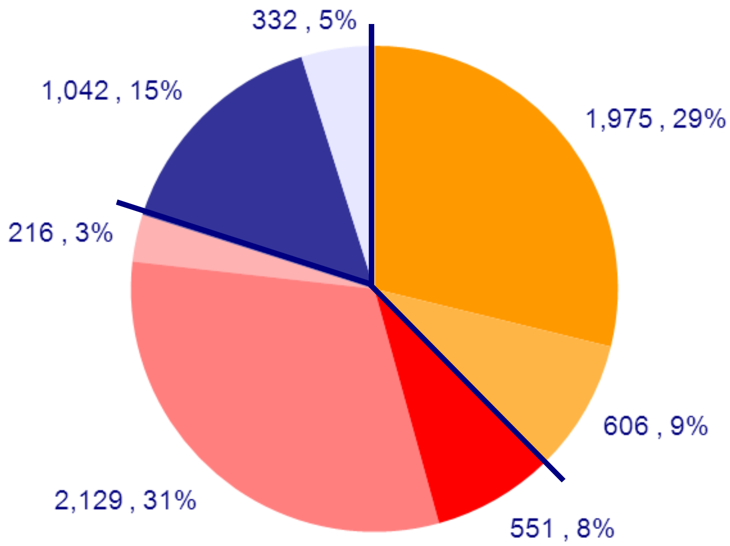
Appendix 3 – Buyer analysis

For the year ended 31 July

2015



2014



Second time buyers	Deposit assisted and first time buyers	Other buyers
Other second time buyers	Unassisted first time buyers	Housing Association
Part exchange	Help to Buy	Investor
	NewBuy	

Notes

Appendix 4 – ASP analysis

For the year ended 31 July

ASP / square foot (£)

	2015			2014			Mvt		
	Private	**Social**	**Total**	**Private**	**Social**	**Total**	**Private**	**Social**	**Total**
North	188	115	179	180	107	176	4.4%	7.5%	1.7%
South - made up of:-	305	163	276	276	155	255	10.5%	5.2%	8.2%
London	392	218	366	368	177	321	6.5%	23.2%	14.0%
Non-London	261	147	235	242	140	227	7.9%	5.0%	3.5%
Group average	**242**	**145**	**226**	**225**	**143**	**216**	**7.6%**	**1.4%**	**4.6%**

- London average selling price still affordable.
- Positive pricing environment.

Notes

Appendix 5 – Order book

As at 31 July

	2015			2014			Movement		
	Private	**Social**	**Total**	**Private**	**Social**	**Total**	**Private %**	**Social %**	**Total %**
At 1 August	**3,164**	**1,199**	**4,363**	2,503	1,022	3,525	*26.4%*	*17.3%*	*23.8%*
Reservations	**6,319**	**1,638**	**7,957**	6,470	1,219	7,689	*(2.3%)*	*34.4%*	*3.5%*
Completions	**(6,178)**	**(1,574)**	**(7,752)**	(5,809)	(1,042)	(6,851)	*6.4%*	*51.1%*	*13.2%*
At 31 July	**3,305**	**1,263**	**4,568**	3,164	1,199	4,363	***4.5%***	***5.3%***	***4.7%***

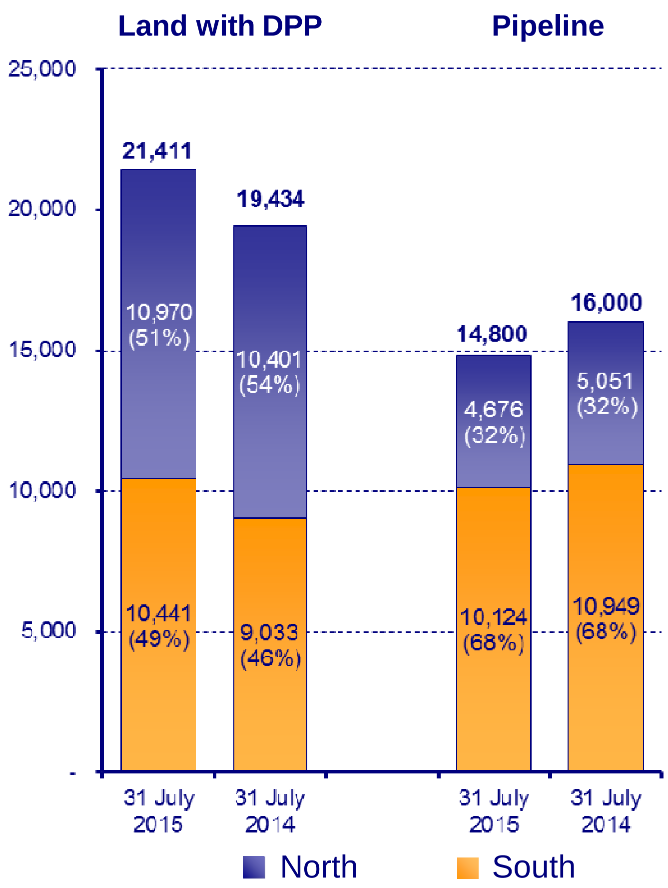
Notes

Appendix 6 – Land supply

Bellway

As at 31 July

Owned and controlled land (plots)



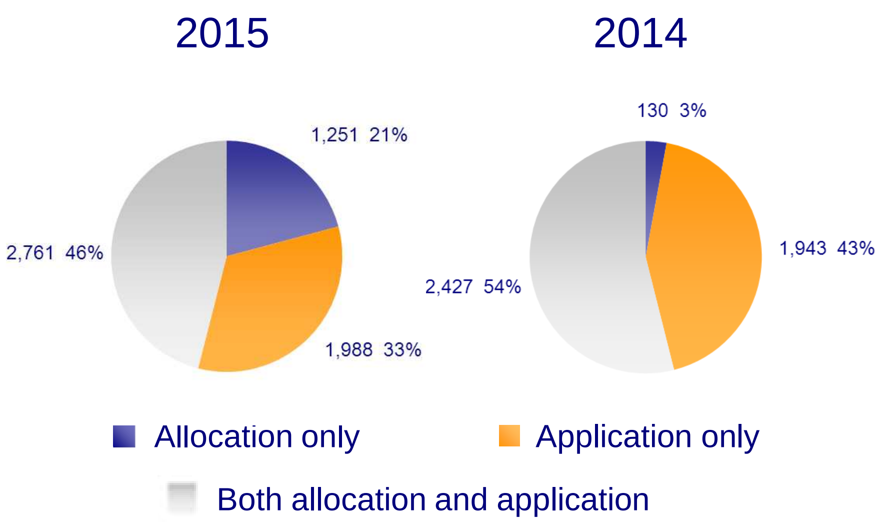
- Wide geographic presence
- 4.7 years land supply at current output
- Quality land bank

Notes

Appendix 7 – Strategic land

As at 31 July

Strategic land by category



- 6,000 plots in strategic land bank with positive planning status.

Notes

Appendix 8 – Land bank glossary

Owned and controlled plots

- **DPP**: Plots owned or unconditionally contracted by the Group where there is an implementable **detailed planning permission**.
- **Pipeline:** Plots owned or controlled by the Group pending an implementable detailed planning permission, with development generally expected to commence within the next three years.

Strategic plots

- **Strategic:** Long term plots which currently have a positive planning status and are typically held under option.

Notes

Appendix 9 – Accounting standards

- In previous years IFRSs allowed jointly controlled entities (JCEs) to be consolidated using either the equity method or proportional consolidation. The Group's accounting policy was to use proportional consolidation.
- On 1 August 2014 the Group adopted IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities'.
- The adoption of these new IFRSs removed the choice over the consolidation method used. Entities that were previously considered to be JCEs were assessed to determine whether they were considered to be a joint venture or a joint operation. Once this was determined, the consolidation method prescribed by the new standards is as follows:-
  - Joint venture – equity method of accounting.
  - Joint operation – line by line method of accounting.
- Where the adoption of these new standards resulted in entities being categorised as joint ventures and consolidated using the equity method, the Group has restated the comparative information.
- This restatement has resulted in no changes to profit after taxation or net assets, but has resulted, at certain reporting dates, in some very minor changes to metrics such as gross profit, gross margin, operating profit, operating margin and RoCE.
- Throughout the results presentation the restatements are marked with '**'.