Results Presentation

Bellway

Half year ended

31 January 2019

Agenda

1. Highlights and strategic update
2. Finance review
3. Operating review
4. Q&A
5. Appendices

Unless otherwise stated, all numbers throughout this presentation exclude joint ventures.

Highlights and strategic update

Jason Honeyman

Chief Executive

Highlights

Volume	Operating profit	EPS	Interim dividend	NAV
5,007	**£319.8m**	**207.5p**	**50.4p**	**2,189p**
+5.6%	+8.7%	+8.3%	+5.0%	+15.7%

High RoCE	Strong balance sheet	Customer care	Strong land bank	Artisan
24.2% (110 bps)	Modest net bank debt of £27m	5* homebuilder	All plots for FY20 have DPP	Plotted across 53 developments

Capacity to deliver 13,000 homes p.a. from existing structure of 22 divisions

Notes

Market backdrop

Demand remains robust despite uncertain political environment	Market focused on FTB and second movers
London market is robust in Greater London boroughs	HPI is no longer margin enhancing

Notes

Capacity for growth

Nine new divisions opened since 2013	Existing structure has capacity to deliver 13,000 homes p.a.
Competitors delivering c.15,000 homes p.a.	Further opportunities to grow the business assuming market remains favourable
Strong customer care and operational focus	Continued focus on RoCE

Bellway will grow in a measured and sustainable way

Notes

Strategic priorities

Volume growth		Focus on RoCE	
Value creation through capital and dividend growth			
Driving down costs	Appointing the right people	Strengthening the brand	Maintaining a flexible capital structure

Notes

Finance review

Bellway

Keith Adey

Finance Director

Notes

Strong earnings growth

For the half year ended 31 January

		2019		2018 *		Change
Units	Homes sold	5,007		4,741		5.6%
	Average selling price	£293,832		£275,945		6.5%
Revenue	Housing revenue	£1,471.2m		£1,308.3m		12.5%
	Other revenue	£16.8m		£16.1m		4.3%
	Total revenue	**£1,488.0m**		**£1,324.4m**		**12.4%**
Trading	Gross profit	£377.5m	*25.4%*	£344.5m	*26.0%*	(60 bps)
	Net PX trading loss	(£2.9m)		(£1.4m)		107.1%
	Operating profit	£319.8m	*21.5%*	£294.2m	*22.2%*	(70 bps)
Earnings	Profit before taxation	£313.9m		£288.7m		8.7%
	Earnings per share	**207.5p**		**191.6p**		**8.3%**

* Restated – see appendix 13.

Notes

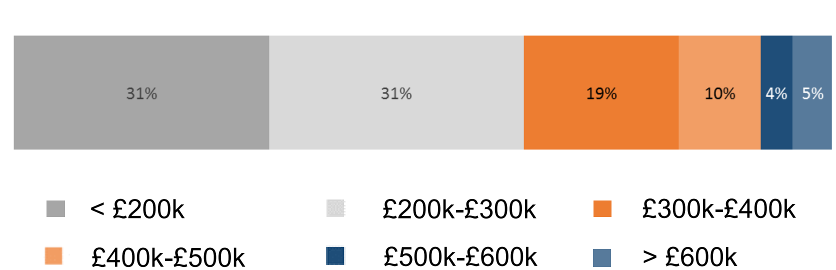
Housing revenue

For the half year ended 31 January

	2019		2018	
	Units	ASP	Units	ASP
Private	3,928	£333.9k	3,768	£315.3k
Social	1,079	£147.8k	973	£123.7k
Bellway completions	**5,007**	**£293.8k**	**4,741**	**£275.9k**
Share of JVs	25	£229.3k	24	£164.9k
Total completions	**5,032**	**£293.5k**	**4,765**	**£275.3k**

- Full year volume growth will arise from additional social homes.
- Ashberry accounts for 253 homes and 5% of output.
- Help to Buy accounted for 36% of homes sold.
- Increase in private ASP influenced by Nine Elms.
- Only 5% of homes sold above the Help to Buy threshold of £600k.

ASP of Bellway completions



Full year ASP expected to be just over £290k

Notes

Geographic analysis

For the half year ended 31 January

	2019		2018	
	Units	ASP	Units	ASP
North	2,442	£239.8k	2,331	£223.0k
South	2,565	£345.3k	2,410	£327.2k
Total	**5,007**	**£293.8k**	**4,741**	**£275.9k**

	2019		2018	
	Units	ASP	Units	ASP
London	506	£503.0k	560	£384.3k

- London is important but represented only 10% of completions.
- ASP in London excluding Nine Elms was £396k and demand is robust at this price point.
- Nine Elms contributed 125 completions at an ASP of £829k generating 7% of housing revenue.
- Balanced geographical spread provides opportunity for further expansion in areas of strong demand.

Notes

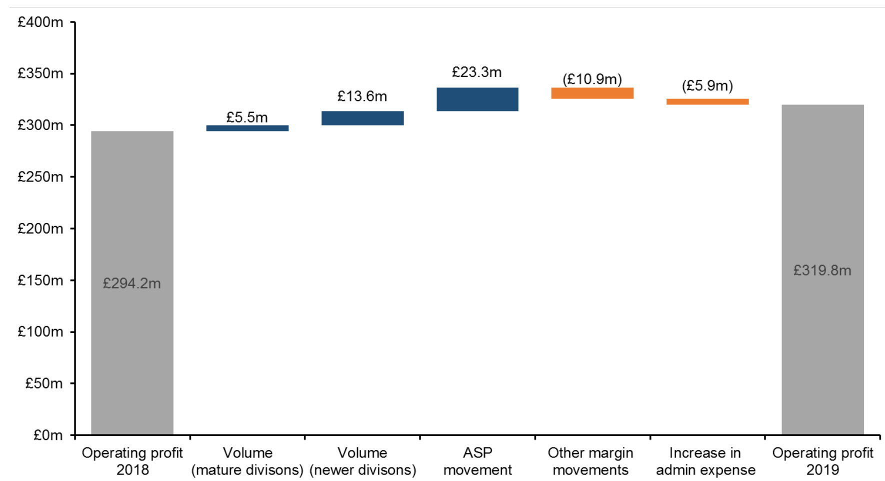
Operating performance

Bellway

For the half year ended 31 January

	2019	2018 *	Change
Gross profit	£377.5m *25.4%*	£344.5m *26.0%*	£33.0m *(60 bps)*
Net PX trading loss	(£2.9m) *(0.2%)*	(£1.4m) *(0.1%)*	(£1.5m) *(10 bps)*
Admin. expenses	(£54.8m) *(3.7%)*	(£48.9m) *(3.7%)*	(£5.9m) *- bps*
Operating profit	**£319.8m** ***21.5%***	**£294.2m** ***22.2%***	**£25.6m** ***(70 bps)***

Operating profit bridge



Ground rent disposal contributed over 40 bps to gross margin (2018: over 30 bps)

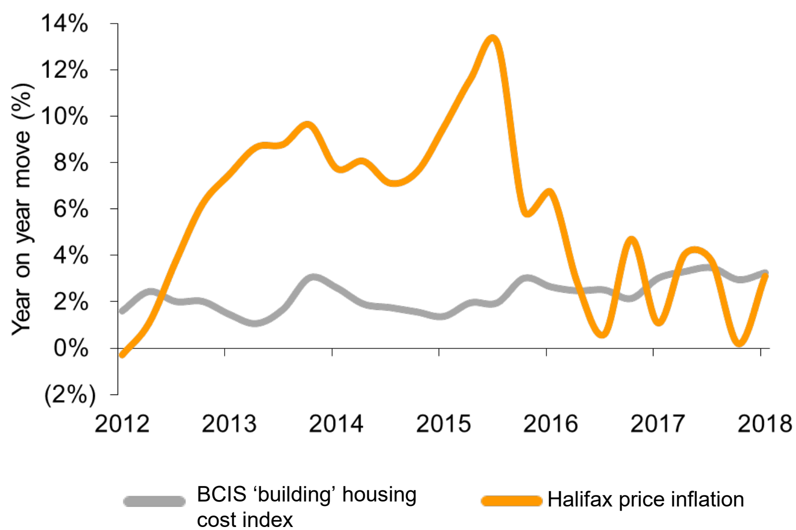
Nine Elms made significant contribution with gross margin > 30%

Notes

Operating performance

Bellway

For the half year ended 31 January



- HPI has benefitted results of all housebuilders.
- Longer term prospect is for gross margin to moderate to around 24%.

- Bellway is operationally strong with a number of cost control initiatives to help protect the margin in the future.
- Admin overhead absorption rate unchanged at 3.7%.
- Further investment in divisional structure in the year ahead to achieve ongoing growth.
- Operating profit increased by 8.7% to £319.8m and operating margin was 21.5%.
- Expect similar operating margin at full year followed by further, gradual moderation as the benefit of HPI diminishes.

Notes

Balance sheet

As at 31 January

	2019	2018	Change
Assets			
Fixed assets	£29.6m	£12.2m	£17.4m
Investments in joint arrangements	£46.6m	£38.9m	£7.7m
Inventory	£3,423.4m	£3,184.7m	£238.7m
Land	£2,033.0m	£1,985.4m	£47.6m
WIP	£1,390.4m	£1,199.3m	£191.1m
Debtors	£113.3m	£100.9m	£12.4m
	£3,612.9m	**£3,336.7m**	**£276.2m**
Liabilities			
Pension deficit	(£1.3m)	(£4.0m)	£2.7m
Creditors	(£596.7m)	(£510.1m)	(£86.6m)
Land creditors	(£294.5m)	(£367.3m)	£72.8m
Net bank debt	(£26.6m)	(£131.4m)	£104.8m
	(£919.1m)	**(£1,012.8m)**	**£93.7m**
Net asset value	**£2,693.8m**	**£2,323.9m**	**£369.9m**
Net bank debt	£26.6m	£131.4m	(£104.8m)
Capital employed	**£2,720.4m**	**£2,455.3m**	**£265.1m**

Notes

Land bank ^

As at 31 January

	2019			2018		
	Plots	Cost	Average plot cost	Plots	Cost	Average plot cost
Land with DPP						
Brought forward 1 August	26,877	£1,679.0m	£62.5k	25,655	£1,546.1m	£60.3k
Net purchases	5,691	£338.5m	£59.5k	5,380	£338.8m	£63.0k
Sold	(5,007)	(£312.4m)	£62.4k	(4,741)	(£254.6m)	£53.7k
Carried forward 31 January	**27,561**	**£1,705.1m**	**£61.9k**	**26,294**	**£1,630.3m**	**£62.0k**
Pipeline	14,700	£327.9m		13,700	£355.1m	
Bellway owned and controlled plots	**42,261**	**£2,033.0m**		**39,994**	**£1,985.4m**	
Land with DPP - JVs	203			244		
Total owned and controlled plots	**42,464**			**40,238**		

^ See appendix 11 for definitions.

The Group has 8,100 strategic plots with a positive planning status (2018 – 6,850)

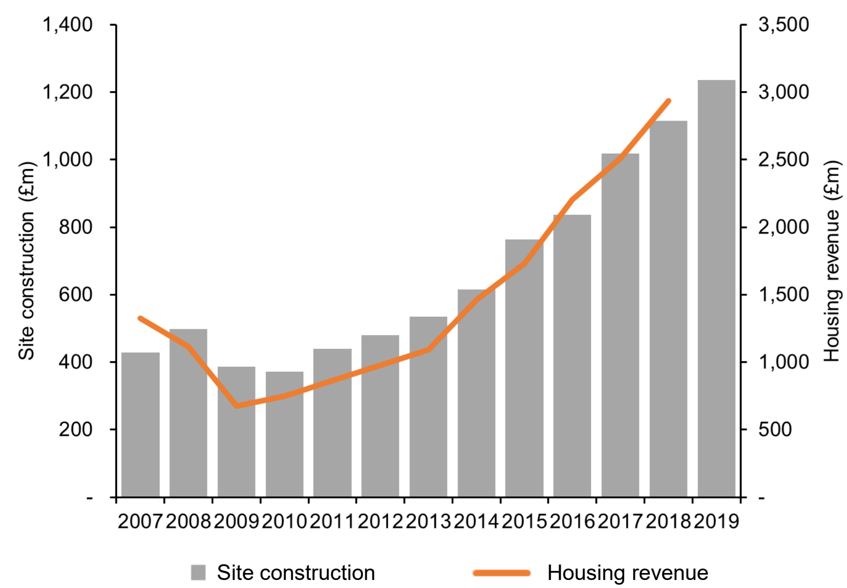
Notes

Work in progress

As at 31 January

	2019	2018	Change
Site construction	£1,236.1m	£1,081.0m	£155.1m
Showhomes	£112.4m	£85.4m	£27.0m
Part-exchange stock	£41.9m	£32.9m	£9.0m
Total WIP	**£1,390.4m**	**£1,199.3m**	**£191.1m**

Site construction vs housing revenue



Site construction is 42% of annualised housing revenue	Construction programmes more advanced than last year reflecting planned growth	Part-exchange stock has reduced from £47m at 31 July 2018

Notes

Balanced and flexible capital structure

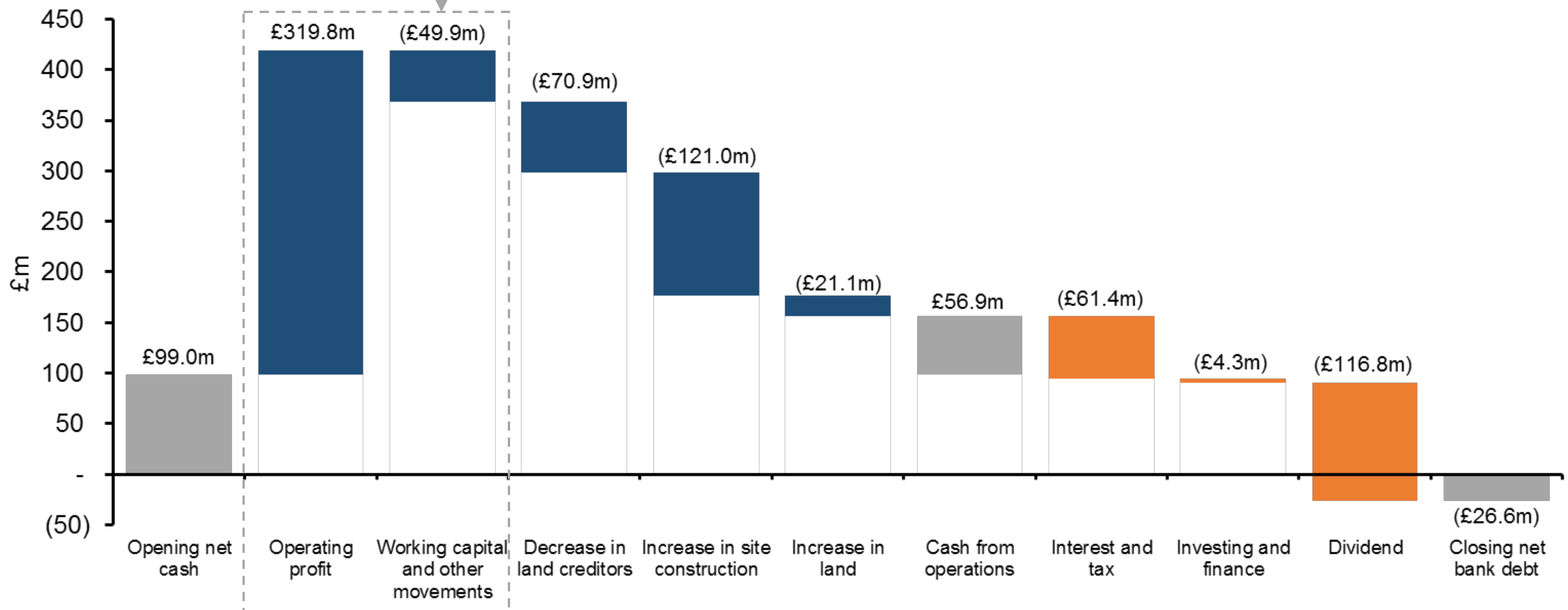
Bellway

For the half year ended 31 January

£270m generated before increasing investment in land and site construction

Investment has resulted in housing revenue increasing by 2.6x since pre-recession peak

Gearing of 12% inclusive of land creditors



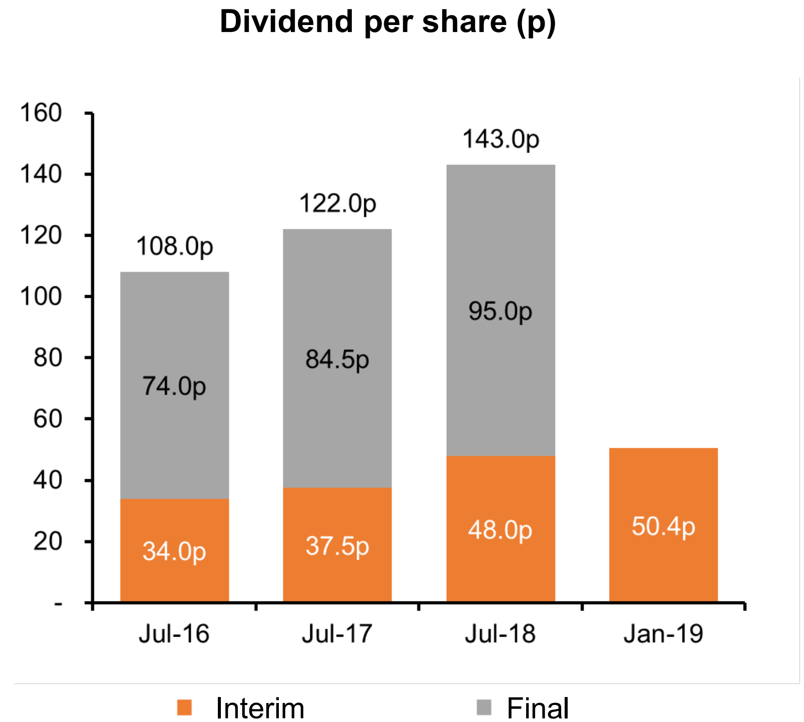
Notes

Dividend

For the half year ended 31 January

	2019	2018	Change
Interim dividend	**50.4p**	48.0p	5.0%

- Earnings growth skewed towards H1.
- **Approximately** 1/3 of total dividend declared at half year.
- Full year cover expected to be 3x earnings.



Ongoing assessment of the future capital requirements to grow the business

Notes

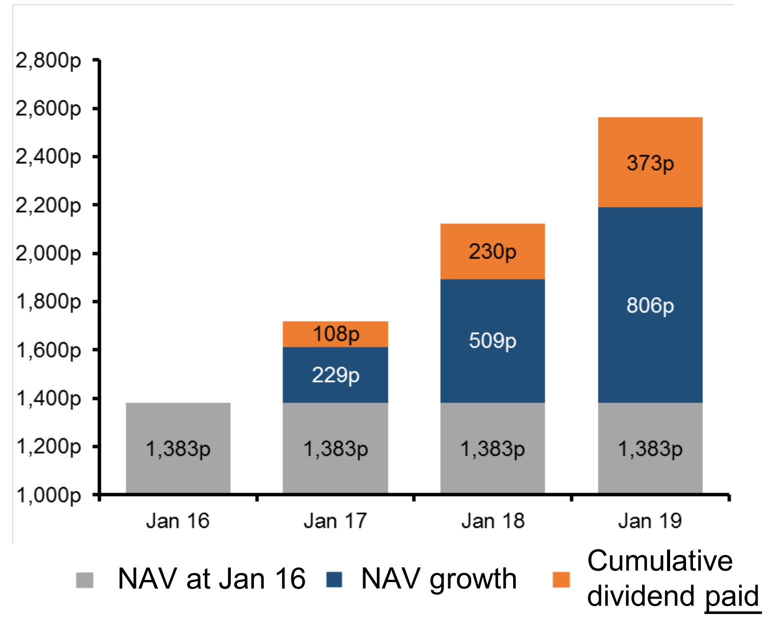
Delivering enhanced shareholder value

Bellway

RoCE	RoE	NAV
24.2%	**19.4%**	**2,189p**
2018: 25.3% (110 bps)	2018: 20.8% (140 bps)	2018: 1,892p +15.7%

- Over the past three years:
  - Revenue has increased by over 37%.
  - Earnings have risen by over 40%.

22.8% p.a. return over 3 years



Bellway remains agile with a long term approach

Notes

Operating review

Jason Honeyman

Chief Executive

Notes

Delivering growth through divisional expansion

Bellway

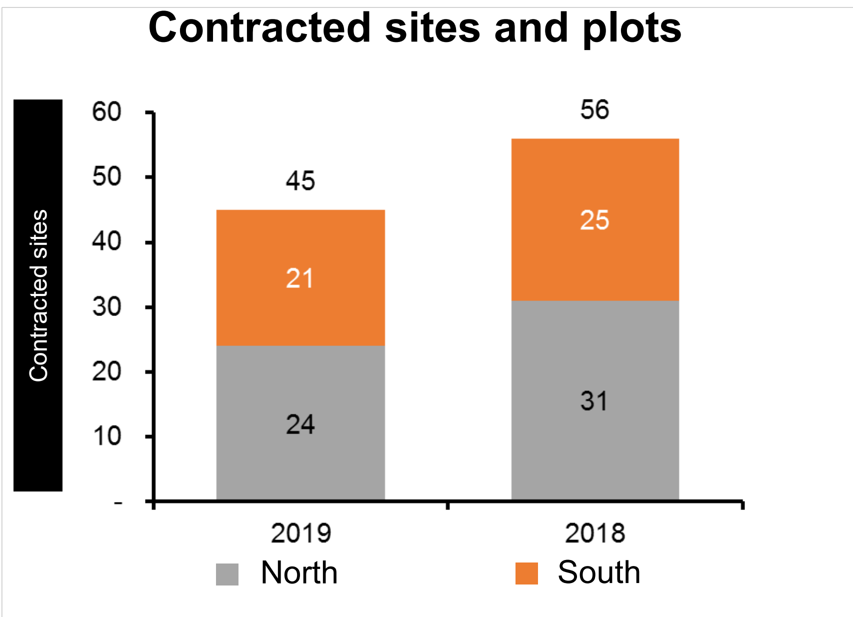
- 70% growth in divisional structure since 2013.
- Eastern Counties will deliver completions this year.
- London Partnerships will deliver completions in FY20.
- First two London Partnerships sites will commence construction in the summer.
- Growth is being driven by newer divisions.
- Opportunity for further expansion beyond the existing structure.
- Mindful of impending changes to Help to Buy.

Strong track record of opening new divisions

Notes

Delivering growth through buying land

Bellway



	2019	2018	Change
Contracted plots	**5,980**	6,726	(11.1%)
Options contracted	**10**	9	11.1%

Affordable locations	Greater number of outlets
Artisan house types	Average size of 1,000 sq ft

- Some caution on larger sites pending strength of spring selling season.
- 6,444 plots with heads of terms agreed.
- Average lot size of 133 units should lead to increased outlet numbers.
- Secured planning on 579 plots previously reported in strategic land bank.
- All land in next year's forecast has DPP.

Notes

Driving down costs

Bellway

Cost inflation is c.3%	New Group Head of Procurement	Higher rebates	Rationalisation of Group deals

THE ARTISAN COLLECTION

The Artisan Collection			
Faster build	Consistent quality	Reduced maintenance costs	Reduced design and planning costs
Expect savings of £2k per plot			

coins rolled out across six divisions

New Group-wide cost saving initiative to launch in May

Notes

Appointing the right people

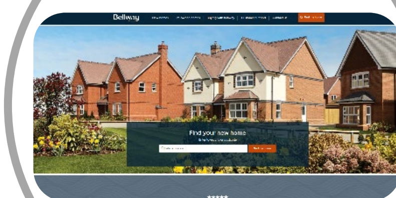
- Lack of skilled personnel is biggest industrywide impediment to growth.
- 14 out of 22 MDs are internal appointments.
- Site Manager training programme will launch in the summer.
- 187 trainees, graduates and apprentices across the Group.

Notes

Strengthening the brand

92.2% of customers would recommend

New website



London

Notes

Trading review

Weekly reservation rate ~

	2019	2018	Change
North	85	86	(1.2%)
South	98	91	7.7%
Total	**183**	**178**	**2.8%**

Average outlets

	2019	2018	Change
Average outlets	262	242	8.3%

- HPI offsets cost inflation.
- Outlet openings skewed towards the end of the period.
- Cancellation rates nudged up to 13% (2018 – 11%) due to Brexit uncertainty.
- Market still robust across UK.
- Strongest divisions were Scotland, Manchester, NHC and Essex.

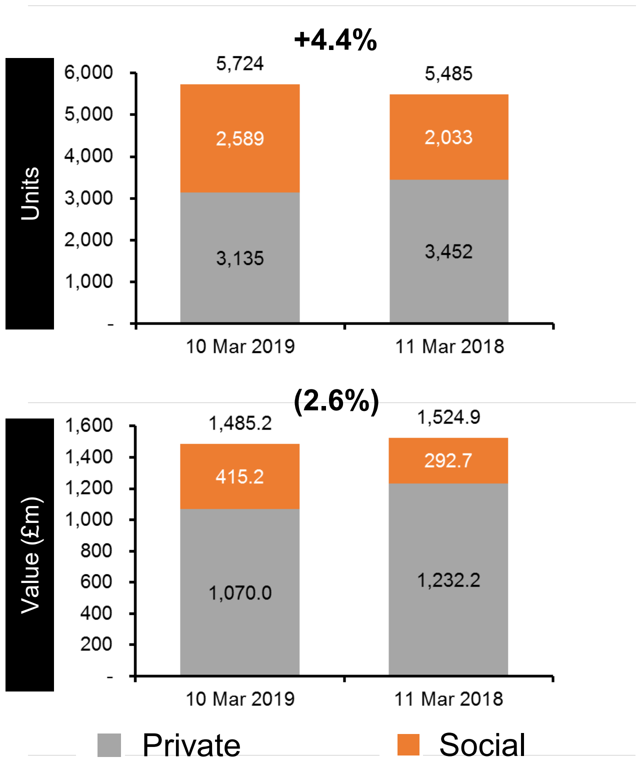
~ Weekly reservation rates are rounded to the nearest integer.

Notes

Current trading and order book

Bellway

Order book at 10 Mar 2019 (2018: 11 Mar)



Strong start to H2

- Sales in first six weeks since 1 Feb are 4.4% up.
- Private sales are 4.4% up and affordable are 4.5% up.
- Strong order book in addition to 12.5% housing revenue growth in H1.
- 70% of order book is contracted.

Notes

Outlook

Growth this year	On target to deliver record volumes	Build capacity to deliver up to 500 extra homes	Rate of growth will be determined by sales performance in H2

Growth beyond this year	Opportunity to deliver further managed and sustainable growth despite Brexit and changes to Help to Buy	London Partnerships should be a strong performer in years ahead
	22 divisions have capacity for growth and there are further opportunities	Demand robust at our price point

Cost control	Cost efficiencies such as Artisan will mitigate margin pressures

Bellway is in good shape and has the potential to deliver growth at attractive margins

Notes

Q&A

Bellway

The Glazier

Artisan house type

Notes

Appendices

1. Income statement
2. Net finance expense
3. Geographic analysis
4. ASP per sq ft
5. Housing revenue
6. Product analysis
7. Completion analysis
8. Land supply
9. Strategic land
10. Land creditors
11. Land bank glossary
12. Order book at 31 January
13. Accounting standards

Notes

Appendix 1 - Income statement

For the half year ended 31 January

	2019		2018 *		Change
Homes sold	5,007		4,741		5.6%
Average selling price	£293,832		£275,945		6.5%
Housing revenue	£1,471.2m		£1,308.3m		12.5%
Other revenue	£16.8m		£16.1m		4.3%
Total revenue	**£1,488.0m**		**£1,324.4m**		**12.4%**
Gross profit	**£377.5m**	***25.4%***	**£344.5m**	***26.0%***	**(60 bps)**
Net PX trading loss	(£2.9m)	*(0.2%)*	(£1.4m)	*(0.1%)*	(10 bps)
Administrative expenses	(£54.8m)	*(3.7%)*	(£48.9m)	*(3.7%)*	- bps
Operating profit	**£319.8m**	***21.5%***	**£294.2m**	***22.2%***	**(70 bps)**
Net finance expense	(£7.3m)		(£6.3m)		15.9%
Share of JV result	£1.4m		£0.8m		75.0%
Profit before taxation	**£313.9m**		**£288.7m**		**8.7%**
Taxation expense	(£58.8m)	*18.7%*	(£53.7m)	*18.6%*	9.5%
Profit after taxation	**£255.1m**		**£235.0m**		**8.6%**
Earnings per share	**207.5p**		**191.6p**		**8.3%**

Notes

Appendix 2 – Net finance expense

For the half year ended 31 January

	2019	2018	Change
Net bank interest payable inc. fees	£3.2m	£2.0m	60.0%
Non bank interest:	£4.1m	£4.3m	(4.7%)
Made up of:-			
Land creditors / debtors – IAS 39	£4.0m	£4.2m	(4.8%)
Pension cost	-	£0.1m	(100.0%)
Lease liabilities – IFRS 16	£0.2m	-	100.0%
Other interest receivable	(£0.1m)	-	(100.0%)
Total	**£7.3m**	**£6.3m**	**15.9%**

Notes

Appendix 3 – Geographic analysis

Bellway

For the half year ended 31 January

Homes sold (No.)

	2019			2018			Change		
	Private	Social	Total	Private	Social	Total	Private	Social	Total
North	2,097	345	2,442	1,857	474	2,331	12.9%	(27.2%)	4.8%
South	1,831	734	2,565	1,911	499	2,410	(4.2%)	47.1%	6.4%
Group	**3,928**	**1,079**	**5,007**	**3,768**	**973**	**4,741**	**4.2%**	**10.9%**	**5.6%**
London	408	98	506	469	91	560	(13.0%)	7.7%	(9.6%)

Average selling price (£000)

	2019			2018			Change		
	Private	Social	Total	Private	Social	Total	Private	Social	Total
North	260.8	112.2	239.8	255.9	94.3	223.0	1.9%	19.0%	7.5%
South	417.8	164.5	345.3	373.0	151.6	327.2	12.0%	8.5%	5.5%
Group	**333.9**	**147.8**	**293.8**	**315.3**	**123.7**	**275.9**	**5.9%**	**19.5%**	**6.5%**
London	568.1	231.6	503.0	419.8	201.3	384.3	35.3%	15.1%	30.9%

Notes

Appendix 4 – ASP per sq ft

For the half year ended 31 January

	2019			2018			Change		
	Private	Social	Total	Private	Social	Total	Private	Social	Total
North	229	144	221	224	120	209	2.2%	20.0%	5.7%
South - made up of:-	402	210	357	364	189	334	10.4%	11.1%	6.9%
London	750	297	661	609	262	547	23.2%	13.4%	20.8%
Non-London	334	197	301	315	174	292	6.0%	13.2%	3.1%
Group average	**306**	**189**	**286**	**291**	**156**	**270**	**5.2%**	**21.2%**	**5.9%**

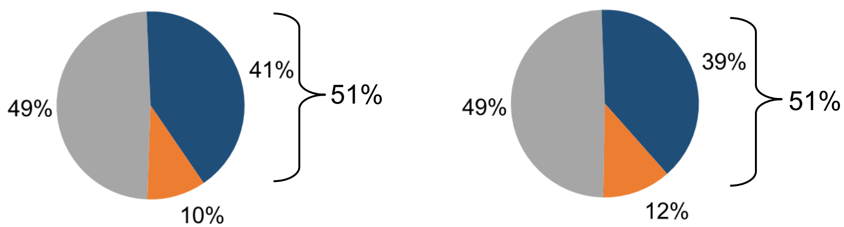
Notes

Appendix 5 – Housing revenue

For the half year ended 31 January

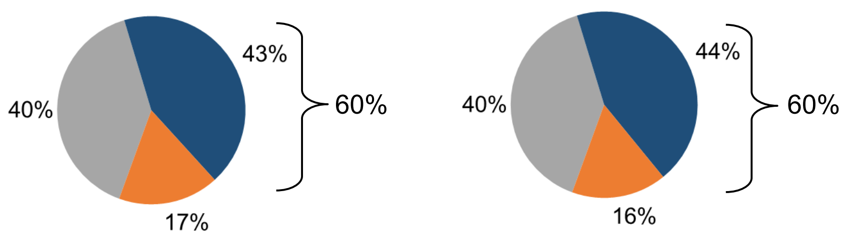
Completion analysis

2019 **2018**



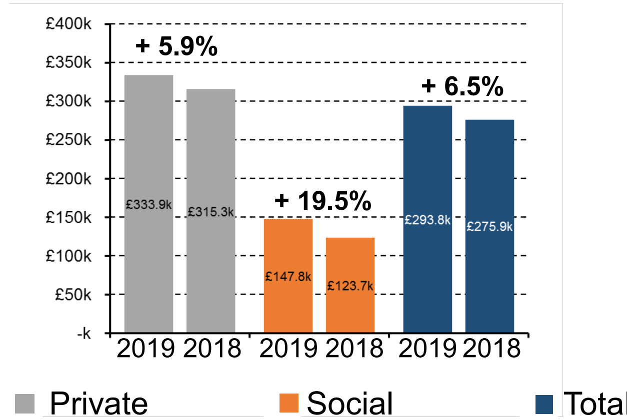
Revenue analysis

2019 **2018**



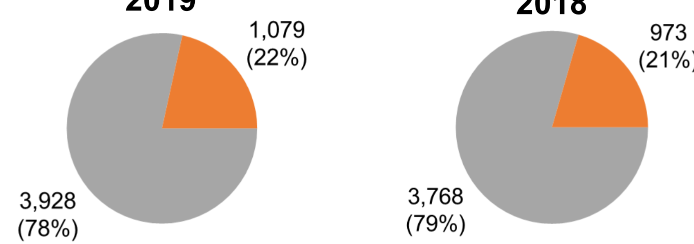
■ North ■ South (excl. London) ■ London boroughs

Average selling price ('ASP')



Homes sold

2019 **2018**



■ Private ■ Social

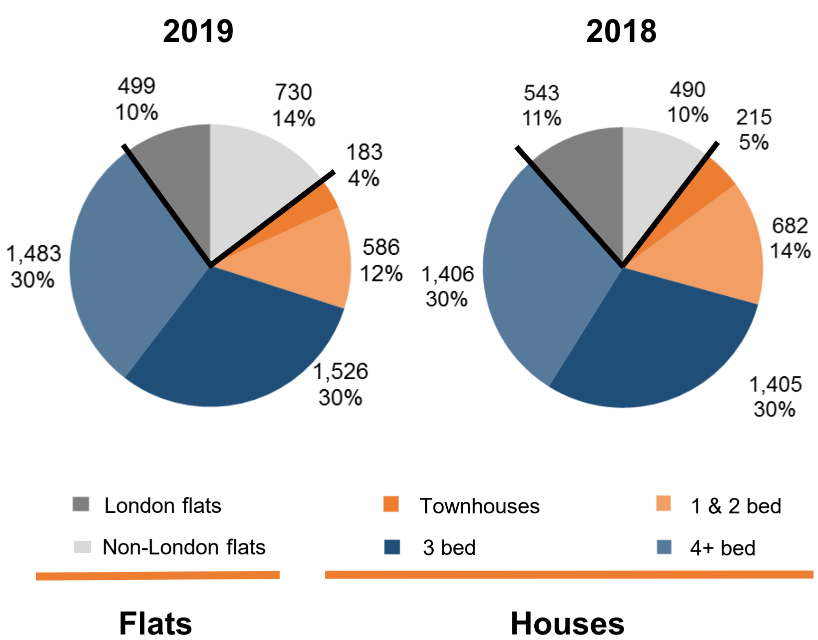
Notes

Appendix 6 – Product analysis

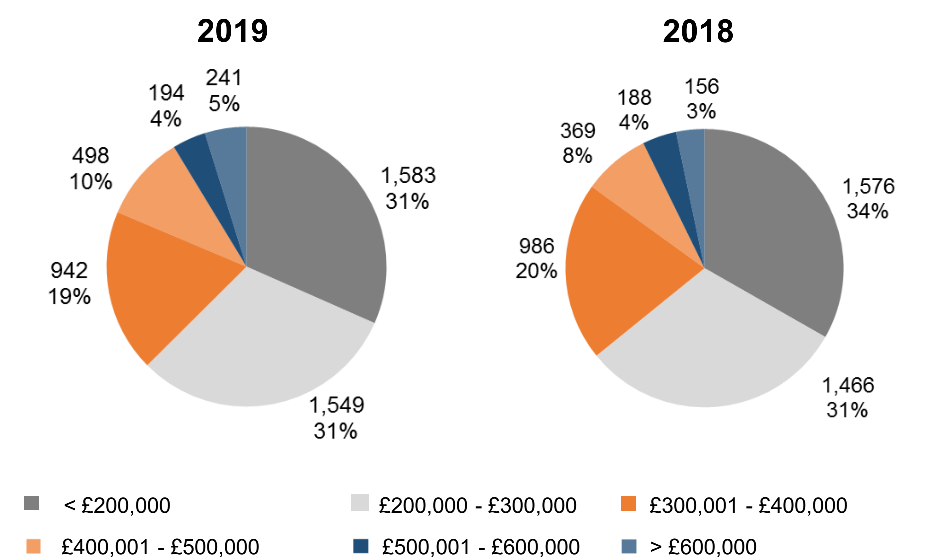
Bellway

For the half year ended 31 January

Product mix analysis



Selling price analysis



Only 5% of sales above £600,000

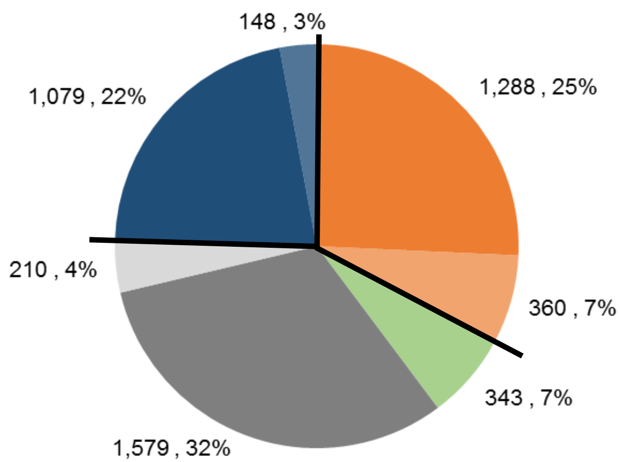
Notes

Appendix 7 – Completion analysis

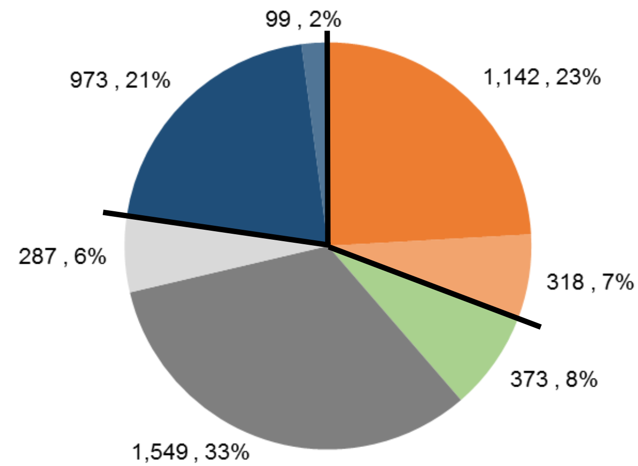
Bellway

For the half year ended 31 January

2019



2018



Second time buyers
- Other second time buyers
- Part-exchange

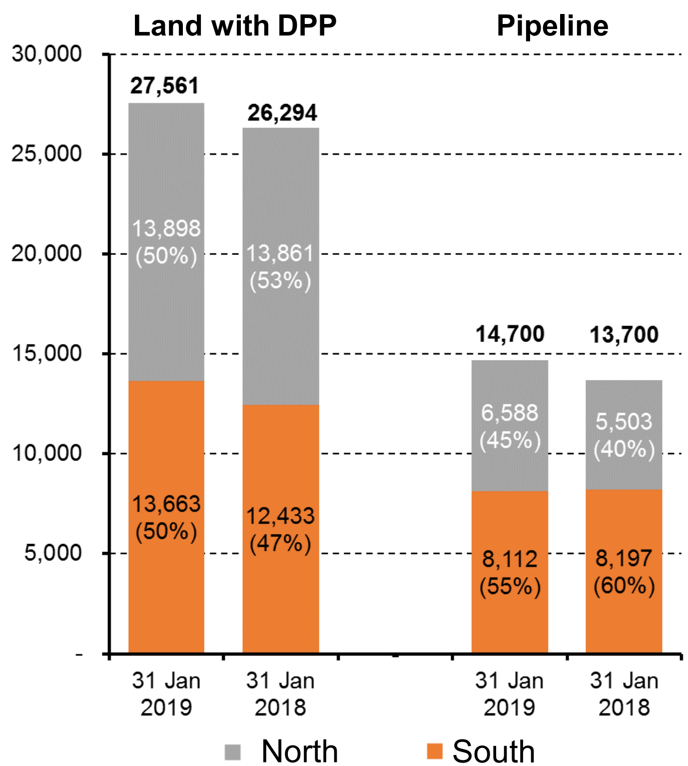
Deposit assisted and first time buyers
- Unassisted first time buyers
- Help to Buy – non-London
- Help to Buy – London

Other buyers
- Housing Association
- Investor

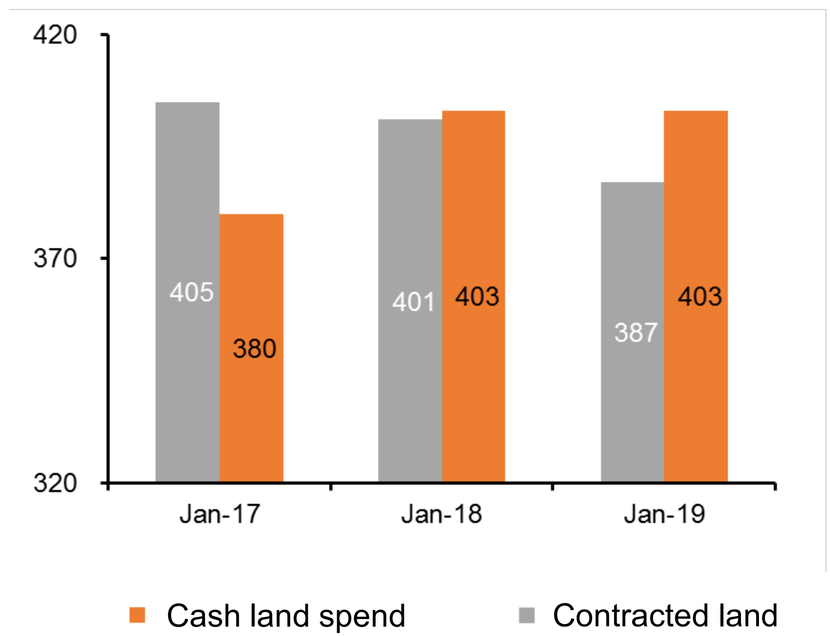
Notes

Appendix 8 – Land supply

Owned and controlled land (plots)



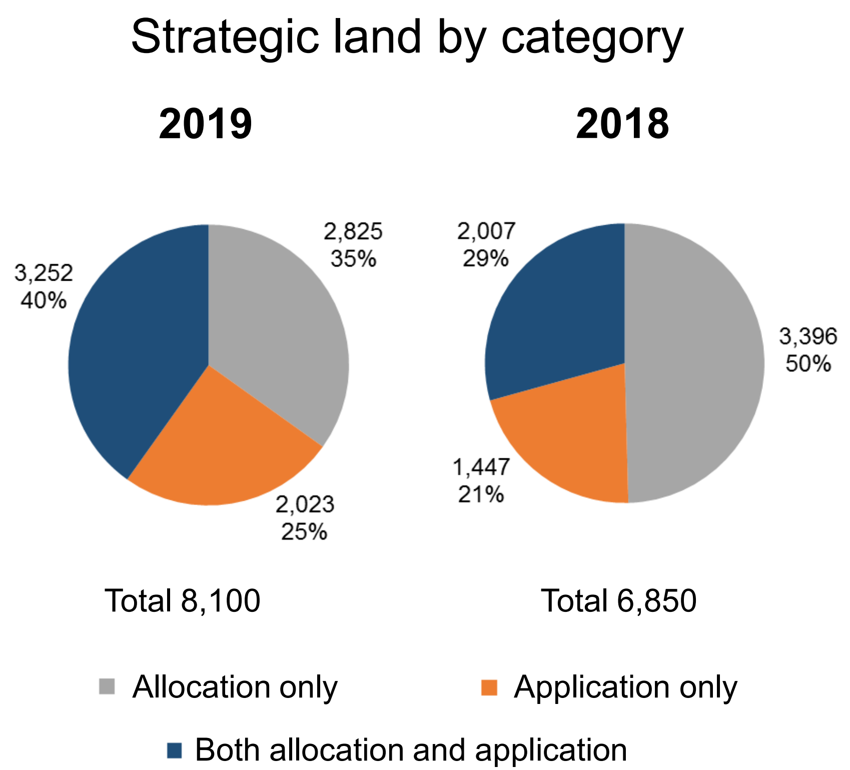
Land spend and contracted land (£m)



Notes

Appendix 9 – Strategic land

As at 31 January



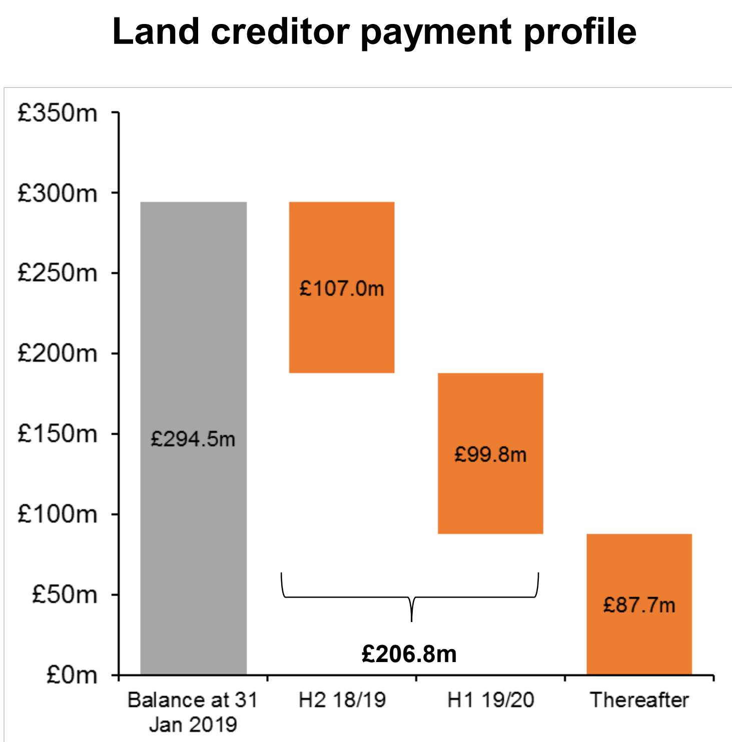
- 8,100 plots with a positive planning status.
- The Group has further long term land holdings which do not yet have a positive planning status.

Notes

Appendix 10 – Land creditors

Bellway

As at 31 January



- 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 so.
- £206.8m due for payment in next 12 months.

Notes

Appendix 11 – Land bank glossary

Bellway

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 12 – Order book at 31 January

As at 31 January

	2019			2018			Change		
	Private	**Social**	**Total**	**Private**	**Social**	**Total**	**Private %**	**Social %**	**Total %**
At 1 August	2,767	2,074	4,841	3,126	1,623	4,749	*(11.5%)*	*27.8%*	*1.9%*
Reservations	3,536	1,217	4,753	3,534	1,087	4,621	*0.1%*	*12.0%*	*2.9%*
Completions	(3,928)	(1,079)	(5,007)	(3,768)	(973)	(4,741)	*4.2%*	*10.9%*	*5.6%*
At 31 January	**2,375**	**2,212**	**4,587**	**2,892**	**1,737**	**4,629**	***(17.9%)***	***27.3%***	***(0.9%)***

Notes

Appendix 13 – Accounting standards

Bellway

IFRS 15 ‘Revenue from contracts with customers’

- In previous years IFRSs allowed the sale of part-exchange units to be included within cost of sales in the income statement on a net basis.
- On 1 August 2018 the Group adopted IFRS 15 ‘Revenue from contracts with customers’.
- The adoption of this new IFRS required the revenue and costs associated with the sale of part-exchange units to be recognised separately below gross profit within the income statement.
- This restatement has resulted in some very minor changes to gross profit and gross margin, but no changes to operating profit, operating margin, profit after tax, net assets or RoCE.
- Throughout the results presentation the restatements are marked with ‘*’.

IFRS 16 ‘Leases’

- In previous years, in accordance with IFRSs, the asset and liability associated with an operating lease were not recorded on the balance sheet of the Group.
- On 1 August 2018 the Group adopted IFRS 16 ‘Leases’.
- The adoption of this new IFRS required the vast majority of operating leases to be capitalised and the associated asset and liability recognised on the balance sheet.
- As permitted by IFRS 16, the balance sheet and income statement for the comparative period have <u>not</u> been restated to reflect this change.

Notes

Disclaimer

This presentation is not intended to, and does not constitute or form part of, any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities in Bellway p.l.c. or any other invitation or inducement to engage in investment activities, nor shall this presentation (or any part of it) nor the fact of its distribution form the basis of, or be relied on in connection with, any contract or investment decision.

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