

Bellway p.l.c.

Trading Update

Tuesday 10 August 2021

Bellway p.l.c. (“Bellway” or the “Group”) is today issuing a Trading Update for the year ended 31 July 2021 ahead of its Preliminary Results announcement on Tuesday 19 October 2021.

Highlights

- Strong recovery in housing revenue, which rose by 41% to over £3.1 billion (2020 – £2,204.4 million, 2019 – £3,180.1 million), and only 2.5% below the level achieved in financial year 2019.
- The number of housing completions rose by 34.8% to 10,138 (2020 – 7,522, 2019 – 10,892).
- Good underlying demand across the country, with a private reservation rate of 169 per week (2020 – 141, 2019 – 160), an increase of 19.9% and 5.6% compared to the prior year and financial year 2019 respectively.
- A front-footed, yet disciplined approach to land investment, with a record 19,819 plots³ (2020 – 12,124 plots, 2019 – 13,284 plots) contracted in desirable locations, with a total contract value of £1,066.0 million³ (2020 – £777.7 million, 2019 – £787.7 million), has resulted in a strengthened land bank.
- Strong balance sheet, with net cash of £330 million⁴ (2020 – £1.4 million, 2019 – £201.2 million) provides resilience and strategic flexibility.
- A record forward sales position, with an order book comprising 7,082 homes (2020 – 6,588 homes, 2019 – 4,878 homes) at a value of £2,022.3 million⁵ (2020 – £1,760.2 million, 2019 – £1,223.9 million), offers a strong platform for growth in the year ahead.

Jason Honeyman, Chief Executive, commented:

“Bellway has delivered a strong performance, with volume output once again above 10,000 homes and housing revenue approaching 2019 levels. This positive recovery has been achieved through the hard work and dedication of our colleagues, subcontractors, and supply chain partners, while maintaining the high quality of our product and making further improvements in the service we offer our customers.

Going forward, we are in an excellent position to continue our long-term growth strategy. The Group benefits from a substantial order book and a robust balance sheet. In addition, our record investment in land and the resultant strengthened land bank provides a strong platform for both volume growth and further margin recovery in the years ahead.”

Market and current trading

Bellway has performed well throughout the financial year, benefitting from strong underlying demand across the country for our high-quality new homes. Average weekly private reservations during the year were 169 per week (2020 – 141, 2019 – 160), an increase of 19.9% compared to the prior year and 5.6% ahead of financial year 2019. The overall reservation rate rose by 14.6% to 204 per week (2020 – 178, 2019 – 210), with this achieved from an average of 270 outlets.

The pricing environment remains positive, with house price inflation, which is benefitting selected sites in localities where demand is particularly strong, generally offsetting build cost pressures. There remain manageable short-term constraints in the supply chain and intermittent labour shortages across the sector as colleagues, subcontractors and suppliers are subject to self-isolation requirements to curtail the spread of COVID-19.

Results

The Group has delivered significant growth in housing revenue, which rose by 41% to over £3.1 billion (2020 – £2,204.4 million, 2019 – £3,180.1 million), with this only 2.5% below the housing revenue generated in financial year 2019. The growth in housing revenue has principally been achieved by the recovery in volume output, with housing completions rising by 34.8% to 10,138 (2020 – 7,522, 2019 – 10,892). In addition, geographical mix changes and the benefit of underlying house price inflation have resulted in the overall average selling price rising by 4.4% to over £306,000 (2020 – £293,054, 2019 – £291,968). As previously guided, the average selling price is expected to moderate in the year ending 31 July 2022 to just over £290,000, with this a reflection of changes in product mix.

The underlying operating margin for the full financial year is still expected to be around 17%⁶ (2020 – 14.5%, 2019 – 21.0%) and it is anticipated that the recovery in the underlying operating margin will continue in the year ahead, driven by increased volume output and completions from more recently acquired land.

Land buying

Our front-footed, yet disciplined approach towards land acquisition has led to a record investment in new sites since our re-entry into the market in early summer 2020. This reflects the strong, long-term demand for good quality housing and has resulted in a strengthened land bank, providing a solid platform for ongoing growth and margin recovery in the years ahead.

The Group has contracted to purchase 19,819 plots³ (2020 – 12,124 plots, 2019 – 13,284 plots) across 109 sites³ (2020 – 69 sites, 2019 – 94 sites), with a focus on acquiring land in desirable locations with high demand, where the product is affordable in the context of localised market conditions. The contract value of those plots acquired is £1,066.0 million³ (2020 – £777.7 million, 2019 – £787.7 million) and the anticipated gross margin, based upon revenue and cost at the time of acquisition, is an average 23%.

Bellway also continues to invest in its strategic land portfolio and is further strengthening its strategic land team to pursue longer-term opportunities.

Building safety

We continue to take a proactive and responsible approach to concerns about fire safety in high-rise buildings across the UK. Bellway recognises its responsibilities in its legacy apartment portfolio and continues to review combustion risks, in external wall systems, on past high-rise developments.

As reported in March we are working with building owners and warranty providers, who are undertaking their own investigative works, to determine whether the combination of materials used in the construction of whole wall systems adequately prevents the spread of fire.

As a result of these ongoing reviews, and notwithstanding that all buildings obtained the required regulatory approvals at the time of construction, the Board anticipates a further net legacy building safety expense in the second half of the financial year and will provide a further update with the release of the Preliminary Results. This is a complex area where cost estimates are subject to change as on-site works progress and further investigative works are undertaken, or, if the scope of Government legislation further widens. Before taking any additional amounts into consideration, Bellway has already set aside £131.6 million since 2017 in relation to fire safety, demonstrating our commitment to act responsibly to this issue.

Bellway continues to actively pursue recoveries from suppliers, subcontractors, and professional advisors where they have fallen short of the standards required.

Financial position

Bellway has a strong balance sheet and ended the year with net cash of £330 million⁴ (2020 – £1.4 million, 2019 – £201.2 million), representing an ungeared⁷ position (2020 – ungeared, 2019 – ungeared). This is ahead of previous expectations, reflecting the completion of additional homes and changes in the timing of cash outflows in relation to land contracts.

Committed land obligations remain low, at around £455 million (2020 – £343.6 million, 2019 – £297.9 million).

Outlook

The Board recognises that there are wider economic uncertainties because of Brexit and the continuing pandemic. Notwithstanding these concerns, customer confidence is strong, and the success of the vaccination programme is having a positive impact on the UK's prospective economic performance. In addition, our order book is substantial and on 31 July the value had risen by 14.9% to a record £2,022.3 million⁵ (2020 – £1,760.2 million, 2019 – £1,223.9 million), equating to 7,082 homes (2020 – 6,588 homes, 2019 – 4,878 homes), with 66% of these contracted. Our investment in

land provides a solid platform for both future volume growth and margin recovery and our significant cash holdings provide resilience and strategic flexibility.

The long-term fundamentals remain strong and Bellway, with its Customer First agenda, focussed on providing high quality new homes, is well placed to continue creating long-term value and making a positive contribution for all our stakeholders.

- ¹ All figures relating to completions, order book, reservations, cancellations, and average selling price exclude the Group's share of its joint ventures unless otherwise stated.
- ² Comparatives are for the year ended 31 July 2020 or as at 31 July 2020 ('2020') or are for the year ended 31 July 2019 or as at 31 July 2019 ('2019') unless otherwise stated.
- ³ Includes the Group's share of land contracted through joint venture partners comprising 882 plots (2020 – 203 plots, 2019 – 171 plots), with a contract value of £39.2 million (2020 – £15.3 million, 2019 – £5.7 million) across 2 sites (2020 – 1 site, 2019 – 1 site).
- ⁴ Net cash is cash and cash equivalents less debt financing.
- ⁵ Order book is the total expected sales value of reservations that have not legally completed.
- ⁶ The underlying operating margin is the operating profit (before net legacy building safety expense and exceptional items) divided by total revenue.
- ⁷ Gearing is net debt divided by total equity

FOR FURTHER INFORMATION PLEASE CONTACT KEITH ADEY, FINANCE DIRECTOR FROM 7:00 AM ONWARDS ON 0191 217 0717.

Certain statements in this announcement are forward-looking statements which are based on Bellway p.l.c.'s expectations, intentions and projections regarding its future performance, anticipated events or trends and other matters that are not historical facts. Such forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date of such statements and, except as required by applicable law, Bellway p.l.c. undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.