# Bellway p.l.c.

# Trading Update

**Tuesday 8 February 2022**

Bellway p.l.c. is today issuing a Trading Update for the six months ended 31 January 2022 ahead of its Interim Results announcement on Tuesday 29 March 2022.

**Highlights**

- Strong underlying demand, with a 5.8% increase in the overall reservation rate to 202 per week (2021 – 191) and a 3.8% increase in the private reservation rate to 162 per week (2021 – 156).
- Further growth in volume output, with the completion of 5,694 new homes (2021 – 5,656), a record for the Group, and ahead of the prior half year, which benefitted from pent-up demand and elevated construction progress.
- The average selling price rose by 2.8% to £311,800 (2021 – £303,206) and is now expected to be over £300,000 for the full financial year (31 July 2021 – £306,479), an improvement compared to previous guidance, driven by mix and pricing benefits.
- Strong commercial disciplines, together with some inflationary pricing benefit, should mean that the underlying operating margin for the full financial year is above 18%[6] (31 July 2021 – 17.0%).
- The Group is benefitting from ongoing investment in land to facilitate further growth in the years ahead, with 8,660 plots contracted (2021 – 8,848 plots), across 45 sites (2021 – 54 sites), at attractive rates of return.
- Strong balance sheet and net cash of £196 million[3] (2021 – £346.4 million) provides significant financial resilience and capacity to invest for further growth.
- A strong forward sales position, with an order book comprising 6,628 homes (2021 – 5,889 homes) and a value of £1,940.9 million[5] (2021 – £1,625.3 million).
- Our substantial order book, strengthened land bank, and significant balance sheet capacity ensure that Bellway remains on target to deliver volume growth of around 10% to over 11,100 homes this financial year (31 July 2021 – 10,138 homes) and annual output of around 12,200 homes in financial year 2023.

**Jason Honeyman, Chief Executive, commented:**

"Bellway has delivered a strong first half performance, achieving record volume output and housing revenue, notwithstanding the wider economic challenges presented by labour, material and fuel shortages and COVID-19 related absenteeism.

"We have continued our disciplined investment in land and enter the second half of the financial year with a strong order book and a backdrop of ongoing, positive trading conditions. Going forward, Bellway is on track to deliver its target volume growth of around 10% this financial year and further growth to around 12,200 homes in financial year 2023. Thereafter, our strong balance sheet and capacity to invest positions the Group well to continue its long-term and disciplined growth strategy."

**Market conditions and trading**

Customer demand for our high quality, family homes is strong across the country, with site visitor numbers and website traffic both ahead of last year.

The overall reservation rate rose by 5.8% to 202 per week (2021 – 191) and the average weekly private reservation rate was 162 (2021 – 156), an increase of 3.8% against the prior half year. This has been achieved from an average of 247 outlets (2021 – 278), with the strong sales rate resulting in some sites trading-out earlier than expected. Outlet growth is expected in financial year 2023 as planning permissions are obtained on sites acquired over the past 18 months. The cancellation rate remained low, at 13% (2021 – 14%), and the use of Help-to-Buy fell to just 18% of total reservations (2021 – 41%), a marked reduction compared to previous years.

The pricing environment has been positive, with annualised, mid-single digit house price inflation benefitting sites across the country, particularly those developments on the edge of settlements, which offer more spacious, family housing, attractive to those customers with home-working requirements. Notwithstanding the recent, modest rises in interest rates and cost-of-living inflationary pressures, our mid-market product remains affordable in a historical context.

**Results**

Bellway has delivered a good first half trading performance, with housing revenue expected to grow by more than 3% to around £1,775 million (2021 – £1,714.9 million). The number of completions rose slightly to 5,694 (2021 – 5,656), a new record for the Group, and slightly ahead of the prior half year, which benefitted from pent-up demand and elevated construction progress.

The order book is substantial, comprising 6,628 homes (2021 – 5,889 homes), with a value of £1,940.9 million[5] (2021 – £1,625.3 million). This strong forward sales position means that Bellway is well-placed to deliver its full year target of growing volume by around 10%, to over 11,100 new homes (31 July 2021 – 10,138 homes). Completions will be weighted slightly towards the first half of the financial year and as was the case in financial year 2021, this reflects onsite construction progress.

The average selling price rose by 2.8% to £311,800 (2021 – £303,206), slightly higher than previously expected, with a greater proportion of private completions and positive pricing momentum both contributing to the rise. As a result of this upward momentum, the average selling price for the full year is also expected to rise above previous expectations, to over £300,000 (31 July 2021 – £306,479). As previously guided, the average selling price is likely to moderate slightly in subsequent financial years because of previously announced product mix changes intended to mitigate the end of Help-to-Buy.

The Group uses a range of commercially focussed initiatives, designed to improve, and preserve quality, while ensuring strong control of costs. Although supply chain inflationary pressures are being experienced throughout the wider sector, our strong commercial disciplines have helped to mitigate some of these increases. Together with positive sales price momentum in the wider housing market, this means that the underlying operating margin for the full financial is now expected to improve to above 18%[6]. The underlying operating margin will be greater in the first half of the financial year, which is in part a mix effect, due to a greater proportion of homes completing on higher margin sites. In addition, there will be a more efficient absorption of overheads because of the higher number of completions and the corresponding weighting of housing revenue towards the first half of the financial year.

**Legacy building safety improvements**

Bellway has taken a proactive and responsible approach to concerns about fire safety and recognises its responsibilities with regards to apartments it has previously constructed, having made substantial progress to date.

We have reviewed our developments in line with each change in Government guidance, and most latterly, the requirements of the now withdrawn Consolidated Advice Note[7]. As a result of this approach, the Group has already set aside £164.7 million, between 2017 and 31 July 2021, to deal with legacy building safety issues, with this total provision including an amount for buildings in the 11-18 metre height category.

We have also completed or are currently undertaking remediation work on buildings in the 11-18 metre height range, and above. Importantly, this has been undertaken at no cost to residents, regardless of whether Bellway retains ownership of the freehold of the building. This has been a complex exercise, involving many third parties, and often a requirement to obtain planning and regulatory approval before works commence.

We welcome the Government's attempt to restore a more proportionate approach towards fire remediation strategies and we will engage positively with them to help establish a workable, industrywide solution. We will continue our proactive and responsible approach and we share the Government's general sentiment that the costs of correcting historical fire safety defects should not be borne by residents.

**Land buying**

We remain active in the land market and have contracted to purchase 8,660 plots (2021 – 8,848 plots) across 45 sites (2021 – 54 sites), with a contract value of £567.8 million (2021 – £452.8 million). This strong level of investment will help Bellway to achieve its future growth ambitions and further strengthens the land bank following the front-footed approach to investment throughout financial year 2021. The anticipated average gross margin on the newly acquired land, based upon revenue and costs at the time of acquisition, is around 23%.

As well as investing in land that meets the Group's shorter-term needs, we have also continued to invest in our strategic land bank, entering into option agreements to buy an additional 11 sites throughout the country (2021 – 8 sites).

**Funding and liquidity**

Bellway benefits from a strong balance sheet and notwithstanding cash expenditure on land, including payment of land creditors, of £579 million (2021 – £351 million), net cash at 31 January was £196 million[3] (2021 – £346.4 million). Committed land obligations remain low, at around £350 million (2021 – £371.7 million) and adjusted gearing, inclusive of land creditors, is very modest at under 5%[4] (2021

– 0.8%). In addition to the net cash position, the Group has access to total committed debt lines, including its USPP loan notes, of £530 million, providing significant financial capacity to invest in further compelling land opportunities to achieve its growth strategy.

**Outlook**

Market conditions and customer confidence are strong. Our substantial order book and land bank provide a solid platform for volume growth and improving margin in the current financial year and beyond. Bellway remains on track to increase output by around 10% this financial year, with further growth in financial year 2023 to around 12,200 homes.

Longer-term, the industry fundamentals remain strong. Bellway has significant financial capacity to invest and is well placed to continue increasing the supply of high-quality new homes, create ongoing value for shareholders and make 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.

[2] All comparatives are to the prior year equivalent six-month period ended 31 January 2021 or as at 31 January 2021 ('2021') unless otherwise stated.

[3] Net cash is cash and cash equivalents less debt financing.

[4] Adjusted gearing is the total of net cash and land creditors divided by total equity.

[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) divided by total revenue.

[7] The Consolidated Advice Note is the 'Advice for Building Owners of Multi-storey, Multi-occupied Residential Buildings' issued by the Ministry of Housing, Communities and Local Government ('MHCLG') in January 2020.

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