

Bellway p.l.c.

Trading Update

Tuesday 9 August 2022

Bellway p.l.c. (“Bellway” or the “Group”) is today issuing a Trading Update for the year ended 31 July 2022 ahead of its Preliminary Results announcement on Tuesday 18 October 2022.

Highlights

- Record housing revenue, which rose by 13% to over £3.5 billion (2021 – £3,107.1 million, 2020 – £2,204.4 million).
- Growth in housing completions of 10.5% to a record 11,198 homes (2021 – 10,138, 2020 – 7,522), at an average selling price of £314,400 (2021 – £306,479, 2020 – £293,054).
- Further improvement in the underlying operating margin to around 18.5%³ (2021 – 17.0%, 2020 – 14.5%), driven by improved site operating efficiency and completions from more recently acquired land.
- Continued strong demand across the country, with a 6.9% increase in the overall reservation rate to 218 per week (2021 – 204, 2020 – 178).
- Retained status as a five-star⁴ homebuilder for the sixth consecutive year, with 93.6% of customers stating that they would recommend a Bellway home to a friend.
- Further disciplined land investment to support our growth plans, with 19,089 plots⁵ (2021 – 19,819 plots, 2020 – 12,124 plots) contracted at attractive rates of return, for a total contract value of £1,300.3 million⁵ (2021 – £1,066.0 million, 2020 – £777.7 million).
- Strong balance sheet with year-end net cash of £245 million⁶ (2021 – £330.3 million, 2020 – £1.4 million) and low adjusted gearing, inclusive of land creditors, of around 4%⁷ (2021 – 3.8%, 2020 – 11.4%). This provides both financial resilience and capacity for investment to deliver future growth.
- A strong forward sales position, with an order book comprising 7,223 homes (2021 – 7,082 homes, 2020 – 6,588 homes) at a value of £2,114.3 million⁸ (2021 – £2,022.3 million, 2020 – £1,760.2 million). This underpins our previously announced ambition to deliver an annual output of around 12,200 homes for the year ending 31 July 2023, representing volume growth of around 20% over a two-year period.

Jason Honeyman, Chief Executive, commented:

“Bellway has delivered another strong performance, with volume output and housing revenue reaching record levels for the Group. This result has been achieved through our investment in land and the dedication of our colleagues, subcontractors and supply chain partners, against the backdrop of a challenging operating environment and macroeconomic uncertainty.

I am delighted that Bellway has retained its status as a five-star⁴ homebuilder for the sixth consecutive year, reflecting our focus on build quality and customer satisfaction. As part of our 'Better with Bellway' sustainability strategy and as we aim for further volume growth in the years ahead, we remain dedicated to maintaining the high quality of our product, making further improvements in the service we offer our customers and setting ambitious targets in respect of carbon reduction.

Looking ahead, our sizeable forward order book and continued strong investment in land puts the Group in an excellent position to deliver another record year of volume output, notwithstanding the ongoing challenges in the planning system and upcoming end of the Help-to-Buy scheme. In addition, a robust balance sheet continues to provide strategic flexibility and a platform for our long-term strategic priorities of volume growth and value creation.”

Market and current trading

The UK housing market remains robust, underpinned by good mortgage availability and low levels of unemployment across the country. Bellway's high-quality and energy efficient new homes have attracted strong customer demand across all regions where we operate, supported by our well-designed product range and ongoing investment in land and selling outlets in desirable locations. Reservations were ahead of the prior year, with particular strength in the autumn and spring, following a traditional seasonal pattern. The overall reservation rate rose by 6.9% to 218 per week (2021 – 204, 2020 – 178) and although interest rates and fuel costs have contributed to the rise in the cost of living, Bellway's range of modern, well-designed new homes continues to provide an attractive and affordable proposition for our customers. Confidence amongst our customers is strong and is reflected in a consistently low cancellation rate of 13% (2021 – 13%, 2020 – 17%).

Average weekly private reservations were slightly ahead of the prior year at 170 per week (2021 – 169, 2020 – 141), with the increase achieved notwithstanding a reduction in the use of the Help-to-Buy scheme. Customers used Help-to-Buy in 16% of total reservations (2021 – 30%, 2020 – 40%), with utilisation most pronounced on apartment schemes in, and around, London, where the Group has intentionally reduced its exposure in recent years. Overall, mortgage availability is healthy and while the availability of 95% loan-to-value products remains limited, some lending institutions are gradually reintroducing these products for new build properties. Although customer uptake is currently low, this provides some encouragement regarding the availability of alternative financing arrangements as the Help-to-Buy scheme draws to a close for new reservations later this calendar year.

The forward order book has grown further, rising in value by 4.5% to £2,114.3 million⁸ (2021 – £2,022.3 million, 2020 – £1,760.2 million) and comprises 7,223 homes (2021 – 7,082 homes, 2020 – 6,588 homes). This strong forward sales position, together with our programme of planned outlet openings, provides Bellway with a strong foundation to increase volume output to around 12,200 homes in financial year 2023, representing volume growth of around 20% over a two-year period.

Results

The Group has delivered record housing revenue, which rose by 13% to over £3.5 billion (2021 – £3,107.1 million, 2020 – £2,204.4 million). The growth has been primarily driven by the increase in volume output, with completions rising by 10.5% to 11,198 (2021 – 10,138, 2020 – 7,522), in line with

previous guidance. The overall average selling price rose by 2.6% to £314,400 (2021 – £306,479, 2020 – £293,054). This is higher than previously expected, in part driven by a higher proportion of private completions, which rose to 82% of the total (2021 – 78%, 2020 – 78%). In addition, underlying house price inflation has had some upward effect on the price achieved of sales taken in the period.

We now expect the average selling price to be over £300,000 in the year ending 31 July 2023. This slight moderation from the level in financial year 2022 reflects expected changes in geographical and product mix, as previously guided.

The underlying operating margin for the 2022 financial year is expected to rise to around 18.5%³ (2021 – 17.0%, 2020 – 14.5%), driven by improved site operating efficiency and completions from more recently acquired land.

Production and cost control

Upward pressure on build costs has persisted across the sector throughout the year, with rising energy prices, global supply chain constraints and increasing wage costs all contributing to the rise. Strong commercial disciplines, forward buying and value engineering initiatives have helped to mitigate these upward cost pressures which overall have been offset by house price inflation.

The availability of materials has gradually improved through the second half of the financial year and, although we continue to experience ad hoc shortages at a regional level, these are being well-managed by our experienced procurement teams. While challenges are expected to persist for the industry in the year ahead, our long-standing relationships with subcontractors and suppliers, good on-site disciplines, and familiarity with our Artisan Collection of standard house types are all expected to help ease production constraints.

Land buying and planning

Bellway's experienced land teams have continued with a programme of disciplined land investment to support our long-term growth ambitions. The Group has maintained a sharp focus on acquiring land in desirable locations with high demand, where the product is affordable in the context of localised market conditions.

Building on the proactive approach to land investment in the prior year, the Group has contracted to acquire 19,089 plots⁵ during 2022 (2021 – 19,819 plots, 2020 – 12,124 plots) across 107 sites⁵ (2021 – 109 sites, 2020 – 69 sites). The value of the contracted plots is £1,300.3 million⁵ (2021 – £1,066.0 million, 2020 – £777.7 million) and the average gross margin, based upon revenue and cost at the time of acquisition, is around 23%.

Bellway also continues to invest in its strategic land portfolio and has further strengthened its strategic land team to pursue longer-term opportunities. As a result of this approach, the Group has entered into an additional 30 option agreements (2021 – 24, 2020 – 15), with these sites generally located in areas across the country where there is a strong demand for new housing supply.

The planning system remains slow, constrained by a COVID related backlog and increasing complexities around biodiversity and nutrient neutrality regulations. This has continued to restrict

the pace of outlet openings across the wider sector, with Bellway operating from 235 outlets at 31 July 2022 (2021 – 254, 2020 – 276). Notwithstanding these constraints, Bellway’s proactive land investment, particularly over the past two years, ensures the Group is well placed to deliver growth in the number of selling outlets in the year ahead, with this likely to be weighted towards the second half of the financial year.

‘Better with Bellway’

In March 2022, we launched ‘Better with Bellway’, our overarching strategy with regards to acting responsibly and sustainably. This includes ambitious targets in respect of our three flagship priority areas of Carbon Reduction, Customers and Communities, and becoming an Employer of Choice. Some recent highlights in these areas are shown below:

Carbon Reduction – We have established ambitious targets to reduce greenhouse gas emissions, over and above the requirements of the Future Homes Standard. These are currently being verified by the Science Based Targets initiative and we hope to report their conclusions later this calendar year.

Customers and Communities – We are proud to have retained our position as a five-star⁴ homebuilder for the sixth consecutive year, with a score of 93.6% in the HBF’s most recently published eight-week survey, which asks customers whether they would recommend Bellway to a friend.

Employer of Choice – We are delighted with the results from our recent employee engagement survey in which 95% of colleagues said they would recommend Bellway as ‘a great place to work’. We will continue to seek feedback from colleagues to maintain this high level of employee satisfaction in the years ahead.

More broadly, our ‘Better with Bellway’ sustainability and responsibility strategy includes targets in respect of biodiversity, resource efficiency, charitable engagement, sustainability throughout the supply chain and building homes safely. More details are available on our website at www.bellwayplc.co.uk/sustainability.

Building safety

Bellway continues to take its responsibilities with regards to building safety very seriously. A Managing Director has recently been appointed to lead our new Building Safety division, supported by an experienced team, whose remit includes the proficient remediation of legacy schemes, in a cost-effective manner. This division is separately resourced so as not to detract from day-to-day operations and growth prospects elsewhere in the Group.

As previously announced, in the period between 2017 and up to 31 January 2022, the Group set aside a total of £186.8 million, in relation to apartment buildings over 11 metres in height, which were generally built within our 10-to-12 year warranty period. On 7 April 2022, as part of the Building Safety Pledge (the “Pledge”), we announced that this commitment would be extended to include buildings constructed by the Group since 5 April 1992 and to reimburse the Building Safety Fund and the ACM Fund in accordance with the principles set out in the Pledge.

We are making good progress on the remediation programme and our estimate of the cost of these additional commitments remains unchanged at around £300 million, in addition to the £186.8 million

already set aside since 2017. A further update will be provided with our Preliminary Results on 18 October 2022.

Financial position

Bellway has a strong balance sheet, with net cash of £245 million⁶ at 31 July 2022 (2021 – £330.3 million, 2020 – £1.4 million). This represents an ungeared⁹ position (2021 – ungeared, 2020 – ungeared) and provides both resilience and strategic flexibility. This net cash balance is slightly ahead of previous expectations, primarily reflecting the timing of cash outflows in relation to land contracts.

Committed land obligations are modest, at around £395 million (2021 – £455.8 million, 2020 – £343.6 million) and adjusted gearing, inclusive of land creditors, remains low at around 4%⁷ (2021 – 3.8%, 2020 – 11.4%).

Outlook

Bellway has entered the new financial year in a robust position. Our sizeable order book, strengthened land bank and well-capitalised balance sheet provide a strong platform to deliver our growth ambitions, notwithstanding the wider economic uncertainties and the upcoming end of the Help-to-Buy scheme in March 2023.

The Board still expects the Group to deliver further volume growth, in financial year 2023, to an annual record output of around 12,200 homes, with the timing of outlet openings expected to drive a second half weighting for completions.

Over the longer-term, the Group's approach to responsible business practices through the 'Better with Bellway' sustainability strategy will continue to benefit our stakeholders and ensures that Bellway is well placed to generate further value for shareholders in the years ahead.

'Meet the Team' investor and analyst event

We look forward to welcoming investors and analysts to our 'Meet the Team' day on Tuesday 6 September 2022, at our Great Dunmow site in Essex. There will be a focus on our land-led volume growth and key parts of our 'Better with Bellway' sustainability strategy.

During the day, attendees will have the opportunity to meet with the Executive team and regional and local colleagues from a wide range of disciplines across the business. The day will consist of a site tour, a range of short presentations and senior management insights into various aspects of the business.

There will be no new financial information or disclosures provided on the day. For further information please contact investor.relations@bellway.co.uk

- 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 2021 or as at 31 July 2021 ('2021') or are for the year ended 31 July 2020 or as at 31 July 2020 ('2020') unless otherwise stated.
- ³ The underlying operating margin is the operating profit (before net legacy building safety expense and exceptional items) divided by total revenue.
- ⁴ As measured by the Home Builders' Federation using the eight week NHBC Customer Satisfaction survey.
- ⁵ Includes the Group's share of land contracted through joint venture partners comprising 237 plots (2021 – 882 plots, 2020 – 203 plots), with a contract value of £12.7 million (2021 – £39.2 million, 2020 – £15.3 million) across 1 site (2021 – 2 sites, 2020 – 1 site).
- ⁶ Net cash is cash and cash equivalents less debt financing.
- ⁷ Adjusted gearing is the total of net debt/cash and land creditors divided by total equity.
- ⁸ Order book is the total expected sales value of reservations that have not legally completed.
- ⁹ Gearing is net debt divided by total equity.

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