



Immediate release

12 January 2012

## **Barratt Developments PLC**

### **Strong first half performance**

Barratt Developments PLC (the "Company") is today issuing a trading update for the Company and its subsidiaries (the "Group") in respect of the six months to 31 December 2011 ("the period") ahead of its interim results announcement on 22 February 2012.

#### **Highlights**

- Group revenues of c. £950m, an increase of c. 8% on the prior year equivalent period, with total completions of 5,198 units (Note 1)
- Average selling price ("ASP") increased by c. 3% against the prior year equivalent period to £181k, with private ASP increasing by c. 4% to £200k, driven by further positive changes in mix
- Group operating profit expected to be c. £61m, a c. 40% increase on the prior year equivalent period, with operating margin improving to c. 6.4% versus 5.0% in the prior year equivalent period
- Recently acquired higher margin land continues to be brought into production and is expected to contribute more than a third of this financial year's completions
- Net debt as at 31 December 2011 was lower than previous guidance at around £550m
- Total forward sales as at 31 December 2011 up 8.1% on the prior year equivalent period at £698.1m, with private forward sales up 29.8% to £415.3m

#### **Mark Clare, Group Chief Executive commented,**

**"This has been yet another six months of good progress for our business despite the wider economic uncertainty. We have delivered a further substantial increase in profits, brought debt in below expected levels and are starting the second half with a much stronger forward order book."**

## Trading

Group revenues for the period were up c. 8% at c. £950m (H1 2010/11: £877.6m), driven by higher completion volumes and an increase in ASP.

Group operating profit is expected to be up c. 40% at c. £61m (H1 2010/11: £43.5m), with operating margin improving to c. 6.4% (H1 2010/11: 5.0%). This improvement reflects the Group's clear strategy of driving profitability through achieving best value for our products, a continuous focus on operational efficiency, and bringing into production recently acquired higher margin land.

Net private reservations per active site per week increased by 23.1% to 0.48 (H1 2010/11: 0.39). The cancellation rate for the first half was lower at 17.7% (H1 2010/11: 20.1%).

Total completions (Note 1) for the period were 5,198 units (H1 2010/11: 4,832) with private completions of 4,028 (H1 2010/11: 3,669), social housing completions of 1,089 (H1 2010/11: 1,127) and joint venture completions of 81 (H1 2010/11: 36).

Social housing accounted for 21.3% (H1 2010/11: 23.5%) of completions (excluding joint ventures). We continue to expect social housing completions to represent c. 20% of completions for the FY 2011/12.

ASP for the period (excluding joint ventures) increased by c. 3% to c. £181k (H1 2010/11: £175.8k). Whilst overall, underlying prices in the period were stable, we continue to see regional variation with greater robustness in the South East. Private ASP increased by c. 4% to c. £200k (H1 2010/11: £191.9k) driven by further positive changes in mix. Social ASP declined by c. 9% to c. £112k (H1 2010/11: £123.5k) largely due to a lower social content in London in the period versus the prior year equivalent period.

Shared equity remained an important selling tool throughout the period given the ongoing constraints on mortgage finance. In total, 972 (H1 2010/11: 1,342) completions used a shared equity product, representing 19.0% of completions (H1 2010/11: 28.0%). Of these completions, 477 used the Government FirstBuy initiative.

We have targeted and achieved an increased use of part-exchange as a selling tool, with 16.8% (H1 2010/11: 12.7%) of our completions supported by this product in the period. We continue to manage our commitment to part-exchange stock carefully.

During the period the Group operated from an average of 382 active sites, up from 352 for the equivalent period in the prior year and 375 in the second half of FY 2010/11. The Group opened 80 sites and completed 57 sites during the period, resulting in a net increase in active sites to 400 as at 31 December 2011 (31 December 2010: 366).

## Forward sales

As at 31 December 2011, total forward sales for the Group were up 8.1% at £698.1m (31 December 2010: £645.7m), equating to 4,710 plots (31 December 2010: 4,353) (Note 2).

Private forward sales as at 31 December 2011 increased by 29.8% to £415.3m (31 December 2010: £319.9m).

## **Land and planning**

We are focused on bringing our recently acquired higher margin land into production as quickly as possible. In the current financial year we continue to expect more than one third of completions to come from this land, increasing to more than half of completions in FY 2012/13 and around two thirds in FY 2013/14.

This recently acquired land continues to perform in line with, or above, our required hurdle rates applied on acquisition which include a gross margin of at least 20% and a return on capital employed of at least 25% (Note 3).

On land approvals, in H1 2011/12 we have agreed terms on £178.1m equating to a total of 43 sites and 4,671 plots (Note 4).

We have also remained focused on maximising the value of our historic land holdings and continue to expect to deliver c. 25% of total completions from impaired land in this financial year. Where appropriate, we will accelerate the use of impaired land through land sales or swaps.

In H1 2011/12 we received detailed planning consents on 53 sites and we now have detailed planning consents for all of our expected FY 2011/12 completions. Looking forward, we have detailed consents for 82% and outline consents on a further 7% of our expected FY 2012/13 completions.

The Group's owned land bank totalled around 46,300 plots as at 31 December 2011 (31 December 2010: 50,587). This equates to approximately 4.2 years supply based on FY 2010/11 completion volumes.

## **Stock and work in progress**

Stock and work in progress have continued to be tightly controlled throughout the period. Unreserved stock units as at 31 December 2011 totalled 899 (31 December 2010: 837), 2.2 units per active site (31 December 2010: 2.3 units).

Unreserved part-exchange units as at 31 December 2011 totalled 355 (31 December 2010: 364), 0.9 units per active site (31 December 2010: 1.0 units).

## **Treasury**

Group net debt as at 31 December 2011 was around £550m (31 December 2010: £537.0m) which is lower than previous guidance reflecting higher than anticipated completions in the period, on-going control of working capital, and the timing of land payments. We are reducing our guidance on net debt for 30 June 2012 to c. £350m to £375m.

Land creditors as at 31 December 2011 were also lower than guidance at approximately £650m (31 December 2010: £588.1m). We are also reducing our guidance on land creditors as at 30 June 2012 to c. £700m to £750m, dependent on the timing of planning consents and land contracts.

The net finance charge for H1 2011/12 will be around £40m (H1 2010/11: £48.2m). This includes a net non-cash finance charge (Note 5) of around £10m (H1 2010/11: £12.9m).

For FY 2011/12 we expect the net finance charge to be approximately £85m consisting of cash interest of around £65m on net debt, and around £20m of net non-cash finance charge.

## **Government housing strategy**

The publication of the Government's housing strategy in November was a welcome development for the industry. The New Build Indemnity scheme is potentially the most important aspect, as it focuses on enabling customers to secure up to 95% loan to value mortgages which is significantly above current limits available for the new build sector. If the scheme is successfully implemented, it will substantially reduce the customer deposit required and be more cost efficient than shared equity products. Good progress is being made in its detailed implementation which is likely to see first completions in the Spring.

However, whilst the indemnity scheme is being established, FirstBuy, the Government backed equity share product, will remain an important sales tool. We have made good progress in using our initial allocation of £24.9m (1,400 units) and this success has been recognised by the Homes and Communities Agency through an additional award of £7.0m (437 units).

The housing strategy is also expected to result in a substantial release of surplus Government land for housing through the 'build now pay later' initiative. The Group is well positioned to capitalise on this programme, as a result of its track record in successfully securing public land that has been released through the Delivery Partner Panel. To date, the Group has won six bids for more than 1,200 units with a gross development value of c. £270m and is also at an advanced stage of tendering for a further seven projects.

Shorter term Government initiatives to address housing supply include the Get Britain Building Fund of £420m. This is targeting sites where there is an implementable planning permission but where activity has either stalled or has not started for economic reasons. We also intend to submit a bid for an allocation of this funding.

## **Outlook**

The Group has delivered a much improved performance in the first half of the financial year and we have a strengthened forward order book going into the second half. Our strategy of optimising selling prices, improving operational efficiency, and investing in and bringing into production higher margin land, is delivering significant improvements in profitability.

Whilst there remains considerable uncertainty surrounding the outlook for the macro-economic environment, in the first half of our financial year we have seen relative stability within our marketplace. We welcome the Government's new housing strategy and believe it will have a positive impact on the industry.

**Notes:****Note 1 – Total completions**

Total completions is defined as housebuilding completions plus completions from joint ventures in which the Group has a share

**Note 2 – Forward sales**

	31 Dec 2011	31 Dec 2010	% change
<b><u>Private</u></b>			
<b>Value</b>	£415.3m	£319.9m	+29.8%
- due in H2	£354.6m	£289.1m	+22.7%
- due after 30 June	£60.7m	£30.8m	+97.1%
<b>Plots</b>	1,947	1,376	+41.5%
<b><u>Social</u></b>			
<b>Value</b>	£282.8m	£325.8m	-13.2%
- due in H2	£152.3m	£122.7m	+24.1%
- due after 30 June	£130.5m	£203.1m	-35.7%
<b>Plots</b>	2,763	2,977	-7.2%
<b><u>Total</u></b>			
<b>Value</b>	£698.1m	£645.7m	+8.1%
- of which contracted	£460.7m	£491.6m	-6.3%
- % of which contracted	66%	76%	
- due in H2	£506.9m	£411.8m	+23.1%
- due after 30 June	£191.2m	£233.9m	-18.3%
<b>Plots</b>	4,710	4,353	+8.2%
- % contracted	75%	80%	

### Note 3 – Return on capital employed

Return on capital employed is defined as site operating profit (site trading profit less sales overheads and allocated administrative overheads) divided by average investment in site land and work in progress

### Note 4 – Land approvals since mid 2009

	H1 2011/12	H1 2010/11	Total since mid 2009
<b>Total land approvals</b>	£178.1m	£318.0m	£1,159.4m
<b>Total number of plots</b>	4,671	6,078	26,891
<b>Location</b>			
- South:North (by value)	58% : 42%	59% : 41%	58% : 42%
- South:North (by plots)	50% : 50%	45% : 55%	47% : 53%
<b>Vendor</b>			
- Government:Private	30% : 70%	4% : 96%	25% : 75%
<b>Type</b>			
- Brownfield:Greenfield	49% : 51%	29% : 71%	49% : 51%
- Houses:Flats	85% : 15%	81% : 19%	81% : 19%
<b>Status</b>			
- Owned	n/a	n/a	65%
- Contracted	n/a	n/a	28%
- Progressing	n/a	n/a	7%
<b>Payment</b>			
- Paid in 09/10	n/a	n/a	£40.2m
- Paid in 10/11	n/a	n/a	£132.9m
- Due in 11/12	n/a	n/a	£271.8m
- Due after 11/12	n/a	n/a	£714.5m

*Unless stated otherwise, % splits are by plots*

### Note 5 – Non-cash finance charge

Non-cash finance charge is defined as imputed interest on available for sale financial assets, imputed interest on deferred term land payables, finance costs related to employee benefits and amortisation of facility fees

**This trading update contains certain forward-looking statements about the future outlook for the Group. Although the Directors believe that these statements are based upon reasonable assumptions, any such statements should be treated with caution as future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.**

**Conference call for analysts and investors**

Mark Clare, Group CEO and David Thomas, Group FD will be hosting a conference call at 08:30am today, Thursday 12 January 2012, to discuss this trading update.

To access the conference call:

Dial-in: +44 (0) 20 3140 0820 / 0800 3681 918

A replay facility will be available:

Dial-in: +44 (0) 20 3140 0698 / 0800 3681 890

Passcode: 381705#

**For further information please contact:**

**Barratt Developments PLC**

David Thomas, Group Finance Director

020 7299 4896

Susie Bell, Head of Investor Relations

020 7299 4880

**For media enquiries, please contact:**

**Barratt Developments PLC**

Patrick Law, Group Corporate Affairs Director

020 7299 4892

**Maitland**

Liz Morley

020 7379 5151

Neil Bennett