Bellway p.l.c.

Trading Update

Tuesday 11 August

Bellway p.l.c. ("Bellway" or the "Group") is today issuing a Trading Update for the year ended 31 July 2020 ahead of its Preliminary Results announcement on Tuesday 20 October 2020.

Overview

- All sales outlets have reopened, with employees in all roles across the Group recommencing work to support the safe resumption of sales activity. The Group has made a significant effort to ensure operating divisions, construction sites and sales offices operate as safely as possible, whilst adhering to strict social distancing protocols.
- The number of housing completions in the period fell significantly, reducing by 31% to 7,522 (2019 – 10,892), as a result of temporary groupwide site closures during the 'lockdown' period.
- Customer interest is increasing, with recent private reservations rising to 140 per week throughout the month of July 2020 (July 2019 – 162 per week), with demand supported by the ongoing availability of Help-to-Buy.
- Bellway has a strong forward order book, comprising 6,588 homes (2019 – 4,878 homes), with a value of £1,760.2 million[3] (2019 – £1,223.9 million), a solid platform for the year ahead.
- The balance sheet is resilient, with net cash of £1 million[2] (2019 – £201.2 million) and committed bank facilities of £545 million. Land creditors remain low, at around £345 million (2019 – £297.9 million).
- The Board are keen to resume dividend payments as soon as there is more certainty with regards to the economic outlook.

Jason Honeyman, Chief Executive, commented:

"Our priority throughout this crisis has been the health, safety and wellbeing of our colleagues, customers and subcontract workers. The collective response from those who work for and with Bellway, both on and off-site, has been tremendous and this has enabled us to respond positively and responsibly during these challenging times.

"Our attention now turns to the trading year ahead. Whilst the economic outlook is uncertain, sales demand is encouraging, and the Group has built a strong forward sales position. With our resilient balance sheet, we will proceed cautiously along the road to recovery, determined to return the Group to its strategy of delivering long-term and sustainable growth."

COVID-19 response

Bellway reported a solid set of Interim Results for the half year ended 31 January 2020, delivering further volume and revenue growth, whilst making additional investment in land to continue driving its long-term growth strategy. The introduction of 'lockdown' measures resulted in the priorities of the business being quickly reshaped, with the Board taking several actions intended to ensure safe working practices, support our colleagues and preserve the Group's liquidity and balance sheet strength. These included:-

- Paying all employees full basic pay from our own resources, without making a claim for grant monies under the Government's Coronavirus Job Retention Scheme ('CJRS');
- Launching several internal wellbeing and mental health campaigns to support employees during the pandemic;
- Closing all sites and sales centres by 27 March;
- Deferring discretionary land expenditure;
- Obtaining eligible issuer status for the Government's Covid Corporate Financing Facility ('CCFF'), with an undrawn issuer limit of £300 million;
- Extending the maturity date of bank debt tranches totalling £125 million, which were otherwise due to expire by 31 July 2020;
- Postponing the payment of the interim dividend; and
- A voluntary 20% reduction in base salary and fees for all Board members during April and May. The saving was donated to various charities and a matching contribution was made by Bellway to its national charity partner, Cancer Research UK.

After working carefully and collaboratively with our supply chain partners and closely following Government guidelines, all sales outlets are now open with strict social distancing measures in place, and construction activity has recommenced across the country. In addition, all employees, except for those 'self-isolating', have recommenced work in the business.

Market backdrop

Bellway enjoyed a strong trading performance in the earlier part of the financial year. Reservations in the period from 1 August 2019, up until the Prime Minister's announcement introducing widespread 'lockdown' restrictions on 23 March 2020, averaged 211 per week (1 August 2018 to 24 March 2019 – 201), a rise of 5% compared to the same period in the prior year. Thereafter, the reservation rate rapidly declined as the country entered 'lockdown' and our sales presence was limited to telephone and online customer interactions.

Sales demand then began to resume, commensurate with our cautious and gradual programme of site re-openings, which commenced on 18 May, following the easing of Government restrictions. In addition, the temporary stamp duty holiday, effective from 8 July, and subsequent resurgence in the second-hand market, have since helped to boost customer confidence. As a result, private sales demand has continued to improve over recent weeks, with reservations throughout the typically quiet month of July averaging 140 per week (July 2019 – 162), 13.6% below the same period last year.

Overall, for the full financial year, reservations averaged 178 per week (2019 – 210 per week), a decline of 15.2%. Selling prices have remained firm, with no discernible movement throughout the year.

Lending institutions continue to process mortgages, although there have been understandable delays with regards to obtaining valuations since the introduction of social distancing measures. In addition, there has been some reduction in the availability of higher loan-to-value mortgages, as banks have reallocated internal resources during the 'lockdown'. Help-to-Buy has therefore been an important selling tool in assisting the Group to maintain its reservation rate, with 57% of customers accessing this scheme in the period since 23 March, an increase compared to the full year average of 40% (2019 – 35%).

Trading results

For the full year, the Group completed the sale of 7,522 new homes (2019 – 10,892), including 6,013 which completed in the period prior to 23 March (1 August 2019 to 24 March 2019 – 5,620). This is a significant reduction due to the considerable effect that COVID-19 has had on business operations.

The average selling price of completions was around £293,000 (2019 – £291,968), comparable to the prior year, with the proportion of lower value social completions remaining unchanged at 22% (2019 – 22%).

Our order book is substantial, with a value of £1,760.2 million[3] (2019 – £1,223.9 million) and comprises 6,588 homes (2019 – 4,878 homes), of which 64% are contracted (2019 – 66%). This resilient forward sales position provides some operational certainty and visibility with regards to cash generation in the months ahead.

Production and the cost environment

At the time of our Interim Results, Bellway reported that industrywide build cost increases, running at around 3%, were having a moderating effect on margin, with these issues most pronounced in and around London and the South East.

Whilst cost pressures remain in these locations, particularly with regards to evolving Government guidance in relation to fire safety on new buildings, Bellway has continued to make good progress with regards to several cost control initiatives throughout the 'lockdown' period. These include the continued roll out of the 'Artisan Collection' standard house type range and the ongoing implementation of COINS, an industry leading accounting and valuation system. Management will continue to focus their efforts on ensuring that commercial teams throughout the Group follow strong cost control disciplines in the year ahead.

COVID-19

Bellway is now operating on 276 sites (2019 – 271), with activity primarily focussed on building reserved or exchanged homes, which are expected to deliver completions within the next six months. Ensuring the safety of site personnel remains a priority, but greater familiarity with revised working practices is continuing to improve efficiency on site, with productivity rates approaching 80% of pre-COVID-19 levels.

Incremental costs, arising from extended site durations due to reduced productivity and enhanced health and safety requirements, will result in a lower anticipated gross margin across our sites. There will therefore be a corresponding reduction in profit, both in the year ended 31 July 2020 and, in subsequent financial years. The Group has also incurred additional expense, in relation to non-productive site-based costs borne during the period of 'lockdown', which would have ordinarily been capitalised into work-in-progress.

In addition, Bellway has historic costs, including option fees, site investigation costs and planning fees, on several potential land deals, which have been suspended due to COVID-19. Management will continue to assess whether these sites remain financially viable as there becomes more clarity with regards to the economic outlook.

Fire safety

The Grenfell tragedy understandably increased the focus on fire safety across the industry and more specifically on apartment blocks. Subsequent Government guidance has sought to improve fire protection measures within wall systems on buildings, including those above 18 metres in height. As previously reported, Bellway has several developments, which obtained building regulation approval at the time of construction, where cladding has been used. As a responsible developer and along with the wider housebuilding sector, we have continued to work proactively with the Government and our delivery partners in relation to fire safety on apartment schemes. Accordingly, Bellway is undertaking further ongoing assessments, with these likely to result in an additional expense in the financial year.

Further details of costs arising from COVID-19 and the outcome of the fire safety assessments will be reported with our Preliminary Results announcement on 20 October 2020.

Land market

During the first half of the year, our land teams identified good quality opportunities, focussing on sites with a slightly lower average selling price, in readiness for the planned introduction of lower regional Help-to-Buy price limits from April 2021.

With the onset of COVID-19, the Board initially introduced a moratorium on all new land contracts, with the intention of preserving liquidity until such time as market conditions became clearer. Whilst there is still uncertainty with regards to the future economic outlook, with the improving sales market, Bellway has cautiously entered into agreements to purchase an additional 14 sites. In addition, with the benefit of a strong balance sheet, our land teams are actively exploring further attractive opportunities. Typically, these are expected to deliver a higher than usual gross margin or, Bellway has the right to withdraw from the land contract should there be a deterioration in market conditions. This cautious and disciplined approach to land buying should enhance value, whilst offering the Group protection in the event of an economic downturn.

In total, throughout the year, the Group contracted to acquire 11,921 plots (2019 – 13,113 plots) across 68 sites (2019 – 93 sites), with a contract value of £762.4 million (2019 – £782.0 million). The total cash spend on land, including payment of land creditors, was £637 million (2019 – £741 million).

Funding and liquidity

Bellway has a strong balance sheet, with net cash of £1 million[2] (2019 – £201.2 million), representing an ungeared position[4] (2019 – ungeared). In addition, committed land obligations remain low, at around £345 million (2019 – £297.9 million).

As previously reported, the Group has committed bank facilities of £545 million and has been confirmed as an eligible issuer for the CCFF, with an issuer limit of £300 million. This remains undrawn, but available as a prudent back-up facility, providing Bellway with access to total funds of £845 million. This robust overall position ensures that the Group can respond positively should there be a further prolonged period of economic inactivity.

Dividend

At the time of the Interim Results in March, the Board postponed the decision with regards to the payment of an interim dividend. Given the extent of the 'lockdown' restrictions and the substantial downward effect this had on completions, the Board does not propose to pay an interim dividend.

The Board is, however, mindful that the payment of a dividend is an important component of shareholder returns. The Group is in a resilient position, with a robust balance sheet, strong order book and a well-established operational structure. Assuming, therefore, that the sales market remains supportive and there is not a further resurgence in COVID-19 affecting business operations, the Board are keen to resume dividend payments as soon as there is more certainty with regards to the economic outlook.

1 All figures relating to completions, order book, reservations, cancellations and average selling price exclude the Group's share of its joint ventures.
2 Net cash is cash plus cash equivalents, less bank debt.
3 Order book is the total expected sales value of reservations that have not legally completed.
4 Gearing is net bank debt divided by total equity.

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