Chief Executive's report | Greg Fitzgerald

2020 review

I am incredibly proud of all the Group has achieved in 2020 and would like to thank our employees, subcontractors and suppliers for their effort and commitment. Despite the obvious challenges of 2020, I firmly believe we finished the year as a much stronger business.

Building high quality homes and providing our customers with excellent service has remained a key priority and I am delighted this is reflected in our HBF customer satisfaction score, with the Group again set to achieve the highest 5-Star rating for 2020.

"The safety, health and wellbeing of our employees, subcontractors, suppliers and customers is our top priority "

"I am incredibly proud of all the Group has achieved in 2020"

At the start of the year, our clear focus was the successful integration of Linden Homes and Vistry Partnerships, ensuring we maximised the significant benefits from the combination and delivered upon the compelling strategic rationale for the Acquisition[10]. With our aim of bringing together the best from each business we hit the ground running, and the re-organisation of the enlarged Housebuilding business was largely completed by the end of March.

This positioned us well to deliver a rapid and co-ordinated response to the first national lockdown in late March, with the safety, health and wellbeing of our employees, subcontractors, suppliers, and customers our top priority. On average, our Housebuilding sites were closed for seven weeks which had a significant impact on our first half performance. Vistry Partnerships demonstrated its strong market resilience and led the industry in an early return to site, underpinned by the certainty of pre-sold developments and partner delivery revenues, with its strong cash flow profile giving good support to the Group during these months.

With Covid-safe operating procedures in place across the business, productivity returned to normal levels in the second half, and the Group delivered a strong performance with a sustained step up in demand, firm pricing, and a resilient supply chain.

Vistry Partnerships made excellent progress against its ambitious growth strategy in 2020 with mixed tenure units up nearly 30% in the year and 70% in the second half, driving an improved operating margin.

Following the completion of the Acquisition, we entered the year with net debt of £136.3m. We have been firmly focused on deleveraging throughout the year, and I am very pleased to report a net cash position of £38.0m as at 31 December 2020, a step change from our £357.3m net debt position as at 30 June 2020. This performance was driven by continued strong trading, good working capital management at an individual business level, and the ongoing benefits from the combination of the enlarged business. With a robust balance sheet and strong forward sales position going into 2021, the Board is pleased to resume the payment of dividends with a 20 pence per share final dividend proposed in respect of 2020.

One Vistry – a stronger business

At the start of the year, our focus was on maximising the benefits from the combination and delivering on the compelling strategic rationale for the Acquisition.

The integration has been successful with the benefits ahead of plan. The full synergy run rate of £44m to be delivered by the end of 2021 is 26% greater than initially expected and will be achieved at a lower than expected cost

We are a top 5 national housebuilder set to deliver significant growth in revenue and profits in 2021. The Group operating structure has the capacity to deliver c. 14,000 completions from both Housebuilding and Partnerships, representing an additional c. 35% capacity on the 8,954 completions delivered in 2020.

Vistry Partnerships, a key driver of the Acquisition rationale, has strengthened its unique market leading position during 2020, delivering growth in profits and margin progression. We expect further significant growth in 2021 with the business on track to meet its 2022 targets of £1 bn revenue and a 10% plus adjusted operating margin.

Vistry Group has capability across all segments of the housing market and is in a unique position to maximise development opportunities across multiple housing tenures, using both its leading housing brands, Bovis Homes and Linden Homes, alongside Vistry Partnerships. We are seeing more and more attractive opportunities like this where the business works as one to maximise output and returns.

Sustainability

At the same time as restructuring and integrating our operations, we set ourselves the challenge to review our priorities and enhance our focus on the sustainability of our operations. The enlargement of the Group, and the addition of the Vistry Partnerships business presents exciting opportunities to enrich our purpose of developing sustainable new homes and communities across all sectors of the UK housing market.

We consulted widely with stakeholders, and reviewed our objectives for our people, our operations and our homes and communities. We have established a range of targets for the current year, set out in detail in this report, and including our commitment to establish our timetable and plans to achieve Net- Zero Carbon, on which we intend to conclude by the time of our half year announcement in September 2021.

The nature of our business offers many key areas where we can make a difference, from minimising the environmental impact of our operations, and enhancing biodiversity on our sites, to enhancing the communities which we serve, both by creating high quality homes and great places to live, and by the opportunities generated for local people and businesses.

We are also actively addressing diversity and inclusion. We have consulted with our people on how we might improve in this area and are now in the process of identifying our priorities and an action plan for the year.

I have been greatly impressed by the passion with which our team has embraced these challenges and look forward to the formal launch of our strategy in the Spring, and to reporting our progress over the coming year.

“Assuming stable market conditions the Group remains confident it can deliver a step-up in completions in FY21”

Cladding and building safety

The Group is closely monitoring the issue of building safety. Recent changes to regulations and guidance, made in light of the Grenfell tragedy in 2017, are causing some buildings constructed in compliance with regulations at the time to now be deemed non-compliant, in some cases resulting in significant rectification costs. We are concerned by the plight of leaseholders facing potentially large and unaffordable costs for remediation and are working with the Home Builders Federation in order to derive an industry solution that is both practical and fair to all parties. We are supportive of the Government’s proposal for an industry levy to accelerate remediation works and the resolution of this issue.

In the aftermath of events at Grenfell, potentially relevant buildings were identified, and clients contacted, in order to carry out investigations and consider solutions where necessary. Vistry Partnerships has over the past three years worked with clients to rectify the position on a small number of buildings over 18 metres and continues to liaise closely with clients where improvements to meet current regulations are required.

The Group has also identified ten projects where it has acted as developer, which are occupied by leaseholders, and where remediation works may be required.

Whilst the Group is not aware of liability in any of these cases, we are committed to proper consideration of any relevant case and to meeting any liability which we identify, and, in addition, to offering appropriate support in circumstances where building owners do not meet their obligations. We anticipate that this will give rise to financial liabilities, which we have estimated to be between £10m and £25m.

We have brought forward provisions in the balance sheet of £9.9m, and have now increased this to £20.9m, by way of an exceptional charge to the Profit and Loss account of £11m.

Current trading and outlook

We have seen a strong start to the year with a private sales rate per active site per week of 0.66 in first 8 weeks (2020: 0.64), and the underlying sales rate ahead of the positive start to 2020. The last 4 weeks have been particularly strong with a private sales rate of 0.78. Pricing remains firm and we see a good supply of materials and labour with minimal cost inflation. We have a strong forward sales position with 64% of total Housebuilding and mixed tenure units for 2021 secured and the partner delivery forward order book totals £880m.

We are alert to the wider market uncertainty and the changes for Housebuilding from an end to the existing Help to Buy scheme at the end of Q1 and the end to stamp duty holiday now in Q4. We have seen no impact from this to date, with good levels of sales under the new Help to Buy scheme and the majority of reservations taken since December last year for completions post March 2021 when the stamp duty holiday had been expected to end.

Assuming stable market conditions we expect to deliver a step-up in Housebuilding completions in 2021 to c. 6,300 units and an improvement in adjusted gross margin to c. 22%. Partnerships expects to deliver significant growth in higher margin mixed tenure completions in 2021 and is on track to meet its 2022 targets of £1bn revenue and an adjusted operating margin of 10% plus. The Group remains confident it can deliver more than double profit before tax[11] to at least £310m with EPS in 2021 higher than in 2019.

(11) Key financials are on an adjusted basis to include the proportional contribution of the joint ventures and before exceptional expenses of £31.0m and amortisation of acquired intangibles of £14.2m in 2020

Chief Executive's report | Greg Fitzgerald

Operational update

Trading performance

There was a strong start to 2020 with a step up in our private sales rates and positive price momentum, however from the third week in March we started to see a significant impact, particularly on our Housebuilding business, from Covid-19. Our developments temporarily shut down from the end of March with a return to site commencing in late April.

Sales trends picked up from the start of May and we saw a return to more normal levels by the end of May.

In the second half we saw sustained strong demand with the Group's private sales rate per outlet per week increasing by 15% in the period to 0.62 (proforma H2 19: 0.54). Encouragingly, customers continued to reserve homes during the second national lockdown in November and December, with our underlying sales rate up c. 20% in the last 6 weeks of the year.

The Group delivered completions in 2020 at the top end of our revised expectations reflecting a strong second half performance. Pricing remained firm through the year and overall, we saw a modest increase in underlying prices.

Help to Buy remained important with 36% (2019: 23%) of our Housebuilding completions in the year utilising the scheme, albeit this is lower than the industry average. Our land bank is well positioned for the future following our strategy, over the last two years, to purchase land for the development of smaller homes and with lower average selling prices. In the year, 8% (2019: 7%) of Housebuilding completions utilised part exchange.

Vistry Housebuilding [11,12,13]

Housebuilding delivered a total of 4,652 (2019 proforma: 6,884) completions, including 820 (2019 proforma: 946) from JVs. Private completions in the year totalled 3,668 (2019 proforma: 4,775) with 984 (2019 proforma: 2,109) affordable units. Total Housebuilding average selling price was £302.5k with adjusted revenue from Housebuilding activities in the year totalling £1,312m (2019 proforma: £1,821m). Housebuilding is currently selling on 149 active sites and we expect the average for 2021 to be c. 150 sites.

Housebuilding adjusted gross margin declined to 17.6% (2019: 22.4%) reflecting the wide-ranging impact of Covid-19. The business incurred additional costs directly related to the period of lockdown, lower levels of operating efficiency from social distancing and the lengthening of development period expectations. A total of £10.2m of non-productive direct costs were identified as impacting the first lockdown period, all of which were recognised in the first half. Margin was also impacted by our policy of recognising the full sales and marketing costs incurred during the year, similar to administrative expenses, rather than apportioning them into work in progress. Our Housebuilding business is well positioned going forwards and we expect a step up in housing adjusted gross margin for 2021 to c. 22% as we move towards the 24.2% gross margin embedded in the land bank.

Vistry Partnerships [11,12,13]

Vistry Partnerships made good progress in the year, pursuing its strategy of accelerating growth in higher margin mixed tenure development revenues. With its high level of pre-sold units and contracting revenues, Vistry Partnerships demonstrated its strong market resilience in the first half of the year and led an early return to site in late April.

Mixed tenure completions increased by 28% in 2020 to 1,479 (proforma 2019: 1,158) units including 608 (2019 proforma: 530) JV units, with completions in the second half up 70% year on year to 990 (proforma H2 19: 584). The average selling price of mixed tenure units in the year was £204k resulting in mixed tenure revenue of £238m (2019 proforma: £195m) for 2020. Vistry Partnerships is currently selling on 30 mixed tenure sites and we expect this to increase to an average of c. 32 for 2021 with further growth into 2022

Partner delivery[14] revenue for 2020 was £490m (2019 proforma: £513m), with equivalent units increasing to 2,823 (2019 proforma: 2,556).

Total adjusted revenues from Vistry Partnerships increased by 3% to £728m (proforma 2019: £708m) with adjusted operating margin increasing to 6.7%. This margin improvement has been driven by the strong increase in higher margin mixed tenure revenues and is in-line with the business' target of achieving at least a 10% adjusted operating margin in 2022.

"Our strategic focus for our customers remains the delivery of a seamless, transparent end to end experience"

Integration and synergies

Following completion of the Acquisition on 3 January 2020, the Group set out to integrate the two housebuilding businesses of Bovis Homes and Linden Homes as efficiently as possible, taking the best from each business to strengthen the overall Group position. This was delivered ahead of plan and positioned us well to effectively respond to the challenges of Covid-19 from late March.

Housebuilding was re-organised into 13 operating regions with four regional office closures. To maximise the benefit from two brands, there has been a complete review of both the Bovis Homes and Linden Homes product range to ensure product differentiation and clear market positioning. We also refreshed both the Bovis Homes and Linden Homes brand identities, with Vistry Partnerships being successfully rebranded on acquisition.

The technical specification has been aligned across our product range to maximise best practice and efficiency, and all our Group procurement agreements have been renegotiated. We have strong central services teams to support the operational businesses including sales, marketing, land, health & safety, HR, and IT. There has been a significant investment in IT to deliver high quality and consistent business processes and systems across the business including the implementation of COINS across the enlarged Housebuilding business and Vistry Partnerships. Third party dependencies for the acquired business were all removed by the end of 2020, ahead of our initial expectations.

Synergies are expected to be 26% greater than initially expected at £44m p.a. with the full run rate to be achieved by the end of 2021. The expected cost to achieve this is c. £27m, which is lower than the initial target cost of £35m. The synergies impacting 2020 are estimated at £25m, flowing through both the Group's cost of sales and administrative costs. Exceptional integration costs of £20m have been recorded in 2020 with a further c. £7m expected in 2021 as we complete the final integration of systems and processes.

Quality and customer service

Building high quality new homes and providing our customers with excellent service has remained a top priority during 2020 and we are set to achieve an improved HBF Customer satisfaction score for 2020 and the maximum 5-Star rating. It is particularly pleasing to note that all three divisions within the Housebuilding business, as well as the Partnerships business, will achieve a 5-Star rating. The new HBF year has started well, and we are continuously striving to deliver further improvement. We are also very focused on improving our score for the HBF customer satisfaction survey which is sent out 9 months after completion and this metric has been added to our annual bonus criteria and targets.

Our strategic focus for our customers remains the delivery of a seamless, transparent end to end experience which makes us easier to do business with.

"Uniquely positioned to take advantage of the strong, under supplied housing market"

We have rolled out our customer relationship management platform, Keys, across the enlarged Housebuilding business during 2020, which provides a single platform to deliver ongoing improvements in our selling and service capabilities and facilitates improved customer communications. We have plans to adopt the same system across Partnerships in the near future.

People

Our people are key to the success of our business and we are thankful to all our employees for the enormous commitment and hard work they have given this year. We are conscious that it has been a period of unprecedented change and are very pleased that our latest Peakon engagement study reported a score of 7.9, an improvement on the 7.6 in August last year and ahead of the benchmark at 7.4. We have also seen a reduction in our unplanned staff turnover to 15%.

There has been a big effort to improve employee communication channels this year which has proved successful and well received. We have placed a significant emphasis on mental health and during 2020 have trained up over 70 mental health first aiders across the business and run half-day awareness training for all line-managers. We have introduced weekly 'Time to Talk' drop-in sessions specifically designed to address some of the challenges brought on by the pandemic and working from home.

Our primary focus for training and development during 2020 has been on safety, health and environment with content being digitised and delivered virtually. Looking ahead, a key area of focus will be leadership training and succession planning in the enlarged group.

5 STAR HOME BUILDER
CUSTOMER SATISFACTION
HBF 2021
HOME BUILDERS FEDERATION

Land

The Group remained active in the land market throughout the year, maintaining the size of our controlled land bank at 40,218 plots (31 Dec 2019 proforma: 40,135). We continue to see a good supply of attractive opportunities that at least meet our minimum hurdle rates.

In the year, Housebuilding secured 6,281 plots across 31 developments and has a strong land pipeline, with 100% of land required for forecast 2021 completions secured.

Partnerships is investing in its owned land bank to support its targeted step-up in mixed tenure and in the year secured 2,371 plots on 11 sites for mixed tenure development. It is also well positioned with 100% of the land required for forecast 2021 mixed tenure completions secured.

Strategic land is a key component of the Group's land supply and as at 31 December 2020 the Group had a total of 34,053 (31 Dec 2019 proforma: 31,965) strategic plots. In the year, we are pleased to have secured options over 2,856 strategic land plots across 10 developments.

"Vistry Partnerships demonstrated its strong market resilience during the year"

(12) Proforma completions and revenue are calculated using published data for Linden Homes and Vistry Partnerships and represent the Vistry Group period of 1 January 2019 to 31 December 2019

(13) Completions include 100% of joint venture completions

(14) Formerly classified as Vistry Partnerships contracting

Chief Executive's report | Greg Fitzgerald

Balance sheet

The Group started the year with a net cash position of £362.0m prior to the Acquisition. As at the 30 June 2020 the Group reported net debt of £357.3m. There was significant deleverage in the second half resulting in a net cash position as at 31 December 2020 of £38.0m. This was driven by continued strong trading, good working capital management at an individual business level, and the ongoing benefits from the combination of the enlarged business.

Looking forwards, the Group is targeting a month-end average net debt position in 2021 of less than £200m as we build for 2021 completions and deliver a stronger net cash position at 31 December 2021.

The Group is operating with substantial funding headroom, with committed banking facilities totalling £770m and well spread maturities out to 2027.

While the scale of the land bank has been maintained, the Group land creditor position has reduced since Acquisition by £79m to £323.2m as at 31 December 2020.

Group strategy

Vistry Group exists to develop sustainable new homes and communities across all sectors of the UK housing market with 'Doing the right thing' at the core of our strategic focus and operations.

Following the formation of Vistry Group and successful integration in 2020, we are a top five national housebuilder with a leading Partnerships business, uniquely positioned us to take advantage of the strong, under supplied housing market.

Dividend policy

With the Group's strong second half performance, the year-end net cash position and solid forward sales, the Board is pleased to confirm the resumption of dividend payments with a 20 pence per share final dividend proposed in respect of 2020. Going forward the group is targeting to maintain a strong balance sheet while operating with a progressive dividend policy which allows the Group to move towards a 1.75x dividend cover over time.

Greg Fitzgerald
Chief Executive

Vistry Housebuilding

The Housebuilding business is focused on driving revenue growth and delivering significant margin improvement from its existing operating structure. The business has national coverage through its 13 operating regions with each targeting annual output of between 550 to 625 units including JV's, giving an overall volume capacity for Housebuilding of more than 8,000 units (2020 Housebuilding total completions incl. JVs: 4,652).

The business has a high quality land bank of c. 32,000 controlled plots including JV's located in desirable edge or out of town location with minimal exposure to London or other city centres. Our focus is on increasing the proportion of two and three-bedroom homes where we see the most resilient demand. With two leading housing brands, Bovis Homes and Linden Homes we are focused on maximising the benefits of dual branding supported by our brand differentiation. Bovis Homes is positioned to feature larger, more distinctive homes with enhanced design features and Linden Homes to offer well designed, more competitively priced homes.

The Housebuilding business is focused on driving margins towards the embedded gross margin of 24.2% as at 31 December 2020 in the owned and controlled land bank. This margin improvement will be driven by a combination of the acquisition of new land with a minimum gross margin hurdle rate of 25%, the pull-through of strategic land which delivers an enhancement to margin of c. 150 to 300 basis points, maximising sales rates and driving improved efficiency through high quality build and cost efficient product, processes and output.

Vistry Partnerships

Vistry Partnerships holds a strong and unique position within the partnerships market, combining higher margin mixed tenure development and market resilient cash generative partner delivery.

The business has a clear and ambitious growth strategy targeting the delivery of £1bn of revenue, an adjusted operating margin of at least 10%, and a 40% return on capital employed in 2022. This growth will be driven by a rapid increase in higher margin mixed tenure completions with mixed tenure revenues to increase from 33% of total partnerships revenues in 2020 to 50% in 2022. The adjusted operating margin for mixed tenure development ranges from c. 11% to 18% as compared to partner delivery with a c. 3% to 11% adjusted operating margin.

The accelerated growth is supported by the division's 11 operating regions and continued expansion into new geographies. The Group's land investment and supply, and its strategic land capability will support the growth in higher margin mixed tenure development revenues.