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Trading performance

In line with our strategy, the Group delivered controlled volume growth during 2019 resulting in a 3% increase in legal completions[(1)] to 3,867 (2018: 3,759).

This included 1,184 affordable homes representing 31% of total completions (2018: 32%). Total revenue was £1,130.8m, an increase of 7% on the previous year (2018: £1,061.4m).

Housing revenue was £1,067.4m, 4% ahead of the prior year (2018: £1,026.9m). The average sales price for our private homes increased 1% to £341,700 (2018: £337,400) with our overall average sales price increasing 2% to £280,200 (2018: £273,200).

Other revenue was £14.1m (2018: £20.4) primarily driven by the release of deferred revenue from disposals within our PRS joint ventures. The disposals from our PRS joint ventures are largely complete as at the end of 2019.

Partnership land transactions revenue of £42.4m was generated from six land sales in the period with housing associations, where the Group will develop the sites in partnership with the housing associations, with the expected site wide development margin for the Group, at a level similar to our standard housing business.

(1) Inclusive of joint venture completions
(2) Gross profit plus other operating income

Volume

	2019 £m	2018 £m
Private legal completions	2,625	2,567
Affordable legal completions	1,184	1,192
Total legal completions	3,809	3,759
JV legal completions	58	-
Total legal completions including JVs	3,867	3,759

Revenue

	2019	2018
Private legal completions	897.0	866.1
Affordable legal completions	170.4	160.7
Revenue from legal completions	1,067.4	1,026.8
Partnership land transactions revenue	42.4	-
Other revenue	14.1	20.4
Total development revenue	1,124.0	1,047.2
Land sales revenue	6.8	14.2
Total revenue	1,130.8	1,061.4

In February 2019 we announced the launch of our new Partnerships Housing Division and following the Acquisition, we now have a leading partnerships business, working alongside housing associations to increase output and deliver best returns from our development land.

Land sales revenue of £6.8m in 2019 primarily relates to the disposal of the final out-of-operating area site in the period at Penwortham near Preston, realising £6.4m of cash and contributing £0.1m in profit.

Total adjusted gross profit[(2)] was £253.4m (adjusted gross margin: 22.4%), compared with £230.9m (gross margin: 21.8%) in 2018. Housing adjusted gross margin was 22.4% in 2019, ahead of the 21.9% achieved in 2018. The adjusted gross margin was impacted by market influences during the year with sales price inflation being flat in the first six months and showed a 1-2% decrease in the second half. The Group saw construction cost inflation of c3-4% in the first six month of 2019, flattening out in the second half with the market uncertainty from Brexit and the general election.

The gross margin was positively impacted by the increasing embedded gross margin in our land bank and our operational improvements including the initial impacts from our margin initiatives.

During 2019, our construction costs decreased by 2% per square foot, reflecting the inflationary impacts being offset by reductions in our cost base as we delivered production in a controlled manner, changes in specification and the under-utilisation of contingency in line with our margin initiative.

Operating profit increased to £192.6m before exceptionals (2018: £174.2m) at an operating profit margin of 17.0% (2018: 16.4%). Administrative expenses increased in 2019 to £60.8m (2018: £56.7m) reflecting the Group's efficient operating structure, offset by higher employee costs and the ongoing investment in new processes, systems and training.

Building on strong foundations

Exceptional costs of £13.5m relate to the Acquisition; this transaction completed on 3 January 2020. The costs include certain advisory costs as well as some cost relating to the refinancing of the Group.

The Group delivered a record profit before tax before exceptionals for the year ended 31 December 2019 of £188.2m, comprising operating profit of £192.6m, net financing charges of £6.1m and £1.8m of share in JV profit. After exceptional costs profit before tax was £174.8m, this compares to £168.1m of profit before tax in 2018, which comprised £174.2m of operating profit and £6.1m of net financing costs.

Financing and Taxation

Net financing charges before exceptionals during 2019 were £6.1m (2018: £6.1m) reflecting the marginally lower net debt in the period, a consistent level of commitment fees, and issue costs amortised, as well as the impact of implementing IFRS16 in the period, (0.6m) disclosed in note 5.5 to the financial statements.

The Group has recognised a tax charge of £36.4m at an effective tax rate of 20.8% (2018: tax charge of £31.5m at an effective rate of 18.7%); this rate is higher than the current rate of 19.0% primarily as a result of non-deductable exceptional costs incurred in the year and an adjustment made in respect of the prior year. The Group has a current tax liability of £20.9m on its balance sheet as at 31 December 2019 (2018: £18.1m).

Dividends

The first interim dividend of 20.5 pence per share (2018: 19.0 pence) was paid on 22 November 2019. A second interim dividend of 41.0 pence per share (2018 final dividend: 38.0 pence) has been declared and will be paid on 29 May 2020 to holders of ordinary shares on the register at the close of business on 27 December 2019, bringing total dividends for the year to 61.5 pence per share (2018: 57 pence).

Cash flow

	2019 £m	2018 £m
Net cash at 1 January	**126.8**	144.9
Profit in the year	**138.4**	136.6
Dividends and taxes paid	**(112.4)**	(158.8)
Issue of shares	**149.8**	-
Movement in trade and other receivables	**(58.2)**	12.4
Movement in inventories	**115.2**	(1.9)
Movement of investment in joint ventures	**(58.5)**	(20.3)
Other	**60.9**	13.9
Net cash at 31 December	**362.0**	126.8

Instead of a cash special dividend, a bonus issue of shares was made to shareholders on the register at the close of business on 2 January 2020; for every one share held at the bonus issue record time, 0.03819 bonus shares were issued (2018 special dividend: 45.0 pence). The dividend reinvestment plan, introduced in 2012, gives shareholders the opportunity to reinvest their dividend.

Basic EPS pre exceptional of 111.5p (2018: 101.6p) has increased 10% year on year as a result of record profit having incorporated the Placing.

Basic EPS post exceptional of 101.5p (2018: 101.6p) has remained consitent year on year.

Net assets and cash flow

As at 31 December 2019 net assets of £1,272.0m were £210.9m higher than at the start of the year, driven by an increase in the cash balance through operating cashflow which has subsequently been utilised to fund the Acquisition. Net assets per share as at 31 December 2019 were 857 pence (2018: 787 pence).

Investments increased by £56.1m since the start of the year, primarily driven by the creation of the joint venture with Riverside Regeneration Limited in respect of the development of Stanton Cross, Wellingborough, in April. In addition, the Group entered into a joint venture in December with Metropolitan Living Limited in respect of a new strategic development at Cambourne West, Cambridgeshire.

Retirement benefit assets increased by £3.1m primarily as a result of higher than expected returns on the scheme's assets and contributions to the fund in the period. This has resulted in a pension surplus of £4.5m at 31 December 2019 (2018: £1.4m).

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Inventories decreased during the year by £112.6m to £1,207.7m. The value of residential land, the key component of inventories, decreased by £142.4m. This reflects completions during the period as well as the impact of Partnership land transactions and the sale of our Stanton Cross development at Wellingborough into a joint venture. Other movements in inventories included an increase in work in progress of £31.0m driven by the infrastructure investment on a number of our new developments including Northstowe, Peterborough and Essington. Whilst our usage of part exchange as a sales tool increased in the year, our part exchange properties balance has decreased by £1.6m, as we continue to make use of this sales tool, in a controlled and disciplined manner, with no properties held for more than three months unsold at the end of the period.

Trade and other receivables increased by £41.3m, driven by increased balances receivable from housing associations at 31 December 2019. Trade and other payables increased by £12.8m, predominantly reflecting increased accruals and trade creditors from production offset by £34.1m net settlement of land creditors. Land creditors decreased to £260.7m (2018: £293.3m) representing 36% (2018: 34%) of our gross land investment and includes significant balances in respect of longer-term schemes at North Whiteley and Alphington SW Exeter purchased in 2019.

Following implementation of IFRS16 in 2019, right of use assets of £21.3m and lease liabilities of £23.0m have been recognised on the balance sheet; further detail is discussed in notes 5.5 and 5.14 to the financial statements.

Land bank

	2019	2018
Consented plots added	**4,531**	4,164
Sites added	**18**	19
Sites owned at period end	**116**	117
Total plots in land bank at period end including joint ventures	**17,328**	17,328
Average consented land plot ASP	**£299,000**	£305,000
Average consented land plot cost	**£46,411**	£54,900

As at 31 December 2019 the Group's net cash balance, which reflects cash and cash equivalents less bank and other loans, was £362.0m (2018: £126.8m). Net cash is quoted excluding the lease liabilities arising on adoption of IFRS16, the impact of which is clearly disclosed in note 5.5 to the financial statements. The Group started the year with net cash of £126.8m and generated an operating cash inflow before land expenditure of £281.4m (2018: £291.2m) and recognised a reduction of £36.4m in loans. The loan reduction arose as a result of the movement of funding from Homes England into the newly formed joint venture with Riverside at Stanton Cross, Wellingborough.

Net cash payments for land investment increased to £184.7m (2018: £145.4m), reflecting the timing of land acquisitions and reduction in land creditors. Cash inflows from joint ventures were £74.7m (2018: nil), generated on the sale of land and inventory into the Stanton Cross, Wellingborough joint venture. Dividend and cash outflows decreased to £112.4m (2018: £158.8m) driven by decreased corporation tax payments and the payment of a special dividend by way of shares rather than cash; payments relating to dividends were £78.6m (2018: £129.7m). A further £152.2m of cash was raised by the Placing in November 2019.

At 31 December 2019, we had a committed revolving credit facility of £250m in place. Following refinancing driven by the Acquisition. The Group currently has in place £150m in 3 year term borrowings, a £450m revolving credit facility (£410m 5 year, £40m 3 year) and £100m USPP 7 year term borrowings. The private placement was taken on as part of Acquisition.

The Group's total land bank including share of joint ventures as at 31 December 2019 represents 3.9 years of supply based on 4,000 completions p.a. reflecting our strategy to maintain an optimal land bank at 3.5 to 4.0 times. The 3,867 plots that legally completed in the year were replaced by a combination of site acquisitions and conversions from our strategic land pipeline. Based on our appraisal at the time of acquisition, the new additions, on average, are expected to deliver a future gross margin over 26% and a ROCE in excess of 25%. The average selling price of all units within the consented land bank increased over the year to £299,000, 2% lower than the £305,000 at 31 December 2018. The estimated embedded gross margin in the consented land bank as at 31 December 2019, based on prevailing sales prices and build costs is 24.8% and reflects the initial impact of our margin initiatives.

Strategic land continues to be an important source of supply and during the year 4,531 plots have been converted from the strategic land pipeline into the consented landbank.

Earl Sibley
Chief Financial Officer