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Trading performance

The Group delivered a solid financial performance in light of the challenges from Covid-19. In particular, the strong performance of the Partnerships business growing revenue and margin, demonstrating its robust characteristics despite the market pressure.

In line with the strategy at the time of the Acquisition, the Group integrated the Housebuilding businesses of Linden Homes and Bovis Homes swiftly to deliver synergies ahead of expectations and at a lower cost. Delivering across these key areas contributed to the strong cash delivery in the year resulting in a net cash balance and enabling the Group to return to paying dividends.

Total completions

During the year the Group delivered 6,131 (2019: 3,867) legal completions[13], including 100% of JV completions, representing a 58.6% increase on the prior year. This was driven by the Acquisition which completed on 3 January 2020, however was lower than expectations as a result of the Covid-19 pandemic and the temporary closure of developments during the first nationwide lockdown.

	2020	2019	% Change
Housebuilding			
- Private	3,010	2,625	+14.7%
- Affordable	822	1,184	-30.6%
- JV's (100%) Private	658	53	+>100%
- JV's (100%) Affordable	162	5	+>100%
Total housebuilding	**4,652**	**3,867**	**+20.3%**
Partnerships			
- Mixed tenure	871	-	n/a
- JV's (100%) Private	397	-	n/a
- JV's (100%) Affordable	211	-	n/a
Total mixed tenure	**1,479**	**-**	**n/a**
Total completions	**6,131**	**3,867**	**+58.6%**
Partner delivery units	**2,823**	**-**	**n/a**

Proforma completions analysis

During the same period in 2019 on a proforma basis[15] the Group delivered 8,042 legal completions representing a decrease of 23.8% in 2020.

	2020	2019	% Change
Housebuilding			
- Private	3,010	4,088	-26.4%
- Affordable	822	1,850	-55.6%
- JV's (100%) Private	658	687	-4.2%
- JV's (100%) Affordable	162	259	-37.5%
Total housebuilding	**4,652**	**6,884**	**-32.4%**
Partnerships			
- Mixed tenure	871	628	+38.7%
- JV's (100%) Private	397	260	+52.7%
- JV's (100%) Affordable	211	270	-21.9%
Total mixed tenure	**1,479**	**1,158**	**+27.7%**
Total completions	**6,131**	**8,042**	**-23.8%**
Partner delivery units	**2,823**	**2,556**	**+10.4%**

(15) Prior year divisional completions and revenue represent proforma 2019 divisional completions and revenues calculated using published data for Linden Homes and Vistry Partnerships for the period from 1 January 2019 to 31 December 2019. No further proforma information is provided as the previously published data is not considered to be comparable due to the need to align accounting policies.

Revenue

Total adjusted revenue[11], including share of JV revenue, was £2,040.1m, 79.1% higher than prior year (2019: £1,139.2m) and 21.3% lower on a proforma basis (2019: £2,592m). On a reported basis revenue was £1,811.7m, 60.2% higher than last year (2019: £1,130.8m).

Adjusted gross and operating profit

Adjusted gross profit[16] was £318.8m in 2020 (adjusted gross margin: 15.6%), which compares to £255.3m in 2019 (adjusted gross margin: 22.4%). The margin was impacted by sites closing during the first national lockdown due to Covid-19, including the impact of non-productive site overhead costs being expensed directly to the income statement which under normal productive circumstances would be capitalised into inventory and recognised in the income statement as homes complete. There were also costs incurred relating to the closing and reopening of sites as a result of lockdown, and implementation of Covid-19 safe working procedures and health and safety precautions. The direct costs identified relating to Covid-19 recognised in the income statement totalled £10.2m; these costs were all incurred in the first half of the year. In December 2020 Vistry repaid a total of £7.1m of furlough claim income received from the Government's Job Retention Scheme. This included £6.3m which was received during HY20, positively impacting profit in the first half of the year. The repayment in the second half of the year meant the income was reversed.

Adjusted operating profit[11] is £171.0m (2019: £194.4m). This includes the increased overhead costs of the enlarged Group following the Acquisition, primarily resulting from higher employee numbers and additional establishment costs.

Adjusted operating margin[11] was 8.4% (2019: 17.1%). Reported operating profit was £91.7m (2019: £179.7m profit). The Group delivered an adjusted profit before tax[11] of £143.9m (2019: £188.2m)

On a reported basis the Group saw a profit before tax for the year ended 31 December 2020 of £98.7m, comprising operating profit of £91.7m after exceptional costs of £31.0m, net financing charges of £7.9m and share of JV profit of £14.9m. This compares to £174.7m of profit before tax in 2019, which comprised £179.7m of operating profit, £6.8m of net financing charges and share of JV profit of £1.8m.

Housebuilding

Housebuilding total completions including 100% of JVs at 4,652 included 984 affordable homes representing 21.1% of total completions (2019: 1,189 affordable homes, 30.7% of total completions).

Housebuilding pricing remained firm through the year and overall we saw a modest increase in underlying prices, with the average sales price for our private homes in housebuilding having increased 0.4% to £343,200 (2019: £341,700). The total average sales price increased by 8.0% to £302,500 (2019: £280,200) driven by a lower proportion of affordable.

Included within Housebuilding revenue is £17.2m revenue (2019: £49.2m including partnership land sales) related to land sales, including the sale of a parcel of land on our large scale development at Twigworth.

Housebuilding adjusted gross profit[16] of £231.2m and housing adjusted gross margin of 17.6%, were impacted by Covid-19 direct costs in the year totalling £8.6m which had a 0.7% impact on housing adjusted gross margin. Additional costs relating to implementing safe working practises and the reduced operating efficiency on site are estimated to have a further 0.9% impact on adjusted gross margin.

Housebuilding gross margin is also impacted by our policy of recognising direct sales and marketing costs in the year they arise, similar to administrative expenses, rather than apportioning them by volume. The impact of this, on margin, due to the lower than expected volume was c. 0.7% in the year. The Group also recognised costs relating to the impairment of inventory totalling £5.7m in the year (2019: £0.3m). In addition, the mix of homes completed in the year included a higher proportion of completions from sites that had been largely built out at the beginning of the year which had, on average, a lower margin.

The housing gross margin saw a step up in the second half and a further step up is expected in 2021 as the business moves towards delivering a gross margin in line with the embedded land bank margin of 24.2% in the future. This must include an estimate for the additional costs of implementing future building regulations (Part L) for all appropriate plots.

Housebuilding[11, 13]

	2020	2019	% Change
Total completions incl. 100% JVs	**4,652**	3,867	+20.3%
Adjusted revenue	**£1,311.8m**	£1,139.2m	+15.2%
Adjusted gross profit	**£231.2m**	£255.3m	-9.4%
Adjusted gross margin	**17.6%**	22.4%	-4.8pps
Adjusted operating profit	**£139.4m**	£207.1m	-32.7%
Adjusted operating margin	**10.6%**	18.2%	-7.6pps
TNAV[17]	**£1,491m**	£922m	+61.9%

(16) Adjusted gross profit includes contribution of joint ventures and other operating income, before exceptional items

(17) TNAV represents tangible net assets excluding net cash or debt

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In 2020 the Group saw low levels of cost inflation and expects this to continue into 2021 with benefit coming through of supplier agreements re-negotiated as a consequence of the Acquisition. The Group also benefitted from material supply synergies in the full year.

Housebuilding adjusted operating profit of £139.4m and adjusted operating profit margin of 10.6%. Whilst the Group has restructured to realise synergies and ensure Housebuilding has an efficient overhead going forwards the adjusted operating margin reflects the increased overhead from the enlarged group spread across lower than expected volumes.

Partnerships[11]

Adjusted revenue from Partnerships in the year totalled £728.3m, made up of £489.5m from partner delivery (contracting) and £238.7m from mixed tenure operations.

Partnerships sold a total of 1,479 units from its mixed tenure operations, including JVs, with an average selling price of £203,900k and partner delivery revenue generated equivalent units of 2,823.

Adjusted operating profit[11] of £48.6m and adjusted operating profit margin[11] of 6.7% are impacted by Covid-19 as well as a full overhead cost being incurred despite reduced volumes.

The adjusted operating margin reflects an improvement to the proforma operating margin reported by the Partnerships business for the full year to the 30 June 2019 of 5.6%.

This improvement reflects the strong counter cyclical nature of the business including a high proportion of pre-sold homes and a strategy of aggressively growing the mixed tenure element of the business and administrative costs benefiting from synergies in the enlarged group.

Non-underlying and group costs

The reported Group segment of the business includes the non-underlying exceptional restructuring costs of £20.0m (2019: £13.6m), related to the Acquisition.

In addition, the Group has recognised an exceptional charge of £11.0m in relation to the potential financial liabilities for legacy property building safety.

The Group segment reported direct PLC costs totalling £17.0m (2019: £12.7m), including the costs of the PLC Board, share based payments and related items.

Financing and Taxation

Net financing charges during the year were £7.9m (2019: £6.8m). Net bank interest and commitment fees were £18.5m (2019: £1.9m), as a result of higher net debt during 2020 following the Acquisition and supporting the enlarged Group. We incurred a £4.6m charge (2019: £3.4m), reflecting the imputed interest on land bought on deferred terms. JVs which are funded through loans are charged interest by the Group, which generated the majority of the £18.2m of finance income recognised (2019: £0.8m).The significant increase on prior year is driven by the additional loans to JVs with the acquired businesses.

The Group has recognised a tax charge of £21.9m at an effective tax rate of 22.1% (2019: £36.4m at an effective rate of 20.8%). The effective tax rate is driven by non-deductible exceptional costs. The Group has a current tax asset of £14.4m in its balance sheet as at 31 December 2020 tax liability at 31 December 2019: £20.9m.

Dividends and earnings per share

During a period of significant uncertainty in late March the Board focused on protecting the Group's cash position, liquidity and maintaining a robust balance sheet. The decision was taken that no interim dividend would be paid in respect of H1 2020. A final dividend of 20 pence per share (2019: 41.9 pence) has been declared and, subject to shareholder approval at the AGM, will be paid on 21 May 2021 to holders of ordinary shares on the register at the close of business on 26 March 2021. Total ordinary dividends for the year are therefore 20 pence per share (2019: 61.5 pence).

Both adjusted basic EPS before exceptional expenses and amortisation of acquired intangibles of 52.6p (2019: 104.3p) and basic EPS of 34.8p (2019: 94.6p) have decreased year on year, by 49.6% and 63.2%, respectively.

Acquisition and Integration

The Group completed the Acquisition on 3 January 2020, at a cost of £1,233.5m including £378.1m in cash and £855.4m in shares. The novation of £108.2m in USPP Notes Payable is classified as an acquired liability and not consideration.

As shown in the table below, the Acquisition resulted in the recognition of £155.0m of intangible assets related to the Linden Homes and Drew Smith brand names, as well as customer relationships and secured contracts held by the acquired businesses. Goodwill of £547.5m has been recognised, reflecting intangible assets which do not qualify for separate recognition including relationships with private customers and the assembled workforce, in addition to future prospects and the synergies that will be achieved as an enlarged business going forwards.

Partnerships[11, 13]

	2020
Total completions incl. 100% JVs	**1,479**
Adjusted revenue	**£728.3m**
Adjusted operating profit	**£48.6m**
Adjusted operating margin	**6.7%**
TNAV[17]	**(£30m)**

Purchase consideration	Linden Homes	Partnerships	Total
Cash	76,300	301,800	378,100
Shares consideration	815,698	39,685	855,383
Total purchase consideration	**891,998**	**341,485**	**1,233,483**
Reflecting:			
USPP notes payable	–	(108,219)	(108,219)
Intangible assets	54,800	100,224	155,024
Net tangible assets	608,870	30,299	639,169
Goodwill	228,328	319,181	547,509
Total net assets recognised	**891,998**	**341,485**	**1,233,483**

Exceptional costs of £20.0m have been recognised in the income statement relating to the Acquisition, primarily driven by redundancy costs, integration costs from moving the enlarged business onto consistent processes and systems, closed office costs, and rebranding. The initial expectation for the costs to achieve synergies and integration were £35m, the current estimate is c. £27m in total, with c. £7m expected in 2021.

At the time of the Acquisition the integration of the new businesses into the Vistry Group was expected to achieve synergies of c. £35m. The Group is now targeting synergies of c. £44m on an annualised basis from 2022 onwards with synergies of c. £25m arising in 2020. The full impact of synergies from 2022 onwards is expected to come through cost of sales at a rate of c. £25m per annum and administrative expenses of c. £19m per annum.

Net assets and cash flow

As at 31 December 2020 net assets of £2,195m were £923m higher than at the start of the year, primarily resulting from the Acquisition. Net assets per share as at 31 December 2020 were 988p (2019: 857p).

Goodwill and intangibles totalled £691.1m at 31 December 2020 (2019: £4.3m), directly resulting from the Acquisition.

Tangible net assets increased from £905.6m at 31 December 2019 to £1,466.1m at 31 December 2020, again primarily driven by the addition of the acquired balances in January 2020.

Within tangible net assets, inventories increased during the year by £628.8m to £1,836.5m. This balance reflects the slow down in land acquisition early in the year.

Trade and other receivables increased by £126.3m. Trade and other payables increased by £558.5m and includes land creditors which increased by £64.4m to £323.2m (2019: £258.8m).

As at 31 December 2020 the Group's net cash balance was £38.0m. Having started the year with net cash of £362.0m, the Group generated an operating cash inflow before land expenditure of £440.9m (2019: £281.4m). Net cash payments for land investment were increased at £259.0m (2019: £184.7m). During the second half the group has continued to achieve good deferred terms on new land investment as well as securing a number of new sites on a conditional basis. This has typically been on a subject to detailed planning basis, delaying the initial land payments closer to the time when development on site will commence and supporting return on capital employed. Investing cash outflows totalling £383.8m includes the £394.6m cash consideration for the Acquisition net of overdraft acquired, as well as loans made to and investments made in joint ventures and dividends received from joint ventures. Financing cash inflows of £181.2m include £200m of loan drawdowns net of repayments, no dividends were paid in the year.

At 31 December 2020 the Group has borrowing facilities of £770m, including a 5 year committed revolving credit facility of £410m, a 3 year revolving credit facility of £40m, £150m of 3 year term loans, a £100m US Private Placement facility and £70m of additional facilities. In addition, Vistry Group have been confirmed as eligible for the CCFF, for borrowing of up to £300m although the Group has no expectation of using this facility.

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Land bank

Housebuilding land bank

The average selling price of all units within the consented land bank increased over the year to £306,000, 2.3% higher than at 31 December 2019. The estimated embedded gross margin in the consented land bank as at 31 December 2020, based on prevailing sales prices and build costs is 24.2% (June 2020: 24.2%). This embedded margin includes new acquisitions estimated to deliver on average 25% gross margin based on the appraisal at the time of acquisition and trading out of older sites with lower margins all of which have been impacted to a greater or lesser extent by Covid-19 in the year.

In addition we have increased the cost base in the land bank to include our current estimate of costs for elements of the Future Homes Standards (Part L).

The Housebuilding land bank including joint ventures of 31,994 plots as at 31 December 2020 represents c. 4.3 years of supply based on the 2020 completion volume.

The land bank reflects our strategy to deliver controlled growth in Housebuilding completions year on year in the medium term and maintain an optimal land bank at 3.5 to 4.0 times.

The Housebuilding business has the capacity from its existing operating structure to deliver up to 8,000 homes in the long term.

The 4,652 plots that legally completed in the year were replaced by a total of 3,195 plots from a combination of site acquisitions representing 2,022 plots and conversion of 1,173 plots from our strategic land pipeline and a further 3,086 plots secured on a conditional basis across 14 sites.

Investment in the land bank was paused during the first half of the year in response to Covid-19 however during the second half the Group has been active in a good land market and has maintained its total controlled land bank plots whilst reducing the land creditor balance.

Partnerships land bank

The average selling price of all units within the consented land bank at the year end was £282,000. The estimated embedded gross margin in the consented land bank as at 31 December 2020, based on prevailing sales prices and build costs is 18.1%.

The Partnerships land bank including joint ventures of 8,224 plots as at 31 December 2020 reflects our strategy to grow the level of mixed tenure development to contribute to the delivery of completions and partner delivery units in aggregate of c. 6,000 per year.

The 1,479 mixed tenure plots that legally completed in the year were replaced by acquisition of 1,505 plots on 5 sites and a further 866 plots were conditionally contracted on 6 sites. Based on our appraisal at the time of acquisition, the new additions, on average are expected to deliver a future gross margin of 17% and ROCE of 40%. The margin and ROCE on each new development will to some extent, reflect the risk and reward trade off that comes from the proportion of pre-sold volume specific to the development opportunity.

Public sector land continues to be a strong source of opportunities for Partnerships and in the year, we exchanged contracts with Homes England on five sites. In addition, we have obtained detailed planning on two Homes England sites - Sandymoor, Runcorn and Lea Castle, Kidderminster, which will provide over 900 new homes.

Housebuilding land bank

As at 31 December 2020	2020	2019
Consented plots added	6,281	4,531
Sites added	31	18
Sites owned at year end	199	116
Sites controlled at year end	14	-
Total plots in land bank at year end incl. joint ventures	**31,994**	**17,328**
ASP including share of joint ventures	**£306,000**	**£299,000**
Average consented land plot ASP	**£46,000**	**£46,411**

Partnerships Land Bank

As at 31 December 2020	2020
Consented plots added	2,371
Sites added	11
Sites owned at year end	50
Sites controlled at year end	6
Total plots in land bank at year end including joint ventures	**8,224**
Average consented land plot ASP	**£282,000**
Average consented land plot cost	**£31,000**

Strategic land

As at 31 December 2020	Total sites	Total plots
0 – 150 plots	42	3,253
150 – 300 plots	46	10,362
300 – 500 plots	14	5,610
500 – 1,000 plots	16	9,995
1,000 + plots	4	4,833
Total	**122**	**34,053**
Planning agreed	16	6,416
Planning application	8	2,221
Ongoing promotion	98	25,416
Total	**122**	**34,053**

Strategic land

Strategic land continues to be an important source of supply and during the year, 1,173 plots have been converted from the strategic land pipeline into the consented land bank. A further 2,856 plots were contracted under options and planning consent gained on 848 plots over the year.

Strategic land remains well positioned to deliver high quality developments in the near to medium term with good progress on a number of significant projects.

Risks and uncertainties

The Group is subject to a number of risks and uncertainties as part of its activities. The Board regularly considers these and seeks to ensure that appropriate processes are in place to manage, monitor and mitigate these risks.

Following the Acquisition and Covid-19 pandemic the Board have considered additional risks to the Group presented by the Partnerships business.

In particular the risks in respect of the partner delivery element of the business, understanding the process for tendering new work, ongoing management oversight of contracts and the commercial controls in place.

The outbreak of Covid-19 in 2020 required the Group to respond quickly and carefully to protect the health and wellbeing of our employees, customers, suppliers and wider society. The Executive Leadership Team has been, and continues to be, focussed on managing the business to balance the protection of profitability and preservation of operating cash flow with the long-term needs of the Group, and conserving cash in a time of great uncertainty.

Other than the above, the directors consider that the principal risks and uncertainties facing the Group remain those that are outlined on pages 50 to 55 of the Annual Report and Accounts 2020, which is available from **vistrygroup.co.uk**.

Earl Sibley
Chief Financial Officer

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

Strategic report approval

The strategic report outlined on pages 2 to 81, incorporates the financial highlights, the Chairman's statement, the strategic review, the Chief Executive's report, the financial review, the principal risks and uncertainties review and corporate social responsibility review.

By Order of the Board
Earl Sibley, Chief Financial Officer

4 March 2021