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FOR IMMEDIATE RELEASE

Vistry Group

8 November 2024
Vistry Group PLC
Trading update

Vistry Group PLC ("the Group") is issuing a trading update for the period from 1 July to 7 November 2024 ("the Period") and an update on the issues previously reported within its South Division.

Key points

- The findings of the independent and internal reviews regarding the issues in the South Division have been reported to the Board:
    - Scope of reviews covered all six divisions and 26 regional business units
    - Additional profit impact of the issues in the South Division of £25m in FY24, £20m in FY25 and £5m in FY26, taking the total impact to £165m
    - Issues in the South Division principally relate to sites from the former Housebuilding business
    - No systemic issues found outside the South Division
- Group's YTD sales rate significantly up on prior year at 1.02 (YTD 2023: 0.72), although market conditions slower than anticipated during September and October
- Group expects to deliver adjusted profit before tax in FY24 of c. £300m, reflecting the additional impact from issues in the South Division and reduced expectations for completions in the year
- The Group remains confident in its Partnerships strategy and committed to its medium-term targets and capital distribution policy, with the timeframe of delivery under review.

Update on issues reported within the South Division and outcome of independent review
Following the cost issues identified in the South division and reported in our 8 October 2024 update, we initiated a programme of independent and internal reviews to verify the nature and scope of the issues, confirm the impact, and determine any resultant actions required.

The independent review has been carried out by a forensics team of a large accounting firm reporting to the Chair of the Audit Committee and the findings have been presented to the Audit Committee. The scope of the review has primarily focused on the cost reporting process, culture and management in the South Division, and also includes a wider review across the Group to ascertain if similar issues to those identified in the South Division existed in other parts of the business. The independent reviewers have conducted interviews with management across the South Division's four regions, reviewed the specific site issues, met with the management of all the other five divisions and 22 regions, and interviewed Executive leaders and other Group function personnel.

The independent review reported on:

- The sequence of events leading to the identification of issues in the South Division
- The actions taken by management upon the issues becoming known
- Whether the issues identified were specific to the South Division or more widespread
- The culture within the South Division and more broadly across Vistry
- The site forecasting process ("Cost Value Reconciliations", or CVRs) and associated risk reporting process.

In addition to the work undertaken by the independent firm, additional internal investigations and review processes have been conducted. These activities have included:

- Deep-dive reviews on all four regions in the South Division by interim management and others from outside the South Division
- Mandated detailed CVR reviews for all other regions in October, attended by divisional and regional management, internal audit and other management
- Balance sheet reviews of all regions by finance management independent of the division
- Review of senior management talent and organisation structure.

The findings of the review process have been broadly consistent with the initial findings reported on 8 October 2024. The review findings have also confirmed that Group management took robust and prompt action upon becoming aware of the issues. The significant issues have been found to be confined to the South Division and can be attributed to insufficient management capability, non-compliant commercial forecasting processes and poor divisional culture. The South Division was led by a management team from the former Housebuilding business and the Managing Directors of all four regions within the South Division were from the Group's former Housebuilding business. None of the Group's other divisions are managed exclusively by former Housebuilding management. The independent review has highlighted the pressure being felt from organisational change as a fundamental driver underlying the issues in the South Division.

The independent review process has found little evidence of similar issues to those identified in the South Division in other divisions. The review findings have suggested that the Group does have key controls in place and operates them effectively. Strict adherence to the Group's Life of Site processes, which were created to ensure a consistent, standardised approach for the Partnerships model across the business, will be the focus of additional assurance activity. Some areas of regional cultural and process inconsistencies have been noted, mainly linked to the business background of the region and the stage of transition to the standardised model.

As a result of the in-depth review work, the Group now expects the impact to adjusted profit before tax of the issues in the South Division to be greater than that announced on 8 October 2024 and to total £105m in FY24, £50m in FY25 and £10m beyond FY25. The increase reflects additional developments where the total full-life cost projections to complete the development were understated, and a reduced expectation of FY24 activity across the South Division. The understated costs in CVRs have been found to be from a wide range of cost types and are symptomatic of general control issues, rather than any one particular cost type. A total of 18 sites in the South Division have adjusted full-life costs by greater than £1m, with 5 large, multi-phase sites accounting for c. 60% of the total full-life cost movements.

In addition, there have been a number of small value adjustments from the detailed CVR and other reviews carried out across the other 22 regions which in aggregate have resulted in a reduction to the Group's adjusted profit before tax in FY24 of £8m.

The management team and Board have considered the findings of all the review work performed to date and developed proposals to address the issues and enhance the control environment. These include:

- People: organisation changes are under review and new appointments are under consideration with the objective of improving transparency, enhancing management capability, reducing the length of reporting lines and ensuring closer proximity of the CEO to the business. South Division management and certain regional management have stepped away from the business pending completion of formal processes
- Commercial assurance: mandating of adherence to the new standardised process and controls and increased second-line review and scrutiny of CVRs
- Training and support: enhanced training and support to improve the expertise of regional teams
- Culture and whistle-blowing: activity to focus on psychological safety and clear communications to broaden the perceived scope of whistle-blowing.

The report from the independent review is expected to be finalised shortly and the Board will also consider the outcome of formal HR investigations once completed. Implementation and embedding of the proposals will be closely monitored and further action will be taken as necessary.

Trading update

The Group's average weekly sales rate in the year to date is up 42% at 1.02 (YTD 2023: 0.72), with a rate of 0.73 (2023: 0.54) since 1 July.

The Partner Funded market has been quieter during September and October reflecting both a slowdown in partner activity ahead of the Autumn Budget and later than anticipated reductions in the borrowing rate, particularly impacting the timing of partner transactions requiring higher levels of funding.

We were pleased to see the Government's commitment to a social housing rent settlement for the next five years in the Autumn Budget and the additional £500m for the Affordable Homes Programme, increasing the annual budget to £3.1 billion.

Demand from Registered Providers (RPs) has been uneven. London and the South East have been more constrained, with RPs in London focused on longer-term estate reprofiling and regeneration schemes. In the Midlands and North, demand has been stronger with continued interest in high quality low rise mixed tenure opportunities. The Group continues to work closely with our RP partners to secure new opportunities through early engagement and our strong track record of delivery.

We continue to see strong demand from the private rented sector (PRS), particularly for portfolios of Single-Family Homes, with increased momentum from fund managers and PRS platforms looking for larger scale investment. Pricing on PRS units has remained competitive.

In the open market, we saw some improvement in consumer interest and an uptick in our sales rates following the General Election and interest rate cut at the start of August. However, the open market has remained constrained by mortgage affordability and the expectation of future interest rate cuts, in particular for first time buyers in London and the South East. The Group is utilising incentives of up to c. 5% of open market price to support open market sales.

The Group continues to secure a strong pipeline of attractive new land and development opportunities and in the second half of the year to date has secured a total of 4,256 mixed tenure homes across 16 sites, taking the total secured in the year to date to 12,481 mixed tenure homes across 47 sites. The Group is well positioned for land for FY25 with more than 85% of the land secured for targeted FY25 completions.

The new development opportunities include our partnership with Solihull Council to deliver 177 affordable homes utilising timber frame construction from Vistry Works, with all homes being fitted with air source heat pumps and solar PV panelling. Further developments with our valued RP partners including Bromford, to deliver 250 affordable homes at our recently secured Longbridge site, Birmingham which will be part of a wider mixed tenure brownfield regeneration site delivering 695 new homes. A new partnership with Man Group's Community Housing Team to deliver 146 affordable homes in Wellingborough. Lastly, we are delighted to announce today, the acquisition of a site in Hinckley, Leicestershire for the development of 475 new mixed tenure homes which will be constructed using timber frame from Vistry Works.

Expectations for FY24

The Group now expects to deliver total completions in FY24 of c. 17,500 units, with the total average selling price at a similar level to the prior year.

Reflecting this reduced expectation for completions in the year, the additional impact on profit from issues in the South Division and adjustments in other regions, the Group expects to deliver adjusted profit before tax in FY24 of c. £300m.

The Group will be cash generative in the second half and expects to report a significant reduction in net debt from the half year position of £322.0m, with net debt as at 31 December expected to be lower than the prior year position of £88.8m. The cash impact of the South Division adjustments is reflected in the FY24 net debt expectation, with the impact in FY25 estimated to be a further c. £40m. The Group continues to expect to complete its share buyback programme totalling £130m by its AGM in May 2025.

The Group is reviewing its Building Safety provision in light of potential additional buildings, an increase in scope on some existing buildings and a revised approach to a scheme impacted by the second staircase regulations. We do not expect the annual net cash impact in future years to be material after allowing for a corresponding increase in expected recoveries and a reduced tax charge. An update will be provided on the conclusion of this review process with our FY24 results.

Outlook

We have a strong forward sales position up 12% on prior year and totalling £4.8bn (2023: £4.3bn), supporting our FY25 delivery and beyond. The Group's growth in FY25 will be influenced by our need to stabilise the South Division and prevailing market conditions.

Having seen a year of neutral build cost inflation in FY24, the Group is expecting to see some overall pressure on build costs in FY25. We will look to mitigate these where possible through our benefits of scale and visibility of revenues, and through efficiency gains. We are assessing the impact of the Autumn Budget and note that the direct impact to the Group of the April 2025 increase in Employer National Insurance contributions will be c. £5m in FY25, with the rate increase also impacting our supply chain.

The scale of the need for additional affordable housing across the country is undisputed, and the Government is committed to a sharp increase in the delivery of affordable housing over the next five years. Vistry remains uniquely positioned and committed to playing a key role in supporting the Government to deliver its plans.

Our engagement and transactions with our highly valued partners underlines their confidence in our Partnerships model, as has the strength of opportunities and activity in the land market. In anticipation of a new Affordable Homes Programme in 2025, partners are increasingly motivated to engage in discussions on future pipelines in response to the government's target for 1.5 million new homes.

The Group is confident in its capital light Partnerships model and continues to see significant opportunity for growth. It remains committed to its medium-term targets including the distribution of £1bn of capital to its shareholders. In light of the recent issues in the South Division, the Group is reviewing the timeframe in which these are expected to be achieved.

Vistry will host a conference call at 08:30am today.
There will be a call for analysts and investors at 8:30am today hosted by Greg Fitzgerald (Executive Chairman and CEO) and Tim Lawlor (CFO). To join the call please register at https://www.netroadshow.com/events/login?show=b1344996&confId=73281
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This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation. The person responsible for arranging the release of this announcement on behalf of Vistry is Clare Bates, General Counsel & Company Secretary.