8 July 2022

Vistry Group

Vistry Group PLC - Trading update

Excellent first half, ahead of our expectations

Vistry Group PLC (the "Group") is providing an update on trading in the period from 1 January 2022 to 30 June 2022.

Greg Fitzgerald, Chief Executive commented:

"The Group has delivered an excellent first half performance, significantly exceeding our expectations at the start of the year. Demand has been strong across all areas of the business and our forward sales positions further strengthened.

"The business is in great shape and well positioned to maximise the broader market opportunities. With leading capability across all housing tenures and being one of the largest private sector providers of affordable housing, the Group is uniquely positioned within the housebuilding sector, and we continue to drive the benefits from our Housebuilding and Partnerships combination.

"Whilst mindful of the wider economic uncertainties, we are positive on the outlook for the Group and expect to see significant margin progression in the full year, with adjusted profit before tax for FY 22 to be at the top end of market forecasts[1]"

- Excellent H1 performance, ahead of our expectations at the start of the year and significantly ahead of a strong performance in H1 21, supported by on-going positive market trends
- Good demand across all areas of the business with an 11% increase in the H1 22 average weekly private sales rate to 0.84 (H1 21: 0.76)
- Housebuilding completions increased to 3,219 (H1 21: 3,126) units with FY 22 adjusted gross margin now expected to be ahead of our 23% target
- Vistry Partnerships continues to deliver rapid growth in higher margin mixed tenure completions, increasing by 24% in H1 22 to 1,106 (H1 21: 895) units, with the overall Partnerships adjusted operating margin for FY 22 expected to be ahead of our 10% target, whilst maintaining a return on capital employed in excess of 40%
- Very strong forward sales position with total Housebuilding and Partnerships' mixed tenure forward sales increasing by 16% to £2,144m (2021: £1,847m) and 92% of total forecast units for FY 22 secured
- Successful H1 22 in the land market with Housebuilding more than replenishing its land bank, securing 3,360 (2021: 4,143) plots at an average gross margin and return on capital employed both above 25%
- Partnerships secured 2,166 (2021: 1,499) plots in H1 22, well in excess of completion volume, with margins on new land at the upper end of our target range and consistent with Partnerships' medium term targets of 12+% operating margin and in excess of 40% return on capital employed
- Another period of strong cash generation with the Group net cash position increasing to c. £115m as at 30 June 2022 (30 June 2021: £31.6m), reflecting the strength of the first half performance. Our month-end average net debt for the rolling 12 months to 30 June 2022 was £73m (30 June 2021: £239m)
- We remain positive on our outlook and continue to expect adjusted profit before tax for FY 22 to be at the top end of market forecasts[1]

[1] Bloomberg (07/07/2022) – Adjusted profit before tax: High - £417.0m, Mean - £397.7m

Strong demand
There has been continued strong and consistent demand across all areas of the business in the year to date, with our private sales rate per site per week increasing to 0.84 (2021: 0.76), up 11% on what was a strong prior year equivalent period, while the cancellation rate has remained stable. This strong demand has been accompanied by price increases of 5% to 8% on our private units in H1 22 with price increases more than offsetting cost increases in the period.

Growing need for housing across all tenures from local authorities, housing associations, the private rented sector and elderly accommodation providers is driving very high demand in our Partnerships business. With our capability, proven track record and excellent relationships, Vistry Partnerships is extremely well positioned to maximise the benefit of this demand. We have drawn down the first tranche of funding under the Strategic Partnership funding award from Homes England, further aligning our approach to the delivery plans of our clients.

Whilst we have seen consecutive increases in interest rates during the first half of this year, rates remain at historically low levels and mortgage availability is strong, with a competitive lender market and Government policy remaining supportive of mortgage lending.

The Group's forward sales position has further strengthened with Housebuilding and Partnerships' mixed tenure forward sales totalling £2,144m (2021: £1,847m), up 16% on prior year. 92% (2021: 93%) of total forecast Housebuilding and mixed tenure revenues for FY 22 are secured. The partner delivery forward order book totals £835m (2021: £890m) with 96% (2021: 95%) of forecast FY 22 revenue secured.

Operations
Delivering high quality new homes and excellent customer satisfaction remain our key priorities and we were pleased to be awarded the maximum 5-star HBF customer satisfaction rating in the most recent annual review for the third consecutive year, with our score at 92% in the recently published HBF 12-month rolling customer satisfaction data. We remain focused on improving our score for the HBF customer satisfaction survey which is sent out nine months after completion and are very encouraged to see our current score increasing to 78.6%, in-line with the industry benchmark and up from 73.1% in the prior year equivalent period.

Our sites are operating well, with good labour availability, and are benefitting from improvements in the supply of materials, reflecting increased stock levels for most products and the strong partnerships we have developed across our supply chain. The Group recently received its highest number of NHBC Pride in the Job Quality Awards winners with 29 site managers receiving the accolade, and a further two Premier Guarantee Excellence awards. Our Construction Quality Review and Reportable Item scores, on-going measurements of build quality, remain ahead of industry benchmarks.

Wider industry cost pressures, including rising energy costs and increasing wages, are resulting in higher costs for certain materials. Overall, we continue to expect to see build cost inflation for FY 22 in the region of 6%. Our focused commercial controls and strong client relationships have enabled us to effectively manage input-cost pressures in respect of our pre sold volume.

Our people are key to the success of our business, and we continue to prioritise staff wellbeing and retention. In the first half we introduced a cost of living wage adjustment across the business, weighted most strongly toward our lower earners, and are pleased to report that the level of voluntary staff turnover is down despite a tight labour market.

Planning remains the single most significant constraint on the business, from continuing capacity issues within local planning authorities, to the increasingly challenging political and regulatory environment around issues such as nutrient neutrality. We are responding proactively by factoring longer lead times into our site forecasting, which enhances our control, and increasing our senior expertise in these areas. Our strong balance sheet and breadth of operations provide confidence and resilience to cope with any specific issues.

Having committed to undertake all necessary life-critical fire safety rectification in respect of buildings developed by the Group and its predecessor entities in the last 30 years, we have strengthened our dedicated team and are working hard to agree and implement required repairs as quickly as possible.

High quality land acquisition
We have had a successful first half in the land market. Housebuilding has more than replenished its land bank having secured 3,360 (2021: 4,143) plots across 16 (2021: 20) developments and has 100% of the land it requires for FY 23 completions secured. Land has been acquired on average above the minimum hurdle rates of 25% gross margin and 25% return on capital employed.

Partnerships continues to invest in its owned land bank to support its rapid growth in mixed tenure with 2,166 (2021: 1,499) plots on 12 (2021: 8) sites secured in the first half, well in excess of completion volume. Margins on new developments secured in the period have been at the upper end of our targeted range across Partnerships, supporting our medium term operating margin target of at least 12% and return on capital in excess of 40%. This growing business is well positioned with 87% of the land required for FY 23 mixed tenure completions secured.

In addition, the unique combination of Housebuilding and Partnerships has enabled us to acquire a number of larger sites, supporting the accelerated delivery of new homes as we utilise the full bandwidth of the business.

With our strong strategic land capability, we remain focused on strategically sourced land and are targeting 30% of total completions to be delivered from higher margin strategic land in the medium term. In the first half, we have secured 2,518 (2021: 4,660) plots on 6 (2021: 6) strategic land sites and pulled through 1,852 strategic land plots across 5 sites into the owned land bank.

Balance sheet and capital allocation
It has been another period of strong cash generation with the year on year Group net cash position increasing to c. £115m as at 30 June 2022 (30 June 2021: £31.6m), reflecting the strength of the first half performance. Our month-end average net debt for the rolling 12 months to 30 June 2022 was £73m (30 June 2021: £239m).

With balance sheet strength, our priority remains investing in the business to support the Group's growth strategy. The Housebuilding business remains focused on controlled volume growth, driving margins and return on capital employed, while Partnerships continues to drive rapid growth in its higher margin mixed tenure revenues whilst retaining its higher return on capital employed.

The Group stated that surplus capital, following investment in the business to support the Group's growth strategy and the payment of ordinary dividend, would be returned to shareholders.

On 27 May 2022 the Group announced the commencement of a share buyback programme to repurchase up to £35m of ordinary shares. The Board considers that it is returning a prudent level of cash to shareholders, which reflects the robust trading of the Group, while also retaining a strong balance sheet. The programme has been successful and as at 6 July, shares with a total value of £28.2m have been repurchased, at an average price of 867p.

Outlook
Demand remains strong reflected in high prospect levels and strong current reservation rates. Our Partnerships business is extremely well positioned to meet the very high level of demand across all tenures from local authorities, housing associations, the private rented sector and elderly accommodation providers.

Given the positive trading in the first half and in particular the strong price increases, we expect margins in both Housebuilding and Partnerships in the year to be ahead of our FY 22 targets.

Whilst we are mindful of the wider economic uncertainties, we remain positive on our outlook and continue to expect adjusted profit before tax for FY 22 to be at the top end of market forecasts[1].

Completions	**H1 22**	**H1 21**
Housebuilding		
- Private	1,836	1,853
- Private JVs (100%)	639	441
- Affordable	623	669
- Affordable JVs (100%)	121	163
Total Housebuilding	**3,219**	**3,126**
Partnerships		
- Mixed tenure	643	408
- Mixed tenure JVs (100%)	463	487
Total mixed tenure	**1,106**	**895**

Forward sales (£m)	**30 June 2022**	**30 June 2021**
Housebuilding		
- Private	718	650
- Private JVs (100%)	230	210
- Affordable	450	485
- Affordable JVs (100%)	108	111
Total Housebuilding	**1,506**	**1,456**
Partnerships		
- Mixed tenure	342	200
- Mixed tenure JVs (100%)	296	191
Total mixed tenure	**638**	**391**
Total development	**2,144**	**1,847**
Total partner delivery	**835**	**890**
Total Group	**2,979**	**2,737**

Certain statements in this press release are forward looking statements. Forward looking statements involve evaluating a number of risks, uncertainties or assumptions that could cause actual results to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends, results or activities should not be taken as representation that such trends, results, or activities will continue in the future. Undue reliance should not be placed on forward looking statements.

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