

Half year results 2015

17 August 2015

www.bovishomesgroup.co.uk



Agenda

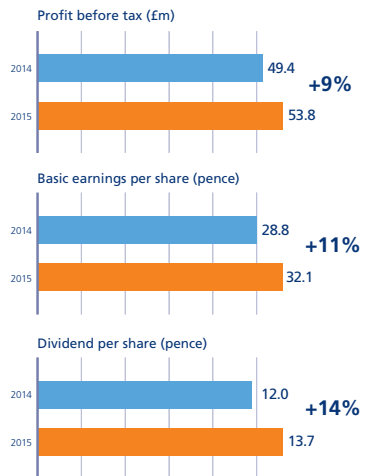
- Highlights
- Financials
- Strategy
- Summary



The Fairways, Leamington Spa

Frame 1

Growth strategy on track



Robust financial performance

- Record legal completions of 1,525 homes (H1 2014: 1,487)
- 9% increase in revenue to £350.7m (H1 2014: £322.1m)
- 6% increase in average sales price to £222,300 (H1 2014: £210,000)
- Net profit margin of 16.0% (H1 2014: 15.9%)
- ROCE for 12 months to 30 June 2015 of 15.6% (2014: 13.4%)

Well positioned for future growth

- Strong investment in consented land in half year
- Over 19,000 consented plots in land bank across 135 sites
- Over 23,000 strategic plots controlled across 86 sites - c6,000 plots with planning agreed
- Strong balance sheet with net debt of £59m (H1 2014 net debt: £45m)

Frame 2

Strong investment continues to drive growth

Six months ended 30 June	2014	2015	Growth
<b>Land investment</b>			
Consented plots added	4,597	2,687	
Sites added	23	15	
Period end owned sites	121	135	+12%
<b>Sales outlets</b>			
Average active sales outlets	93	100	+8%
Active sales outlets at period end	98	102	+4%
<b>Reservations</b>			
Total reservations for current year delivery (inc legal completions to date)	3,297	3,505	+6%
Private sales rate per site per week	0.65	0.63	

- Strong pipeline of land acquisitions provides opportunity for growth
- Increased sales outlets delivers growth in sales volume, supported by higher levels of house production
- Robust sales rate against strong comparative

Frame 3

## Agenda

- Highlights
- **Financials**
- Strategy
- Summary



Church Meadows, Bromsgrove

Frame 4

## Summary of Group results

Six months ended 30 June (£m)	2014	2015	Change
Revenue	322.1	<b>350.7</b>	<b>+9%</b>
Gross profit	79.8	<b>88.1</b>	<b>+10%</b>
Administrative expenses	(28.6)	<b>(33.8)</b>	<b>+18%</b>
Share of profit of Joint Ventures	0.1	<b>1.7</b>	
Net profit	51.3	<b>56.0</b>	<b>+9%</b>
Finance cost	(1.9)	<b>(2.2)</b>	
Profit before tax	49.4	<b>53.8</b>	<b>+9%</b>
Taxation charge	(10.8)	<b>(10.8)</b>	
Profit after tax	38.6	<b>43.0</b>	<b>+11%</b>

- Strong growth in gross profit supported by higher average sales price
- Overheads increased, as anticipated, as a result of:
  - Increased staff costs to support larger business and volume growth
  - Investment in sales and marketing as active sales outlets increase
  - Cost to progress newly acquired land through to build and sales phases

Frame 5

## Analysis of profit growth

Six months ended 30 June (£m)	2014			2015		
	Housing	Land sales	Total	Housing	Land sales	Total
Revenue	315.1	7.0	322.1	<b>342.5</b>	<b>8.2</b>	<b>350.7</b>
Gross profit	78.8	1.0	79.8	<b>84.1</b>	<b>4.0</b>	<b>88.1</b>
Administrative expenses	(28.6)	-	(28.6)	<b>(33.8)</b>	-	<b>(33.8)</b>
Share of profit of Joint Ventures	0.1	-	0.1	<b>1.7</b>	-	<b>1.7</b>
Net profit	50.3	1.0	51.3	<b>52.0</b>	<b>4.0</b>	<b>56.0</b>
Gross profit margin	25.0%		24.8%	<b>24.6%</b>		<b>25.1%</b>
Overhead ratio			8.9%			<b>9.6%</b>
Net profit margin			15.9%			<b>16.0%</b>

- Modest reduction in housing gross margin due to skew in mix to lower margin social units in H1 2015
- Gross margin maintained given profitable land trading as part of focus on capital efficiency
- Net profit margin of 16.0%
- Overhead ratio reflective of increased overhead to manage larger Group with expected greater weighting of 2015 legal completions in H2 versus 2014

Frame 6

## Housing revenue analysis

Average sales price (£k)	H1 2014	H1 2015	Change
Private	239.5	<b>264.2</b>	<b>+10%</b>
PRS	167.5	<b>138.3</b>	<b>n/a</b>
Social	107.1	<b>115.7</b>	<b>+8%</b>
<b>Total</b>	<b>210.0</b>	<b>222.3</b>	<b>+6%</b>
<b>Volume</b>			
Private	1,107	<b>1,079</b>	<b>-3%</b>
PRS	106	<b>101</b>	<b>-5%</b>
Social	274	<b>345</b>	<b>+26%</b>
<b>Total</b>	<b>1,487</b>	<b>1,525</b>	<b>+3%</b>
<b>Revenue (£m)</b>			
Private legal completions (including PRS)	282.9	<b>299.1</b>	<b>+6%</b>
Social legal completions	29.3	<b>39.9</b>	<b>+36%</b>
<b>Revenue from legal completions</b>	<b>312.2</b>	<b>339.0</b>	<b>+9%</b>
Other revenue	2.9	<b>3.5</b>	
<b>Housing revenue</b>	<b>315.1</b>	<b>342.5</b>	<b>+9%</b>

- Reduction in private volumes reflective of lower opening work in progress position - volumes expected to be more weighted to H2 2015 than in previous year

Frame 7

## Housing gross margin progression

	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015
Revenue (£m)	183.2	369.8	315.1	472.7	<b>342.5</b>
Revenue	100.0%	100.0%	100.0%	100.0%	<b>100.0%</b>
Land	25.9%	24.1%	23.3%	24.9%	<b>22.5%</b>
Construction costs	51.0%	52.1%	51.7%	50.9%	<b>52.9%</b>
Housing gross margin	23.1%	23.8%	25.0%	24.2%	<b>24.6%</b>

- Average gross profit contribution per home increased to £55,500 (H1 2014: £53,600)
- H1 2015 housing gross margin reflects:
  - market price increases offset by impact of build cost inflation
  - modest improvement from changing mix - both product and location
  - influence of increased social in the mix
- Private housing gross margin maintained year on year (excluding PRS)

Frame 8

## Market effects on sales prices and construction costs

	H1 2014	H1 2015
Sales price	210.0	<b>222.3</b>
Sales price per sq ft	213.7	<b>217.8</b>
Sales price (private homes excl. PRS)	239.5	<b>264.2</b>
Sales price per sq ft (private homes excl. PRS)	228.0	<b>240.1</b>
Construction cost	106.7	<b>117.3</b>
Construction cost per sq ft	108.5	<b>114.9</b>

- Sales price per square foot for private homes has increased c5% year on year
- Increase in construction cost per square foot of c6% year on year, due to:-
  - inflationary impacts of labour and materials
  - product and geographic mix
- Market effect on construction costs continues with annual build cost inflation for 2015 estimated at 7%
  - inflationary pressure on labour
  - modest material prices increase

Frame 9

## Generating cash

Six months ended 30 June (£m)	2014	2015
Housing receipts	301.7	<b>345.8</b>
Construction expenditure	(163.7)	<b>(222.8)</b>
Overheads	(30.1)	<b>(44.0)</b>
<b>Operating cash flow</b>	<b>107.9</b>	<b>79.0</b>
Net cash expenditure on land	(106.8)	<b>(95.3)</b>
Dividends	(12.7)	<b>(30.8)</b>
Other items	(15.7)	<b>(16.9)</b>
<b>Net cash flow</b>	<b>(27.3)</b>	<b>(64.0)</b>
Opening net (debt)/cash	(18.0)	<b>5.2</b>
<b>Closing net (debt)</b>	<b>(45.3)</b>	<b>(58.8)</b>

- Operating cash flow was positively influenced by increased revenue in H1 2015
- Construction expenditure reflects increased level of production, with larger houses being built and increasing infrastructure spend with more newer sites
- Other items includes the impact of the increase in dividend payments

Frame 10

## Increase in net assets

As at (£m)	30 Jun 2014	31 Dec 2014	30 Jun 2015
Land	845.6	874.7	<b>965.7</b>
Land creditors	(184.3)	(198.2)	<b>(264.4)</b>
Land net of creditors	661.3	676.5	<b>701.3</b>
Work in progress	236.5	225.5	<b>287.7</b>
Other assets	159.0	151.9	<b>175.9</b>
Other liabilities	(176.1)	(180.0)	<b>(211.5)</b>
Net debt	(45.3)	5.2	<b>(58.8)</b>
<b>Net assets</b>	<b>835.4</b>	<b>879.1</b>	<b>894.6</b>
<b>Net assets per share</b>	<b>624p</b>	<b>655p</b>	<b>666p</b>

- Net land bank and work in progress reflect investment in growth and delivery of H2 volume
- Other assets reflect increased HA receivables and a large VAT debtor on land
- Other liabilities reflect increased amounts due to trade creditors
- Remaining land provision of £9.8m after £2.9m of utilisation in H1 2015

Frame 11

## Consented land investment in H1 2015

- 2,687 consented plots added to the land bank during H1 2015 across 15 sites  
- Current day GDV of £704m
- Conditional contracts in place at 30 June 2015 to acquire another 1,692 plots on 13 sites, the majority of which are expected to be added to the consented land bank in near term



**Significant investment at strong margins during a period of growing confidence in UK housing market - important time in the market cycle to be investing**

Frame 12

## Growing gross profit potential from land bank

	Consented Plots	Revenue £m	ASP £000	Gross profit £m	Gross margin %
2013 additions*	3,737	841	225.0	216	25.7%
<b>31 December 2013*</b>	<b>14,638</b>	<b>3,007</b>	<b>205.4</b>	<b>727</b>	<b>24.2%</b>
2014 additions*	7,300	1,717	235.2	447	26.0%
<b>31 December 2014*</b>	<b>18,062</b>	<b>4,040</b>	<b>223.7</b>	<b>1,017</b>	<b>25.2%</b>
H1 2015 additions	2,687	704	262.2	183	25.9%
<b>30 June 2015</b>	<b>19,081</b>	<b>4,448</b>	<b>233.1</b>	<b>1,134</b>	<b>25.5%</b>

Estimates based on prevailing sales prices and prevailing build costs

\*As previously disclosed

- During H1 2015, gross margin potential in the land bank has increased by 0.3ppt
- ASP is 4% higher at 30 June 2015 than the start of 2015  
- higher value new plots have replaced those of lower value taken to legal completion  
- positive effect of market price improvements
- ROCE based on H1 2015 acquisition appraisals averaged c29%

Frame 13

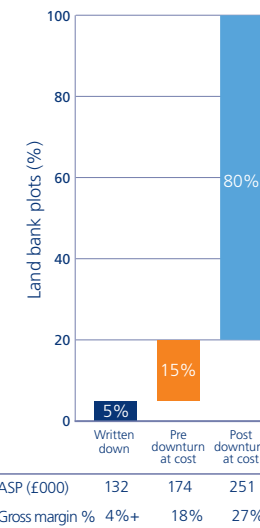
## Land bank maintains southern bias

As at	31 Dec 2013		31 Dec 2014		30 June 2015	
	% land	Plots	% land	Plots	% land	Plots
South	71%	10,401	75%	13,565	<b>77%</b>	<b>14,647</b>
Midlands	19%	2,705	17%	3,024	<b>16%</b>	<b>3,125</b>
North	10%	1,532	8%	1,473	<b>7%</b>	<b>1,309</b>
<b>Group</b>	<b>100%</b>	<b>14,638</b>	<b>100%</b>	<b>18,062</b>	<b>100%</b>	<b>19,081</b>
Average plot cost (IFRS)		£48,900		£46,600		<b>£48,600</b>

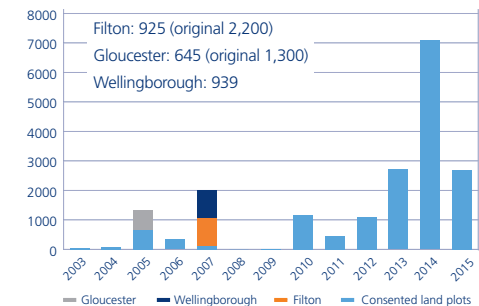
- 19,081 plots with at least outline planning consent representing between four and five years of supply

Frame 14

## New land investment driving future margin

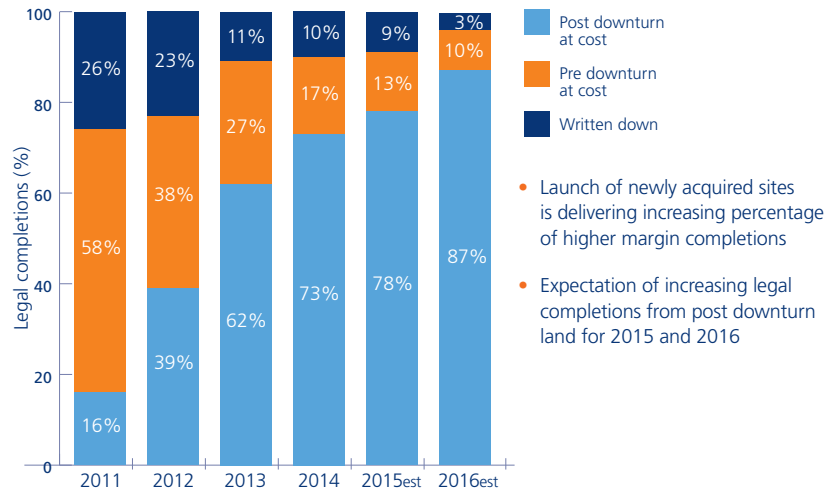


Land bank plots	31 Dec 2013	31 Dec 2014	30 June 2015
Post downturn at cost	9,197 <b>63%</b>	13,700 <b>76%</b>	<b>15,266 80%</b>
Pre downturn at cost	3,943 <b>27%</b>	3,334 <b>18%</b>	<b>2,948 15%</b>
Written down	1,498 <b>10%</b>	1,028 <b>6%</b>	<b>867 5%</b>
	14,638	18,062	<b>19,081</b>



Frame 15

## Post downturn land now driving returns



Frame 16

## Agenda

- Highlights
- Financials
- **Strategy**
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Frame 17

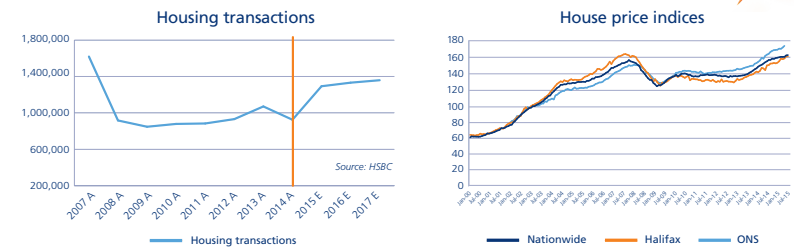
## Confidence in the strategy

- Long term land investment including delivery from strategic land providing growth in volume at strong sales prices and high profit margins
- Strong growth in revenue with improved capital efficiency which drives higher capital turn and increases ROCE
- Growth focus during positive housing market conditions with assessment of housing cycle at all times
- Strategy and structure which can quickly adapt to changes – adjusting land holdings as cycle evolves
- Focus on prime traditional housing sites mainly in the south of England (ex London)
- Aim to reach steady state volumes of between 5,000 and 6,000 new homes per annum in medium term

### Flexible strategy for growth in shareholder returns

Frame 18

## Positive housing market conditions remain



- The housing market is showing robust activity with growth in transactions (>1.2m est 2015) and increasing sales prices (+8.5% p.a.)
- The recent clarity from the General Election provides a positive political base for the new homes market
  - *Help to Buy committed to 2020*
  - *NPPF driving strong land supply through planning*
  - *Government supporting new house building*
- Recent Budget focus on housebuilding provides further confidence although clarification required on social housing rents
- UK mortgage market is very competitive with low costs of funding and readily available capital

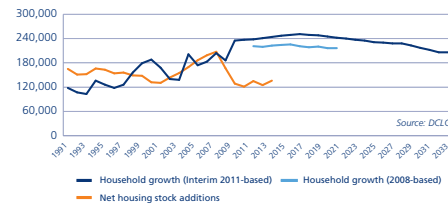
Frame 19



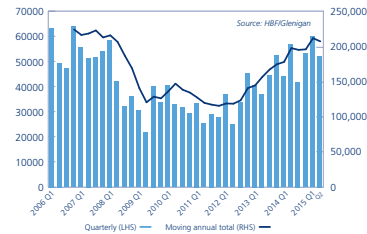
## Housing demand and land supply

- Household formation continues to run ahead of new housing numbers
- The UK Government has declared an ambition for the country to build over 200,000 new homes per annum
- Many years of housing undersupply has created a chronic housing shortage in the UK

Annual household growth and Net stock additions (England)



Planning permissions: All dwellings (England)

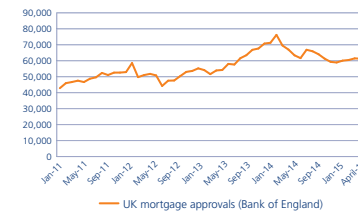


- Changes to UK planning system (NPPF) have increased residential land supply
- Requirement for a five year housing supply has led to an unprecedented level of windfall planning consents
- Residential land supply in the market has increased in the short term
- Land supply may plateau or fall over the next few years as LPA's agree housing plans and five year supply is achieved

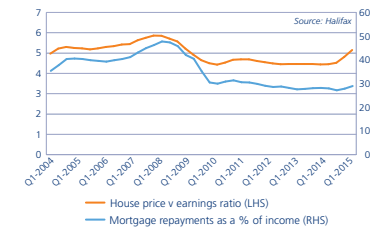
Frame 20

## Mortgage lending is supporting activity

UK mortgage approvals (Bank of England)



Affordability



- Monthly mortgage approvals have reached a level which support over one million housing transactions per annum – a sense of a normal market
- Improved availability of mortgages at higher LTVs means demand is being assisted by the mortgage market rather than constrained by it
- Government support through Help to Buy is providing a significant underpin to 95% LTV lending (HTB committed to 2020)
- Affordability is good relative to long term trend, assisted by low interest rates
- Increases in interest rates will influence housing demand – likely to be gradual and controlled
- MMR will act as a control valve on the mortgage market and is an important influence to control the quality of lending
- Actions taken by FPC/MPC is expected to further control mortgage finance available from lenders

Frame 21

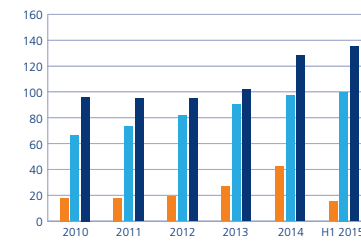
## Land investment

- With positive market conditions, c40 site additions per annum will support medium term volume plans
- Level of land investment will be adjusted in light of market conditions
- Highly attractive strategic land bank will contribute strongly over coming years
  - aiming for c50% of new land acquired through strategic conversion
- Land trading will facilitate capital efficiency and assist funding
- Above replenishment acquisition rate will fuel growth in sales outlets
  - site numbers increasing by c10 sites per annum
  - aiming to reach at least 150 sales outlets at steady state
- Increased investment in land will be funded in the main from retained earnings after dividends
  - modest use of debt in early period of future growth

Frame 22

## Strong progress with land bank

- Larger land bank with increased site numbers now delivering strong increase in volume
- Significant increase in land bank average sales price to £233,100 with gross margin at 25.5%
- Geographical spread of land bank reaching planned focus in south of England
- Average expected gross contribution per plot at £59,400



Land site additions Average sales outlets Year end land sites

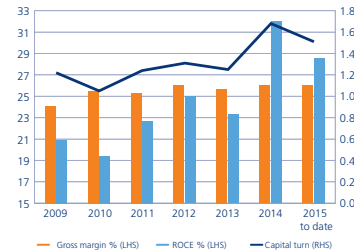
	2010	H1 2015
<b>Land bank geography</b>		
South	69%	77%
Midlands	21%	16%
North	10%	7%
	100%	100%
<b>Land bank financials</b>		
Consented plots	13,766	19,081
Site numbers	96	135
Average plots per site	143	141
Average cost (£)	39,800	48,600
Average sales price (£)	167,600	233,100
Future revenue (£m)	2,307	4,448
Future profit (£m)	461	1,134
Gross margin	20.0%	25.5%
Average land cost %	23.7%	20.9%

Frame 23

## Improving returns on new land investments

	2009	2010	2011	2012	2013	2014	H1 2015
Land plots added	353	3,690	2,552	2,651	3,737	7,300	<b>2,687</b>
Expected gross margin %	24.1%	25.5%	25.3%	26.0%	25.7%	26.0%	<b>25.9%</b>
Expected ROCE %	21%	19%	23%	25%	23%	32%	<b>29%</b>
Expected capital turn	1.2	1.1	1.2	1.3	1.3	1.7	<b>1.5</b>

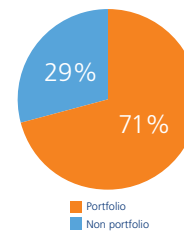
- Consistent gross margins combined with stronger capital turn on new investments provides opportunity to drive better ROCE in future
- Investments in 2009 to 2011 were supportive of delivering a 20% ROCE, more recent years would indicate a stronger ROCE potential which will feed into the income statement
- Capital turn is improving based on a more robust sales rate combined with better payment terms on acquisition



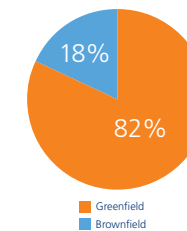
Frame 24

## Strategy delivery in land bank

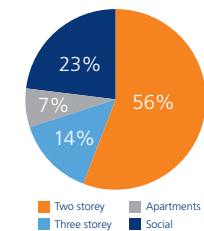
Portfolio housing range (private exc Sherford)



Greenfield land



Traditional housing



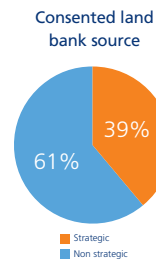
- Having launched the new Portfolio range in 2011, 71% of private plots in the land bank are Portfolio (excludes Sherford where the design code may prevent Portfolio)
- 82% of all consented plots are greenfield – brownfield includes Filton (5%) and Gloucester (3%)
- 56% of all consented plots are for private traditional two storey homes (73% of private only) with only 7% being for apartments (typically small blocks on traditional sites)

Frame 25

## Increasing strategic land opportunity

	2009	2010	2011	2012	2013	2014	H1 2015
Consented plots added	353	3,690	2,552	2,651	3,737	7,300	<b>2,687</b>
Strategic conversion	175	822	991	1,193	1,380	2,975	<b>229</b>
Strategic conversion as % of plots added	50%	22%	39%	45%	37%	41%	<b>9%</b>

- Changes in planning process have increased opportunity in 2014 and 2015 – moving towards 50% conversion
- Further 546 consented plots soon to be acquired at Bishops Stortford on extended deferred terms
- 630 consented plots to be acquired at North Wokingham on deferred terms and 257 consented plots in price notice process at Witney
- Consented plots available for phase draw down at Tavistock (750 plots)
- Major planning applications in process at North Whiteley (1,700 plots), Alphington (1,250 plots), Taunton (840 plots), Bexhill on Sea (500 plots), Cambourne (750 plots), Edwalton (600 plots) and Collingtree (1,000 plots)
- Strong progress being made at Wellingborough with a housing start targeted in late 2015 at full returns
- c6,000 plots of strategic land bank already have planning agreed



Frame 26

## The strategic land bank

Potential plots as at	31 Dec 2013		31 Dec 2014		30 June 2015	
	% land	Plots	% land	Plots	% land	Plots
South	63%	12,568	65%	13,946	<b>68%</b>	<b>15,934</b>
Midlands	32%	6,503	30%	6,450	<b>27%</b>	<b>6,262</b>
North	5%	1,037	5%	954	<b>5%</b>	<b>1,091</b>
<b>Total</b>		<b>20,108</b>		<b>21,350</b>		<b>23,287</b>

- 23,287 strategic plots controlled on 86 strategic assets
- 2,299 potential plots across 12 strategic assets added to the strategic land holdings during 2015 to date
- 229 plots from 2 assets converted to the consented land bank during 2015
- Ambition for c50% of consented land bank to be strategically sourced

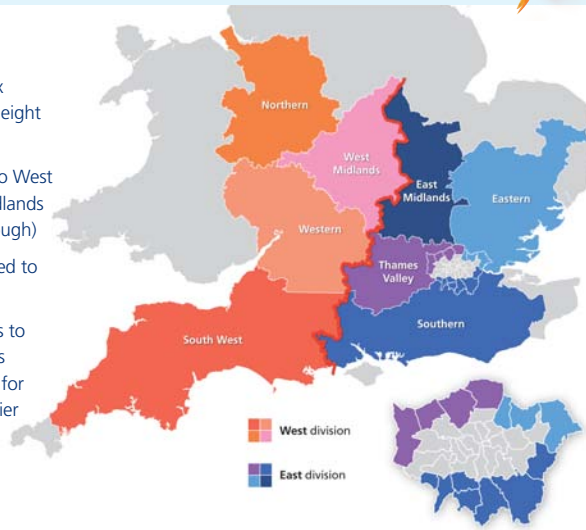
**Improving strategic land position with significant opportunities in coming years**

Frame 27

## Evolving Group structure to manage future growth

### 2016 regional split

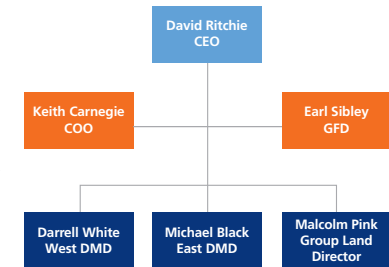
- Current structure of six regions will expand to eight regions in 2016
- Central region split into West Midlands and East Midlands (including Wellingborough)
- Thames Valley expanded to support growth
- Restructure of divisions to West and East divisions provides greater focus for division teams and easier regional access



Frame 28

## Managing the growth

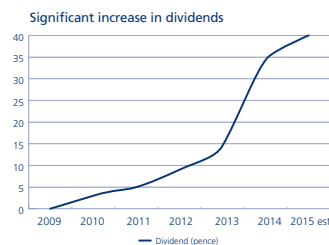
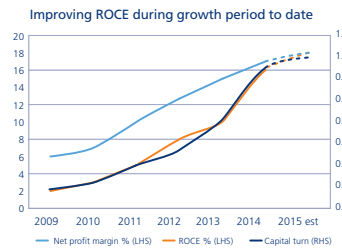
- Management structure strengthened to deliver controlled growth
- Promotion of Keith Carnegie to Chief Operating Officer with effect from 1 January 2016
- Malcolm Pink responsible for strategic land at Group level
- Promotion of Michael Black and Darrell White to Division Managing Directors with phased handover of responsibility during second half of 2015
  - Build academy ongoing
  - Apprenticeship programme expanded
  - HR programmes developing



Frame 29

## Improvement in returns

- Increased capital turn combined with strong profit margin expected to lead to better ROCE
- Capital turn in 2015 expected in excess 1.0 times with increase in net profit margin
- 2016 target of at least 20% ROCE remains on track
  - Capital turn over 1.0 times
  - Net profit margin approaching 20%
- Dividends increasing
  - Intention for 40 pence per share in 2015
  - A dividend policy of one third of earnings
  - Cash surplus to requirements will contribute to above policy dividends



**Strong dividends will complement growing ROCE**

Frame 30

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- **Summary**



Frame 31



## A strong 2015 to date



- Strategy and performance on track
- Record volumes at half year and strong sales pipeline
- 3,768 sales achieved for 2015 legal completion at week 32 (2014: 3,530)
- Sales rate since half year, during summer, has been good at 0.58 (2014: 0.45)
- Operating from 106 sales outlets with more to launch in 2015
- Average private sales price achieved on reservations to date of c£260,000 (2014: c£240,000)
- 3,260 consented plots acquired across 20 sites to date in 2015
- Significant progress on attractive strategic land assets
- Material increase in dividend

Frame 32

## 2015 outlook



- Group is on track to deliver expected volume of legal completions in 2015
  - *greater number of average sales outlets*
  - *robust sales rate*
- Increase in average sales price, due to mix improvements and market price rises secured to date expected to continue
- Market build cost increases in 2015 offset by market price increases
- Net profit margin expected to increase resulting from:
  - *higher housing gross margin*
  - *improvement in overhead efficiency*
- Capital turn expected to be in excess of 1.0
- Further growth in ROCE expected

**Confident in ability to deliver another strong year of growth**

Frame 33

Bovis Homes Group PLC  
Interim financial results 2015

Q&A

[www.bovishomesgroup.co.uk](http://www.bovishomesgroup.co.uk)



Frame 34

## Disclaimer - important notice



Certain statements in this presentation 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 a representation that such trends, results or activities will continue in the future

Undue reliance should not be placed on forward looking statements

Frame 35