FINANCIAL REVIEW

Profitability

This was another record breaking financial year for the Group in terms of both revenue and profits.

Total Group revenue increased by 20% to £1.38bn. This comprised private homes revenue which increased by 24% to £1,275m (2015: £1,026m) as a result of a 12% increase in private legal completions and a 10% increase in average selling price, social homes revenue of £86m (2015: £59m) and other revenue of £21m (2015: £65m) from land sales.

As a consequence of the higher revenue, gross profit increased by £60m in the year to £334m (2015: £274m) giving a gross margin of 24.2% (2015: 23.8%). The improvement in gross margin benefitted from a further decrease, from 12% to 6%, in the proportion of our legal completions from provisioned land acquired before the downturn, offset in part by increased levels of social homes legally completed in the year. As reported previously, we expect to legally complete the remaining provisioned plots by the end of the 2017 financial year leaving us with full margin on all our remaining land bank.

Operating profit increased by 23% to £261m (2015: £213m) as a result of the strong revenue growth. This represents an operating margin of 18.9% (2015: 18.5%), just below the 19% target we have set for 2018.

Net financing costs at £11m were £2m higher than the prior year reflecting a £1m increase in bank interest and a £1m increase in imputed interest payable on deferred land creditors as we continue to be successful in negotiating deferred terms on our selected land opportunities.

The Group’s record profit before tax of £250m (2015: £204m) for the year generated a basic earnings per share of 55.4p, up 24% on the prior year (2015: 44.5p).

Tax

The corporation tax charge for the year was £50m (2015: £42m). The Group’s tax rate for 2016 was 20.0% (2015: 20.75%) and we expect our normalised rate of tax for the year ending 30 June 2017 to be 19.75% based on rates which are substantively enacted currently.

The Group paid £46m of corporation tax in the year (2015: £22m) in the normal quarterly pattern. Payments will continue in the normal quarterly pattern until the new legislation for corporation tax payments by very large companies takes effect for our financial year ending 30 June 2020, when it will bring our instalment payments forward by four months.

Dividends

As reported at the time of our half year results, the Board has proposed a 2016 final dividend of 6p per share, a 50% increase on last year, which will be paid on 11 November 2016, subject to Shareholder approval at the 2016 Annual General Meeting.

The Group paid dividends totalling £30m (2015: £15m) during the year. This represented a 4.0p per share final dividend for 2015 paid in November 2015 and a 4.0p per share interim dividend for 2016 paid in March 2016.

Returns

Net assets at 30 June 2016 exceeded £1bn for the first time at £1,017m, a 20% increase on prior year levels (2015: £849m). Capital employed at 30 June 2016 was £1,156m (2015: £1,003m), up 15%. Despite the increase in capital employed, our capital turn rose to 1.3 times (2015: 1.2 times). As a result of our higher profits and capital turn, our return on capital employed increased from 22.8% to 24.2%, although we expect this to moderate going forward towards our 2018 guidance of 21%, due to ongoing investment in land and work in progress.

Return on equity increased from 26.4% to 26.8%, well ahead of our 2018 guidance of 25%. Again we expect this to moderate towards the 2018 guidance in 2017.

Inventories

Our investment in land increased to £1,215m (2015: £1,020m), up 19% year on year. However, our owned plot cost has remained unchanged at £68,000 per plot, reducing to 21% of the average selling price of private legal completions in the year (2015: 23%).

Our investment in work in progress increased to £593m (2015: £480m), up 24% year on year. This increase resulted from a combination of a 9% increase in active outlets, a higher number of strategic sites coming into production and an increase in the number of apartment schemes in the South East at later stages of the build process.

Our net realisable value provision on land and work in progress reduced by £9m to £19m in the year. Provisioned plots represented less than 1% of our owned land bank at June 2016 (2015: 2%), and will be eliminated by June 2017.

Land creditors increased by £112m to £378m at June 2016 representing 31% of land inventory (2015: 26%). This reflects favourable land market conditions prevailing during the year.

Receivables

Trade receivables reduced by £6m during the year to £23m (2015: £29m) with the receipt of shared equity scheme monies.

Payables

Trade payables and accruals increased by £55m to £336m (2015: £281m) due to increased levels of production as a result of our increased outlets.

Current income tax liabilities increased by £5m to £24m at June 2016 (2015: £19m) as a result of our higher profitability.

Cash Flow and Net Debt

Net debt decreased by £15m to £139m at June 2016 (2015: £154m) which is 14% gearing (2015: 18%). This reduction in net debt reflects a cash inflow generated from operations of £130m (2015: £61m) which more than funded the growth in the business, the increased dividend payments and increased corporation tax payments in the year.

Financial and Treasury Management

Financial management at Redrow is conducted centrally using policies approved by the Board.

Redrow is a UK based housebuilder and therefore the main focus of its financial risk management surrounds the management of liquidity and interest rate risk.

(i) Liquidity

The Group regularly prepares and reviews its cash flow forecasts which are used to manage liquidity risks in conjunction with the maintenance of appropriate committed banking facilities to ensure adequate headroom.

Facilities are kept under regular review and the Group maintains regular contact with its banks and other financial institutions; this ensures Redrow remains attuned to new developments and opportunities and that our facilities remain aligned to our strategic and operational objectives and market conditions.

Our current banking syndicate comprises five banks and in addition to our committed facilities, Redrow also has further uncommitted bank facilities which are used to assist day to day cash management.

(ii) Interest rate risk

The Group is exposed to interest rate risk as it borrows money at floating rates. Redrow uses simple risk management products, notably sterling denominated interest rate swaps, as appropriate to manage this risk. Such products are not used for speculative or trading purposes.

Redrow regularly reviews its hedging requirements. No hedging was undertaken in the year.

Pensions

As at 30 June 2016, the Group's financial statements showed a £6m surplus (2015: £3m deficit) in respect of the defined benefits section of The Redrow Staff Pension Scheme (which closed to future accrual with effect from 1 March 2012). The £9m improvement is mainly due to improvements in returns on scheme assets which more than offset actuarial losses arising from changes in financial assumptions.

Barbara Richmond
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