Financial Review

Profitability

The Group once again delivered record financial results with revenue of £1.92bn (2017: £1.66bn) and profit before tax of £380m (2017: £315m). This was achieved by completing a record 5,718 new homes (5,913 including our Joint Venture).

Total Group revenue rose 16% to £1.9bn. This comprised private homes revenue which increased by 14% to £1.8bn (2017: £1.5bn) as a result of a 7% increase in private homes legal completions and a 7% increase in average selling price, social homes revenue of £145m (2017: £115m) and other revenue of £20m (2017: £12m) from land sales.

As a result of the increase in revenue, gross profit increased by £64m in the year to £469m (2017: £405m) giving a gross margin of 24.4% in line with the previous year.

The strong revenue growth has generated an operating profit for the year of £382m (2017: £322m), a 19% increase. This represents an operating margin of 19.9% (2017: 19.4%). This 50 basis point margin increase is due to tight control of costs leading to a reduction in administrative expenses as a percentage of revenue from 5.0% to 4.5%.

Net financing costs at £7m were £1m lower than the prior year due to the improved cash position in 2018. We had an average positive cash balance during the year of £22m compared to average net debt of £67m in 2017.

There was also a £5m after tax contribution from our Joint Venture on the Morello, Croydon development (2017: £1m) which delivered 195 legal completions in (2017: 97). This Joint Venture development is now complete.

As a result, the Group delivered a record profit before tax of £380m (2017: £315m) in the year with basic earnings per share up 22% at 85.3p (2017: 70.2p).

Tax

The corporation tax charge for the year was £72m (2017: £62m). The Group's tax rate for 2018 was 19% (2017: 19.75%). The normalised rate of tax for the year ending 30 June 2019 is projected to be 19% based on rates which are substantively enacted currently.

The Group paid £74m of corporation tax in the year (2017: £56m) following 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, which will bring our instalment payments forward by four months.

Dividends

The Board has proposed a 2018 final dividend of 19p per share which will be paid on 13 November 2018 to Shareholders on the register on 21 September 2018, subject to Shareholder approval at the 2018 Annual General Meeting. This is a 73% increase on last year. The full year dividend is 28p (2017:17p) and a payout ratio of 33% of earnings (2017: 24%). In 2017 we announced our intention to progressively increase the dividend payout ratio to 33% over the medium term. As a result of our ongoing strong cash position we have been able to meet this commitment earlier than expected.

The Group paid dividends of £74m (2017: £44m) during the year.

Returns

Net assets at 30 June 2018 were £1,483m (2017: £1,235m), a 20% increase. Capital employed at the same date was £1,420m (2017: £1,308m) up 9%. Our return on capital employed continued to benefit from improved capital turn and higher profits and increased in the year from 26.0% to 28.5%. Return on equity also increased slightly from 27.7% to 28.0%.

Inventories

Our investment in land increased by £127m, or 10% in the year to £1,439m (2017: £1,312m) reflecting the attractive land market and our success in securing sites to best utilise our product and placemaking skills on acceptable terms. Over a third of our current land holdings additions in 2018 came from our forward land holdings broadly in line with the c.40% five year average contribution.

Our owned plot cost has increased by £1,000 per plot to £71,000 at June 2018 (2017: £70,000), reducing slightly to 19% of the average selling price of private legal completions in the year (2017: 20%).

Our investment in work in progress increased by £48m, up 7% year on year to £779m (2017: £731m). As a percentage of Homes turnover it reduced from 44% to 41% in part benefiting from the first legal completions off our Colindale Gardens development in North London.

Land creditors increased by £36m to £387m at June 2018 (2017: £351m) representing 27% of gross land value in line with the prior year.

Receivables

Trade receivables decreased by £5m during the year to £16m (2017: £21m) due to the ongoing receipt of historic shared equity scheme monies. Other receivables increased from £21m to £29m partly due to the timing of the recovery of VAT on land payments.

Payables

Trade payables, customer deposits and accruals increased by £30m to £452m (2017: £422m) again reflecting increased levels of production activity.

Cash flow and Net Cash/(Debt)

Net cash stood at £63m at June 2018 compared to net debt of £73m at June 2017. This significant movement reflects a cash inflow generated from operations of £276m (2017:£189m). This equates to a cash conversion from EBITDA of 72% in 2018, up from 58% in 2017. Together with a net £26m cash inflow from our Joint Ventures, this more than funded the growth in the business and the increase in both dividend distributions and corporation tax payments made in the year.

Financing and Treasury Management

In the light of the ongoing improving cash position, on 31 January 2018 we reduced our committed unsecured syndicated loan facility by £100m to £250m and extended its maturity from March 2020 to December 2022. We also cancelled a £15m unsecured bilateral facility.

Redrow remains a UK based housebuilder and therefore the main focus of its financial risk management surrounds the management of liquidity and interest rate risk. Financial management at Redrow is conducted centrally using policies approved by the Board.

(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 six 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 June 2018, the Group's financial statements showed a £22m surplus (2017: £2m 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 £24m improvement is mainly due to the increase in corporate bond yields along with a decrease in the market's long-term expectations for inflation which have served to decrease the liability values. In addition new census data used for the Actuarial Valuation at 30 June 2017 was incorporated which reduced the benefit obligation by £5m.

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