

## FINANCIAL REVIEW

### Underlying Performance

This year the Group has delivered an excellent financial performance. Our underlying operating profit at £414m<sup>1</sup> (2021: £321m) represents a return to the pre Covid-19 record levels achieved in 2019 (2019: £411m). Careful control of working capital resulted in a return on capital employed of 24.54% (2021: 18.53%) and we generated £128m of cash, ending the year with net cash of £288m (2021: £160m). FY22 was a 53 week year compared to FY21 which was a 52 week year.

These results, combined with the regular review of our cash needs to achieve our long term growth plans and the prevailing share price which was at a significant discount to net asset value, led to the launch in July of a share buyback of up to £100m. This will return to shareholders cash which is surplus to that needed for growth and our ongoing dividend payout ratio.

### Revenue, legal completions and outlets

Total Group revenue was £2.1bn (2021: £1.9bn), an increase of 10%. Homes revenue increased by 11% to £2.1bn (2021: £1.9bn) from the completion of 5,715 new homes (2021: 5,620) and other revenue from land sales was lower than in the prior year as expected at £21m (2021: £37m which included the disposal of two London sites the Group decided not to build out).

Homes Revenue has grown substantially in all the regional businesses. Total Homes revenue for the ongoing business<sup>1</sup> increased by 20%, more than compensating for the reduced revenue as we build out our remaining non-core London sites. Despite outlets constraining volume growth, we have increased revenue due to product and geographical mix within and across regions, together with house price inflation.

Revenue from private houses increased by 23% to £1.7bn (2021: £1.4bn) whilst revenue from private apartments decreased by 28% to £0.2bn (2021: £0.3bn) in line with the growth of the regional housing businesses and reduction of the London apartments business.

Affordable revenue was marginally down at £207m (2021: £214m) due to the timing of legal completions. It represented 10% of homes revenue (2021: 11%).

Our Heritage Collection contributed 88% of private revenue in the year up from 79% last year. This reflects the strategic shift towards quality family detached homes in primary regional locations, focusing on the home mover segment.

Average selling price increased by 9% to £370,800 (2021: £338,500) reflecting an increase in both private and affordable housing selling prices compared to the previous year. The private average selling price at £428,200 was 9% higher than last year (2021: £391,900) and affordable housing selling prices increased by 2% to £165,600 (2021: £162,900).

We delivered 5,715 legal completions in FY22, a 2% increase on prior year levels (2021: 5,620). Affordable homes represented 22% of legal completions (2021: 23%).

Average active outlets decreased to 111 (2021: 117) broadly in line with the guidance we issued last year. This decrease reflects the combination of a strong housing market and the time required to obtain implementable planning permissions. Given our success in land buying in the last two years, we continue to guide to an average of 134 active outlets in the 2024 financial year subject as ever to the operation of the planning system.

### Reservations and Order book

The Group secured £1.82bn of net private reservations in the 53 weeks to 3 July 2022 compared to £1.79bn on a like for like 53 week basis in the previous year. We ended the financial year with a private order book of £1.1bn (2021: £1.2bn) and a total order book of £1.4bn, broadly in line with last year.

### Profitability

Underlying gross profit was £516m<sup>1</sup>, a 25% increase on the prior year (2021: £414m). This represents an underlying gross margin of 24.1%<sup>1</sup> (2021: 21.4%) with house price increases more than covering build cost inflation.

Administrative expenses increased by £9m to £102m (2021: £93m) due to cost inflation in the second half of the year and the increased investment in the Southern division prior to its official opening at the end of June. Administrative expenses are 4.8% of revenue, in line with the previous year (2021: 4.8%).

The Group therefore delivered an underlying operating profit of £414m<sup>1</sup> (2021: £321m) in the year at an operating margin of 19.3%<sup>1</sup> (2021: 16.6%).

Net financing costs at £4m were £2m lower than the prior year with bank interest reducing due to the improved net cash position. We had an average monthly net cash balance of £250m for the year compared to £142m the previous year.

As a result, the Group delivered an underlying profit before tax of £410m<sup>1</sup> (2021: £314m) for the year with underlying basic earnings per share up 30% at 96.0p<sup>1</sup> (2021: 73.7p).

On 5 April 2022, the Group signed the Government's Building Safety Pledge in respect of funding the remediation of life critical fire safety issues on buildings over 11 metres in which the Group were involved, whether or not it constructed them, going back 30 years. An additional £164m legacy fire safety provision was created and charged to cost of sales in April in respect of the buildings the Group has agreed to remediate solely as a result of signing the voluntary Building Safety Pledge. This has been treated as exceptional as it is outside the normal course of business, non-recurring and material by size and nature. A copy of our signed pledge letter can be found on our website [www.redrow.co.uk](http://www.redrow.co.uk).

As a result of the exceptional item noted above statutory gross profit delivered was £352m (2021: £414m), statutory operating profit was £250m (2021: £321m) and statutory profit before tax was £246m, a reduction of £68m on the prior year (2021: £314m).

## Tax

The corporation tax charge for the year was £49m (2021: £60m). The Group's tax rate for 2022 was 20% (2021: 19%). This increase in effective rate is a result of the introduction by HMRC of Residential Property Developer Tax (RPDT) at the rate of 4% from 1 April 2022 as the Group falls within the scope of this new tax which aims to provide funds for the Government's Building Safety fund. The normalised rate of corporation tax for the year ending 30 June 2023 is projected to increase to 24.5% based on corporation tax and RPDT rates which are substantively enacted currently.

The Group paid £55m of corporation tax in the year (2021: £54m), in four instalments.

## Dividends

The Board has proposed a 2022 final dividend of 22.0p per share which will be paid on 16 November 2022 to Shareholders on the register on 23 September 2022, subject to Shareholder approval at the 2022 Annual General Meeting. This gives a full year dividend of 32.0p (2021: 24.5p) on underlying earnings per share of 96.0p<sup>1</sup> (2021: 73.7p), a payout ratio of 33% of underlying earnings, in line with our stated policy.

## Returns

Net assets at 3 July 2022 were £1,950m (2021: £1,872m), a 4% increase representing a net asset value of £5.54 per share (2021: £5.32 per share). Capital employed at the same date was £1,662m (2021: £1,712m) down 3% due to the increased net cash. Our return on capital employed increased to 24.54%<sup>1</sup> (2021: 18.53%). Return on equity also increased from 17.95% to 21.45%<sup>1</sup>.

## Land

Our gross investment in land at £1,710m (2021: £1,526m) increased significantly as we continued to invest in land and comprises land holdings owned with planning of approximately 5.2 years (2021: 5.2 years).

Our land buying expertise, placemaking and design abilities and strong balance sheet helps us secure quality land holdings in primary locations. During the financial year the Group acquired c6,000 plots with planning permission to add to our current (owned and contracted) land holdings (2021: c8,300). We closed the year with 29,600 plots in the current land holdings, a slight increase on prior year levels (2021: 29,460 plots).

Forward land is also important to us and we purchased a number of strategically important forward land holdings during the year, closing the year with forward land holdings of 37,800 plots (2021: 34,400 plots). Approximately 27% of our current land holding additions in FY22 came from our forward land holdings. This is lower than the prior year due to the time taken to secure implementable planning permissions (2021: 43%).

Land creditors increased by £82m to £376m at June 2022 (2021: £294m) representing 22.0% of gross land value, an increase on the prior year (2021: 19.3%).

Our owned plot cost has increased by £5,000 to £81,000 (2021: £76,000) whilst still representing 19% (2021: 19%) of the average selling price of private legal completions in the year. This reflects the geographic mix of our land purchases in the year.

### **Work in progress**

Our investment in work in progress has increased by £43m to £1,030m (2021: £987m) reflecting increased activity levels. As a percentage of Homes turnover it reduced to 49% from 52% last year, due to the reduction in apartment schemes.

### **Receivables**

Trade receivables and contract assets decreased by £30m at 3 July 2022 to £45m (2021: £75m) due primarily to the timing of PRS receipts. Other receivables increased from £21m to £25m mainly due to the timing of the recovery of VAT on land purchases.

### **Payables**

Trade payables, customer deposits and accruals were £6m higher than 2021 levels at £613m (2021: £607m) with trade payables increasing and customer deposits and accruals decreasing reflecting levels and timing of activity.

### **Provisions**

Provisions increased by £173m during the year due to the £164m exceptional legacy fire safety provision mentioned earlier together with a pre pledge £10m increase on June 2021 remedial provision levels actioned at our December 2021 half year end. We expect £97m to be utilised in FY23.

### **Cash flow and Net Cash**

There was a cash inflow generated from operations of £318m in the year (2021: £362m). This is due to the increase in legal completions and hence revenue and cash receipts more than offsetting our continued investment in inventories. As a result we closed the year with a net cash of £288m (2021: £160m). Our cash conversion percentage (see note 10) was 125% compared to 110% in the prior year.

### **Financing and Treasury Management**

Our unsecured £350m syndicated loan facility was extended in March 2021 and is due to mature in September 2025.

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 and stress tests them. These are used to manage liquidity risks in conjunction with the maintenance of appropriate committed banking facilities to ensure we maintain medium term committed banking facilities sufficient for a major market breakdown.

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 occasionally 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 or the previous financial year and no interest rate swaps are held currently (2021: nil).

### Pensions

As at 3 July 2022, the Group's financial statements showed a £39m surplus (2021: £40m surplus) in respect of the defined benefits section of The Redrow Staff Pension Scheme (which closed to future accrual with effect from 1 March 2012).

Barbara Richmond  
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Footnote:

<sup>1</sup>Redrow uses a variety of statutory performance measures and alternative performance measures when reviewing the performance of the Group. Underlying is defined as any statutory or alternative performance measure pre exceptional items. See note 10 for an explanation and reconciliation of these alternative performance measures.