FINANCIAL REVIEW

Profitability

This year the Group's results have been significantly adversely impacted by the COVID-19 pandemic which resulted in a very limited number of legal completions in the final quarter of the financial year.

Total Group revenue was £1.3bn (2019: £2.1bn), a reduction of 37%. Homes revenue was £1.3bn (2019: £2.1bn) from the completion of 4,032 new homes (2019: 6,443) and other revenue from land sales was £7m (2019: £21m).

As we reported in February, the first half of the financial year had seen strong trading with revenue of £870m and pre-tax profit of £157m. In the second half, the dramatic reduction in revenue in quarter four, combined with the provision for scaling down our London business resulted in a pre-tax loss in the half of £17m.

Average selling price increased by 2% to £330,400 (2019: £324,500) due to a reduction in the level of affordable housing output in the year to a more normal 23% of legal completion volumes compared to 27% in the previous year. Private average selling price at £386,700 was 1% lower than last year (2019: £389,500), however our Heritage Collection private average selling price increased slightly to £388,700 (2019: £387,500).

As a result of the 37% reduction in legal completions and therefore revenue, ongoing site related and sales and marketing costs from the temporary closure of our developments and £35m of impairment costs arising from the strategic decision to scale back our London operations, gross profit for the year reduced to £242m (2019: £504m).

Administrative expenses increased slightly to £94m in the year (2019: £93m). Whilst the Group furloughed c 80% of employees during the height of the lockdown, we decided not use the Government Job Retention Scheme due to the resilience of our liquidity position. Administrative expenses naturally increased as a percentage of revenue to 7.0% (2019:4.4%).

The Group therefore delivered an operating profit of £148m (2019: £411m) in the year at an operating profit margin of 11.1% (2019: 19.5%).

Net financing costs at £8m were £3m higher than the prior year due to the levels of net debt during the latter part of the year and the cost of increasing our facilities and obtaining access to the CCFF. We had an average monthly net cash balance of £2m for the whole year compared to £80m during the previous year.

As a result, the Group delivered a profit before tax of £140m (2019: £406m) for the year with basic earnings per share down 64% at 32.9p (2019: 92.3p).

Tax

The corporation tax charge for the year was £27m (2019: £77m). The Group's tax rate for 2020 was 19% in line with 2019. This had previously been expected to be 18.5% based on the rates substantively enacted at 4 September 2019. However, in the Chancellor's Budget on 11 March 2020, it was confirmed that the rate of corporation tax will remain at 19% from April 2020 and for the following year. The normalised rate of tax for the year ending 30 June 2021 is therefore projected to be 19% based on rates which are substantively enacted currently.

The Group paid £64m of corporation tax in the year (2019: £77m). For the financial year ending 28 June 2020 the new legislation for corporation tax payments by very large companies took effect. This brings instalments for financial year 2020 onwards forward by four months and, for the financial year ending June 2020 only, results in Redrow paying six instalments.

Dividends

As announced on 24 March 2020, the Board took the decision to cancel the 10.5p interim dividend which was due to be paid on 9 April 2020 due to the uncertainty around the impact of the COVID-19 pandemic on the business. Due to the ongoing uncertainty the Board is not recommending the payment of a final dividend for the year at the 2020 Annual General Meeting. However, based on trading to date and the forward order book, we expect to resume dividend payments in 2021.

In the previous financial year, the Group distributed to shareholders £218m including the B shares during the year being a total cash return to shareholders of 60.5p per share.

Returns

Net assets at 28 June 2020 were £1,626m (2019: £1,585m), a 3% increase. Capital employed at the same date was £1,751m (2019: £1,461m) up 20% due to the increased level of work in progress and reduced land creditors at June 2020. Our return on capital employed was 9.2% (2019: 28.5%) (See note 15f). Return on equity also reduced to 8.7% from 26.5%. (See note 23). We will be working to increase our ROCE to our 25% target again over the medium term.

Inventories

Our gross investment in land decreased slightly by £9m to £1,538m (2019: £1,547m) reflecting our cautious approach to land purchases in the second half of the financial year, partly offset by lower land eliminations as a result of the reduced levels of legal completions in the year. Approximately 48% of our current land bank additions in 2020 came from our forward land holdings, slightly higher than the five year average contribution.

As expected, land creditors decreased by £136m to £302m at June 2020 (2019: £438m) representing 20% of gross land value (2019: 28%) due to timing of deferred land payments.

Our owned plot cost has increased by £4,000 per plot to £78,000 at June 2020 (2019: £74,000), increasing slightly to 20% of the average selling price of private legal completions in the year (2019: 19%).

Our gross investment in work in progress (WIP) has increased significantly by £190m to £1,047m (2019: £857m). This is a consequence of both a planned build up of WIP in preparation for higher demand in the run up to the changes in the Help to Buy Scheme and the impact of legally completing only 264 homes in the final quarter of the financial year due to the constraints of the COVID-19 pandemic. Net of payments on account, as a percentage of the significantly reduced Homes turnover it increased to 69% from 37% last year.

Receivables

Trade receivables decreased by £12m at June 2020 to £25m (2019: £37m) due primarily to the timing of Help to Buy and Housing Association receipts. Other receivables decreased from £19m to £8m partly due to the timing of the recovery of VAT on land payments.

Payables

Trade payables, customer deposits, social customer payments on account and accruals were £55m higher than 2019 levels at £604m (2019: £549m) with trade payables reducing and customer deposits, social customer payments on account and accruals increasing mainly due to levels of activity in the final quarter of the financial year.

Cash flow and Net Debt

There was a cash outflow generated from operations of £80m in the year (2019: cash inflow of £371m). This reflected the impact of the 37% reduction in legal completions and hence revenue and cash receipts in the fourth quarter. Although we closed the year with net debt of £126m compared to a net cash balance at June 2019 of £124m, we still achieved an average monthly positive cash balance during the year of £2m (2019: £80m).

Given the ongoing strength of the sales market since we re-opened, we expect to be cash positive in December 2020 and June 2021.

Financing and Treasury Management

In April 2020 we increased our committed unsecured syndicated loan facility by £100m to £350m. This matures in December 2022. We also added £13m of committed, unsecured bilateral facilities in May 2020.

The Group also gained eligibility as an issuer for the Government's CCFF with an insurer limit of £300m. Given the timely return to work and the effectiveness of measures to protect its cash flow, the Group has not drawn on the CCFF and is unlikely to do so.

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 (2019: nil).

Pensions

As at June 2020, the Group's financial statements showed a £22m surplus (2019: £18m 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). The £4m increase is mainly due to the return on scheme assets outpacing the impact on defined benefit obligations of reduced discount rates.

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