Financial Review

Profitability

This has been another year of record financial results for the Group with revenue exceeding £2bn for the first time at £2.1bn (2018: £1.9bn) and profit before tax of £406m (2018: £380m). This was achieved by completing a record 6,443 new homes (2018: 5,718).

Total Group revenue rose 10% to £2.1bn, with homes revenue increasing by 10% to £2.1bn (2018: £1.9bn) and other revenue from land sales in line with the previous year at £21m (2018: £20m).

As a result gross profit increased by £35m in the year to £504m (2018: £469m) giving a gross margin of 23.9% (2018: 24.4%). This 50 basis point reduction compared to last year is primarily due to the change in tenure mix of our residential housing turnover with 12% of Homes revenue coming from Affordable Homes compared to 7.5% last year.

The continued growth of the business has generated an operating profit for the year of £411m (2018: £382m), an 8% increase on that achieved in 2018. This represents an operating margin of 19.5% (2018: 19.9%). Administrative expenses reduced slightly as a percentage of turnover to 4.4% (2018: 4.5%) although they increased in absolute terms due to our ongoing investment in the business.

Net financing costs at £5m were £2m lower than the prior year due to the improved cash position in 2019. We had an average monthly positive cash balance during the year of £80m, with the equivalent level in 2018 being £22m.

As a result, the Group delivered a record profit before tax of £406m (2018: £380m) for the year with basic earnings per share up 8% at 92.3p (2018: 85.3p).

Tax

The corporation tax charge for the year was £77m (2018: £72m). The Group's tax rate for 2019 was 19% in line with 2018. The normalised rate of tax for the year ending 30 June 2020 is projected to be 18.5% based on rates which are substantively enacted currently.

The Group paid £77m of corporation tax in the year (2018: £74m) following the traditional quarterly pattern. For the financial year ending 30 June 2020 the new legislation for corporation tax payments by very large companies takes 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 effectively paying six instalments.

Dividends

The Board has proposed a 2019 final dividend of 20.5p per share which will be paid on 13 November 2019 to Shareholders on the register on 20 September 2019, subject to Shareholder approval at the 2019 Annual General Meeting. This is an 8% increase on last years' final. The full year dividend is therefore 30.5p (2018: 28p) up 9% on last year and maintains a payout ratio of 33% of earnings (2018: 33%). In addition, we delivered a B share cash return of 30p per share to shareholders during the year.

The Group distributed to shareholders £218m including the B shares (2018: £74m) during the year. Our total cash return to shareholders for the 2019 financial year is 60.5p per share.

Returns

Net assets at 30 June 2019 were £1,585m (2018: £1,483m), a 7% increase. Capital employed at the same date was £1,461m (2018: £1,420m) up 3%. Our return on capital employed was maintained in the year at 28.5% (2018: 28.5%). Return on equity reduced slightly from 28.0% to 26.5%.

Inventories

Our gross investment in land increased by £76m, or 5% in the year to £1,515m (2018: £1,439m) reflecting our continued success in securing sites to best utilise our product and place making skills on acceptable terms. Approximately 40% of our current land bank additions in 2019 came from our forward land holdings which is in line with the five year average contribution.

Land creditors increased by £51m to £438m at June 2019 (2018: £387m) representing 28% of gross land value (excluding cash on account), a slight increase on last year (2018: 27%).

Our owned plot cost has increased by £3,000 per plot to £74,000 at June 2019 (2018: £71,000), but has been maintained at 19% of the average selling price of private legal completions in the year (2018: 19%).

Our investment in work in progress was broadly in line with 2018 at £782m (2018: £779m). As a percentage of Homes turnover it reduced from 41% to 37%. This reflects the reduced WIP on apartment schemes and the timing of planning leading to a slightly lower than originally expected number of outlets in June 2019.

Receivables

Trade receivables increased by £21m at June 2019 to £37m (2018: £16m) due primarily to the timing of Help to Buy and Housing Association receipts. Other receivables decreased from £29m to £19m partly due to the timing of the recovery of VAT on land payments.

Payables

Trade payables, customer deposits and accruals decreased by £10m to £442m (2018: £452m) due to reduced levels of Greater London private apartment deposits.

Cash flow and Net Cash

The cash inflow generated from operations was £371m (2018: £276m). This equates to a cash conversion from EBITDA of 90% in 2019, up from 72% in 2018. This significant cash generation more than funded both the growth in the business and the £111m B share cash return in the year. As a result our net cash balance increased from £63m at the end of June 2018 to £124m at the end of June 2019.

Financing and Treasury Management

During the year we have maintained our committed unsecured syndicated loan facility of £250m which matures in December 2022.

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 and no interest rate swaps are held currently.

Pensions

As at June 2019, the Group's financial statements showed a £18m surplus (2018: £22m 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 reduction is mainly due to the decrease in the discount rate together with an allowance for GMP equalisation.

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