FINANCIAL REVIEW

Underlying Performance

This year the Group has delivered a strong financial performance given market conditions. We generated operating profit of £399m (2022: underlying £414m[1]) and a return on capital employed of 23.11% (2022: 24.54%). We successfully completed the share buyback we launched in July 2022, returning £100m cash to shareholders and ended the year with net cash excluding lease liabilities of £235m (2022: £288m). FY23 was a 52 week year compared to FY22 which was a 53 week year.

Revenue, legal completions and outlets

Total Group revenue was £2.1bn (2022: £2.1bn). Homes revenue was broadly maintained at £2.1bn (2022: £2.1bn) from the completion of 5,436 new homes, a 5% reduction on the prior year (2022: 5,715). The average selling price of our private home completions increased by 8% and that of our affordable homes by 5% on those in 2022 due to house price inflation and product mix. Other revenue from land sales was higher than in the prior year at £44m due to two significant land sales on larger sites (2022: £21m).

Homes Revenue grew in our North and Central regions and reduced in the South and Colindale. The Central region achieved sales growth of 15% and benefitted from both improved product availability due to an increase in outlets and an improvement in geographical and product mix. Revenue in the South reduced by just under 8% due to lower volumes and a change in mix, with a greater proportion of private apartment completions and affordable homes. As a result, Homes Revenue for the ongoing business was £2,038m, 1% lower than the prior year (£2,067m) from 5% fewer legal completions.

Revenue from private houses decreased by 2% to £1.6bn (2022: £1.7bn) on 11% lower volumes whilst revenue from private apartments decreased by 22% to £181m (2022: £232m) on 14% lower volumes. This was a result of completing the run down of our London business (excluding Colindale) and higher sales of apartments in the South East outside London which are of a lower average selling price than those in London.

Our Heritage Collection contributed 90% of private revenue in the year up from 88% last year. The average selling price of our Heritage homes increased by 9% to £473,300 (2022: £433,300). This continues to reflect the strategic shift towards quality family detached homes in primary regional locations, focusing on the home mover segment.

Affordable revenue increased 25% to £258m (2022: £207m) due to the timing of legal completions. It represented 12% of Homes Revenue (2022: 10%). In terms of volumes, affordable homes represented 27% of the 5,436 legal completions we delivered in FY23 (2022: 22% of 5,715).

Average active outlets increased to 117 (2022: 111) which was 3 below the guidance we issued, primarily due to planning delays. Our guidance for the 2024 financial year is for average active outlets to remain at 117 due to continuing delays in the planning system and a slower sales market.

Reservations and Order Book

The Group secured £1.3bn of net private reservations in the 52 weeks to 2 July 2023 compared to £1.82bn for the 53 weeks in the previous year. We ended the financial year with a private order book of £0.6bn (2022: £1.1bn) and a total order book of £0.9bn, compared to £1.4bn last year. The reduction in reservations started with the negative impact of the Government's mini-Budget at the end of September 2022 which caused a spike in interest rates and not only a reduction in new reservations but also a very high number of cancellations. Whilst the housing market did pick up in the 2023 calendar year it did not return to normal levels of activity, with the sales rate averaging 0.53 per outlet per week for the second half of the financial year (2022: 0.71). This is due to the increases in mortgage rates. The sales rate reduced again in June as further mortgage rate rises were introduced by the major lenders.

Profitability

Gross profit was £508m, a £8m reduction on the prior year (2022: underlying £516m[1]). This represents a gross margin of 23.9% (2022: 24.1%[1]). The 20 basis point reduction in margin reflects build cost inflation which was not fully offset by house price inflation and also a higher proportion of affordable housing revenue due to the timing of legal completions.

Administrative expenses increased by £7m to £109m (2022: £102m) due mainly to cost inflation and ongoing IT investment. Administrative expenses were 5.1% of revenue, an increase on the previous year levels (2022: 4.8%).

The Group therefore delivered an operating profit of £399m (2022: underlying £414m[1]) in the year at an operating margin of 18.76% (2022: 19.3%[1]).

Net financing costs at £4m were in line with the prior year with bank interest payable and receivable increasing reflecting increases in base rate. We had an average monthly net cash balance of £196m for the year compared to £250m the previous year.

As a result, the Group delivered a profit before tax of £395m (2022: underlying £410m[1]) for the year with basic earnings per share of 91.2p (2022: underlying 96.0p[1]).

Last year an additional £164m legacy fire safety provision was created and charged to cost of sales in April 2022 in respect of the buildings the Group agreed to remediate solely as a result of signing the voluntary Building Safety Pledge. This was treated as exceptional as it is outside the normal course of business, non-recurring and material by size and nature. On 13 March 2023 Redrow signed the Self Remediation Terms (SRT) contract with DLUHC which follows on from the Building Safety Pledge and the equivalent Welsh version on 18 April 2023. The SRT widens builders' responsibilities regarding potential remedial work which may need to be undertaken and led to a further £32m of costs to be provided as a result of this scope change. This was offset by a reduction in the estimated costs of the necessary works for the external wall systems provided for in 2022. There is therefore no exceptional item in FY23.

Statutory Performance

As statutory performance last year was impaired by an exceptional item in respect of the legacy fire safety provision, the review of performance above has been of underlying performance i.e pre-exceptional. From a statutory perspective gross profit of £508m was £156m higher than the £352m delivered in the prior year. Operating profit was £399m (2022: £250m) and profit before tax of £395m was a £149m increase on the £246m achieved in 2022.

Tax

The corporation tax charge for the year was £97m (2022: £49m). The Group's tax rate for 2023 was 24.5% (2022: 20%). This increase in the effective rate is a result of an increase in the corporation tax rate to 25% from 1 April 2023 and a full year of Residential Property Developers Tax (RPDT) at the rate of 4% which was introduced by HMRC from 1 April 2022. The normalised rate of corporation tax for the year ending 30 June 2024 is projected to increase to 29% based on corporation tax and RPDT rates which are substantively enacted currently.

The Group paid £82m of corporation tax in the year (2022: £55m), in four instalments.

Dividends

The Board has proposed a 2023 final dividend of 20.0p per share which will be paid on 16 November 2023 to Shareholders on the register on 22 September 2023, subject to Shareholder approval at the 2023 Annual General Meeting. This gives a full year dividend of 30.0p (2022: 32.0p) on earnings per share of 91.2p (2022: underlying 96.0p[1]), a payout ratio of 33% of underlying earnings, in line with our stated policy.

Returns

Net assets at 2 July 2023 were £2,026m (2022: £1,950m), a 4% increase representing a NAV per share of £6.13 following the £100m share buyback and cancellation of 21,420,175 10.5p shares (2022: £5.54). Capital employed at the same date was £1,791m (2022: £1,662m) due to increased levels of work in progress and a reduction in land creditors. Our return on capital employed decreased to 23.11% (2022: 24.54%) due to the lower profit and higher capital employed. Return on equity also reduced to 19.9% (2022: 21.5%). (See note 10).

Land

Our gross investment in land at £1,684m (2022: £1,710m) reduced slightly as a result of our cautious approach to the land market in the light of the uncertain economic conditions. Our land holdings owned with planning amounted to approximately 4.8 years output (2022: 5.2 years). A review of the net realisable value of our land holdings at 2 July 2023 resulted in a net £4m increase in the net realisable value provision to £26m.

Our land buying expertise, placemaking and design abilities and strong balance sheet assist us when we are in the market to secure quality land holdings in primary locations. During the financial year the Group only added c1,900 plots with planning permission to our current (owned and contracted) land holdings (2022: c6,000) due to ongoing economic uncertainty. We closed the year with 26,070 plots in the current land holdings, a 3,530 decrease on the prior year (2022: c29,600 plots).

Approximately 58% of our current land holding additions in FY23 came from our forward land holdings. This is higher than the prior year, reflecting our reduced activity in the current land market together with securing implementable planning permissions on a small number of strategic sites in the year (2022: 27%). We closed the year with 36,100 forward land holdings (2022: 37,800 plots).

Land creditors decreased by £104m to £272m at 2 July 2023 (2022: £376m) representing 16.2% of gross land value (2022: 22.0%). This is due to the timing of land creditors maturing and the reduction in land purchases.

Our owned plot cost has increased by £7,000 to £88,000 (2022: £81,000) whilst still representing 19% (2022: 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 £56m to £1,086m (2022: £1,030m) as a result of build cost inflation and increased outlets. As a percentage of Homes Revenue it increased to 52% from 49% last year.

Receivables

Trade receivables and contract assets decreased by £21m at 2 July 2023 to £24m (2022: £45m) due primarily to the timing of PRS and affordable housing receipts. Other receivables decreased from £25m to £13m mainly due to the timing of the recovery of VAT on land purchases.

Payables

Trade payables, customer deposits and accruals were £52m lower than 2022 levels at £561m (2022: £613m) with trade payables increasing and customer deposits and accruals decreasing reflecting timing and levels of activity.

Provisions

Provisions reduced by £12m overall during the year to £195m (2022: £207m). This was due to expenditure on the legacy fire safety provision. We expect £107m of this to be utilised in FY24. Our expenditure in FY23 was lower than the £97m expected due to requests for payments to the Building Safety Fund not being received in the timeframe anticipated.

Cash flow and Net Cash

There was a cash inflow generated from operations of £244m in the year (2022: £318m). This is lower than the previous year mainly due to the decrease in land purchases and reduction in land creditors already mentioned. This reduced our cash conversion percentage (see note 10) to 61% compared to 125% in the prior year. We successfully completed the £100m share buyback we announced in July 2022 in the year. As a result, we closed the year with net cash excluding lease liabilities of £235m (2022: £288m).

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 (2022: nil).

Pensions

On 27 January 2023, the Trustees of the Redrow Staff Pension Scheme entered into a bulk annuity buy-in contract with Standard Life. This transaction is part of the Trustees strategy to reduce the Scheme's exposure to risk with the Trustees agreeing to exchange the assets of the Scheme for an insurance policy which exactly matches the projected cashflows for all future pension benefits. Thus under the bulk annuity the Trustees will receive payments from Standard Life which they will use to pay pension benefits under the Scheme.

The buy-in reduces future pension and funding risk from a Company perspective. However, the Trustees making the strategic investment decision and entering into the bulk annuity buy-in contract does not impact the Company's obligations in relation to the Scheme e.g. to ensure the employee benefits are paid when they fall due. Therefore, as the Company retains responsibility for all its obligations in relation to the Scheme, it continues to treat the Scheme as a defined benefit plan as permitted by IAS 19 with £34m charged to Other Comprehensive Income in the period.

As a result, at 2 July 2023, the Group's financial statements showed a £5m surplus (2022: £39m 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
Group Finance Director

Footnote 1: 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.