



Home Builders Federation Annual Policy Conference

Perspectives on Corporate Activity in the Sector

Mark Aedy

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March 2015

Profits Are Rolling In! Still a Political Focus...

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"UK housebuilding lifts Galliford Try to record results"

The Telegraph - 02.2015

"Barratt Developments posts massive 75 per cent profit increase"

City A.M. - 02.2015

"Osborne surprises with 'Help to Buy ISA'"

CityWire - 03.2015

"Record-breaking Redrow doubles dividend"

Interactive Investor - 02.2015

"Taylor Wimpey to double dividend as homes demand boosts results"

Financial Times - 03.2015

"UK voters identify housing as 'key issue'"

Ipsos MORI - 03.2015

"Persimmon accelerates dividend payment as profit rises 44%"

Financial Times - 02.2015

"Builder Crest Nicholson to increase shareholder payouts"

Reuters - 01.2015

"Labour sets out plan to reach 200,000 homes-a-year target"

The Guardian - 10.2014

"Short supply of homes fuels rocketing UK rents and house prices"

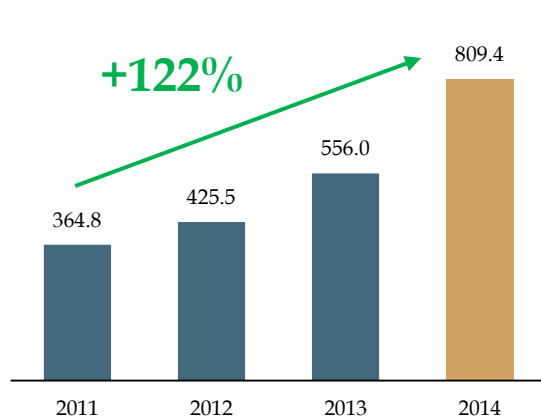
City AM - 03.2015

All Metrics Are Improving!

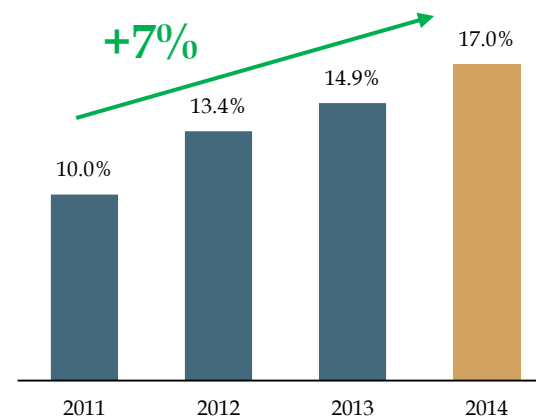
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Bovis Homes FY14 Results

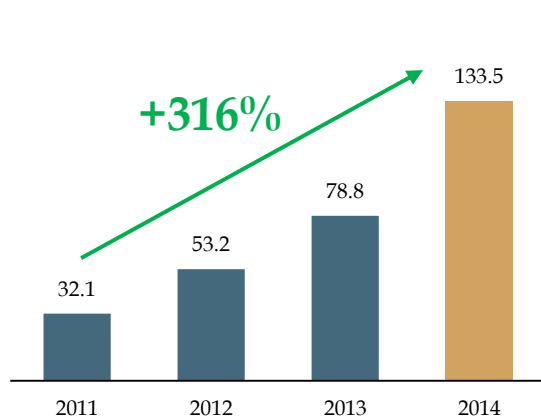
REVENUE (£M)



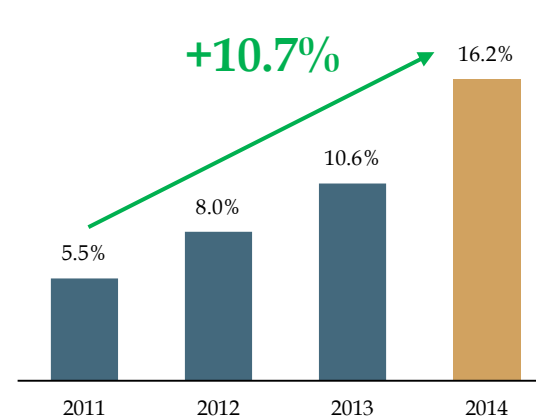
NET PROFIT MARGIN (%)



PROFIT BEFORE TAX (£M)



ROCE (%)

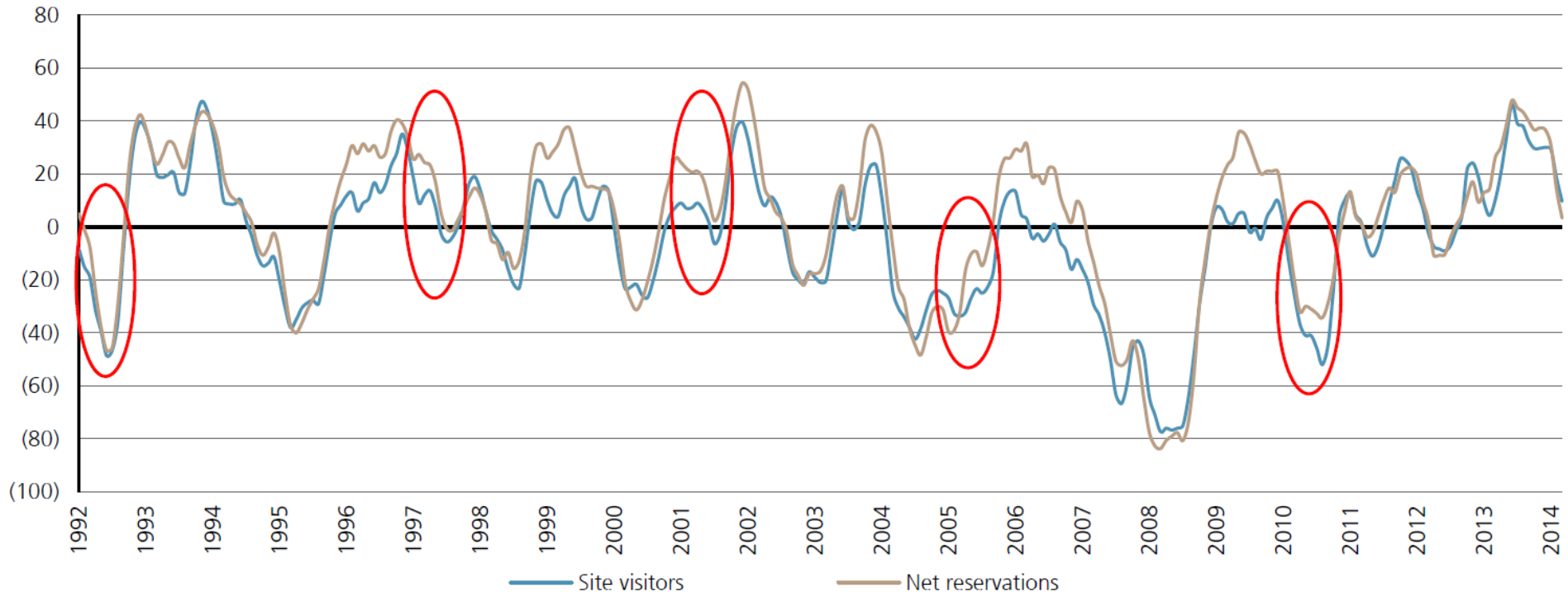


But What About the Election...?

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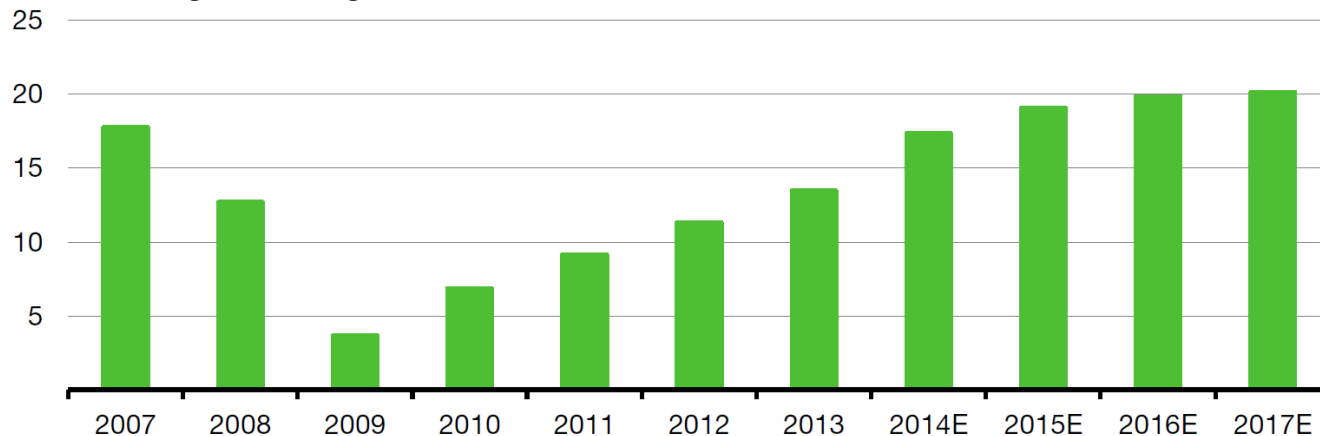
Sales rates softened during the last five General Elections

Housebuilders site visits and reservations, y/y change, Great Britain 1992-2014

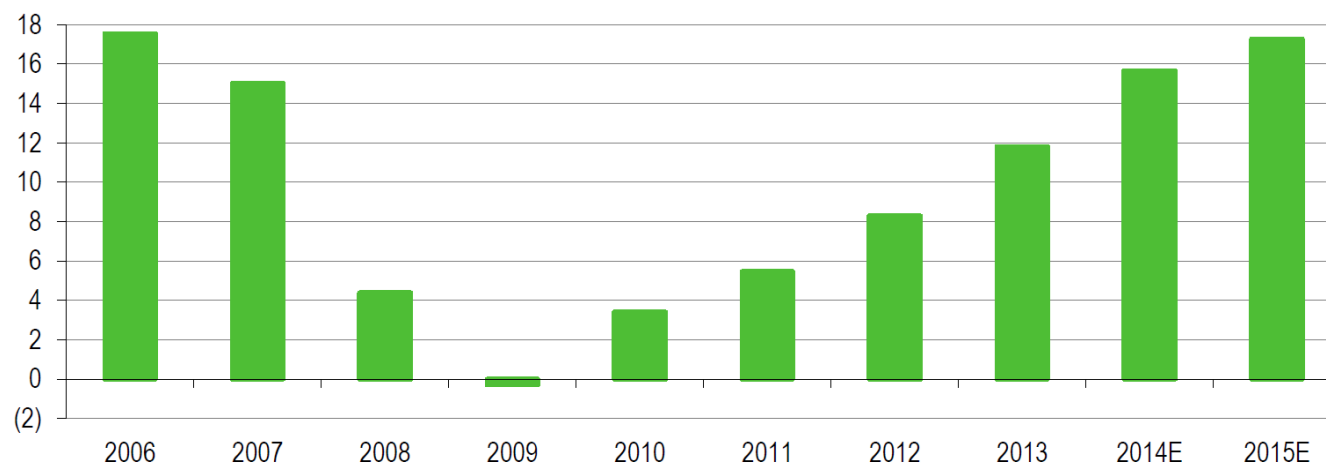


...And Future Risks to Returns?

Housebuilding sector margin (%)



Housebuilding sector return on equity (%)



Lloyds Stimulated Corporate Activity

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Sept-11



▪ Sells stake



Deutsche Bank



March-11

TaylorWimpey

▪ Sells TW US



Dec-11

Miller



▪ Restructuring of debt
(Lloyds, RBS, NAB)



July-12

Gladedale



▪ Debt-for-equity swap



Nov-12

McCarthy & Stone
Later Life. Greater Life



▪ Sells stake



Feb-13

Countryside
Properties



▪ Sells stake



Alternative Investors Led Further Action

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July-13	 	▪ Sale	  
Aug-13		▪ £557m Recapitalisation	    
Sep-13		▪ £185m Recapitalisation	
Feb-14		▪ Acquisition of Millgate	
Mar-14		▪ Review of Strategic options	
Mar-14		▪ Acquisition of Banner Homes	  

Note: Moelis as financial adviser for McCarthy & Stone, Morris Homes, and Miller transactions

But Activity has Slowed Since

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Sep-14



▪ Sale



Dec-14



▪ Sale



Mar-15



▪ Sale of 40% stake

MBO

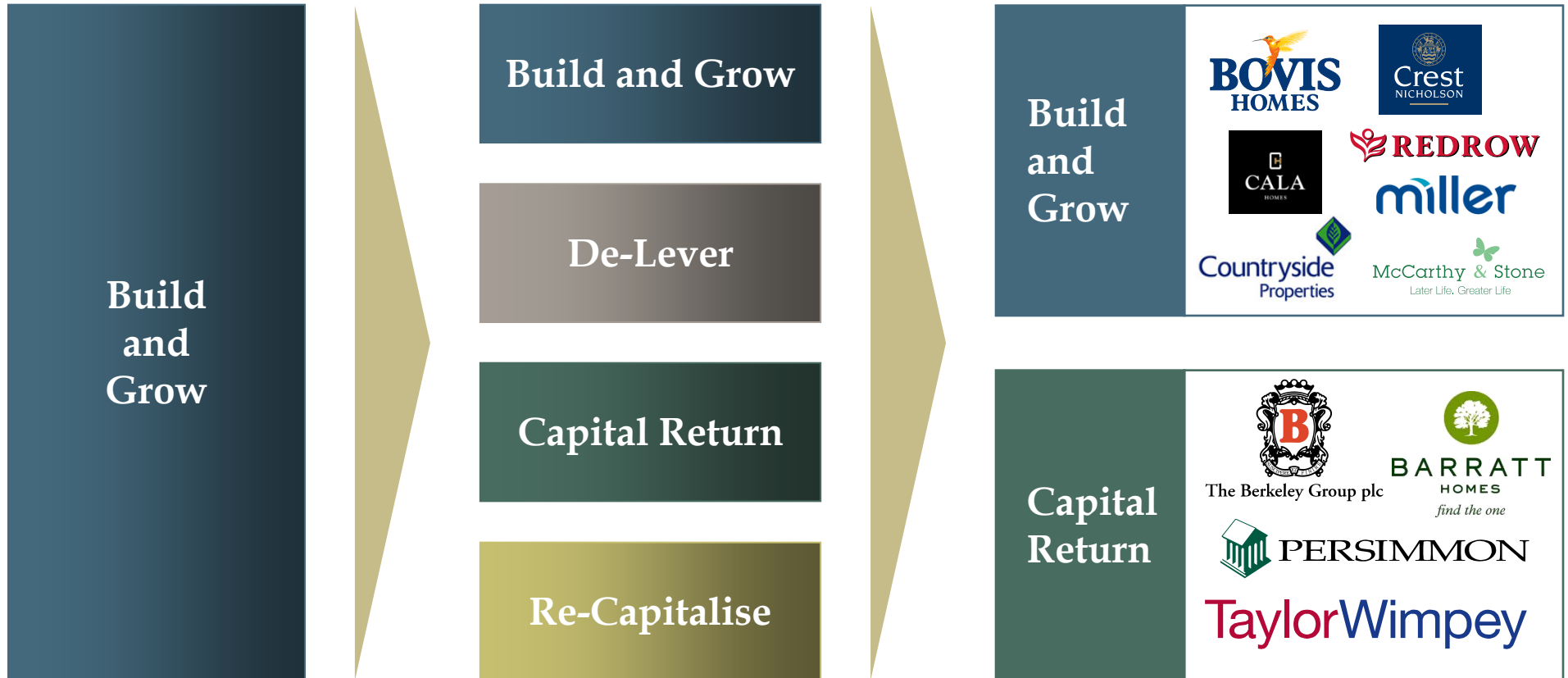


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What is the Right Strategy?

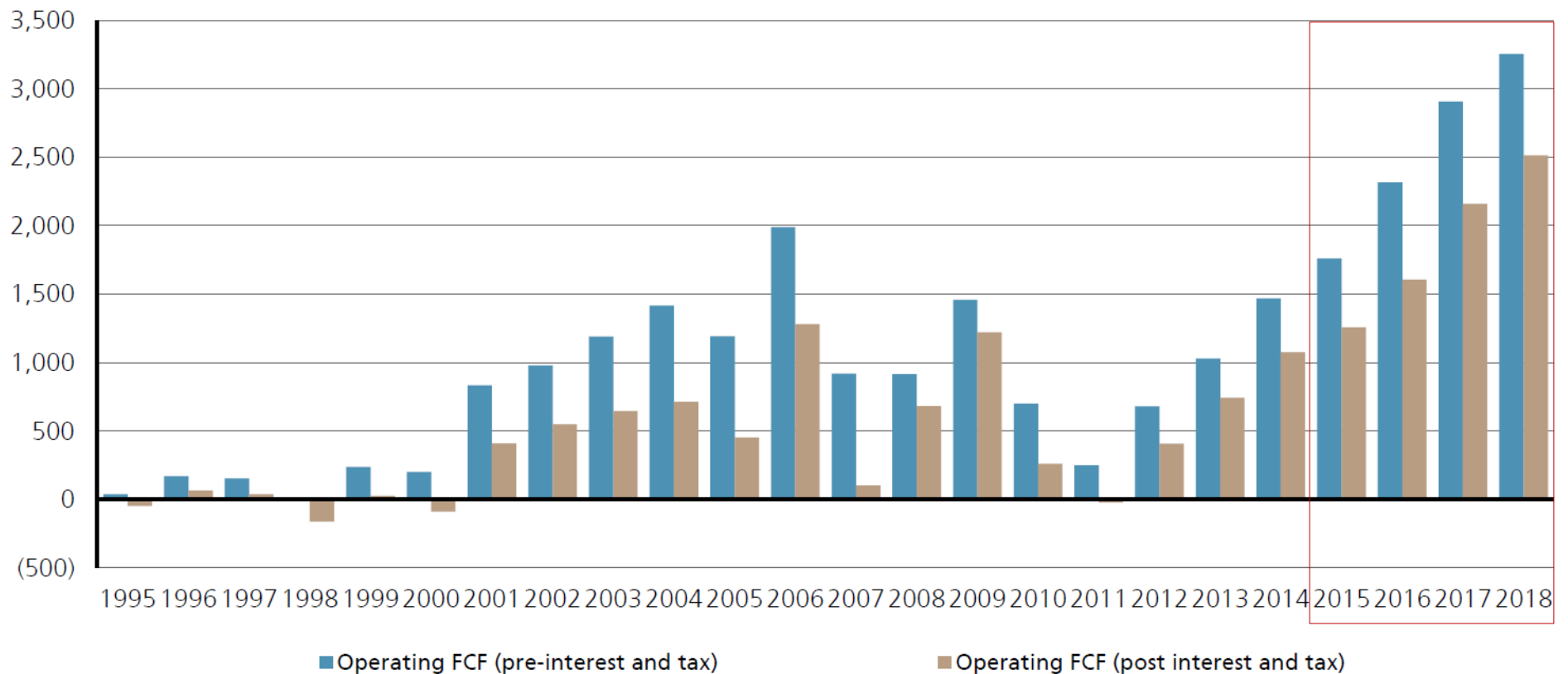
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Cash Flow is Forecast Like Never Before

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Sector free cash flow generation (£m)



Source: UBS, 4 December 2014

Note: data is not pro-forma for acquisitions over 1995 – 2007; based on 7 largest listed companies

Competing Schools of Thought

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Capital Return

- Optimal size of a housebuilding business?
- Optimal size of landbanks to maximise ROCE?
- Sizeable cash flow
- No leverage
- Favoured by shareholders

Build and Grow

- Land market is uniquely benign, surely the time to buy
- Significant pent up demand
- Government support is unprecedented
- Competition remains low

Home Ownership Remains a Dream for Many

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“About 250,000 new homes are needed every year in England to keep pace with population and household growth

Last year just 119,000 were completed

The years 2010-2014 marked the lowest five years of construction since 1946

Home-ownership has fallen from a peak of 71% in 2003 to 63%, and from 59% to 36% among 25- to 34-year-olds

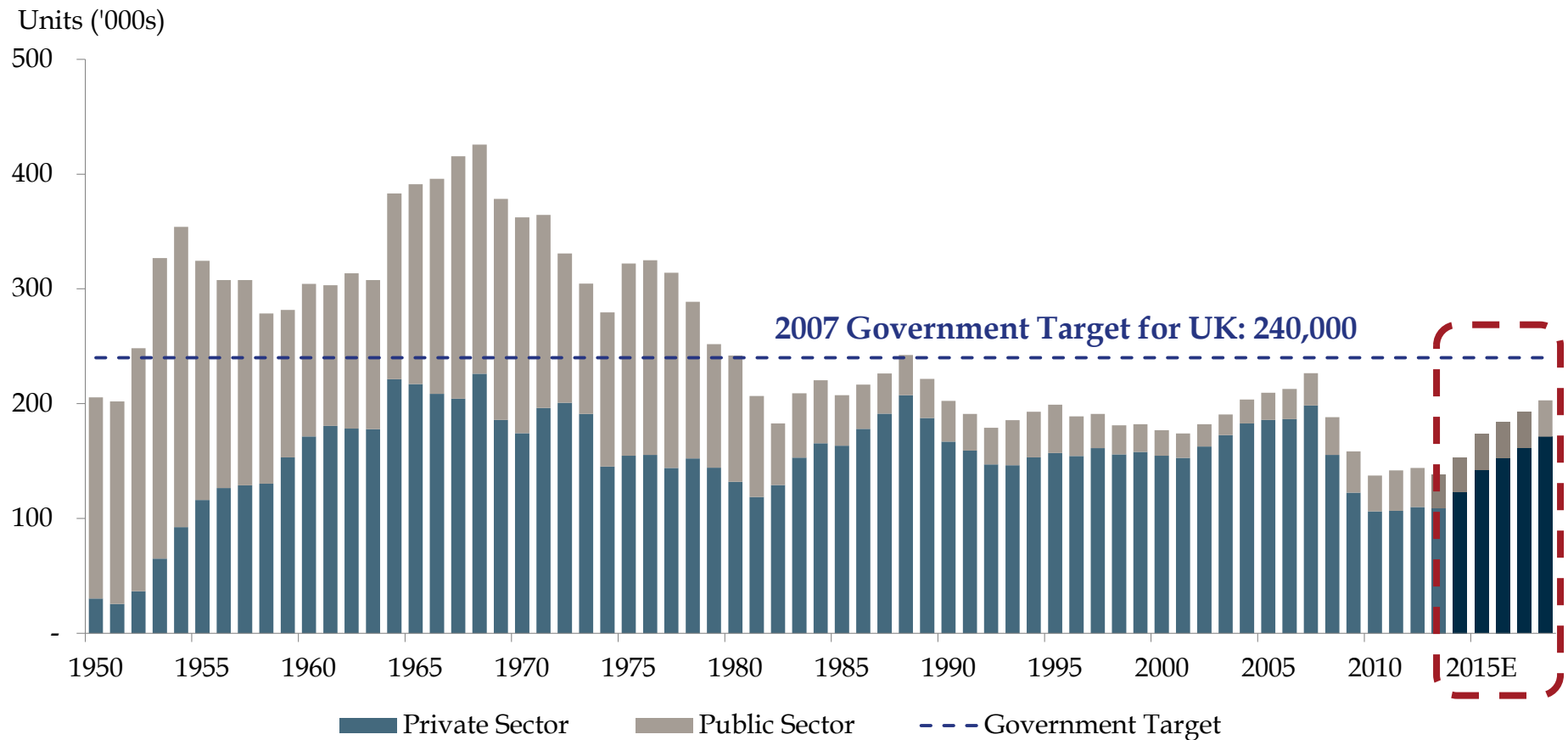
For the first time since reliable records began, a higher proportion of Britain's 23m households own their property outright (33%) than own it with a mortgage (31%)”

The Economist, 7 March 2015

Significant Long Term Growth is Needed...

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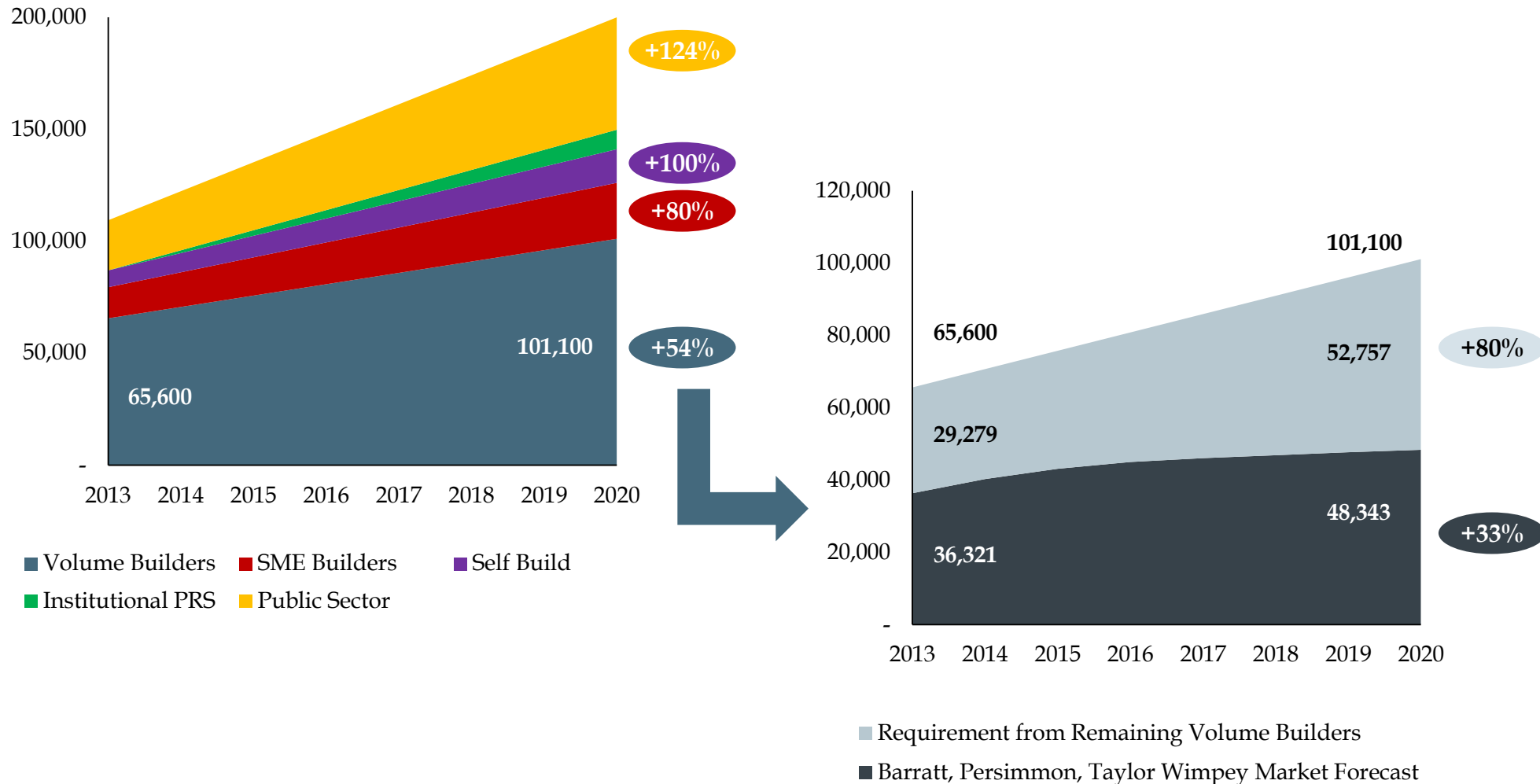
UK NEW BUILD VOLUMES SINCE 1950



Source: Department of Communities and Local Government, Construction Products Association

How Will Government Targets Be Reached?

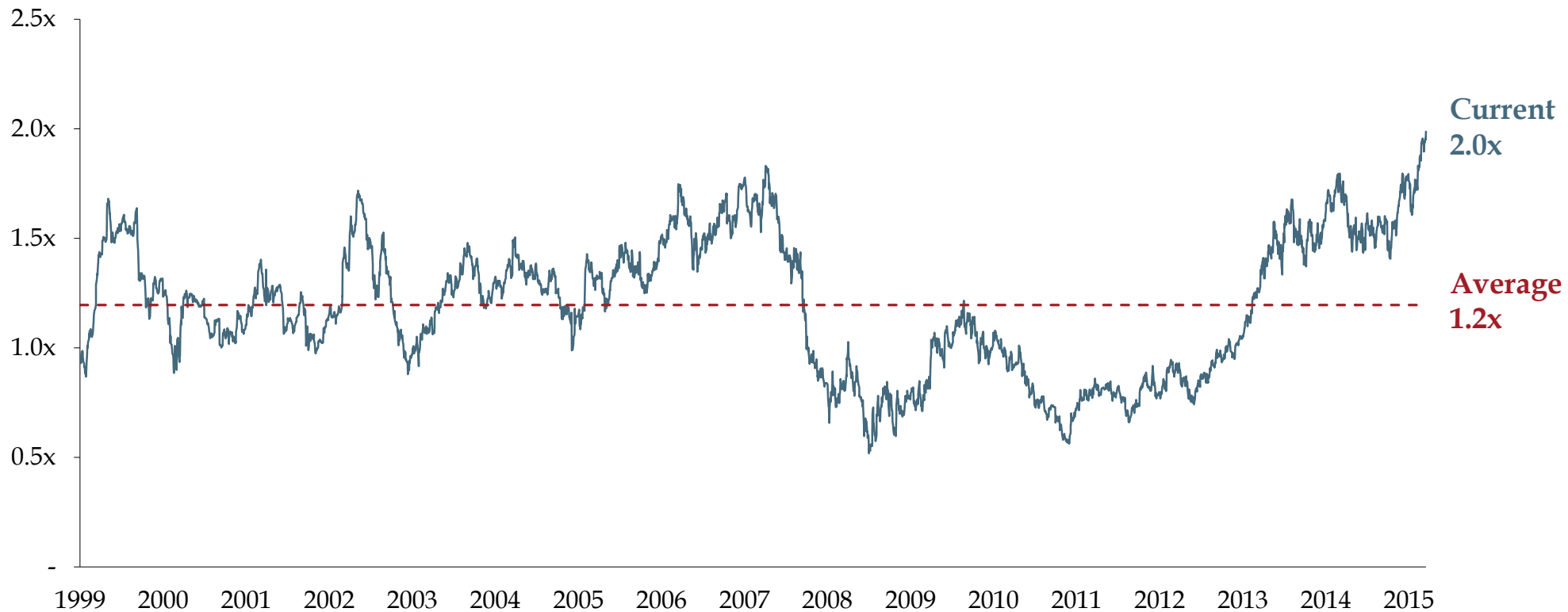
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Optimism Over Growth Translating Into Valuations

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HISTORICAL EV/TGAV

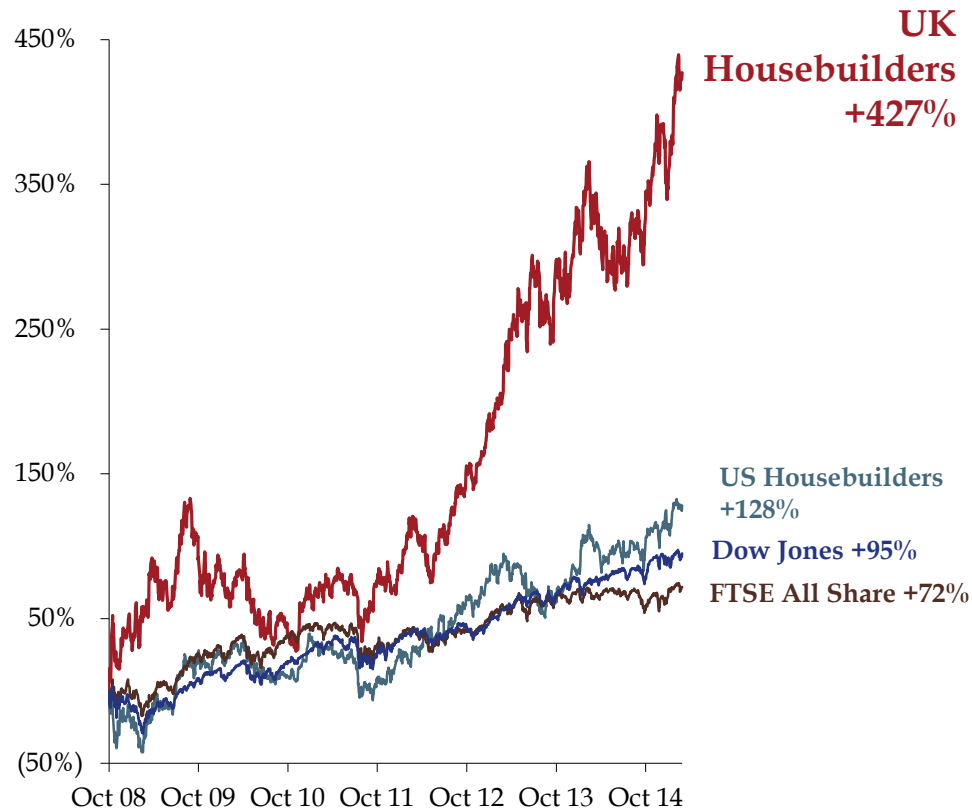


Source: Capital IQ as at 18 Mar 2015

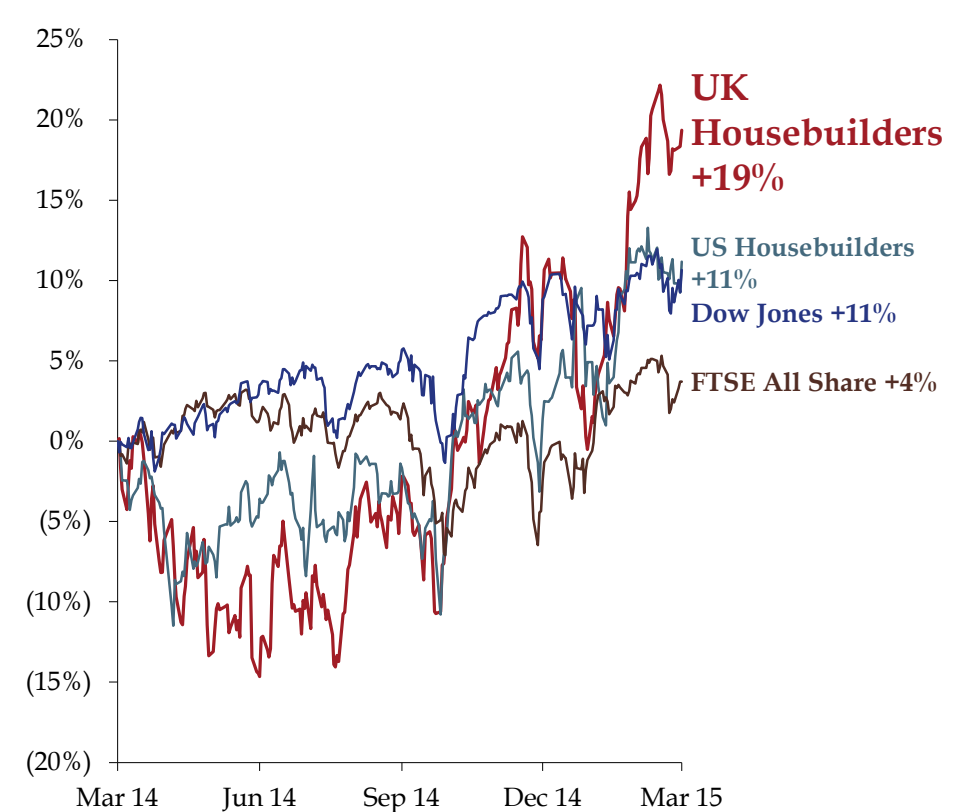
Equity Market Continues to be Positive

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SUSTAINED OUTPERFORMANCE...



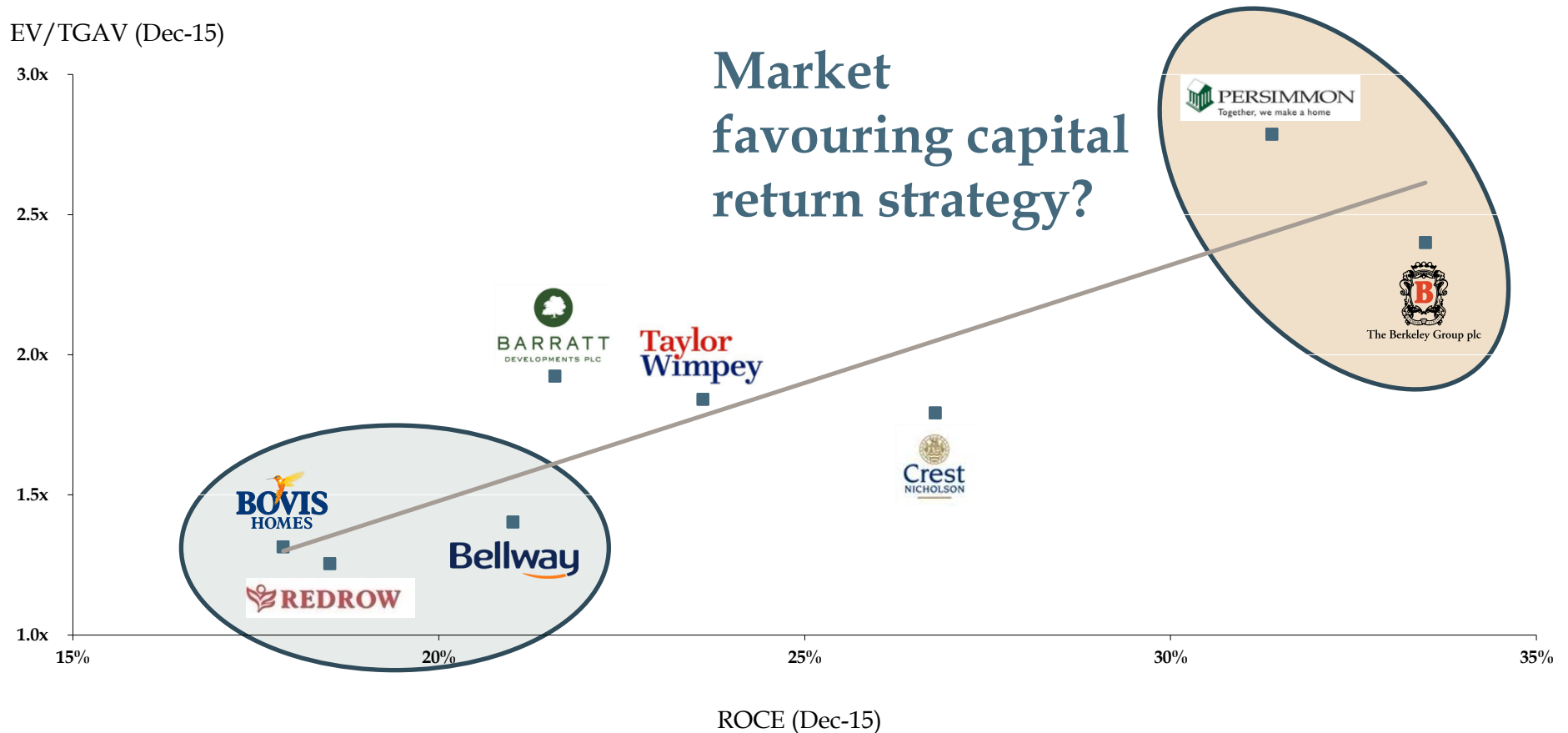
...AND POSITIVE MOMENTUM



ROCE Continues to Drive Valuations













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EV/TGAV VS. ROCE



Potential Concerns... But More Reasons to be Cheerful

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- | | |
|---|---|
|  Concern sector is overheating |  Structural undersupply |
|  Prospect of rising interest rates |  Robust sales rates |
|  Increasing land prices in London and South East |  House prices growing |
|  Planning constraints |  Rising mortgage availability |
|  Political uncertainty |  Government support schemes |
| |  Cost increases moderating |
| |  Orderly land market |

But as Things Stand Today...

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“The horses will have homes close to the best urban jobs”

The Economist, 7 March 2015

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