



Home Builders Federation Annual Policy Conference

Perspectives on Corporate Activity in the Sector

Mark Aedy

MOELIS & COMPANY

25th March 2014

Still Exciting Times!

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"Barratt set to create
a further 3,000 jobs"

Press Release - 03.2014

"Housebuilders
boosted as Osborne
extends Help to Buy"

Financial Times - 03.2014

"L&G buys Cala from
Lloyds in £210m deal"

Financial Times - 03.2013

"Berkeley says house
building to pass 2007
peak by 30%"

BBC News - 03.2014

"Housebuilder Miller
Group considers IPO"

Financial Times - 03.2014

"British
housebuilders regain
confidence"

Financial Times - 03.2014

"Persimmon
speeds up payout
to shareholders as
profit surges"

Financial Times -
02.2014

"Barratt and Redrow
pay out from soaring
profits"

Financial Times - 02.2014

"McCarthy & Stone
completes debt
restructuring"

Reuters - 08.2013

"Cala acquires
upmarket developer
Banner Homes"

BBC News - 03.2014

But Now Politicised...

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"Cut Help to Buy,
start helping to
build, says Ed Balls"

The Guardian - 02.2014

"Lib Dem alarm grows as
house price inflation
outstrips OBR's forecasts"

The Guardian - 03.2014

"Budget 2014:
George Osborne
announces plans for
200,000 new homes"

The Independent - 03.2014

"Miliband plans
mansion tax"

Financial Times - 02.2014

"Nick Clegg calls
for more
housebuilding"

Financial Times - 03.2014

"Osborne extends Help
to Buy to 2020"

The Times - 03.2014

"Ed Miliband
promises drive
to double rate of
housebuilding"

The Guardian - 12.2013

"Nick Clegg: Build
new 'garden cities'
in the countryside"

The Telegraph - 01.2014

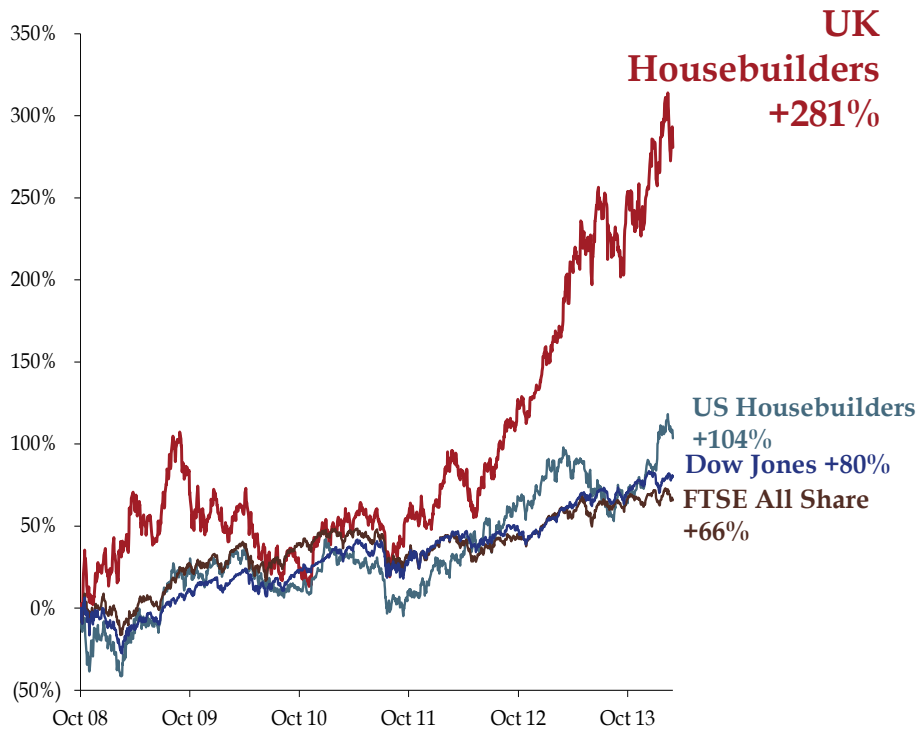
"Osborne says UK
not building enough
houses"

Financial Times - 02.2014

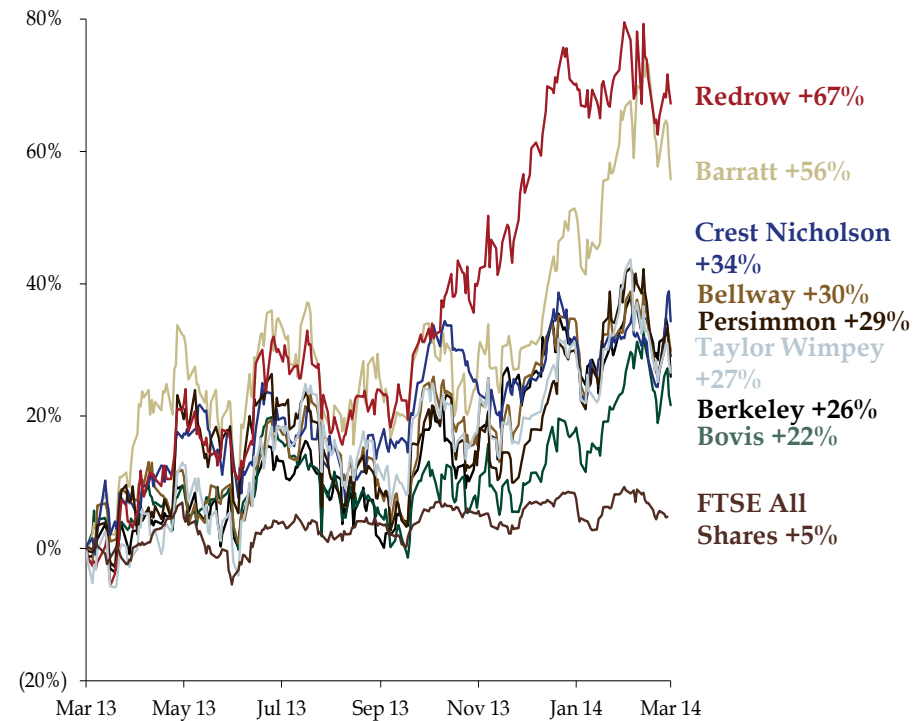
Very Positive Equity Market Continues...

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SUSTAINED OUTPERFORMANCE...



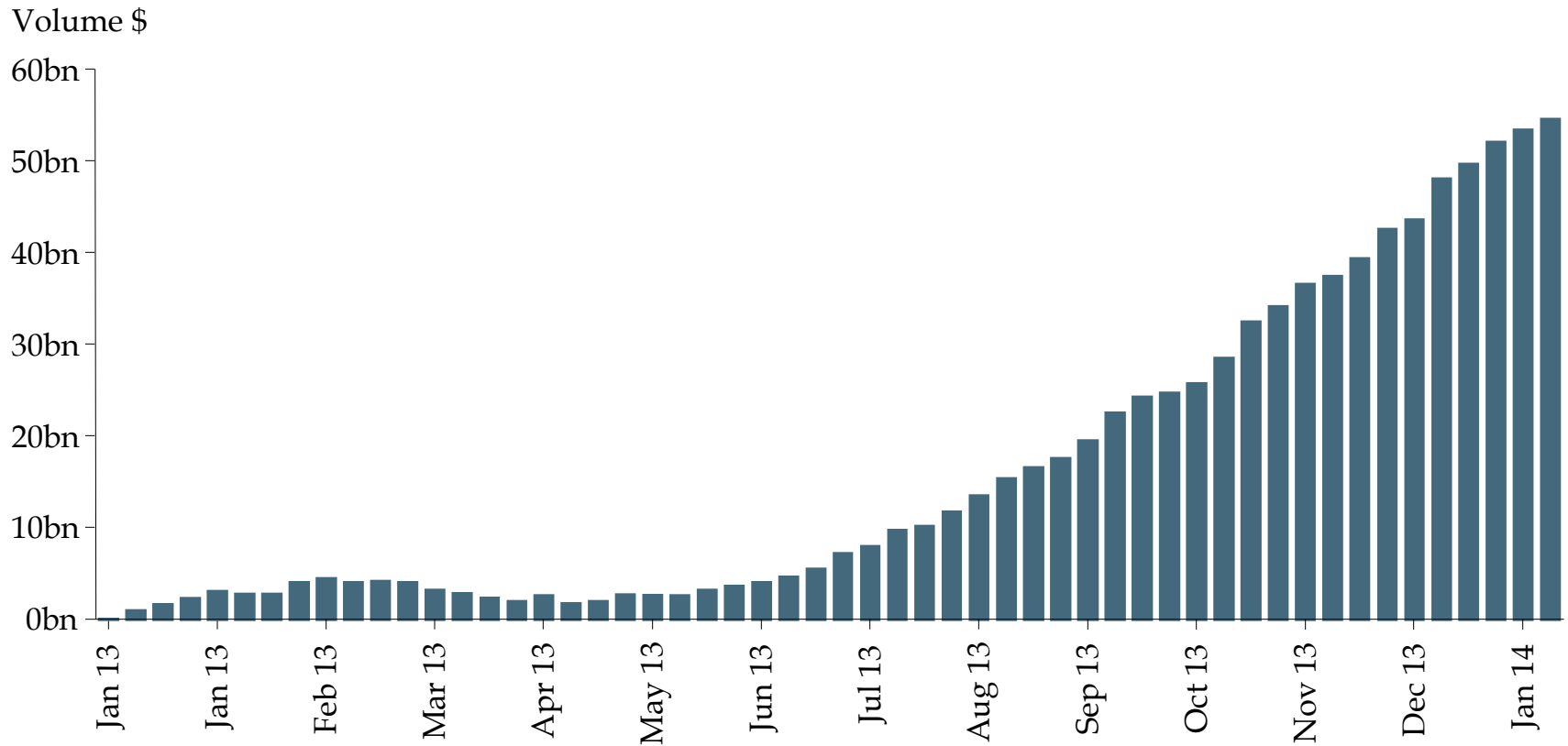
...POSITIVE MOMENTUM FOR ALL PLAYERS



Significant US Investor Interest in UK & Europe

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US FUND FLOWS INTO EUROPE (\$Bn)

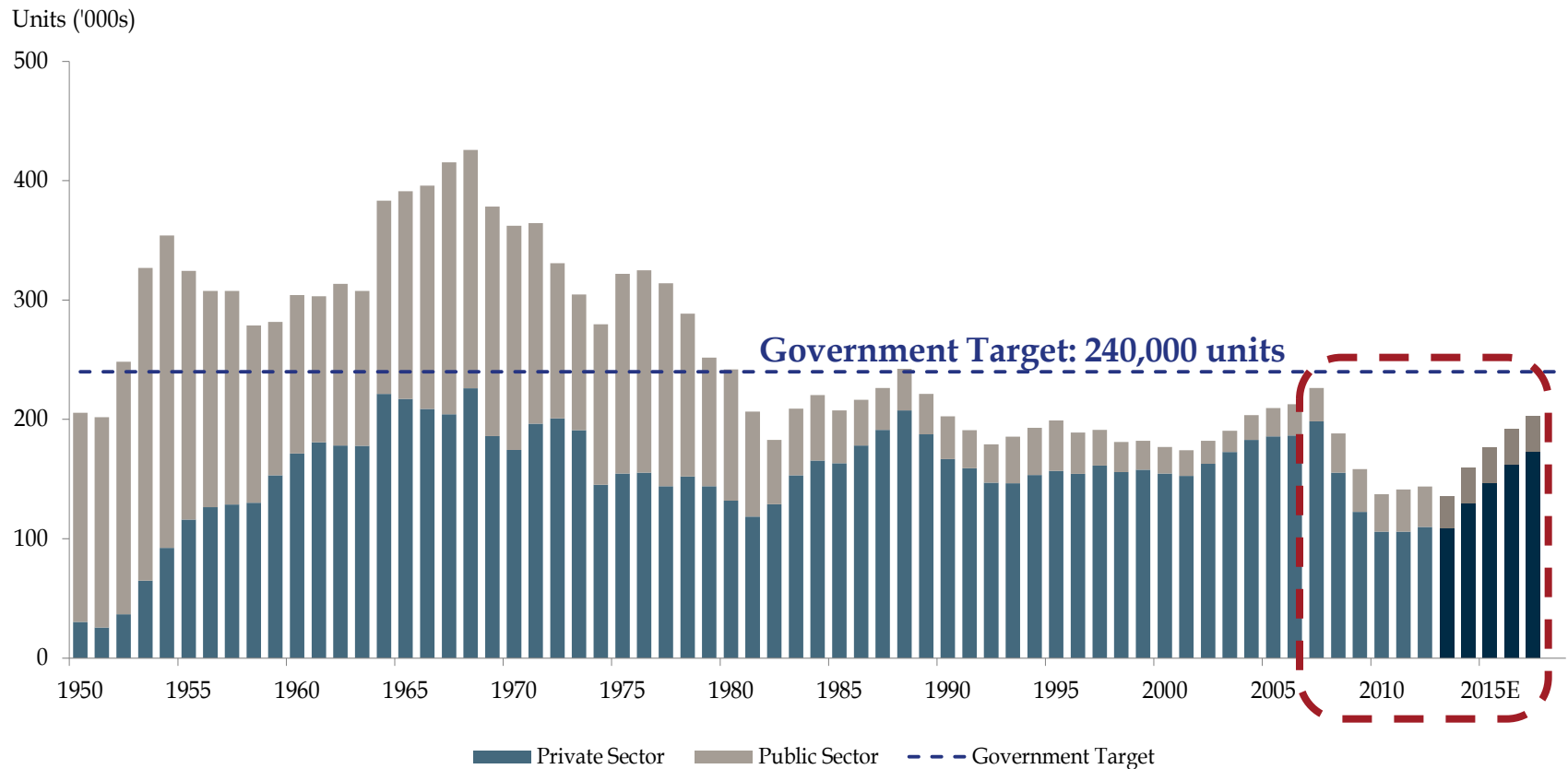


Source: EPFR, Fund Flows into Western European equities, Jan 2014

Is the Excitement Justified?

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UK NEW BUILD VOLUMES SINCE 1950

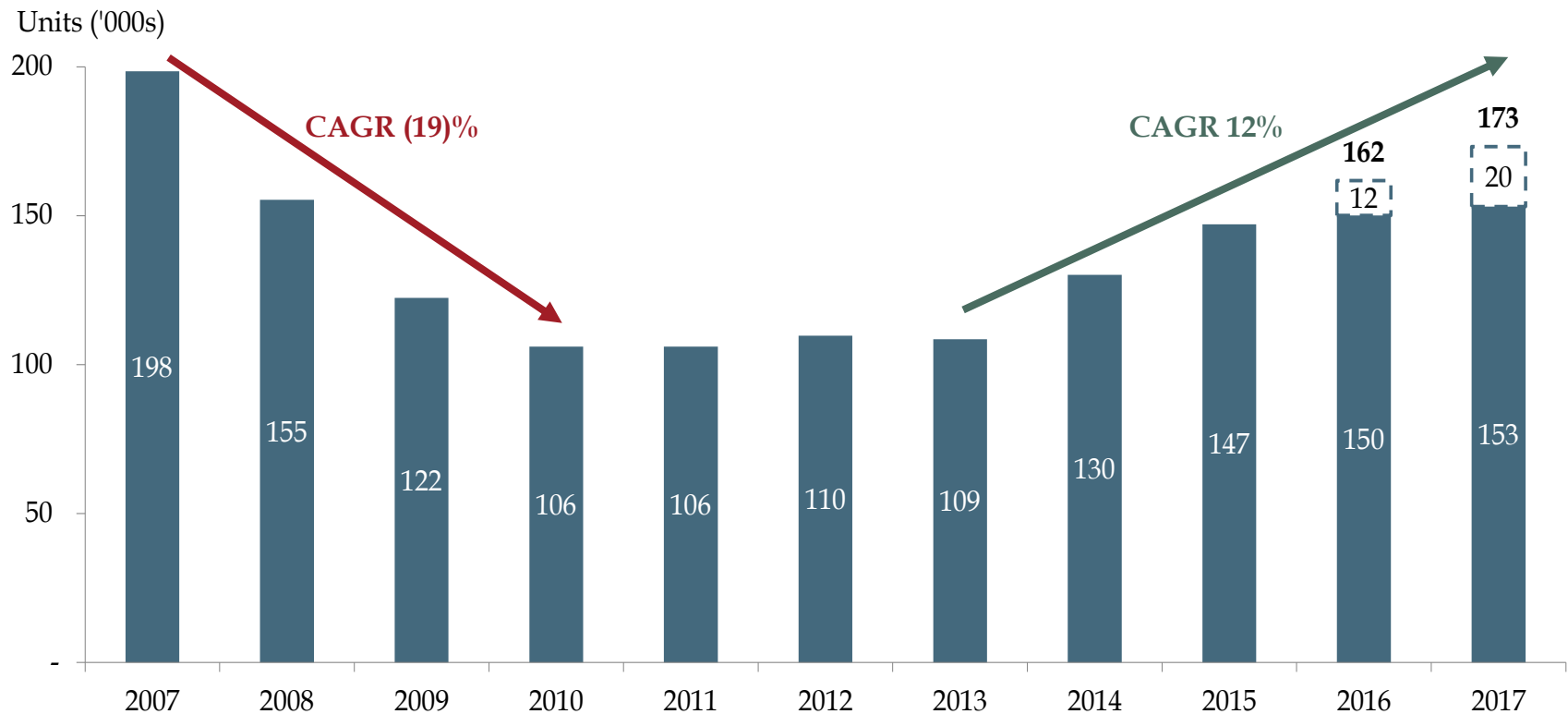


Source: Department of Communities and Local Government

Is the Excitement Justified? (Cont'd)

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UK NEW BUILD VOLUMES PROJECTIONS (2013-17E)

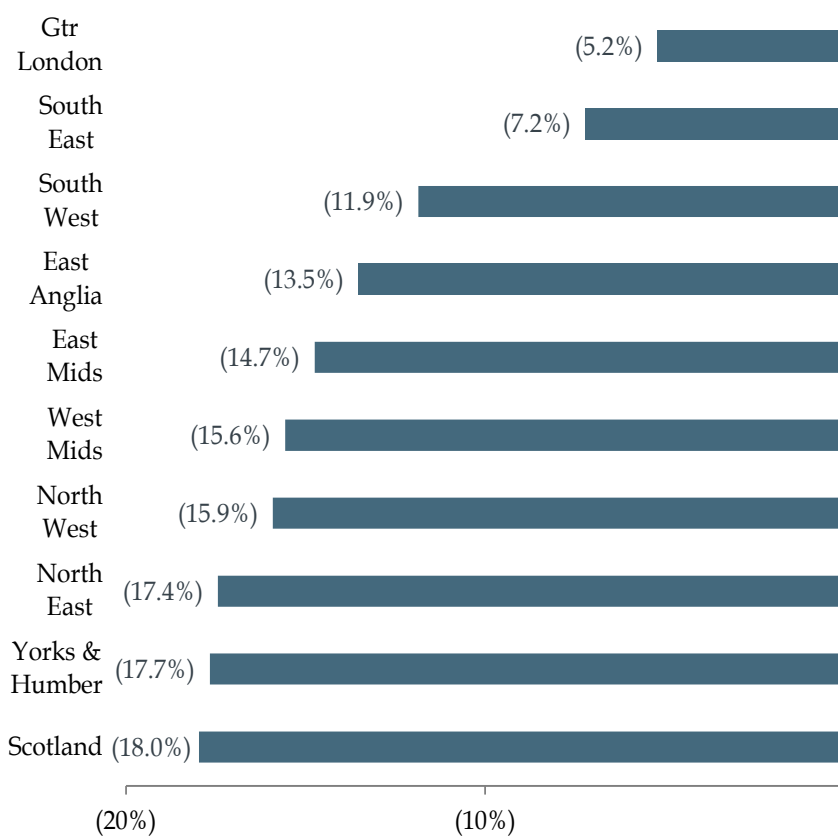


Source: Construction Products Association (Winter 2013/14 Forecast and March 2014 update)

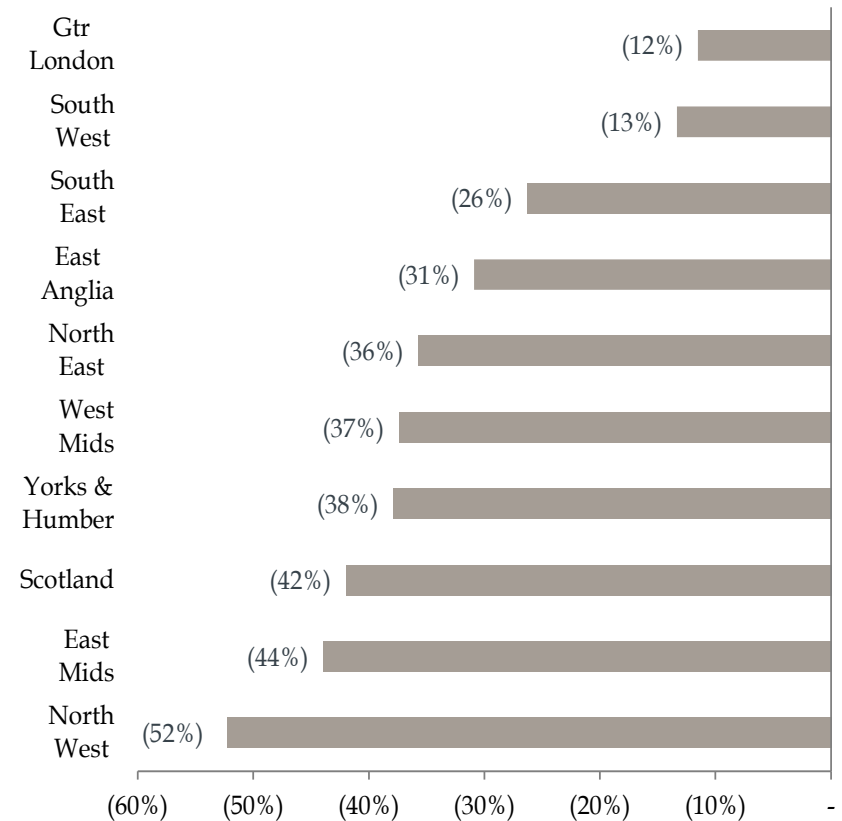
Significant Upside Recovery in Most Regions

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AVERAGE HOUSE PRICE CHANGE SINCE PEAK



REGIONAL VOLUME RECOVERY



Optimism Over Growth Translating Into Valuations...

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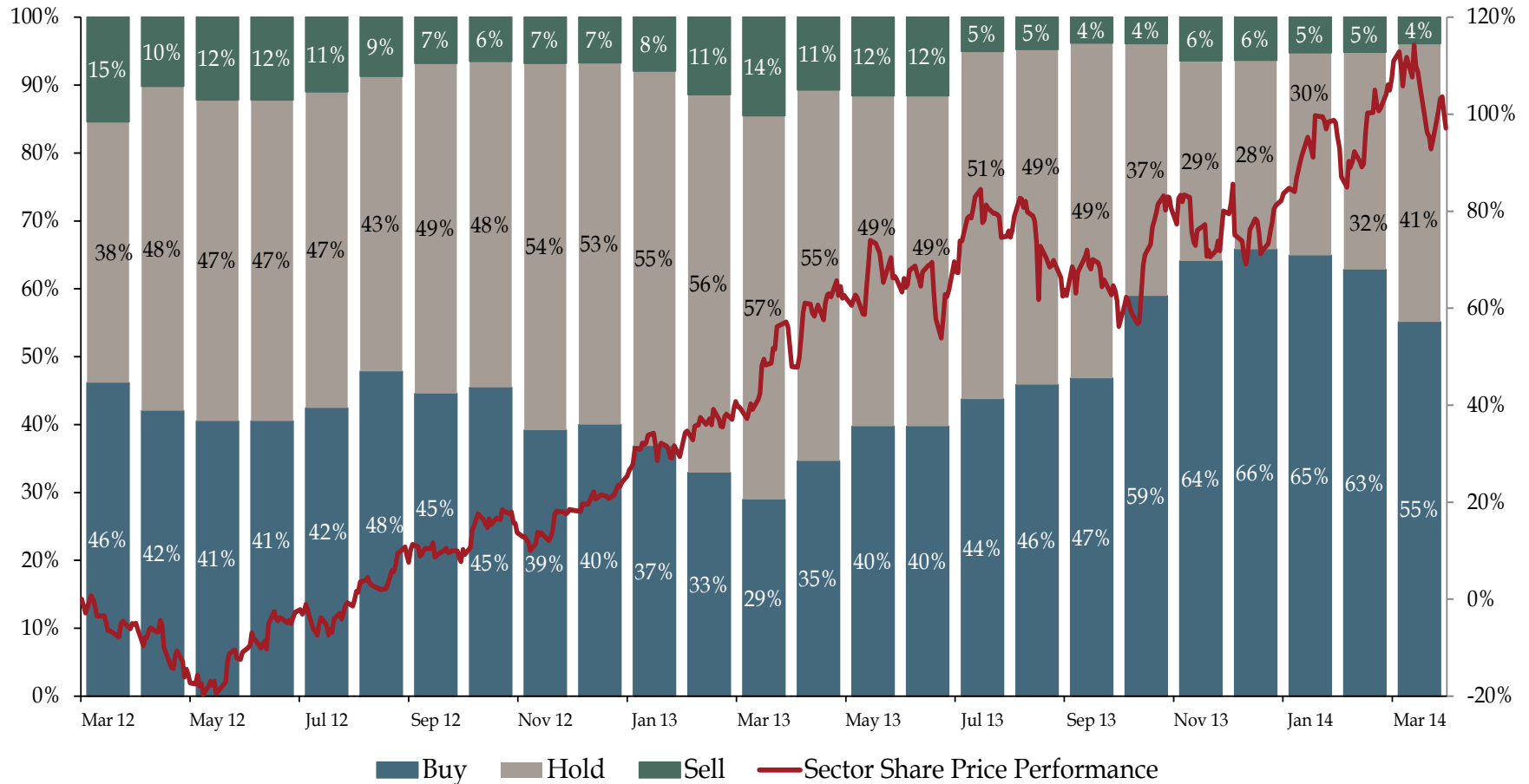
HISTORICAL EV/TGAV



Source: Capital IQ as at 21 Mar 2014

Brokers Are Positive on the Sector

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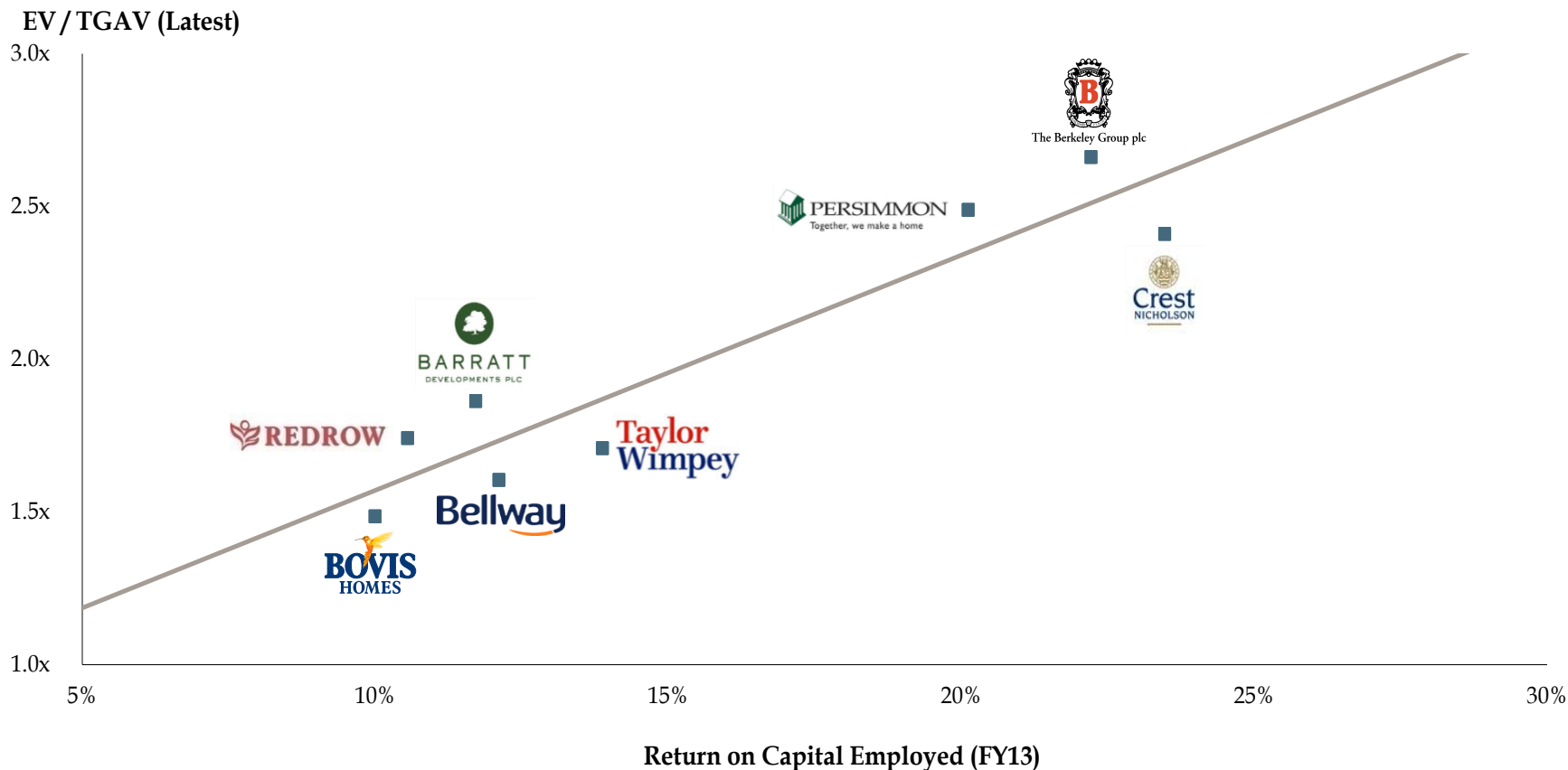


Source: Capital IQ as at 21 Mar 2014

ROCE Driving Housebuilding Valuations

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EV/TGAV VS. ROCE



Source: Company information, Capital IQ as at 21 Mar 2014

Lloyds Had Been the Catalyst...

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Sept-11



▪ Sells stake



Deutsche Bank



March-11

Taylor Wimpey

▪ Sells TW US



Dec-11

Miller



▪ Restructuring of debt
(Lloyds, RBS, NAB)



July-12



▪ Debt-for-equity swap



Nov-12



▪ Sells stake



Feb-13



▪ Sells stake



...And the Activity Continues

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July-13



▪ Sale



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partners

Aug-13



▪ £557m Recapitalisation



SVPGLOBAL
EXPERIENCE • INSIGHT • VALUE



ALCHEMY



Sep-13



▪ £185m Recapitalisation



Feb-14



▪ Acquisition of Millgate



Mar-14



▪ Review of Strategic options



Mar-14



▪ Acquisition of Banner Homes



electra
partners

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

The Government's Help to Buy Scheme Has Fuelled Market Growth...

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J.P.Morgan CAZENOVE

"We continue to view Help to Buy part I as important for the housebuilding sector."

Mar 2014

Bank of America
Merrill Lynch

"With a more buoyant economy and rapidly increasing site visitor numbers since the well-publicised Help to Buy announcement at the 2013 Budget, growth activity has increased markedly"

Jan 2014

UBS

"Help to Buy has been extremely successful with c35% of private reservations from most quoted homebuilders using this incentive."

Jan 2014

....And the 2015 General Election is Currently Expected to Have a Limited Impact on the Sector

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CREDIT SUISSE

"To be clear we think a Labour Government would continue with the Help-To-Buy policy in its broad outline, and so that is not a concern for us."

Mar 2014

GENKOS

"Housing's place at the top of the political agenda was never really in doubt from the moment Osborne broke news of 'Help to Buy' extension on TV Sunday morning"

Mar 2014

The Daily Telegraph

"George Osborne pledged to 'build for Britain' yesterday as he announced a new garden city and plans for more than 120,000 new homes across the country"

Mar 2014

What Was the Right Strategy?

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Build and Grow



De-Lever



Capital Return



Re-Capitalise



What Is the Right Strategy Now?

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Build and Grow

De-Lever

Capital Return

Re-Capitalise

Build
and
Grow



Capital
Return



Reasons for Concern...

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1

Increasing price expectations from land vendors

2

Supply chain risk

3

Market volatility around election times

4

Planning policy uncertainty

5

Tightening monetary policy

Reasons to Be Cheerful

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Sector Activity Rebound

Government Support

Structural Underbuild

Further Corporate Activity